Investor'sEdge

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New trends in legacy planning to discuss with your family

You work hard, plan carefully and invest diligently so you and the people you care about can experience the quality of life that you enjoy. But you may want to provide for your family after you are gone as well. This is one reason estate planning is an important wealth management goal for many Americans.

Yet for an increasing number of people, it is no longer enough to just provide financial help to the next generation. Today it has become imperative to join with that generation to create a legacy that uses the family's wealth to benefit society. These are among the findings of a survey of high-net-worth individuals conducted by The Economist Intelligence Unit, commissioned by RBC Wealth Management.[1]

Several factors are behind this shift in thinking, but one of the most important is simply the desire to see legacy planning in action. For many, planning to give money at estate settlement is simply not as exciting, and perhaps not as meaningful, as sharing their wealth while they are able to experience the impact of their generosity and connect with the individuals and organizations being helped.

How can you and your family create a legacy for generations to come? Here are three best practices from families who are successfully redefining the purpose of family wealth.

Develop a shared family philosophy

If you want your legacy planning to cross generational lines, you need to identify the shared values and ideals that help define what your family stands for. This means you and your children (and possibly even your grandchildren) need to agree upon why, when and how to use the family's wealth for the greater good. A shared family philosophy on philanthropy may help create a framework for legacy-related conversations and decisions.

Implement a carefully planned structure

For a legacy to be productive and enduring, it is necessary to develop a structure for it — one that has the support of your family and that can meet your needs for decades. One possible solution is the creation of a trust. While you might think that trusts are suitable only for the ultra-rich, they have been used effectively by many high-net-worth families to accomplish philanthropic goals, create income and transfer wealth. Structured correctly, a trust can serve as a formal manifestation of a family's legacy.

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Recognize not everyone is the same

While everyone in your family may share a desire to create change through wealth, some clear differences based on gender and age do seem to exist regarding attitudes toward leaving a legacy.

Consider these facts from "The new face of wealth and legacy: How women are redefining wealth, giving and legacy planning" and "Creating social value now: How the idea of legacy in the U.S. is shifting," published by The Economist Intelligence Unit and commissioned by RBC Wealth Management.

81%
of women say it is important to align their wealth plans with the legacy they want to leave.

71%
of younger men and women[2] expect to make more of an impact on the world with their wealth than do prior generations.

50%
of younger men and women plan to distribute most of their wealth through giving or spending while they are still alive compared with 35% of older men and women[3] who have the same goal.

If it is the case, as these statistics suggest, that women and younger individuals are especially interested in creating a values-based legacy, then it is important to recognize this priority. Awareness of it may help improve communication between family members and, ultimately, support construction of a legacy plan in which everyone has an equal interest. Just as men and women and older and younger generations often have to work to resolve stylistic and goals-based differences in the workplace, people of different genders and ages must do the same when they take on legacy planning.

Plan around your other goals

Your legacy planning will affect your overall investment strategies — and vice versa. For example, how much you put toward your legacy plans could partially determine how much you can afford to withdraw from your retirement account(s) for your daily expenses when you retire. Also, your ability to help fund your legacy plans can affect how aggressively you invest and how much risk you can tolerate from your investment portfolio.

It is essential to recognize these connections as early in your legacy planning as possible. By making the right moves at the right times, you can help create and manage the wealth you need to live your life fully while still contributing to the change you wish to make in the world.

Create the family legacy you envision

Proper legacy planning requires guidance from your wealth manager, accountant and attorney, as well as a commitment from you to complete the necessary tasks. It's also an ongoing process — something you will want to revisit periodically to evaluate its effectiveness and update as your life and family changes. However, the results of your efforts may be worthwhile in terms of financial peace of mind, personal happiness for your loved ones, and a sense that you and your family have chosen to use your wealth wisely for purposes that benefit others as well as enriching your own lives.

Please call today to explore your legacy goals and begin planning for them. Complimentary copies of these two reports written by The Economist Intelligence Unit, commissioned by RBC Wealth Management, are also available upon request.

RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to your specific needs.

1 The EIU survey reached 1,051 high-net-worth-individuals (HNWIs) from March to May, 2018, across Asia, Canada, the UK and U.S. It explores how the meanings of legacy and wealth are being redefined across regions, genders and generations.

2 "Younger" is defined as people in Generation X or the Millennial generation, born between 1965 and 2000.

3 "Older" is defined as people in the Silent Generation or Baby Boomer generation, born 1964 or earlier.

Investing in wine: Can you make money on merlot?

Now that the holiday season is near, you may be looking forward to entertaining friends and family. Whether or not you choose to sip a glass of wine on occasion, there is no denying the role wine plays in our culture and the appeal it holds socially as a symbol of generosity, sophistication and elegant taste.

If you are a true oenophile (i.e., wine connoisseur), you might be thinking about opening some nice bottles of wine for the company you host over the coming months. And if you enjoy entertaining and fine wine, it may sound like a lot of fun to be able to share your passion for the grape with the people you care about by building and maintaining a personal cellar.

It may be times such as these when you ask yourself whether such an investment in wine is a practical opportunity. To answer this question, consider the advantages and drawbacks of investing in wine.

Advantages

Diversification — Wine is a tangible asset, which generally has a low correlation with price movements of stocks and bonds. Allocating investment dollars to wine may help your portfolio be less susceptible to the effects of market volatility and interest rate moves.

Intrinsic value — As a tangible asset, if a bottle of wine does not perform as an investment you can still consume and enjoy your prized pinot noir — or share it with some lucky dinner guests.

Personal value — You can be proud to show your wine cellar to visitors who

share your enthusiasm as fellow wine aficionados. It may also help improve the marketability of your home for interested buyers.

Drawbacks

Potential costs — Building, stocking and insuring a wine cellar may be expensive. Plus, it requires experience, knowledge and research to pick wines for investment purposes. For these reasons, costly mistakes are easy to make.

Time — Patience is required. As they say, fine wine improves with age, and you need to wait until your wine is at its fullest potential before you sell.

Possible illiquidity — There is no secondary market for wine. If and when you want to sell, you may have trouble finding a buyer. It may also be difficult to negotiate a fair price.

Wine investment in securities

If you really want to invest in wine, but you are concerned about the expense and potential drawbacks associated with owning your own wine collection, it may be more practical to allocate a portion of your portfolio to securities of companies that produce wines.

Securities trade on regulated markets at set times for clearly defined prices. Whenever the markets are open, you can buy or sell and choose the amount you will bid or ask in the transaction. And financial information about companies that issue securities is readily available to help you make well-informed investment decisions.

In addition to individual stocks and bonds, mutual funds offer diversification within the wine industry. Private equity and commodity futures are more sophisticated opportunities for investors with the required experience, capital, time horizon and risk tolerance.

Before you build your wine cellar, carefully consider why you want it and how it will be used. As financial assets, securities may be a more practical solution for many investors than a wine collection.

Charitable giving ideas for year-end tax planning

When the new tax law was enacted last December, taxpayers had little time to act before the end of the tax year. While RBC Wealth Management does not provide tax or legal advice, now is a good time to look at how the new rules may affect your charitable giving for 2018 tax-planning purposes.

The current law retains seven ordinary income tax brackets, lowering the rates and thresholds for most brackets. The tax rates for capital gains and qualified dividends are unchanged, but thresholds are slightly lower. The current law also nearly doubles the standard deductions for taxpayers who do not itemize their returns.

Although a lower potential tax liability and a higher standard deduction may reduce the tax incentive for some taxpayers to make charitable donations, you may still wish to share your generosity with favorite causes. Indeed, charitable giving by Americans increased 5.2% in 2017 to a record $410 billion, according to a recent report published by the Giving USA Foundation.

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Changes to federal income tax standard deduction rates

Taxpayer status	Previous tax year	Current tax year
Individuals	$6,500	$12,000
Heads of households	$9,550	$18,000
Married, filing jointly	$13,000	$24,000

To make charitable gifts for both philanthropic and tax-planning purposes, consider one or more of the three following strategies.

Donor advised funds (DAFs)

DAFs offer an easy way to make gifts over multiple tax years for tax purposes. Throughout your lifetime, the DAF allows you to recommend which charities receive grants, how much they receive and when funds are disbursed. Plus, you can recommend how fund contributions should be invested.

Taxpayers whose 2018 charitable donations are less than the new higher standard deduction may want to consider "bunching" several years' worth of donations into one year to qualify for some tax benefit. For example, a couple who gives $5,000 annually may want to fund a DAF with five years' worth of contributions (i.e., $25,000) during the current tax year.

Qualified charitable donations (QCDs)

If you are age 70½ or older and are taking required minimum distributions (RMDs) from a qualified retirement account, you may transfer the amount of your RMD from your account directly to a qualified charity. The amount can be counted toward satisfying your RMD and can be excluded from your taxable income.

The maximum amount taxpayers can donate through a QCD in a calendar year is $100,000 for single taxpayers or $200,000 for taxpayers who are married and filing jointly. For a QCD to count toward your 2018 taxes, the funds must come out of your retirement account by your RMD deadline (generally December 31).

Appreciated assets donation

Donating appreciated assets to a DAF may be a strategic way to take advantage of tax benefits available under the current tax law. Giving appreciated assets held more than one year — such as low cost-basis stock — to qualified charities allows taxpayers to deduct the value of the asset from ordinary income without paying capital gains taxes. The gift is deductible up to 30% of adjusted gross income.

In the context of the new tax law (lower ordinary rates, yet substantially similar capital gains taxation), the good news is that this approach is still as important as ever for clients who wish to combine tax and charitable goals.

The 2018 tax year may be different for you for many reasons. Please call today to discuss your tax- and charitable-planning goals.

What you can do to prepare for a market correction

Since the beginning of the year, market indexes have shown moderate growth through a period of volatility. Although economic indicators are strong and prospects for a recession remain low, now may be a prudent time to plan for the next market "correction," defined as when prices fall 10% or more over a relatively short time.

While market corrections are an unavoidable fact of life, they are neither good nor bad. In fact, some investors see a correction as a potential buying opportunity they may want to get ready to seize. Regardless of your point of view, there is no doubt you can experience less stress and less worry during a correction if you have one thing working for you: a long-term plan.

Having a wealth management plan helps you focus on your financial goals rather than short-term market movements. Consider this: When asked how they feel about achieving their financial goals, 84% of those with a plan said they were confident about the future, compared with just 45% of those without a plan, according to a recent RBC Wealth Management survey.

One planning tool that you may find useful is an RBC WealthPlan analysis. RBC WealthPlan can help you identify expectations and concerns. Taking a conversational approach, it helps you and your RBC Wealth Management® financial advisor understand what is important to you so you can take appropriate steps to achieve goals and manage risks effectively.

Furthermore, RBC WealthPlan can help you project various outcomes by letting you modify variables you can control, such as your retirement date, as well as allowing you to see the impact of variables you cannot control, such as the impact of market movements, inflation and changes in Social Security.

In addition to completing an RBC WealthPlan analysis, there are several tactical considerations that may help you be well-prepared for a market correction. Here are a few such actions:

Review your risk tolerance

If you find yourself worrying greatly over short-term drops on your investment statements, you might be investing too aggressively for your individual risk tolerance.

Check your asset allocation

If your risk tolerance has changed, it may be prudent to adjust your asset allocation to an investment mix that is more appropriate for you. If you have not rebalanced for some time, your asset allocation may also no longer be consistent with your feelings about risk.

Diversify your holdings

You can help reduce the impact of volatility on your portfolio by diversifying the assets you own across a range of sectors, geographies or market capitalization levels for stocks or across different issuers, geographies or maturity dates for bonds.

Maintain sufficient liquidity

If you have enough cash or cash equivalents in your portfolio, you will not have to dip into long-term investments during a market downturn to fund your essential or unexpected expenses. A securities-based line of credit can also provide fast, flexible access to cash while keeping portfolio assets working toward long-term goals.

There will be a market correction — it is just a matter of when it happens. By maintaining a long-term plan and making the right moves, you can be well-prepared to feel confident about your financial security regardless of what the short-term markets are doing.

Please call to discuss your financial goals and schedule an RBC WealthPlan analysis.

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Management

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