Investor's Edge

RBC Wealth Management

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An exclusive newsletter for RBC Wealth Management clients

Give kids ownership in college funding

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Educating children about saving for college gives them a great start for saving for other big items—like retirement

The average cost for attending (and living at) a postsecondary school is $49,879 this year for a private four-year college and $21,950 for public colleges, according to the College Board. For many families, the cost of a four-year college degree has become prohibitively expensive.

Financing a college education is a great foray for students into the world of finances and savings. Many high school students are aware of the cost for higher education, and have had conversations with their parents about what help (if any) their parents would contribute toward covering the cost of that education. Such conversations also help the student begin to explore other avenues of financing such as scholarships, student loans and working while in school.

What is a section 529 plan?

Also known as Qualified State Tuition Programs, 529 plans are state-sponsored, tax-advantaged investment programs that help you save for your child's education. Assets can be withdrawn from the plan federal income tax-free when used for qualified education expenses.

Anyone may set up a 529 plan for a child. As the person setting up the plan, you are the owner, and determine who is named the beneficiary of the plan and what investments are chosen. You can change beneficiaries at any time, and even name yourself as the beneficiary.

529 plans are tax-advantaged accounts when funds are used to pay for qualified educational expenses, usually including tuition, room and board. (See sidebar on page 3 on how the SECURE Act made changes to include student loan payments). The owner of the 529 plan contacts the administrator to ask for money to transfer out to cover specified expenses.

What are the gift tax advantages of 529 plans?

Normally, a gift of more than $15,000 made by an individual to a single person in one year is subject to federal gift tax. 529 plans allow you to gift up to $15,000 annually without paying gift taxes. You may also accelerate up to five years' worth of the annual exclusion amount by contributing up to $75,000 per beneficiary or $150,000 for married couples filing jointly in the first year of the five year period. Any further gifts during this period may be subject to gift

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To our valued client:
We appreciate that the COVID-19 pandemic and market turbulence is top of mind, and we encourage you to connect regularly with rbcwealthmanagement.com and your financial advisor website for timely information on these critical topics. In the following articles, you will find seasonally-relevant information that you expect from Investor's Edge, designed to support a well-rounded wealth plan.

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tax. Portions of the accelerated gift may also be subject to an add-back feature in the event of death of the gift giver or prior to the five year acceleration period. You must elect to treat the entire gift as a series of five equal annual gifts, however, the cumulative total plan contribution varies by state.

Contact your financial advisor to discuss how 529 plans could help your family fund college education expenses.

Educating children about college financing

April is financial literacy month, and a good opportunity to give your children a good background in finances.

A conversation about financing higher education can be overwhelming to anyone. This is especially the case, however, for students who have no background in the concept of the value of money.

Introducing a student to college funding at the last minute could be a bit overwhelming for your child. Consider these steps on how to discuss saving throughout your child's life.

0–5 years old

Young children often learn about saving their pennies with piggy banks, and it's a good opportunity to educate them about saving for big costs like buying a house or paying for college.

While they may be too young to understand the difference of saving a couple of pennies versus thousands of dollars, instilling the concept of saving at an early age is a great step toward developing good financial management skills in children.

5–10 years old

As children enter the school years, they begin learning math skills and discovering how important education is. During these elementary years, parents can continue promoting savings skills by opening a savings account and explaining what compound interest means and does for funds in an interest-bearing account.

10–15 years old

As pre-teens and young teenagers, children begin to learn that money doesn't grow on trees, and the costs for items they desire. This is a great age to share your expectations that they pursue education beyond high school and, at a high level, discuss how this education could be paid for.

You may want to let your children know about any 529 plans they are listed as the beneficiary of, and show them what the plan currently has saved. This is also a good opportunity to demonstrate that even with a 529 plan available, the savings may not be enough to fully cover their educational costs, and other forms of savings or funding may be needed.

15–18 years old

High school is when students really explore career options, and learn about the educational paths they need to take to achieve those careers. This is the age where financial literacy starts to develop, and as students begin asking parents about college education costs, they can learn about how 529 plans may cover some of those costs.

Families can further educate their children by having them help with filing FAFSA forms. FAFSA forms are required for any student pursuing student loans or wanting to apply for a campus job, and the information they require is a good educational opportunity for parents to hold a discussion about the family's overall wealth.

18–22 years old

While your student is successfully learning everything he or she needs to start a career, you're steadily making withdrawals from the 529 plan to cover tuition and room and board expenses. Consider setting up a twice-a-year meeting with your child to demonstrate how the process happens, what is involved in determining and proving qualified expenses, and also how the account is affected by the transactions.

If your student will graduate with student loan debt, you can educate them about the differences between good and bad debts, as well as the difference between making minimum monthly payments and paying down the debt.

Good financial planners

Teaching your children about their college funding options is a great way to demonstrate that saving for goals with large price tags can pay off. You can segue the conversation into saving for retirement, a first house down payment, or even a new car. There's a good chance your children will thank you in the future for teaching them these skills, especially if they intend to set up 529 plans for their own children.

For more information about the 27 advisor-sold plans offered through RBC Wealth Management, or how to have the conversation of family wealth with your children, please contact your financial advisor.

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For more information regarding college savings plans, please visit www.collegesavings.org. Participation in a 529 Plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary and therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10 percent penalty on distributions for non-qualified expenses may apply.

Give kids ownership in college funding, continued

Impacts of SECURE Act

The 2019 SECURE Act made changes to retirement planning and 529 plans. These include:

- Required Minimum Distributions (RMDs) for IRAs and qualified retirement plans are required to start beginning at age 72 (instead of 70½). This change is effective for individuals turning 70½ after December 31, 2019.
- Removal of 70½ contribution age limit for IRAs.
- Increased maximum contributions for 401(k) automatic enrollment from 10% to 15%
- Elimination of the lifetime "stretch" provision for non-spouse beneficiaries of inherited IRA and other retirement accounts, replaced by a 10-year distribution cap[1].
- Use 529 plan to cover up to $10,000 of qualified student loan repayments. This gives students flexibility in planning their educational funding. They can fill out the FAFSA form, qualify for an on-campus job and balance out expenses with student loans so they are covered during their school years. And if they have left-over money in their 529 account when they graduate, they can use up to $10,000 of that money toward student loans immediately upon graduation, helping to reduce the amount of interest owed. Your financial advisor can help your family make the best plans for your student.

1. Distributions to non-spouse beneficiaries must be made in their entirety no later than Dec. 31 of the 10th year following the year in which the account owner died, for beneficiaries of individuals who died Jan. 1, 2020 or later. Individuals exempt from the 10-year limit include minor children (though the 10-year period starts upon reaching age of majority), disabled and chronically ill individuals, and any person no more than 10 years younger than the account owner. Also, beneficiaries of individuals who died Dec. 31, 2019 or earlier are "grandfathered" into the lifetime stretch option.

Tuition bills may pop up, catching your family by surprise

With your son or daughter safely off to college, your educational funding plan comfortably helping to cover tuition, room and board, you should be all set to relax, wishing your child all the best in his or her learning adventures. Right?

Surprise costs have a way of catching families off guard. Most colleges provide an estimated "cost of attendance" to help families plan ahead to cover the traditional fees, but other fees are prevalent on college campuses. And maybe your student is ambitious and wants to enroll in an extra course, taking his or her semester tuition bill up several thousand more dollars?

While it's nearly impossible to plan for every surprise bill, you can plan how to cover those bills without affecting your investment plans. An RBC Credit Access Line, offered by Royal Bank of Canada, may provide a short-term bridge financing solution without interrupting your long-term financial goals.

There is no cost to open this securities-based line of credit, and there are no fees until you initiate a credit advance. These factors make a line of credit a flexible liquidity solution for covering surprise college tuition bills—if you need it. A RBC Credit Access Line may also help you avoid tax liabilities and fees associated with selling other assets.

With this flexible financing option, your student is doing his or her best in their educational pursuits, and you know any tuition or fee surprises are handled. So you can relax and send your child off into the adult world with confidence.

RBC Credit Access Line is a securities-based, demand line of credit offered by Royal Bank of Canada, an Equal Opportunity Lender and a bank affiliate of RBC Capital Markets, LLC. Subject to credit approval. Securities-based loans involve special risks, are subject to minimum collateral requirements, and are not suitable for everyone. Additional restrictions may apply.

You've made your lifestyle sustainable, but what about your investments?

April 22 is the 50th anniversary of Earth Day; designed to increase awareness of the impacts pollution, pesticides and improper waste disposal have on the Earth. A lot has changed in that time. Rivers are no longer flammable, like they were in 1969 when the Cuyahoga River burst into flames. But other issues are beginning to appear, like climate change, poisoning of water supplies in developing economies and massive plastic pollution in the oceans. Earth Day is more important than ever.

Today, more consumers are making a difference with their dollars. Sustainable products and solutions matter. Whether it's a preference for clean energy, consumer goods or clothing, the trend toward more Earth-conscious companies is not likely to slacken.

There is one part of your world as a consumer where sustainability often gets over looked, and that is in your investments. You influence companies with your spending decisions at the grocery store, but what about with one of your largest pools of assets? Your investments can have an impact on the environment.

Responsible investing is an umbrella term used to describe any sort of investment that looks at environmental, social and governance (ESG) factors when making an investment decision. RBC Wealth Management's CEO Michael Armstrong recently published an article highlighting how we are "all-in" on responsible investing. This Earth Day, consider how you can help make a difference for the environment through ESG investing.

ESG investing means looking for companies who have identified environmental risks that their firms face. Every firm faces some form of environmental risk, whether it's flooding, pollution they emit or carbon produced from the energy they consume. Forward-thinking companies, which focus on long-term rather than short-term risks, plan on how to mitigate these risks.

For example, one tech company announced it plans to become "carbon negative" by 2030. This proclamation is the first of its kind. Many other tech companies report that they will attempt "carbon neutrality," where they will not put any more carbon into the atmosphere than they have already, but now the trend is targeting removing the equivalent of all the carbon they have ever emitted. Tech companies usually run a massive number of computers. If they are able to cut their energy costs by targeting carbon negativity, there could be a substantial benefit to the company's bottom line, as well as the environment.

Many companies like to be leaders in improving the environment. Take, for example, one clothing retailer, which is focusing on using more sustainable sources for making its clothing. Through research and technology improvements, this company is concentrating on sustainable manufacturing techniques to reduce the company's waste, mostly through recycling.

On this Earth Day, consider reviewing how your portfolio is positioned. Every company has an impact on the world. Some have a positive influence, some negative. What kind of impact would you like your portfolio to have?

If you are interested in learning more about this topic, please contact your financial advisor and ask about how you can integrate ESG investing into your portfolio.

Merging assets: Prenups don't deserve their bad rap

Money is the last conversation a happily engaged couple ensconced in wedding plans wants to have, especially when it comes to prenups. How unromantic can you get? But money is a topic that will come up year after year in a marriage—long after the couple has forgotten who gave them what as wedding gifts.

Everyone usually associates prenups with divorce. However, if you were to look at the fact that prenuptial agreements are designed to provide both partners (and other family members if applicable) in the marriage with security over all assets, the idea of a marriage contract makes sense.

Here are a couple of good aspects of prenups:

- They lay the foundation for estate planning. Forget divorce, this couple is going to stick together like glue, and hopefully grow their assets enough where they'll need an estate plan to successfully transfer their wealth to children and grandchildren. The legwork completed to develop a solid prenuptial agreement can provide the couple with good information to pave the way for an estate plan many years later.
- The average American debt is more than $38,000, according to a Northwestern Mutual Planning and Progress 2018 study. A prenup agreement can help protect the marital property from creditors, if needed.
- If there are children from previous marriages in the picture, prenuptial agreements can help protect the children's inheritance. For example, if Spouse 1 brings two children into the marriage, and dies after the wedding, all of Spouse 1's assets go to their new spouse by law. A prenup can stipulate if the children receive an inheritance first. This provision may reduce animosity between family members early in the relationship.
- They determine in advance how inheritances will be handled. For example, if one spouse anticipates a sizable inheritance several years in the future, the prenup can include a provision stating that inherited money remains the property of the inheriting spouse, as long as the inheritance is kept separate from community property. Discussing this prior to the inheritance becoming a reality can help eliminate arguments at a later date.
- Couples who want to start a business would benefit from a stipulation in the prenup determining what percentage of ownership each spouse has in the business once it's established. This helps the couple with any legal oversight of the business, and even in decision-making aspects of the company.

If you don't have a prenup, these decisions happen in the courts, and a judge is the one who gets to decide.

If you're planning your march down the aisle in the near future, consider how a prenup arrangement, developed with the help of your financial, legal and tax advisors, can provide security for both you and your future spouse.