

WealthMonitor

RBC Wealth Management

Shaeffer Wealth Advisory Group

2800 Quarry Lake Drive • Suite 260 • Baltimore • MD • 21209

410-318-5096 • 877-805-3672

shaefferwealthadvisorygroup@rbc.com • www.shaefferwealthadvisorygroup.com

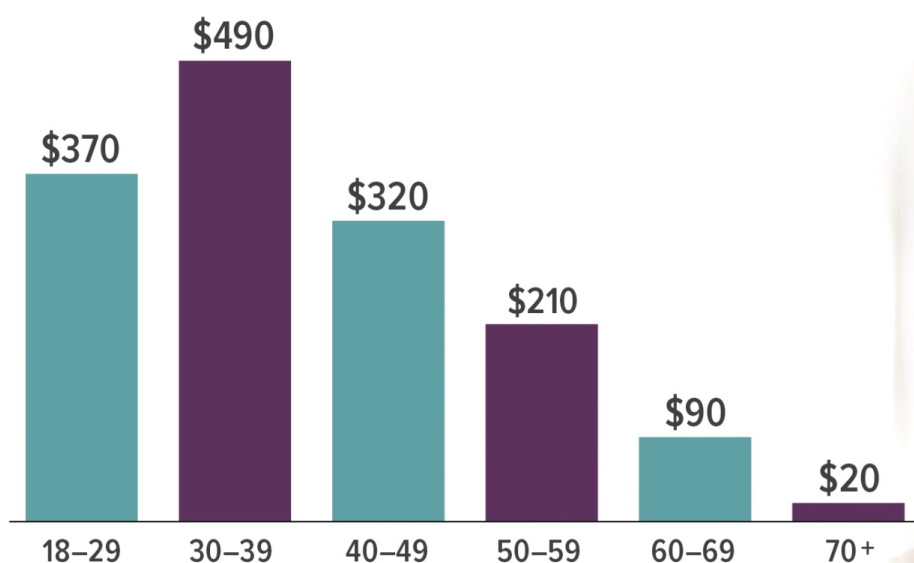


Wealth
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Student Debt: It's Not Just for Young Adults

Recent college graduates aren't the only ones carrying student loan debt. A significant number of older Americans have student debt, too. In fact, student loan debt is the second-highest consumer debt category after mortgage debt. In total, outstanding student loan debt in the United States now stands at approximately \$1.5 trillion, with the age 30 to 39 group carrying the highest load.

Student loan debt by age, in billions



Source: New York Fed Consumer Credit Panel/Equifax (Q3 2019 data)

Four Questions on the Roth Five-Year Rule

The Roth "five-year rule" typically refers to when you can take tax-free distributions of earnings from your Roth IRA, Roth 401(k), or other work-based Roth account. The rule states that you must wait five years after making your first contribution, and the distribution must take place after age 59½, when you become disabled, or when your beneficiaries inherit the assets after your death. Roth IRAs (but not workplace plans) also permit up to a \$10,000 tax-free withdrawal of earnings after five years for a first-time home purchase.

While this seems straightforward, several nuances may affect your distribution's tax status. Here are four questions that examine some of them.

1. When does the clock start ticking?

"Five-year rule" is a bit misleading; in some cases, the waiting period may be shorter. The countdown begins on January 1 of the tax year for which you make your first contribution.

Roth by the Numbers

19%

U.S. households who owned Roth IRAs in 2019



36%

Roth IRA-owning households who contributed to them for tax year 2018



69%

Employers that offered a Roth 401(k) plan in 2018



23%

Eligible employees who contributed to a Roth 401(k) in 2018



Sources: Investment Company Institute and Plan Sponsor Council of America, 2019

For example, if you open a Roth IRA on December 31, 2020, the clock starts on January 1, 2020, and ends on January 1, 2025 — four years and one day after making your first contribution. Even if you wait until April 15, 2021, to make your contribution for tax year 2020, the clock starts on January 1, 2020.

2. Does the five-year rule apply to every account?

For Roth IRAs, the five-year clock starts ticking when you make your first contribution to any Roth IRA.

With employer plans, each account you own is subject to a separate five-year rule. However, if you roll assets from a former employer's 401(k) plan into your current Roth 401(k), the clock depends on when you made the first contribution to your former account. For instance, if you first contributed to your former Roth 401(k) in 2014, and in 2020 you rolled those assets into your new plan, the new account meets the five-year requirement.

3. What if you roll over from a Roth 401(k) to a Roth IRA?

Proceed with caution here. If you have never previously contributed to a Roth IRA, the clock resets when you roll money into the Roth IRA, regardless of how long the money has been in your Roth 401(k). Therefore, if you think you might enact a Roth 401(k) rollover sometime in the future, consider opening a Roth IRA as soon as possible. The five-year clock starts ticking as soon as you make your first contribution, even if it's just the minimum amount and you don't contribute again until you roll over the assets.¹

4. What if you convert from a traditional IRA to a Roth IRA?

In this case, a different five-year rule applies. When you convert funds in a traditional IRA to a Roth IRA, you'll have to pay income taxes on deductible contributions and tax-deferred earnings in the year of the conversion. If you withdraw any of the converted assets within five years, a 10% early-distribution penalty may apply, unless you have reached age 59½ or qualify for another exception. This rule also applies to conversions from employer plans.²

¹ You may also leave the money in your former employer's plan, roll the money into another employer's Roth account, or receive a lump-sum distribution. Income taxes and a 10% penalty tax may apply to the taxable portion of the distribution if it is not qualified.

² Withdrawals that meet the definition of a "coronavirus-related distribution" during 2020 are exempt from the 10% penalty.

Mid-Year Is a Good Time to Fine-Tune Your Finances

The first part of 2020 was rocky, but there should be better days ahead. Taking a close look at your finances may give you the foundation you need to begin moving forward. Mid-year is an ideal time to do so, because the planning opportunities are potentially greater than if you waited until the end of the year.

Renew Your Resolutions

At the beginning of the year, you may have vowed to change your financial situation, perhaps by saving more, spending less, or reducing your debt. Are these resolutions still important to you? If your income, expenses, and life circumstances have changed since then, you may need to rethink your priorities.

While it may be difficult to look at your finances during turbulent times, review financial statements and account balances to determine whether you need to make any changes to keep your financial plan on track.

Take Another Look at Your Taxes

Completing a mid-year estimate of your tax liability may reveal planning opportunities. You can use last year's tax return as a basis, then factor in any anticipated adjustments to your income and deductions for this year.

Check your withholding, especially if you owed taxes or received a large refund. Doing that now, rather than waiting until the end of the year, may help you avoid a big tax bill or having too much of your money tied up with Uncle Sam.

You can check your withholding by using the IRS Tax Withholding Estimator at irs.gov. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.

Review Your Investments

Review your portfolio to make sure your asset allocation is still in line with your financial goals, time horizon, and tolerance for risk. Look at how your investments have performed against appropriate benchmarks, and in relationship to your expectations and needs. Changes may be warranted, but be careful about making them while the market is volatile.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investing involves risk, including the possible loss of principal and there is no guarantee that any investment strategy will be successful.

Check Your Retirement Savings

If you're still saving for retirement, look for ways to increase retirement plan contributions. For example, if you receive a pay increase this year, you could contribute a higher percentage of your salary to your employer-sponsored retirement plan, such as a 401(k), 403(b), or 457(b) plan. If you're age 50 or older, consider making catch-up contributions to your employer plan. For 2020, the contribution limit is \$19,500, or \$26,000 if you're eligible to make catch-up contributions. If you are close to retirement or already retired, take another look at your retirement income needs and whether your current investment and distribution strategy will provide enough income.

Read About Your Insurance Coverage

What are the terms of your homeowners, renters, and auto insurance policies? How much disability or life insurance coverage do you have? Your insurance needs can change; make sure your coverage has kept pace with your income or family circumstances.

More to Consider

Here are some other questions you may want to ask as part of your mid-year financial review.



Do you have an emergency fund?



Are your beneficiary designations up-to-date?



Have you checked your credit score recently?



Do you need to create or update your will?



How much is left in your flexible spending account?

Telemedicine: The Virtual Doctor Will See You Now

Widespread smartphone use, loosening regulations, and employers seeking health cost savings are three trends that have been driving the rapid expansion of telemedicine. And that was before social distancing guidelines to help control the spread of COVID-19 made the availability of remote medical care more vital than anyone anticipated.

Easy Interaction with Health Professionals

Telemedicine offers a way for patients to interact with doctors or nurses through a website or mobile app using a secure audio or video connection.

Patients have immediate access to advice and treatment any time of the day or night, while avoiding unnecessary and costly emergency room visits. And health providers have the ability to bill for consultations and other services provided from a distance.

Telemedicine can be used to treat minor health problems such as allergies and rashes, or for an urgent condition such as a high fever. It also makes it easier to access therapy for mental health issues such as depression and anxiety.

In other cases, doctors can remotely monitor the vital signs of patients with chronic conditions, or follow up with patients after a hospital discharge. Telemedicine can also fill gaps in the availability of specialty care, especially in rural areas.

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Offered by Many Health Plans

In 2019, nearly nine out of 10 large employers (500 or more employees) offered telemedicine programs in their benefit packages, but many workers had not tried them out.

Only 9% of eligible employees utilized telemedicine services in 2018 (the most recent year for which data is available), even though virtual consultations often have lower copays and are generally less expensive than in-person office visits, especially for those with high deductibles.¹

If your health plan includes telemedicine services, you might take a closer look at the details, download the app, and/or register for an online account. This way, you'll be ready to log in quickly the next time your family faces a medical problem.

1) Mercer National Survey of Employer-Sponsored Health Plans, 2019

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