INVESTOR'S
Edge

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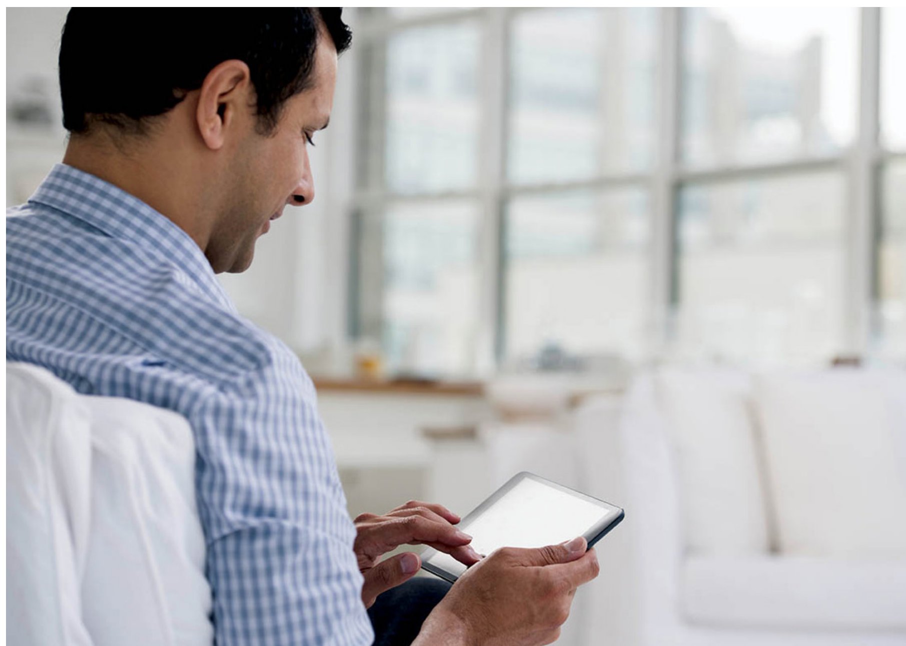
To plan, or not to plan, for Social Security?

Retirement planning is important for everyone who wishes to stop working at some point in their life, but especially for anyone born in 1968 or later. That's because the Social Security Administration reports it will no longer be able to fully fund Social Security payments starting in 2035, assuming Congress doesn't make changes before then. If your children were born after 1968, they will reach full retirement age after the anticipated fund depletion date.

For young adults in their 20s and 30s, Social Security may only be a notion they assume will be there in the future. The good news is, young adults have time to plan for the possibility that Social Security may or may not be available, or be paid in full when they qualify for it.

Flexibility is key

It's important for young adults to start wealth planning early, says Cyndy Ranzau, a wealth strategist with RBC Wealth Management consulting. While she encourages them to plan ahead for a future without Social Security payments, she says it's more important that young professionals start saving—period.



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To plan, or not to plan, for Social Security, continued

"Time is the biggest factor with the benefit of compounding money," Ranzau says. "The sooner a young adult can focus on saving a portion of his or her income, the more likely they are going to stay within their means for the rest of their lives."

As part of retirement planning, Ranzau recommends approaching Social Security benefits cautiously, mostly because the monthly payments aren't huge. She encourages young professionals to start early financially planning for emergency funds, life insurance and caring for older parents. These are all potentially expensive items that Social Security payments won't cover. She knows factors like student loans and spending interests tend to get in the way of thinking about saving for retirement, and she always asks her clients one question: "When do you plan to start, and how will you adjust your spending at that time so you can make retirement happen?"

Griffin Geisler, a wealth planning consultant with the RBC Wealth Management client strategies team, says 2035 is the second time Social Security payments are under threat. Studies conducted in 1981 determined the funds would have to be reduced in 1983 if changes weren't made. In 1983, Congress approved legislation changing benefits affecting people who are now in their 60s by changing the minimum retirement age when you can collect full Social Security benefits (age 67 or anyone born in 1960 or later) and also taxing benefits.

If legislative changes don't happen, the Social Security Administration reports benefits would be cut to 80%, starting in 2035. Geisler anticipates Congress will make new changes prior to that, but encourages younger adults to plan around the possibility of benefits changing.

"I encourage people to include Social Security when wealth planning," he says. "Sometimes I think people are too conservative in their assumptions. As long as people are reviewing their plan year-over-year, they can make changes."

The RBC WealthPlan allows clients to assume different scenarios for Social Security when planning for retirement, including adjusting for anticipated cost-of-living increases. The plan default is purposefully set lower than the anticipated inflation increases, and financial advisors have the ability to adjust those rates to give clients a full picture of what they may need to plan around.

No crystal ball

During his presidential campaign, President Joe Biden proposed increasing the payroll tax for Social Security. As of January 1, 2021, workers were taxed on up to $142,000 of their income. Biden's campaign discussed taking that amount down to $137,000 (with inflation adjustments also included). The campaign also proposed taxing people who earned more than $400,000, in effect providing a tax break for earned incomes between $137,000 and $400,000.

There's a long road ahead to see if those proposals make it into legislation, but Geisler thinks future changes will be coming, and they probably won't affect people retiring at the time, but younger generations who should have time to plan around the changes.

It's impossible to predict what future administrations and Congress will do to potentially change Social Security, making it impossible for a young adult to easily plan for retirement in 30–40 years. However, because young adults have time on their side, Ranzau and Geissler recommend getting started early, just to be prepared.

"The No. 1 thing I hear clients say is, 'I wish I had started earlier,'" Ranzau says. Planning today, with the support of RBC Wealth Management tools, solutions and guidance from your financial advisor, will help determine your children will not be saying this in their futures.

Social Security facts as of January 1, 2021

- Money paid into Social Security via paychecks goes into an independent trust fund, not the general operating fund of the government. Congress does not have the ability to use Social Security funds for other projects. Confusion occurs because between 1969 and 1990, the trust fund account was included as part of the unified budget for accounting purposes, but not for administration of finances purposes.
- Anyone born 1960 or later is full retirement age at 67.
- Since 1975 the Social Security Administration has calculated cost-of-living adjustments (COLAs) to keep benefits on par with inflation. The COLA for 2020 was 1.3%.
- A person retiring in 2021 would receive maximum monthly Social Security benefits of $3,895, assuming they retired at age 70 and had high lifetime earnings.

Source: Social Security Administration ssa.gov.

Give your children an edge

To help the young adult in your household plan for retirement, set up an appointment with your financial advisor.

A climate of opportunity

Savvy investors are eyeing President Joe Biden's intentions related to the Paris Agreement with great interest and see potential opportunities in 2021 and beyond.

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Announced at the UN Framework Convention on Climate Change in 2015, the Paris Agreement is essentially a pledge by participating member countries to do their best to prevent the global temperature from rising two degrees Celsius above pre-industrial levels by assessing their carbon emissions profiles and committing to reducing these emissions. The U.S. was involved, withdrew from the agreement in November of 2020, and rejoined the agreement shortly after Biden took office.

The World Bank estimated that the Paris Agreement created a $23 trillion global investment opportunity in emerging industries such as solar and wind as participating countries sought to shift energy sources in order to comply.

During his campaign, Biden released a $2 trillion, multiyear plan[1] with the ultimate goal of moving the U.S. to 100% clean energy and net-zero emissions by 2050, which would quickly move the U.S. back in line with the Paris Agreement. However, it remains to be seen how much of this plan can be implemented, the level of congressional support these measures would receive, and how quickly it could be put in place. Despite these possible headwinds, it seems evident that climate change will be a priority during Biden's presidency.

A tailwind for responsible investing

RBC Wealth Management believes the new administration's focus on climate risks and opportunities could be a strong tailwind to responsible investing, which looks at factors beyond simple financial considerations when assessing the risks and return potential of an investment. These factors generally include environmental, social and governance (ESG) information and can be applied to investment portfolios in a number of ways.

Clean energy

Clean energy programs like solar or wind have great opportunity for growth, as the Energy Information Administration estimates in 2019 only 17% of the U.S.'s energy comes from renewable sources.[2]

One of Biden's proposals calls for the removal of all fossil fuel subsidies for U.S. oil and gas companies, which amount to $17 billion, and without them, 45% of U.S. oil production would be unprofitable, according to OilChange International and the Sierra Club. A growing number of investors have already removed most, if not all, of these companies from their portfolios through a practice called fossil fuel free investing, and by doing so, have already removed this risk from their portfolios.

Sustainable technology

Biden's plan calls for the investment of $400 billion over 10 years in new clean technology, such as new battery technology, carbon sequestration, carbon-free hydrogen, zero net energy buildings and decarbonizing industrial production of steel, concrete and chemicals. Any of these new technologies could present attractive investment opportunities as well as the positive, measurable effect that impact investors seek.

Think economically

In addition to the environment, climate changes impact the economy in many ways. Consider, for example, the winter freeze experienced in Texas in February, and how that impacted local and national economies. There are many sections of the United States that are not prepared for climate-related events, from temperature changes to wind, fire or floods.

The opportunity

RBC Wealth Management believes there is an opportunity to increase responsible investing in the U.S. market. It is difficult to know which of President Biden's proposals will actually make it into law this early in his term. However, it may be assumed that there will be an additional focus on environmental issues for at least the next four years. This creates an opportunity for a rise in responsible investing in the U.S. market and a chance for savvy investors to consider adding responsible investing solutions to their investment portfolios.

Contact your financial advisor

Learn more about responsible investing opportunities for your portfolio.

[1] Joe Biden Climate Plan (https://joebiden.com/climate-plan)
[2] https://www.eia.gov/tools/faqs/faq.php?id=92&t=4

Why wealth planning is a must for LGBTQ+ couples

When planning for retirement, LGBTQ+ people between the ages of 45 and 75 rely largely on their own knowledge and education, according to a study conducted by Services and Advocacy for LGBTQ+ Elders (SAGE). However, 51% of LGBTQ+ older people are very or extremely concerned about having enough money to live on.

Thanks to the same-sex marriage legalization in 2015, estate, financial and tax planning are largely the same for gay and straight unions.

- Estate planning refers to planning who will receive your assets after you die, how those assets will be distributed, how you would like to be cared for if you become incapacitated before death and guardianship of any minor children.
- Financial planning includes a broad spectrum of activities: how you build and protect your assets throughout your lifetime, planning for major expenses such as vehicles and mortgages and long-term costs such as a child's education, purchasing a home or saving for retirement.
- Tax planning informs both wealth and estate planning, helping to anticipate what taxes must be paid during different life stages.

Before marriage equality became law in 2015, some same-sex couples did a lot of sophisticated planning, which provided them with similar tax treatment to that of heterosexual couples. Now, even with the ability to enjoy the legal benefits of marriage, some couples may choose to not tie the knot due to tax considerations. That's because gaining legal recognition as a married couple may put them into a higher tax bracket than if they were to file their taxes jointly.

Another financial consideration for couples choosing to marry is how a spouse is treated through corporate benefit plans, including health and wellness benefits, as well as pensions, which may vary by company and region.

Same-sex couples may also need professional advice if one of them relocates to another country, perhaps for a new job opportunity, and wants their spouse to come with. It can become particularly complicated if that country doesn't recognize same-sex unions.

Planning for children/heirs

Many same-sex couples have children. These may be children from a previous relationship, or perhaps from an adoption, surrogacy or other arrangement. While the law in these areas is complex and varies widely across jurisdictions, estate, wealth and tax planning goals for children are similar to that of heterosexual couples.

For wealth planning, couples should save for their kids' education, as well as any other expenses they want to help out with, such as buying a first car. Estate plans may need to be updated to include children, and if they're not yet adults, guardianship. With tax planning, same-sex couples may also consider taking deductions as part of their joint taxes for expenses such as a child's education, whereas before 2015, they may have claimed it only on one person's taxes.

Having equal rights as parents also means potentially having to pay child support if the same-sex couple seeks a divorce down the road.

When LGBTQ+ couples choose to marry, it's important for couples to meet with their financial advisors to develop wealth plans that match their lifestyles and goals.

Your financial advisor can also collaborate with your attorney(s) and accountant(s) to develop appropriate estate plans and tax strategies for your wealth management goals.

Contact your financial advisor

Ask about wealth planning, estate planning services and how tax planning considerations can affect both.

Five critical money conversations for women to have with their financial advisor

Women are an economic powerhouse—earning, controlling and inheriting more wealth than ever before. Women are adding to their assets at a rate of $5 trillion per year globally according to "Women in Wealth, Managing the Next Decade of Women's Wealth" published by the Boston Consulting Group in 2020. With this growing wealth comes more financial responsibility and complexity, often intertwined with juggling careers, caregiving and life's transitions.

Yet in 2018, only about half of women felt confident about managing investments compared to more than two-thirds of men, based on findings of "Women and Financial Wellness: Beyond the Bottom Line," published by AgeWave. This disparity remained consistent, even when women and men earned the same scores on financial literacy tests.

By taking an active role in their financial lives, women can gain confidence in managing investments. These five topics may offer a good foundation for money conversations a woman can have with her financial professional to help increase confidence in her financial future.

1 Achieving financial goals

Balancing family and work is a concern for many women, and you can work with your financial advisor to develop plans allowing you to do both. Some areas of discussion include saving for both retirement and college tuition for the kids, ways to make major purchases without interrupting long-term financial planning goals and how your wealth can initiate positive change.

2 Accumulating wealth

With generally longer life expectancies, women may need to both accumulate more assets and invest for more growth potential over time. Considerations a woman should discuss with her financial advisor include her investing style and risk tolerance, as well as how she can actively pursue retirement planning.

3 Protecting wealth

Many women want to live independently while caring for loved ones during their later years. Taking appropriate steps to protect wealth may help preserve individual autonomy and help offer peace of mind about future financial security. A good discussion to bring up with your financial advisor includes creating a survivor plan in the event something happens to yourself or spouse, which should include confirming legal and financial arrangements are updated. It's also important to discuss what type of long-term care is needed and how to fund it.

4 Turning wealth into income

Women are far more likely than men to face financial hardship during retirement. The typical income for women 65 and older is 25% lower than for men, and that gap widens to 44% by age 80 and older, according to the National Institute on Retirement Security. To help plan for different retirement circumstances, a woman should ask her financial advisor if she is able to retire comfortably, what expectations she should have regarding Social Security income and what to expect from employer-sponsored retirement plan benefits from a former spouse, or if her spouse dies.

5 Transferring wealth

Taking care of family is an inherent trait for many women, who may wish to have that care continue well after their lives have ended. Transferring wealth includes several aspects from planning for tax liability to confirming that your wishes are fulfilled. Your financial advisor can also help you plan for sharing wealth during your lifetime—so you can enjoy the impact it makes—as well as protecting your family's privacy from probate court.

Additional resources

Ask your financial advisor for a copy of RBC Wealth Management's Women and wealth: a planning workbook. It features useful information to help you learn about the important financial issues you may face—as well as practical worksheets to help provide the insights you need to prepare effectively for the financial future you want.

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