

# WealthMonitor



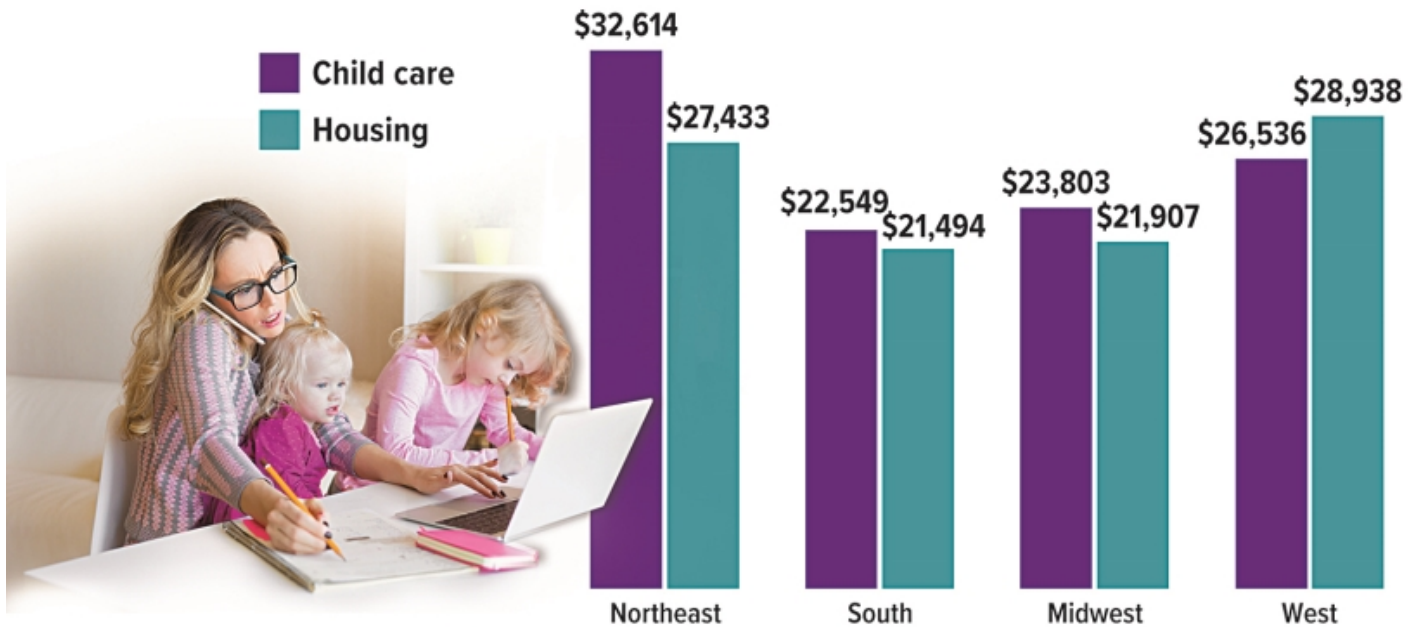
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## Child Care Costs More Than Housing

For a family with two young children, the average annual cost for child care in 2023 was higher than the cost of mortgage payments in 45 states and higher than the cost of rent in every state. Here is a comparison of regional costs for housing and child care for two children — an infant and a four-year-old — in a child care center.



Source: ChildCare Aware of America, 2024

# A Critical Combo: Life Insurance with Long-Term Care Benefits

An important part of any retirement strategy involves accounting for potential long-term care (LTC) expenses, which can be surprisingly high. The median cost of a private room in a nursing home was \$9,733 in 2023, while a full-time home health aide was \$6,292 per month.<sup>1</sup>

If you plan to pay for care out of pocket, consider how long your retirement savings would last if you or your spouse end up needing care in a nursing home for several years. How would writing those checks every month affect the healthy spouse's quality of life?

On the other hand, you may not like the idea of paying costly premiums for traditional long-term care insurance that you might never need. If so, you may be interested in one of these alternatives that combine permanent life insurance with long-term care coverage.

## An efficient hybrid

Although LTC insurance is typically a "use-it-or-lose-it" proposition, a hybrid (or linked-benefit) policy can help pay for care if it's needed or provide a larger death benefit for your beneficiaries if it's not. Hybrid policies are generally more expensive than standalone LTC policies, and the maximum LTC benefit may be smaller. Currently, the max LTC benefit amount is typically equal to about five times the premium.<sup>2</sup>

A hybrid policy may be purchased with a single premium, or installments paid over a few years (usually no more than 10). And you won't have to worry about future rate increases or the issuer canceling the policy, which can happen with a traditional LTC policy.

## Tack on a rider

Another option is to buy a life policy with an attached long-term care rider — which typically can't be added later. Any LTC payments are usually limited to the death benefit, which means they are generally not as robust as with a standalone LTC policy or a linked-benefit policy. However, the death benefit is larger (for the same premium).

If you consider either of these strategies, you should have a need for life insurance and evaluate the policy on its merits as life insurance.

## Collecting benefits

Long-term care benefits kick in when the insured person needs help with two or more activities of daily living (such as eating, bathing, and transferring) or is severely cognitively impaired, though there is typically a 90-day waiting, or elimination, period. Care may be provided in your home or at a facility.

## Probability of needing care, by attained age (for someone who is currently age 65)

Age	Female	Male
70	5.6%	5.3%
75	13.9%	12.7%
80	27.2%	24.3%
85	43.9%	38.7%
90	58.3%	51.1%

Source: American Association for Long-Term Care Insurance, 2022

With linked-benefit policies and LTC riders, benefits may be paid through reimbursement of the actual cost of care or an indemnity model that pays a certain cash benefit regardless of the actual cost of care. If your policy uses an indemnity model, it might allow you to pay a family caregiver. When you use the LTC benefit, the death benefit is reduced, but some policies may still offer a small death benefit even if you use up the LTC coverage.

Plus, permanent life policies and most hybrid life-LTC policies have a cash-value component that you could tap into for emergencies or retirement income if you are lucky enough to need little or no care. (Loans and withdrawals will reduce the policy's cash value and death benefit.)

The danger in waiting to explore combination life-LTC policies — beyond the fact that premiums rise with age — is that you could develop a health condition that would disqualify you from coverage.

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Policies commonly have mortality and expense charges. If a policy is surrendered prematurely, there may be surrender charges and income tax implications. Optional benefit riders are available for an additional cost and are subject to the contractual terms, conditions, and limitations outlined in the policy; they may not, however, benefit all individuals. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.*

1) Genworth Cost of Care Survey, December 2023

2) American Association for Long-Term Care Insurance, 2024 (estimate is for benefits at age 90 for policies with inflation growth option)

# Thinking of Selling Your Home? Don't Be Surprised by Capital Gains Taxes

The Taxpayer Relief Act of 1997 provided homeowners who sell their principal residence an exclusion from capital gains taxes of \$250,000 for single filers and \$500,000 for joint filers. At that time, the average price of a new home was about \$145,000, so this exclusion seemed generous and allowed more Americans to move freely from one home to another.<sup>1</sup> Unfortunately, the exclusion was not indexed to inflation, and what seemed generous in 1997 can be restrictive in 2024.

Capital gains taxes apply to the profit from selling a home, so they may be of special concern — and potential surprise — for older homeowners who bought their homes many years ago and might yield well over \$500,000 in profits if they sell. In some areas of the country, a home bought for \$100,000 in the 1980s could sell for \$1 million or more today.<sup>2</sup> At a federal tax rate of 15% or 20% (depending on income) plus state taxes in some states, capital gains taxes can take a big bite out of profits when selling a home. Fortunately, there are some things you can do to help reduce the taxes.

## Qualifying for exclusion

In order to qualify for the full exclusion, you or your spouse must own the home for at least two years during the five-year period prior to the home sale. You AND your spouse (if filing jointly) must live in the home for at least two years during the same period. The exclusion can only be claimed once every two years. There are a number of exceptions, including rules related to divorce, death, and military service. If you do not qualify for the full exclusion, you may qualify for a partial exclusion if the main reason for the home sale was a change in workplace location, a health issue, or an unforeseeable event.

## Increasing basis for lower taxes

The capital gain (or loss) in selling a home is determined through a two-part calculation. First, the selling price is reduced by direct selling costs, including certain fees and closing costs, real estate commissions, and certain costs that the seller pays for the buyer. (The amount of any mortgage pay-off is not relevant for determining capital gains.) This yields the *amount realized*, which is then reduced by the *adjusted basis*.

The basis of your home is the amount you paid for it, including certain costs related to the purchase, plus the costs of improvements that are still part of your home at the date of sale. In general, qualified improvements include new construction or remodeling, such as a room addition or major kitchen remodel, as well as repair-type work that is done as part of a larger project. For example, replacing a broken window would not increase your basis, but replacing the window as part of a project that includes replacing all

windows in your house would be eligible. This basis is adjusted by adding certain payments, deductions, and credits such as tax deductions and insurance payments for casualty losses, tax credits for energy improvements, and depreciation for business use of the home. (See hypothetical example.)

## Hypothetical Example

Pete and Joanne purchased their home for \$100,000 in 1985 and sold it for \$800,000 in 2024. This is how their capital gains might be calculated.

Capital gains	Basis
\$800,000 sales price	\$100,000 purchase price
– \$50,000 direct selling costs	+ \$8,000 purchase costs
\$750,000 amount realized	+ \$52,000 improvements
– \$150,000 adjusted basis	\$160,000 total basis
\$600,000 capital gain	– \$10,000 solar energy credit
– \$500,000 capital gains exclusion	\$150,000 adjusted basis
\$100,000 taxable gains	

At a 15% rate — which applies to most taxpayers — this would cost \$15,000 in federal capital gains taxes.

This hypothetical example of mathematical principles is for illustration purposes only. Actual results will vary.

## Inheriting a home

Upon the death of a homeowner, the basis of the home is *stepped up* (increased) to the value at the time of death, which means that the heirs will only be liable for future gains. In community property states, this usually also applies to a surviving spouse. In other states, the basis for the surviving spouse is typically increased by half the value at the time of death (i.e., the value of the deceased spouse's share).

Determining the capital gain on a home sale is complex, so be sure to consult your tax professional. For more information, see IRS Publication 523 *Selling Your Home*.

1) U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis, 2024

2) CNN, January 29, 2024

# Playing Fair: New Consumer Protections for Airline Passengers

There's no doubt about it, airline travel can be stressful. Thanks to a new federal law and rules issued by the U.S. Department of Transportation, airline passengers could have extra consumer protections, some in time for the holiday travel season.

**Hassle-free refunds.** In the past, airline passengers were forced to figure out how to obtain a refund by researching an airline's website or waiting for hours on the phone with an airline's customer service department. As of October 28, airline passengers will be entitled to an automatic refund for:

- Canceled or significantly changed flights (e.g., arrivals delayed by three or more hours for domestic flights and six or more hours for international flights), regardless of the reason
- Significantly delayed baggage return
- Extra services (e.g., Wi-Fi, seat selection, or inflight entertainment) that were paid for but not provided

Airlines must issue refunds of the full amount of the ticket purchased within seven business days of refunds becoming due for credit card purchases and 20 days for other payment methods. Passengers who accept a ticket for a significantly delayed flight or are rebooked on a different flight to their destination will not receive refunds. The refunds must be in the form of cash or whatever original payment method was used to make the purchase (e.g., credit card or airline miles). Finally, airlines are not allowed to substitute

other forms of compensation (e.g., vouchers or travel credits) unless a passenger affirmatively chooses to accept an alternate form of compensation.



*2023 had the highest number of flight delays ever recorded.*

Source: U.S. Department of Transportation, 2024

**Protection against surprise fees.** Many airlines advertise cheap "teaser" fares that don't take into account additional fees — all of which can significantly increase the cost of a ticket. Airlines are required to disclose various ancillary fees upfront, such as charges for checked bags, carry-on bags, and changing or cancelling a reservation. They must also provide a detailed explanation of each fee before a ticket can be purchased. The compliance period for this rule was scheduled to begin in 2025 but was temporarily blocked by a U.S. appeals court this past July.

**Free family seating.** Under a proposed rule, airlines will be prohibited from charging families an extra fee to guarantee a child will sit next to a parent or adult travel companion, assuming adjacent seating is available when the tickets are booked.

Visit the Department of Transportation's website at [transportation.gov/airconsumer](https://www.transportation.gov/airconsumer) for more information.

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