

Investor's Edge

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Eight age-based guidelines promote effective retirement planning

Conventional wisdom compares life to a journey, saying it is not the destination, but how you get there, that matters. Indeed, the longer we live, the more we may appreciate how our lives are enriched when we are fully open to, and mindful of, the people and experiences we encounter along the road of life.

The metaphor is also apt for retirement. Although retirement is more like a decades-long odyssey around the world than a summer spent abroad. And since living comfortably – while not running out of money – may be a top priority, taking a well-planned route over the course of many years is tantamount to success.

Sure, you can still “go with the flow” (as conventional wisdom recommends) and enjoy exploring the new paths you will discover on this epic journey. Just be certain to follow these eight age-based retirement income planning guidelines and you will be well on your way to the financially secure future you want.

Age 50+: Seize opportunities

Now is the time to start thinking about key retirement details. How much income will you need? Where do you want to live? How long will you need your money to last? Are you saving enough?

Starting at age 50 you can contribute more to your retirement accounts, which could help boost the size of your nest egg later. In 2016 the “catch

up” contribution limits are \$1,000 for individual retirement accounts (IRAs) and \$6,000 for qualified employer-sponsored retirement plans (qualified plans) such as a 401(k).

As your risk tolerance and goals begin to change, adjust your asset allocation (mix of stocks and bonds) as well as the types of investments you own (mix of growth or income assets).



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Eight age-based guidelines promote effective retirement planning, continued

Age 55: Think strategically

In terms of retirement funding strategies, the Separation from Service After Age 55 option under Internal Revenue Service Code 72(t) may allow you to make a penalty-free withdrawal from your qualified plan (ordinary income taxes still apply). If you have low-basis company stock in your NUA-eligible qualified retirement plan with your employer, consider taking advantage of the NUA tax break on a lump sum distribution of the employer stock.

Regarding your income needs, look at your retirement health care choices and what they may cost, including how a long-term care event might affect you. Also look at whether there may be a gap between your projected essential expenses (housing, food, health care) and your assured income sources that will last a lifetime (Social Security, pension, annuity income). Then take time now to develop an income-producing strategy to help cover that gap.

Age 59-1/2: Act tactically

The federal tax code allows penalty-free distributions from your IRA or qualified plan anytime after age 59-1/2. Of course, you will need to pay ordinary income taxes on any withdrawals. Before taking money out, consider the advantages and disadvantages, including whether converting some of these assets to a Roth IRA may be prudent.

If you have not done so already, begin shifting your focus from growing wealth to preserving wealth and planning how to use it to create income. Your asset allocation decisions and the tax status of the accounts you use to hold assets will become important in the coming years to help manage taxes.

Age 62: Begin transitions

The Retirement Confidence Survey published by the Employment Benefit Research Institute consistently reports

that a large percentage of Americans retire earlier than planned (50 percent in 2015). The main causes are loss of employment, health problems or disability (60 percent in 2015).

Because of these trends, the Social Security Administration allows qualified individuals to start claiming early Social Security benefits beginning at age 62. However, if benefits are claimed early, the amount of each payment is *permanently reduced*, compared with the amount that would have been received had payments begun at full retirement age. Employment income received prior to full retirement age may reduce benefits further.

Before you fully transition from earning a paycheck to receiving income from other sources, you may want to take your retirement for a “test-drive.” By living for a month on your projected income for your first month of retirement, making adjustments and testing again, you may be better prepared when you leave the workforce. You should also understand how new laws may affect Social Security claiming strategies available to you.

Age 65: Enroll in Medicare

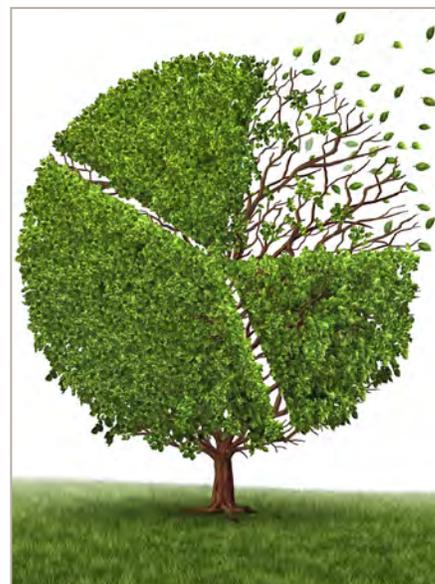
Mark your calendar and be sure to sign up for Medicare benefits during the three months leading up to your 65th birthday. There are many different options to carefully consider based on your health care needs and financial situation.

Ages 66-67: Take full benefits

Congratulations! Depending on what year you were born, you reach your full retirement age and qualify for your full Social Security benefit, should you decide to take it at this time.

Ages 68-70: Take delayed benefits

If you choose to defer taking your Social Security benefits until after your full retirement age, the base amount you earn each month will increase



8 percent for each year you delay, with the maximum benefit reached at age 70. These are also years when you can reposition assets to a Roth IRA or Stretch IRA prior to taking required minimum distributions (RMDs).

After age 70-1/2: Manage taxes

Annual RMDs from your qualified retirement accounts (those featuring tax deferral) are required no later than April 1 of the year after you become 70-1/2. Your RMDs will affect your taxable income and are taxed at your ordinary income tax rate. Calculating RMDs can be complicated. Plus, the IRS assesses a 50 percent penalty on the difference for mistakes.

Producing a dependable income throughout a long and happy retirement may be one of the most rewarding wealth management adventures you undertake. Contact your financial advisor today for help using these guidelines to make the most of this amazing journey.

Our firm is not a tax advisor. All decisions regarding the tax implications of your investments should be made in consultation with your independent tax advisor.

Does your hobby qualify as a business?

If you take pride, pleasure and personal satisfaction from a job well done with a favorite hobby, you may want to earn some money from your talent and hard work. After all, they say that if you do what you love, you will never work another day in your life.

But what do you need to know about the tax implications? Income received from a hobby (a not-for-profit activity) is taxable, and related expenses can be deducted only to the extent of the income. Plus, losses realized on a hobby are considered personal and cannot be deducted.

Losses for a for-profit business activity, however, are generally considered fully deductible. That is why the IRS looks very carefully at any hobby activity you claim to be for-profit if it continuously shows losses. Beyond a demonstration of consistent profitability, the IRS may also require you to produce business records, financial documents and personal information to help verify your activities represent an authentic business for tax purposes.

Should your hobby qualify as a for-profit venture, you need to determine what legal status is best before you file your tax return. Your tax advisor can evaluate your situation and suggest the appropriate arrangement. You may also discover you have new financial needs and goals as a business owner.

Retirement plans

At a previous job, you may have contributed to a retirement plan, but you can now start one as a business owner. And you have many attractive choices, depending on the circumstances of your



business, such as amount of earnings, number of employees and so on.

You could put business earnings toward a SEP IRA, a SIMPLE IRA or an “owner-only” 401(k), similar to a standard 401(k). You may even be eligible to set up a defined benefit plan, which acts like a traditional pension plan. All these plans are easy to establish, offer tax benefits and provide you with a disciplined way of saving for retirement.

Lending/cash management

Maintaining an adequate cash flow to seize business opportunities or respond to unexpected business expenses can be challenging. Consequently, you may want to explore some innovative lending and cash management solutions.

The RBC Premier Line of Credit and RBC Express[®] Credit each offer a convenient way to borrow money at a competitive interest rate by using eligible securities in your investment account as loan collateral. The RBC Bank Deposit Program[®] offers an attractive way to manage the cash you sweep from your investment account(s).

Insurance

It may be prudent to insure your business and adjust your life and disability insurance coverage to accommodate your new status as a business owner. If you have employees, you may also want to explore the features and benefits of buy-sell agreements, key person insurance, executive bonus plans and deferred compensation arrangements. Of course, you will want to consult with your legal advisor before establishing any such arrangements.

Clearly, you will have much to think about as a business owner. By understanding the rules and making appropriate choices, you can help ensure your favorite pastime maintains its status as a for-profit enterprise.

To discuss your financial needs and goals as a business owner, please call your financial advisor.

This material is not intended to replace the advice of a qualified tax advisor, attorney, and accountant or insurance advisor. Consultation with the appropriate professional should be done before any financial commitments regarding the issues related to the situation are made.

Teach children (of all ages) about managing money

Most people are not born with the skills needed to become good money managers and diligent investors. Rather, we have to learn how to make smart financial choices. So if you have children (or grandchildren, nieces and nephews) here are ideas to help them become proficient at the “pocketbook” issues of *today* while learning to invest for *tomorrow*.

For younger children (up to age 10)

All children, and especially younger ones, learn from seeing and doing. When they are learning about numbers, start teaching them about money by talking about the values of coins and small bills. Then let them use real money to make “pretend” purchases of household items, including learning to make proper change.

Make sure you model good spending habits. When you shop, explain that everything costs money, how to compare prices and how to buy items on sale. Discuss the importance of planning by preparing a list ahead of time and using it to avoid impulse purchases.

For older children (ages 11-15)

Once they are old enough to earn money by helping around the house, babysitting and doing chores for neighbors, help them explore the four pillars of finance.

Spending – Have them allocate some of their earnings to a short-term cash fund they can use to spend as they choose, such as purchasing music, movies or games they want.



Saving – Also have them allocate money toward longer-term goals. Perhaps they want to save for a smartphone, a bicycle or a trip with a youth organization to which they belong. The purpose is to help them learn the satisfaction of saving for a goal and ultimately achieving it.

Giving – Many families impress upon children the importance of sharing what they have with others. Encourage them to donate part of their money to a charitable, religious or educational group that is important to your family.

Investing – Play an informal stock market game by tracking performance of several stocks of companies they can relate to through the products they use. Explain that investing offers both risks and rewards – and that successful investors often hold stocks for the long term.

For young adults (ages 16-21)

Young adults may be saving toward more expensive goals. Perhaps they want to purchase their first car or help contribute to their college education.

If this is the case, consider matching a certain portion of their savings as an incentive.

This may also be the time to open a custodial account to make small investment transactions on behalf of young adults who have the proper maturity and financial resources. When they become legal adults, the custodial account is then transferred to them to manage, after which you may want to offer to help them make decisions before they buy or sell securities. In terms of investing for education goals, custodial accounts are considered assets of the student for financial aid purposes.

As a financially responsible adult, there is much you can do to help provide a good foundation in money management and investing for the children you care about – and those are skills that can last a lifetime.

[For more information about helping children develop financial literacy skills, please call your financial advisor.](#)

Explore the financial benefits of investing in your health

Throughout your working years, you invest for a comfortable retirement, which is obviously a good idea, since you may spend two, or even three, decades as a retiree. The prospect of a comfortable retirement may also inspire you to join a gym for regular exercise, buy a bicycle or other equipment you plan to use frequently, and eat a healthy diet. Good health improves your quality of life – both today and tomorrow.

Another wise investment may be in knowledge that can help protect your financial well-being. You can always have regular checkups. However, if you want insights you can use to live as long and as well as possible, consider scheduling a “deluxe executive exam,” during which you can expect to receive:

- A comprehensive medical history review and physical exam by an internal medicine specialist and referrals to subspecialists, as necessary
- A full range of preventive screening tests for early detection of cancer, heart disease and other serious conditions
- A heart (cardiovascular) fitness evaluation
- A review and update of medications, vaccinations and immunizations, including those needed for international travel
- A lifestyle assessment, including a review of nutrition, stress management, alcohol and tobacco use and other indicators of disease.

These exams, offered at health centers, hospitals and clinics across the country, are not cheap. In fact, you may pay up to \$5,000. Your insurance may not cover all the expenses.

Yet the money you spend can be considered a wise investment in your peace of mind. And it could be a good value, compared to the \$250,000 an average 65-year-old couple might expect to pay for retirement health care costs NOT covered by insurance, according to a recent Fidelity study. What you learn may also help you make other decisions related to your financial health.

For example, you might find out you are more likely than you once thought to eventually need some type of long-term care, such as a stay in a nursing home or, at the least, some type of home health care. Indeed, some 70 percent of people turning age 65 can expect to use some form of long-term care during their lives, according to the U.S. Department of Health and Human Services.

Paying for long-term care expenses can be a significant risk for many. The cost of a private room in a nursing home averages more than \$90,000 per year, according to the *Genworth 2015 Cost of Care Survey*. It is also important to understand that Medicare typically covers none of these costs for most retirees – and that Medicaid is available only as a last resort to those who can demonstrate extreme financial need.



To prepare for these expenses, you have some options. First, you could “self-insure” by building and positioning your investment portfolio to help pay for long-term care. Alternatively, you could add a long-term care rider to a life insurance policy. Or you could choose to purchase long-term care insurance.

Which of these choices is best for you? It depends on your individual situation. In any case, know the state of your overall health and follow doctors’ orders to help maintain or improve it. But be ready for anything. In dealing with long-term care costs, as in most aspects of living, preparation is the key to success.

To discuss long-term care risk management strategies, please call your financial advisor.



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