RBC Retirement Paycheck

A guide to creating your personalized retirement paycheck

WEALTH **INSIGHTS**

Analysis and insights into the trends, forces and factors shaping the world and your wealth

Wealth Management

It's a new era in retirement planning

Retire with confidence

Retirement income planning is not what it used to be. The good news: people are living longer and enjoying healthier, more active lives and pursuing new passions in retirement. Yet longevity poses challenges for how you'll manage the retirement savings you've worked hard to accumulate over the decades.

No matter how you picture retirement, living in it will be different from working toward it. You'll transition from saving and building wealth through a steady paycheck to converting your wealth into a reliable income stream for the rest of your life.

This is a unique challenge for today's retirees. Previous generations of Americans spent fewer years in retirement and could count on a combination of employer pensions, Social Security and personal savings to provide a reliable retirement paycheck. Now, creating that same paycheck is more complicated given the demise of pensions, volatile financial markets, inflation, taxes and the potential for living 20 years or more in retirement.

Your starting point: Visualize your retirement

How do you picture retirement? One of the most important, yet sometimes overlooked, steps in preparing for retirement is to visualize what you want your retirement to look like and to prioritize your goals. In short, think about what you are retiring *to* rather than what you are retiring *from*.

That can be a daunting task, but here's another way to approach it: What are your retirement needs, wants and wishes?

Obviously, your *essential expenses*—food, housing, health care, taxes, and insurance—come first, sustaining you over the years. Your *wants*—travel, entertainment, memberships, and gifts—reflect your desired retirement lifestyle, while *wishes*—a second home, bequests, and legacy planning—fulfill your legacy.

To start, ask yourself some basic questions about how you want to live in retirement and how you wish to be remembered:

- Life: Where will I live? How will I spend my time?
- Lifestyle: How will I live? Will I travel, volunteer, or start a new business?
- Legacy: How do I want to plan for my legacy? What will I leave to my loved ones and the organizations I care about?

Next, consider questions about retirement income planning:

- What are the various sources of my income in retirement?
- How much income will these sources provide each year?
- When will I need the income?
- How will I coordinate funding payments from different sources to create one retirement paycheck?

Now plan your priorities. What's most important to you?

- Stay in my house throughout retirement or downsize
- Take that dream trip to Europe with the entire family
- Purchase a home or an apartment in another city to be near family members or to enjoy a different climate
- Fund 529 plans for the grandchildren
- Leave a legacy for family and my favorite charitable organizations

Better than conventional wisdom

Many academic studies have focused on providing guidance on how to calculate a safe withdrawal rate in retirement. For example, there's the 4% rule that suggests retirees can safely withdraw the amount equal to 4% of their savings during the year they retire, and then adjust for inflation each subsequent year for 30 years. Or there's the bucket strategy to help manage the funding process for expenses. While these strategies might be helpful for some, they don't address all the current complexities involved in retirement income planning.

Get there with confidence

The evolution of financial planning tools like RBC WealthPlan provide a better approach to income planning by enabling you to create the retirement paycheck you need each year. Your financial advisor can create your personal income plan that will help bring clarity and confidence so you can focus on living out your best next chapter.

Your retirement paycheck begins with a wealth plan

Retirement income is the key component of your financial security as a retiree.

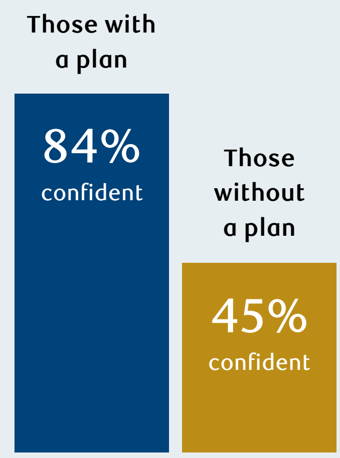
What is the most expensive purchase you will make in your lifetime? Your retirement. Retiring with confidence means managing risk and eliminating as many of the unknowns as possible. A personalized wealth plan simplifies the complexities of retirement income planning and makes it easier for you to see where you stand today, tomorrow and beyond.

A wealth plan addresses all aspects of your financial life and can help you:

- Understand how Social Security, retirement account distribution decisions, Medicare options, and health costs factor into your plan
- Determine your planned expenses in retirement
- Identify your income sources and their specific tax implications
- Distinguish between essential expenses to meet daily living needs and discretionary expenses
- Pinpoint risks that could affect your income and lifestyle expenses

A wealth plan delivers clarity and confidence

A survey conducted by RBC Wealth Management found a high correlation between a person's confidence in their retirement and the existence of a personalized plan. Plus, those with a plan show reduced concerns and surprises.



Five retiree costs that have risen most since 2000

	Medicare Part B (standard annual premiums)	Dental services (annual out of pocket)	Heating oil (per gallon)	Prescription drugs	Eggs (per dozen large)
2023	$1,978	$1,073	$4.34	$4,524	$4.21
2000	$546	$286	$1.15	$1,102	$0.98

Source: Thinkadvisor, May 2023

RBC surveys find persistent concerns around retirement over time

Survey respondents are lacking confidence and looking for advice.

Consistently, the top concerns of retirement remain the same: running out of money and the cost of health care. That was true in 2018 when we conducted our first retirement survey, and consistent with our 2023 survey findings.

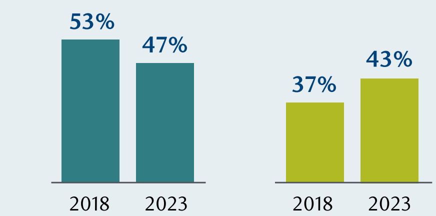
Our surveys found consistent themes … and a few new ones:

Running out of money / outliving my assets

For years, the primary concern about retirement has been outliving one's assets, and that hasn't changed. The survey found running out of money continues to be the biggest concern—especially among retirees.

Women (58%) are significantly more likely to be worried about running out of money than men (45%). That's not a surprise because women typically live 5 years longer than men.

Percent of respondents concerned with running out of money



Approaching retirement **Retired**

Understanding health care costs is an essential component of the retirement planning process

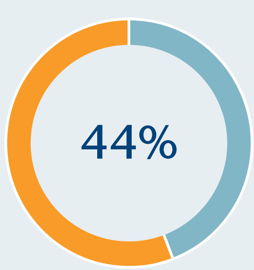
Concerns around funding health care are important to pre-retirees and retirees alike. People increasingly realize that they need to plan for expenses beyond what their insurance covers. Our survey found an increase in concerns across the board, especially about funding health care and mental or physical decline. People are increasingly worried about becoming a burden to their families.

77%

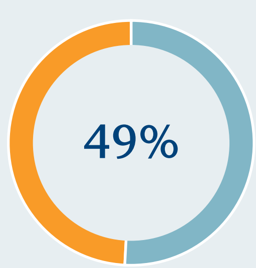
The majority of respondents agree that they need to plan for health care / end of life expenses that insurance won't cover. Those approaching retirement are more likely to agree (82%) compared to those already retired (73%).

Retirement income planning brings new complexities

Taxes. Required minimum distributions. Longevity. People are looking for advice.



Only 44% understand required minimum distributions.



Only 49% understand the tax implications of withdrawals.

7 in 10

Agree they need advice on income planning and tax strategies for retirement.

53%

Only 53% have a good understanding of how their assets and investments will provide them an income in retirement.

Know the risks: Headwinds to retirement planning

Retirement planning isn't just about numbers and graphs; it is about understanding that no one's retirement is the same, the importance of having a personalized approach to help minimize the risks in retirement, and revisiting your plan every year to stay on course.

Health care

Health care is likely to be one of your largest and most unpredictable retirement expenses. Medicare, the federal health insurance program, begins at age 65. There are multiple parts to this program, provided through the government or private insurance companies. Make sure you understand what's covered, what's not, and plan for related health-care costs as you near retirement.

For wealthier retirees, the cost of Medicare premiums could be higher due to the income-related monthly adjustment amount (IRMAA), a surcharge that people with annual income over a certain amount must pay on top of their Medicare Part B and Part D premiums.

☑ Take action

- ☐ Explore your Medicare options and make sure to evaluate supplemental (Medigap) health plans to cover gaps in Medicare coverage
- ☐ Consider long-term care insurance while you are healthy
- ☐ Include health care as a separate category of expenses and use a higher inflation rate to reflect health care inflation

Inflation

Inflation erodes your savings and purchasing power. After years of inflation averaging 2%, inflation hit 8.5% in 2022, its highest level in nearly four decades. You'll need investments that can keep pace with inflation and plan for inflation-adjusted expenses.

☑ Take action

- ☐ Inflate income and expense needs up to and through retirement to reflect increases in the cost of living
- ☐ Boost contributions to your retirement savings and take advantage of catch-up contributions starting at age 50
- ☐ Consider part-time work to generate additional income
- ☐ Be mindful of inflation adjusted real returns when investing for retirement. Reposition your portfolio to lock in higher real rates of return and take advantage of investments that help protect against inflation

Interest rate risk

Higher interest rates are both a blessing and a curse in retirement. With today's interest rates, bonds and other fixed income products are back in favor, providing an opportunity to earn more on your investments. The downside? Interest rates typically rise in tandem with inflation. So, if interest rates are rising, the real growth of all your investments may be eroded by higher inflation rates.

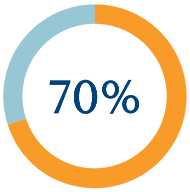
☑ Take action

- ☐ Work with a financial professional to manage your interest rate exposure and reposition your savings to capitalize on higher rates
- ☐ Keep an eye on the credit risk of the institutions that back your cash and fixed income investments
- ☐ Make sure your portfolio is broadly diversified for ongoing growth and needed income

* **In retirement you will need adequate cash reserves or a line of credit** to meet unexpected expenses, as well as investments with the potential for growth to offset the impact of inflation and longevity.

Planning for the unexpected

Maintaining your independence for as long as possible remains a top priority for most Americans. While it may be unsettling to consider a long-term care event, it is increasingly a reality for many Americans.



70% of 65-year-olds will need some form of long-term care.[1]

$108,405

National annual median cost for a private room in a nursing home.[1]

2.5 years

The average length of stay in a nursing home.[1]

Unexpected expenses and overspending

No matter how hard you work to prepare for retirement, life happens. Big-ticket items, like replacing a car, undertaking a major home renovation, or supporting a family member can dent your retirement savings. Smart cash management strategies are the foundation of retirement planning.

☑ Take action

- ☐ Test run your spending plan for one year before you retire to learn if your plan is realistic
- ☐ Plan ahead for large expenses, including replacing cars or home improvements
- ☐ Understand the implications of your spending during down markets and consider postponing certain expenses

Longevity

A survey conducted by RBC Wealth Management found that running out of money is the top concern for retirees. Longevity risk is a real concern, as life expectancy has steadily risen over the decades. Remember, at age 65 you will likely have 20 plus years to live.

It's a balancing act. Being cautious and spending too little might needlessly restrict your lifestyle. But spending too much increases the danger of running out of money.

☑ Take action

- ☐ Use your health history to project your life expectancy
- ☐ Consider the joint longevity of both you and your partner when building a plan and budgeting for the future
- ☐ Take advantage of catch-up contributions in your workplace retirement plan
- ☐ Consider working an extra year or two to build up your cash reserves prior to retirement

Market risk

Experiencing a market drop in the early years of retirement, such as those who retired in 2008 amid the Great Recession, can create problems that go beyond the immediate hit to your portfolio—potentially to the point where you lose years' worth of income.

This phenomenon is known as sequence of returns risk. Imagine withdrawing $40,000 after your portfolio has dropped 50%; that's equal to an $80,000 withdrawal before the decline. The sequence of returns and subsequent market losses five years before and five years into your retirement may have more impact on your success in retirement than decades of saving.

☑ Take action

- ☐ Balance market highs and lows via a diverse mix of investment types and income sources
- ☐ Consider investing in an annuity for guaranteed lifetime income
- ☐ Use cash reserves or a line of credit to strategically weather market volatility

The retirement life cycle: go-go, slow-go, no-go

Retirement is not a single, consistent block of time. Many people think about their retirement years in three distinct stages, each with its own unique needs that your wealth plan should be prepared to accommodate:

Part of planning for retirement is to not only look at your finances as a whole, but to also approach these years knowing there will be life stages that may change the way you approach retirement.

The go-go years

(age 65 to 75)

The go-go years are a time to focus on family, friends, travel, hobbies, and anything else on your bucket list requiring an active lifestyle. Of course, this means your spending could be equal to, or in some instances higher than, what it was when you were working.

The slow-go years

(age 76 to 85)

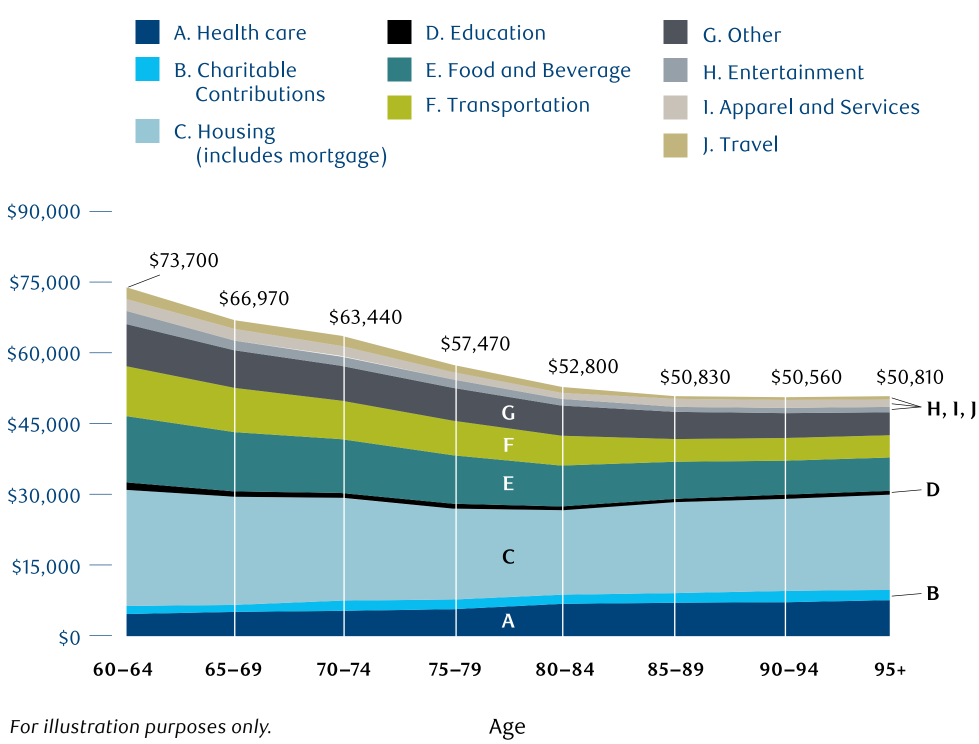
The slow-go years may be different. You may still be on the go, but you will likely be going slower in many respects and stay closer to home. Here retirees start to downsize their lifestyle and spend less—less on cars, less on homes, less on travel, less on just about everything. This doesn't mean this group does nothing, but it does mean they are living a simpler, and thus a less expensive, lifestyle.

The no-go years

(age 86 to 100)

The no-go years are a time when it may be more difficult to sustain an active lifestyle than the prior two decades. The challenge with the no-go years isn't about normal expenses but planning for health care, including the possibility of moving to a continuous care community or nursing home.

Changes in spending over the retirement years



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8,000 days

Are you prepared for the long haul? With today's rising lifespans, you could be facing 20 plus years in retirement, which translates into 8,000 days. When you look at it that way, it becomes clearer that retirement is not an end, but rather a new phase of life that you'll want to plan thoughtfully.

In retirement, taxes matter

In real estate, it's location, location, location. In retirement, location matters too.

Tax diversification in retirement can make a major difference in how much you pay in taxes—and when those taxes are due. That's because different investments are subject to different tax rules, and different types of accounts have different tax treatment. Diversifying your investments into different accounts—a strategy often called asset location—has the potential to help lower your overall tax bill. Tax-considerate income strategies start by understanding the differences between taxable, tax-deferred, and tax-free accounts.

Taxable accounts

Taxable accounts include brokerage accounts and income on certain types of investments, including dividend interest and distributions from mutual funds, even if the fund is not sold.

If you sell your investments like stocks, bonds, and mutual funds, you'll pay taxes on the gains. Investments held for less than a year are typically taxed at the higher rates, while investments held for more than one year are taxed at lower rates.

Tax-deferred accounts

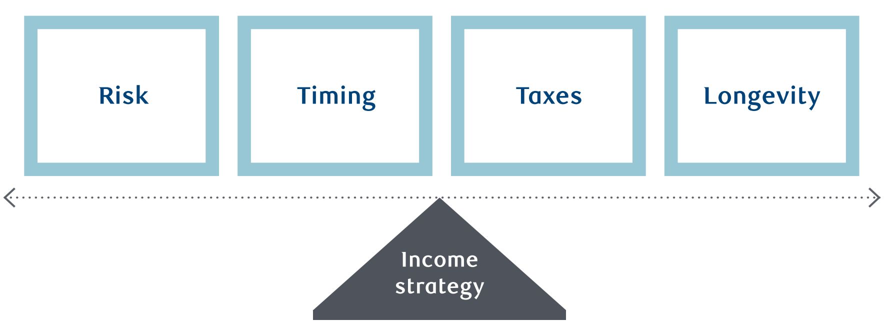
Tax-deferred accounts allow you to delay paying taxes on investment gains, and potentially accumulate more over time through tax-deferred compounded growth. Deferred accounts allow you to contribute pre-tax income, reducing your current tax bill. For example:

- **IRAs, or individual retirement accounts**, are tax-deferred and withdrawals in retirement are taxed as ordinary income. Contributions may be tax-deductible, but the amount of your deduction may be reduced or eliminated if you, or your spouse, are covered by a workplace retirement plan.
- **401(k)s and 403(b)s** are tax-deferred employer-sponsored plans subject to annual contribution limits, and your employer may match a portion of your contributions. Your contributions are excluded from your income, and withdrawals are taxed as ordinary income.

Tax-free accounts

Tax-free accounts are funded with after-tax dollars. You pay taxes when you contribute, but your investment will benefit from years of tax-free compounded growth and tax-free withdrawals in retirement, provided that you are over age 59½ and the money has been in the plan for five years. For example:

- **Roth IRAs or 401(k)s are tax-free**, allowing you to contribute after-tax income now, with tax-free withdrawals in retirement. If you're a high earner, your contribution levels may be reduced or eliminated based on IRS income limits. In addition, your contributions are not tax-deductible.
- **Health savings accounts offer triple tax advantages:** Contributions are tax-deductible, any growth is tax-free and you can spend your money on eligible health care expenses tax free. Plus, you can keep your health savings account if you move or change employers.



Balancing act

Balancing the need for income against investment risk, taxes and longevity is a dynamic process, and it's wise to revisit your plan on an annual basis.

RBC WealthPlan creates a clear path toward your financial future

Get a clear snapshot of your retirement income plan.
RBC WealthPlan helps clients prioritize their goals and address their concerns.

Gain valuable insights

RBC WealthPlan's Retirement Paycheck is an advanced, interactive technology that helps you and your financial advisor understand your current situation, the possibilities available and the tradeoffs that may be necessary to achieve various outcomes.

- Get clear on your retirement funding sources and create a personal income strategy to cover your projected expenses and estimated taxes
- Evaluate and make important decisions related to your income sources, such as: Social Security, Roth conversions, income options, required minimum distributions and charitable estate planning opportunities
- Understand the impact of different withdrawal strategies and their associated tax impacts on your retirement income
- Predict how your plan may be affected by events beyond your control, such as changes to taxes, inflation or life expectancy
- Identify any need for additional portfolio income and more easily navigate those years where you anticipate a gap in income, as well as years where you have a surplus

We're with you every step of the way

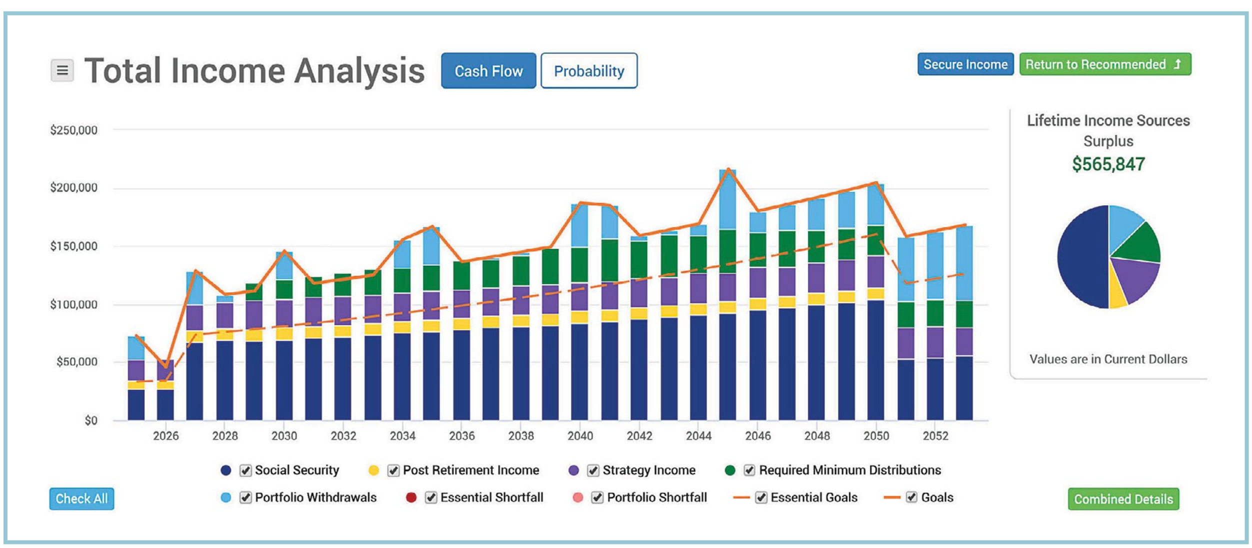
Your retirement plan needs to be flexible, adaptable, and ever evolving to absorb whatever life throws at you. When situations change, your financial advisor will be on hand to fine-tune your plan according to your evolving goals, expenses and changing market conditions, making it easy to adjust course.

Our retirement income planning process:

- Step 1: Analyze your retirement needs
- Step 2: Identify your sources of income
- Step 3: Establish funding and a withdrawal process
- Step 4: Reposition your assets
- Step 5: Review your progress annually

Where will your retirement paycheck come from?

RBC WealthPlan identifies your sources of retirement income using powerful visualizing tools. The Total Income Analysis below shows a 30-year projection of how one person will meet their spending goals throughout retirement.



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Ready, set, go: Create your retirement paycheck

A personal income plan identifies available sources of income and assets to fund your expenses in retirement in a tax-considerate manner to create a reliable paycheck. The plan must also anticipate the effects of longevity and usually incorporates four broad categories of income sources.

As you prepare for the future, you want a personalized plan that charts a direct route to your goals, yet flexes when life throws you a curveball.

Start by identifying your income sources:

INCOME SOURCE #1	INCOME SOURCE #2	INCOME SOURCE #3	INCOME SOURCE #4
Reliable income	Earnings and income	Asset draw down	Legacy assets
Predictable sources of income, such as Social Security, pensions, annuities and required minimum distributions.	Sources such as dividends, interest, income, and earnings from part-time work.	Build a strategy to draw down assets, including investments, retirement savings and health savings accounts.	Additional assets that you don't need to fund your retirement—including real estate, tax-favored assets and trusts—and wish to set aside for future generations or favorite charities.

Then earmark these income sources for expenses:

INCOME SOURCE #1	INCOME SOURCE #2	INCOME SOURCE #3	INCOME SOURCE #4
Essential expenses	**Non-essential and unforeseen expenses**		**Gifting**
Food, housing, transportation, utilities, health care and taxes.	Ongoing and one-time expenses such as a vacation, purchasing a car, helping out an elderly parent or a healthcare event.		Beneficiaries of your assets, or support of heirs.

Next, understand the tax implications:

From a tax perspective, in general, it's wise to withdraw from your taxable accounts first, then tax-deferred, then tax-free. That's because the money you take from a taxable account (such as a brokerage account) may be taxed as capital gains at a lower rate than what you'd owe on distributions from traditional 401(k) plan accounts, traditional IRAs and certain other tax-deferred savings, which are taxable as ordinary income. Have your tax professional review your accounts for specific guidance.

During accumulation	Taxable	Tax-deferred	Tax-free
During distribution	Taxable gains	Taxable income	Tax-free income

Unlike your working years where your employer withheld and pre-paid your taxes, in retirement you have to fund your full tax bill. Your RBC Retirement Paycheck will help estimate the taxes that may be due. Consider having taxes withheld from taxable distributions, making quarterly payments or setting aside funds specifically for your tax bill to take the sting out of tax day.

Finally, don't overlook these taxes:

Social Security

Approximately 56% of people who get benefits pay income taxes on them, according to the Social Security Administration. That's because their income in retirement exceeds limits set by tax rules and regulations.

- Individuals with combined income between $25,000 and $34,000 will pay income tax on up to 50% of their benefits. That also goes for couples with incomes between $32,000 and $44,000.
- Individuals with combined income of more than $34,000, as well as couples with more than $44,000, may pay tax on up to 85% of their benefits.
- Don't forget that several states tax Social Security at various rates.

Ordinary income tax rate

The level of income you have in retirement affects your tax liability. If you meet certain income thresholds or receive capital gains from taxable investment, you may face other taxes.

Alternative Minimum Tax (AMT)

Individuals who reach certain income levels may be subject to AMT. This tax is calculated by eliminating certain deductions that are typically allowed under standard tax calculations.

3.8% Medicare surtax on net investment income

Married individuals filing a joint return with income above $250,000 and single filers with income of $200,000 or more may be subject to a 3.8% tax on net investment income. The tax can be applied to interest, dividends, capital gains, rental and royalty income, and non-qualified annuities that exceed the threshold amounts.

Tax-preferred treatment: Long-term capital gains/ qualified dividends tax rate

A more favorable rate applies on long-term capital gains and qualified dividends, generally, from U.S.-based stocks.

- Those in the lowest tax brackets may be able to qualify for a 0% tax rate on long-term capital gains and qualified dividends. For most, these gains or dividends will be taxed at a 15% rate.
- Those in the 39.6% tax bracket may be required to pay a 20% capital gains/qualified dividend tax rate. Most states also apply taxes.

Create your retirement paycheck

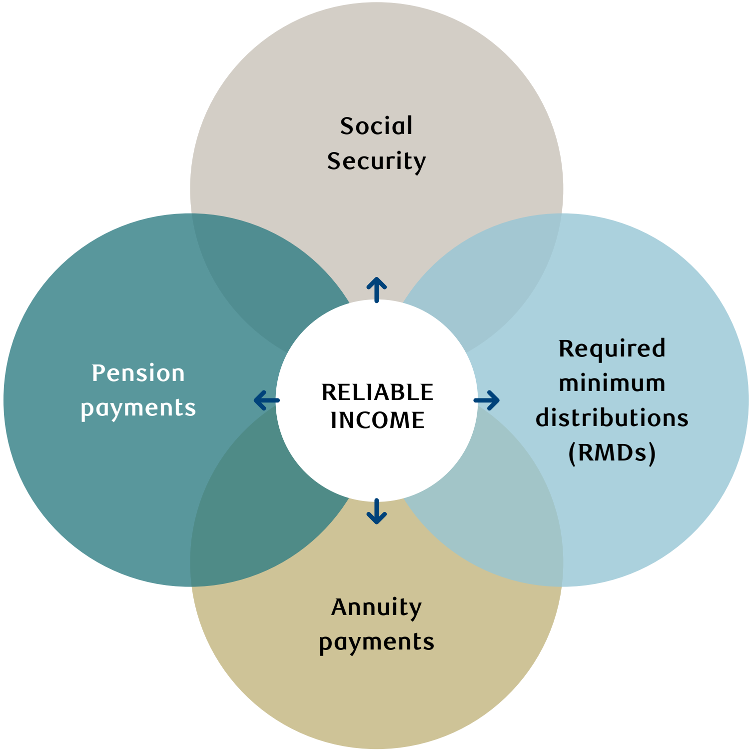
Reliable income

To fund retirement, first start by defining income sources that are predictable and certain. These income sources may include:

- Social Security
- Required minimum distributions (RMDs) from workplace savings plans, such as 401(k) or 403(b) plans, and traditional IRAs
- Annuity payments
- Pension payments

Determining the timing and distribution amount related to these retirement benefits is a critical next step. There are several factors to consider, and the following pages (pages 14–16) present key considerations for each reliable income source.

Managing retirement income starts with knowing what your sources of income will be—from an employer-sponsored retirement savings account like a 401(k) to Social Security, annuities and pensions—and the rules that govern each income source.



Create a solid foundation

These income sources can serve as the foundation of a retirement income plan, with those assets earmarked for essential expenses.

Retirees often give up tens of thousands or even hundreds of thousands of dollars by taking Social Security benefits too early. Yet there may be reasons to tap your benefits early, including health care issues.

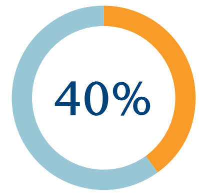
RELIABLE INCOME:

Social Security: Timing is everything

The decision of when to begin collecting Social Security is different for everyone. Most people qualify to begin taking Social Security benefits on their 62nd birthday but have the option to delay taking benefits as late as their 70th birthday.

The main advantage of delaying the start date is that each year of delay increases annual benefits between 6%–8%. In contrast, for individuals with limited assets or health risks, it may make sense to take Social Security benefits early.

Most importantly, do not look at Social Security filing in isolation. Consider coordinating your spouse's benefits filing decision with your own to optimize your combined income for your joint lifetime. And always consider your filing decision in the context of your personal goals, taxes, and overall plan cash flow needs.



According to the Social Security Administration, most retirees receive around 40% of their pre-retirement income from Social Security. The SSA offers tools and resources at ssa.gov to help you understand your Social Security benefits and how best to plan for the day when you will tap those benefits.

Factors to consider when determining timing of benefits	Start benefits early or at "full retirement age"	Delay benefits
Health issues or family history could reduce life expectancy	X	
A high likelihood of living into your mid-80s or beyond		X
Limited resources available to fund essential expenses prior to age 70	X	
Other assets available to fund income needs prior to age 70		X
A primary concern is having sufficient income available for a surviving spouse for years to come		X
Recipient will continue to work and earn an income		X
Superior returns (in excess of 8%) can be earned in other investments	X	
8% increase in Social Security benefits (after full retirement age) is likely to be superior to return on other investments		X

RELIABLE INCOME:

Required minimum distributions (RMDs) in retirement

Planning ahead for your required minimum distributions, or RMDs, can lower your tax bill during the distribution phase of life. Any money in a 401(k) or traditional IRA will be subject to RMDs, which now begin at age 73 (for those who turn 73 in 2024) following the passage of the SECURE 2.0 Act.

Fortunately, there are methods to choose from when it comes time to take your required minimum distributions. You can choose whichever approach works best for you.

Remember: You can begin to withdraw money from your 401(k) when you turn 59½, but that doesn't mean you should. Think strategically about how you use your qualified assets.

Delay your RMD

You must take your first required minimum distribution for the year in which you reach age 73. However, with this first RMD, you can choose to delay distributions until April 1 of the following year.

If you wait until April to take your first RMD, however, know that you still must take your second RMD by December—saddling you with two taxable distributions in one year.

Consolidate RMD withdrawals

If you have multiple IRAs, one of the best strategies to avoid liquidation when an investment's value has dropped significantly, or when an investment is projected for long-term growth, is to combine your RMD amounts for all your IRAs and take the total amount due from the IRA(s) with the most cash available or least volatile investments.

Tax laws require that an RMD be calculated separately for each IRA, but you may withdraw that amount from any of your IRAs, except a Roth IRA. If you have multiple IRAs, you may want to designate at least one as having short-term, low-risk investments or significant cash reserves to cover the RMD payments each year.

Make a qualified charitable distribution (QCD)

IRA owners age 70½ and older may take a tax-free distribution of up to $100,000 per year if it is paid directly from their traditional IRA to a qualifying charity. This qualified charitable distribution (QCD) can be used to satisfy your RMD for the year. This tax advantage is lost if you take receipt of the funds first, so be sure to instruct your IRA custodian to pay the distribution directly to the charity.

If you don't have a traditional pension plan, are unsure about having enough money and would like to have more guaranteed income to cover your essential expenses, you may want to look into lifetime income options through an annuity.

RELIABLE INCOME:

Annuities and pension plans: Income you can't outlive

The risk of outliving assets in retirement has increased, given the longer life expectancies Americans now enjoy. One strategy for addressing this concern is to purchase an annuity that can provide a regular stream of income throughout your life—and the life of your spouse.

Annuities may produce a guaranteed stream of income that you can't outlive and are often used to supplement retirement income. You can fund an annuity with a single lump sum and/or a series of payments. In return, you can have the insurance company make scheduled payments to you. The payment amount depends on the type of annuity, contract terms, and factors such as age, variable or fixed payments, and single or joint income needs.

Annuities aren't for everyone. But they're uniquely designed to help accumulate money on a tax-sheltered basis or provide guaranteed lifetime income, or both.

Consider an annuity to meet these needs:

- Essential expenses: To provide supplemental, guaranteed income
- Health event: To cover unexpected health care costs
- Income gap: To bridge an income gap before you begin taking Social Security payments
- Longevity insurance: To protect you and/or your spouse from outliving assets
- Market volatility: To maintain a consistent income level or provide a minimum death benefit via market volatility protection features

Annuity payment guarantees are based on the claims paying ability of the issuer.

Pension plans: A retirement stalwart

If you are lucky enough to still have a pension, you may have to make choices about your payout options. This includes the ability to take one large lump sum payout or a defined percentage of the whole, including a choice about benefits for the surviving spouse. The larger the benefit left to the survivor, the smaller the monthly benefit when the payout begins.

Options for pension payments include:

Single Life: Provides the highest monthly payout but does not provide any income to the surviving spouse.

Joint and Survivor options:

- 100%: Provides the surviving spouse the same monthly payment received by the participant.
- 75%: Provides the surviving spouse 75% of what the participant's payment was during the participant's life.
- 50%: Provides the surviving spouse one-half of the benefit the participant received during life.

Earnings and income

After tapping the available reliable resources for your retirement needs, the next source of income that should be used is earnings and income. Resources may include:

- Interest from bonds
- Dividends from stocks
- Capital gain distributions from mutual funds
- Income from part-time work, a business or rental properties.

Remember that earnings from taxable accounts may increase the possibility of reaching a higher income threshold, resulting in more significant tax liability. In contrast, the earnings from tax-deferred accounts can be reinvested without triggering current tax implications. Therefore, you typically want to place income-generating assets in retirement accounts, such as 401(k)s or IRAs, and place lower-tax investments, such as index funds and exchange-traded funds (ETFs), in taxable accounts.

The taxes you owe on investment earnings can vary, depending on the type of asset held or the source of earnings. Some income is subject to tax at ordinary income tax rates, while other income is subject to the more favorable long-term capital gains/qualified dividends rate.

Ideally, you should access earnings and income only after your reliable income, such as Social Security, pensions, RMDs, and annuities, are exhausted. If the income from those sources isn't needed to meet basic expenses, the money can be retained, reinvested, or used to fund other priorities.

Bonds are back

For most investors, stocks and bonds go together like peanut butter and jelly. Yet many investors have been reluctant to hold bonds for years due to the low interest rate environment. But that's no longer the case.

The Bloomberg US Aggregate Bond Index—think the S&P 500 equivalent for the investment grade bond universe—now offers investors an average annual yield of nearly 5.0%. Three years ago, that yield was only 1.0%, and has averaged just 3.2% over the past twenty years.

Note that there are different tax rates for government, corporate and municipal bonds. For example, U.S. Government bills, notes, bonds and agency securities are subject to federal taxes and free from state and local taxes. In contrast, municipal bonds are tax free provided that the investor resides in the same state as the municipality.

For bond investors then the next risk is that these attractive yields begin to disappear, which could happen if and when the Fed begins to cut its policy rate back down.

As such, the window remains open for investors to put money to work in bonds.

INCOME SOURCE

1 2 3 4

After decades of planning and saving, you may think it would be easy for most people to shift from a savings mindset to a spending mindset. Yet one often overlooked aspect of retirement planning is how to best tap your assets.

Asset draw down

Which assets should you draw from first? There are several approaches you can take. Traditionally, tax professionals suggest withdrawing first from taxable accounts, then tax-deferred accounts, and finally Roth accounts where withdrawals are tax free. The goal is to allow tax-deferred and tax-free assets the opportunity to grow over more time.

Tax impacts of retirement income

When crafting your retirement paycheck, identify the funding sources that may be used to determine income taxes, Social Security benefits subject to taxation, and additional required Medicare premiums.

Qualified withdrawals from Roth IRAs and health savings accounts generate tax-free funds that won't trigger increases to Medicare premiums if your income is above a certain level.

Tax treatment of earnings from various assets

You can't control market returns. You can't control tax laws. But you can control how you use accounts that offer tax advantages—and informed decisions about their use can add significantly to your bottom line.

Account type	Investment earnings/ withdrawals	Included when calculating whether: Income taxes owed	Included when calculating whether: Social Security benefits taxed/ Medicare surcharges
Pre-tax 401(k) Traditional IRA	Taxable withdrawals (ordinary income)	☑	☑
Taxable accounts	Tax-exempt interest		☑
	Ordinary dividends Taxable interest	☑	☑
	Qualified dividends	☑	☑
	Realized capital gains	☑	☑
Roth 401(k) and IRA	Tax-free withdrawals		
Health Savings Account	Tax-free withdrawals (for qualified health care expenses)		

RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in connection with your independent tax or legal advisor. No information, including but not limited to written materials, provided by RBC WM should be construed as legal, accounting or tax advice. Chart courtesy of J.P. Morgan Asset Management.

ASSET DRAW DOWN:

Boost your retirement income with a health savings account

You may think about your health savings account (HSA) solely as a way to pay for current-year eligible medical expenses. But are you aware it can also be used as a long-term investment vehicle that can play an even greater role in your overall retirement income strategy?

You can use your HSA with other retirement accounts to maximize your after-tax retirement income. Saving in an HSA for retirement gives you a tax-advantaged account dedicated to future medical expenses—allowing you the opportunity to avoid dipping into retirement accounts intended for cost-of-living expenses. Also, HSAs are a great way to pay for qualified medical expenses in retirement.

A triple tax benefit

HSAs offer a tax-considerate method to build reserves by delivering a rare triple tax benefit:

- All contributions to an HSA are made income tax-free
- Withdrawals for qualified medical expenses are made tax-free
- Interest earnings and investment growth from deposits are income tax-free

HSAs and Medicare

If you're able to do so, max out your HSA now, because once you enroll in Medicare, you can no longer contribute to your HSA under most circumstances—but you can still use your HSA funds income tax-free to pay for qualified medical expenses.

Also, remember that filing for any form of Social Security benefits after age 65 automatically enrolls you in Medicare Part A.

You can also use your HSA to pay for Medicare premiums and out-of-pocket expenses including deductibles, copays and coinsurance for:

- Part A hospital and inpatient care
- Part B doctor and outpatient care
- Part D prescription drugs

Your legacy should be a key component of your retirement income plan. You want confidence knowing that your gifts will go to the right people or charities at the right time while incurring the least amount of tax.

Legacy assets

If you are fortunate enough to have wealth beyond funding your retirement, you can start focusing on your legacy plan. Proper legacy planning includes drafting (and updating) a will or trust to help confirm that all your assets will be distributed exactly as you wish.

When developing your legacy plan, give special consideration to these key questions:

- Who are you responsible for financially?
- Who do you want to benefit from your assets?
- Are there minor children in need of a guardian?
- When and how do you want your heirs to receive the assets—and how will those assets be taxed?
- What are the potential estate costs, including estate taxes, probate costs, and administrative costs?

It's important to spell out a clear direction about your personal legacy wishes since your choices can affect tax planning strategies in retirement. Tax-advantaged gifting strategies should be considered to confirm the smooth transition of assets to beneficiaries before and after death.

Gifting during your lifetime

Sometimes it's wise to make gifts during one's lifetime to decrease the size of an estate and minimize estate taxes after death. Decisions about when to make a gift should factor in the federal estate exemption threshold and state estate tax laws.

If you'd like to benefit a charity and don't need your RMDs for retirement income, a qualified charitable distribution from your IRA may make sense.

☑ Take action

- ☐ Ensure you have your assets properly titled and that your beneficiary designations are current
- ☐ Establish essential estate documents, including health care directive, will and power of attorney. Review annually or as circumstances change
- ☐ Understand recent tax code changes and the implications to your existing gifting and estate plan

Work with your financial, tax and legal advisors to review established trusts that may be impacted by these changes.

Get in the retirement zone before you retire

After decades of working and saving, you can see retirement on the horizon. But now isn't the time to coast.

If you plan to retire within the next five years, consider taking these steps today to help in your efforts toward having what you need to enjoy a comfortable retirement lifestyle.

Consolidate your accounts to see the big picture

Consolidate your accounts to give you a big picture on how to best position your retirement plan and help prepare for—and manage—retirement income. Asset consolidation gives you more clarity, a streamlined approach, greater control and a deeper understanding of your assets. It may even save you money.

Be smart about your debt

Consider accelerating your higher interest rate payments so that the loan will be paid off before you retire. To curb new credit card debt, try paying cash for major purchases. By limiting new debt and reducing existing debt, you can minimize the amount of retirement income spent on interest payments.

Determine your total cost of retirement

Build a wealth plan that considers the cost of all your needs, wants, and wishes. Your financial advisor can help you project these expenses over time so you can see how much you will need annually to fund your retirement.

Consider your options for claiming Social Security

Retirees often give up tens of thousands or even hundreds of thousands of dollars by taking Social Security benefits too early. If you claim Social Security at age 70 instead of 62, the monthly benefit could be 76% higher, adjusted for inflation.

Take advantage of a Health Savings Account

Health Savings Accounts offer a number of benefits beyond spending for the short-term, such as saving for longer-term qualified medical expenses, including those in retirement. Because a Health Savings Account is one of the most tax-efficient savings options available, consider contributing the maximum, then pay for current health care expenses out of pocket and invest the account assets to allow for continued tax-free growth to cover future health care expenses.

Diversify your assets by location for tax flexibility

Having a mix of accounts with different tax treatments—tax exempt, tax deferred and taxable—allows for greater flexibility when managing your taxes in retirement. Consider the benefits of allocating some retirement savings to a Roth 401k or IRA. A Roth conversion or partial conversion may also be beneficial, especially in lower income years or down markets. You will have to pay the taxes, but you will benefit from tax free growth, and you can withdraw funds in retirement tax free when needed.

Review withdrawal strategies

Evaluate withdrawal strategies to take advantage of lower tax years early in retirement. Everyone's situation is different so make sure to personalize your distribution strategy to provide for the most tax efficient "long term" planning strategy.

Your personalized wealth plan

A personalized wealth plan is the foundation of retirement planning. It provides a clear picture of your current financial position and a path to achieving your future goals. Your plan will help you prioritize what is important, project related expenses, provide a comprehensive view of your assets and help you see where your wealth will take you.

Once you are near or in retirement, adding a personal income plan will help you create an annual retirement paycheck that will help you see how you are going to fund your lifestyle and goals. It will consolidate the various sources of income and match those sources to your planned spending. It helps you see where you have flexibility to do more or spend less and helps better understand your related tax liability.

Thriving in every life stage

Use this checklist as a starting point to begin planning.

Key financial pillars	Approaching retirement	Thriving in your encore years
Accumulate and grow your wealth	☐ Align investments, track and rebalance regularly to help offset the impact of inflation ☐ Take advantage of catch-up contributions at age 50+ ☐ Use a Roth conversion or partial conversion to build flexibility and tax diversification into your plan	☐ Understand the probable outcome of your wealth plan; review annually ☐ Consider consolidating accounts with one financial provider to simplify your financial life ☐ Structure your assets into portfolios to meet your near-, intermediate- and long-term needs
Fund your lifestyle today and tomorrow	☐ Create a plan for your retirement paycheck and determine when to start Social Security ☐ Consider an annuity and the benefits of secure income to help manage income and longevity risk ☐ Create a retirement budget to cover your needs, but allow flexibility for your wants and wishes	☐ Manage your spending to cover your needs, goals and priorities ☐ Plan ahead for required minimum distributions starting at age 73 ☐ Create your retirement paycheck in a tax-efficient manner and revisit your paycheck strategy annually ☐ Couples should have a plan that considers different scenarios for survivorship, include housing and care needs
Protect what is important to you	☐ Evaluate your need for long-term care coverage ☐ Use credit strategically to manage the impact of the unexpected; establish a credit line before you retire ☐ Re-evaluate your life insurance needs	☐ Enroll promptly in Medicare at age 65 and claim Social Security by age 70 ☐ Avoid selling assets in down markets by using a credit strategy or insurance cash value to supplement income ☐ Discuss your care and caregiving wishes with your family
Create a lasting legacy	☐ Revisit estate-planning documents, asset titling and beneficiary designations ☐ Use trusts to protect your assets, transfer your wealth and facilitate your estate settlement ☐ Think about your legacy, and develop a plan for your philanthropy	☐ Make sure your estate plan is aligned with your wishes and updated ☐ If you are charitably inclined, consider using a Qualified Charitable Distribution to avoid taxation ☐ Understand gift and estate tax thresholds and take advantage of wealth transfer exclusions and deductions

Your next chapter

Every successful journey begins with a starting point, a destination and a plan to get there safely.

Your personal retirement income plan

A wealth plan is uniquely suited to help you navigate your financial life throughout retirement. Created thoughtfully and managed over time, an RBC WealthPlan enables you to set a course, define milestones, track successes and redirect you should your circumstances change.

A personalized retirement income plan can help you:

- Consolidate your holdings to give you a complete picture of your assets
- Document and prioritize your goals
- Stress-test your goals with different scenarios
- Establish proper asset allocation to diversify and minimize investment risk and taxes
- Understand outcomes, avoid unnecessary risks, rebalance and chart your progress
- Answer retirement questions with confidence
- Have a plan for funding your tax payments
- Strategically manage your cash flows
- Protect what is important to you and create a legacy

About Wealth Insights

Your financial journey is informed by both a clear understanding of where you are today and the strategic options that can fuel your tomorrows.

At RBC Wealth Management, we are committed to delivering insights that educate, equip and engage you for that journey.

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