Investor's Edge

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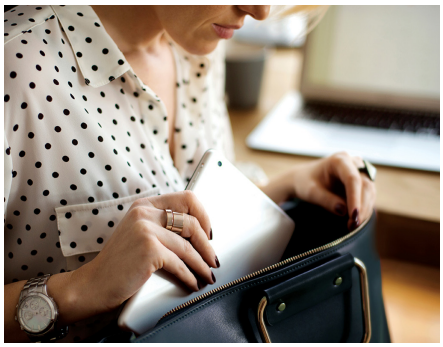
Rethinking retirement

The COVID-19 pandemic has everyone reviewing their financial well-being, and for those approaching retirement, many are rethinking their plans. People are questioning if they are ready to retire, or should consider retiring at an earlier-than-anticipated date. For others, extended unemployment may require temporary retirement.



A goals-based wealth management plan provides a foundation to help answer important retirement questions like, "Can I afford to retire?" or "Can I retire earlier than I planned?"—and it helps you understand the major financial considerations. Circumstances can change very quickly, as witnessed this year. With a well-prepared plan in place, it's easier to determine what actions make sense for you and your family.

October 18–24 is National Retirement Security Week, providing a good reminder that now may be a practical time to review your retirement plans, even if retirement is several years down the road.

Retirement planning in times of uncertainty

This year will prove to be a very unusual year for retirement planning. With market volatility, the Setting Every Community Up for Retirement Enhancement (SECURE) and Coronavirus Aid, Relief, and Economic Security (CARES) Acts, low interest rates and the election, there is a lot to consider when developing or revisiting your retirement plan. Ask your financial professional to help you evaluate your preparedness on these key topics:

Portfolio risk — Turbulent markets were some of the top headlines earlier in 2020 due to the COVID-19 pandemic slowing the economy. With your retirement plan, your financial professional can help you determine your tolerance for risk, stress test your portfolio for varying market conditions and adjust your asset allocation accordingly.

Health care — The COVID-19 pandemic put health care at the top of the priority list. Paying for health care is a big-ticket item in retirement, especially if retiring before you are eligible for Medicare benefits. Many baby boomers are rethinking their long-term care plans.

Social Security — Understanding your options for taking Social Security benefits is an important retirement income planning consideration. Understanding the in-and-outs of Social Security from cost of living updates, to

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Pivotal Wealth Management is an independent advisory firm that delivers customized planning solutions for its clientele along with an exceptional engagement experience.

Rethinking retirement planning, continued

tax rates, to what age you will qualify for full retirement benefits is important.

Income — Living in retirement takes a new mindset once you are no longer earning an income. A retirement plan can help you determine how to fund the lifestyle you envision in a tax-efficient manner. The turbulent markets earlier this year and low interest rates created a tough environment for retirees depending on portfolios for income. Having a cash reserve or ready credit line may help you avoid selling securities at an inopportune time.

Taxes — Taxes change annually and are affected by changes in administration, causing a great deal of uncertainty this year. It's important to work closely with your financial and tax professionals on updating your retirement plan annually, and reviewing the ever-changing tax laws that may affect your plan, and your decisions in retirement. Ask him or her to discuss various planning strategies such as a Roth conversion which might make sense if there has been an employment disruption or unneeded Required Minimum Distribution.

Legacy plans — Legacy planning is an important component of every retirement plan and has been top of mind for many clients. With so many changes provided by the SECURE and CARES Acts along with the potential expiration of the elevated estate tax exemption, it may be prudent to double check your estate plan. Make sure you have proper documents in place, that your beneficiary designations are up-to-date and that your property is titled appropriately for your intentions.

Job availability

The unemployment rate for seniors, identified as ages 55 and older by the U.S. Bureau of Labor Statistics, significantly increased to 13.6% in April, up from 3.3% in March. In August, the department's reporting changed to show that 8.5% of Americans age 65 or older were unemployed, which was the same rate for the entire population of workers 16 and older. With tight competition for jobs, unemployed seniors may find themselves joining the retirement world sooner than anticipated.

Indeed, many corporations used layoffs and furloughs early in the COVID-19 pandemic to keep the business open. Should this strategy continue, it may inadvertently accelerate the retirement rate for older workers, some of whom may opt for early retirement packages, even if they were a couple years away from their planned retirement date.

In addition to pushing people to retire earlier than planned, the pandemic may also encourage people to stay in their careers. People who were planning to retire from their careers with a new part-time job to keep active and social may decide to delay retiring until the job market improves, creating part-time opportunities with less competition.

Stay-at-home experiences

Stay-at-home practices across the country provided people who were planning to retire soon with an opportunity to preview what retirement life may look like. Frequently, workers have a long-term goal to save for retirement, retire, and within a week of retiring, find they need something meaningful to occupy their time. And there are workers on the other side of the coin who wonder why they waited so long to retire.

For the employees who enjoy working at home, the idea of returning to the office with a commute and set schedule may be enough incentive to retire, perhaps starting full- or part-time businesses or consulting services. And for some, the "stay at home orders" provided a glimpse into many of the unwelcome realities of retirement, creating a desire to postpone their intended retirement date.

If your retirement plans are changing due to your work-from-home experience, you may wish to reevaluate your overall wealth plan. Keep your financial professional informed of your concerns or changes to your goals, so your plan can adjust accordingly.

Creating flexible retirement plans

A well-developed overall retirement plan has always been important, as these uncertain times have helped many realize. Building in flexibility and reviewing your plan annually allows you to adjust with different scenarios and better navigate the types of disruptions already seen this year.

Be sure to discuss with your financial professional the flexibility of the retirement aspect of your overall wealth plan, whether you are in retirement or as your intended retirement date approaches.

Make long-term planning reflect your wishes

The COVID-19 pandemic gives long-term care planning a new light, and many families are taking the opportunity to reevaluate their health care plans and wishes. As reports filtered through the news about families unable to visit their ill loved ones in the hospital and about senior care facilities preventing visits to help stop the spread of the virus, the pandemic gave families a great opportunity to consider if their long-term care plans meet their wishes.

November is Long-Term Care Awareness Month; however, awareness came early thanks to the pandemic. Most individuals want to decide themselves where they will receive care and how they will pay for it, creating additional opportunities for them to have conversations with their financial professional. As you consider your long-term care wishes, your financial professional can assist you with understanding your options, and help you with the planning process.

Planning financially for long-term care

Paying for long-term care will have an impact on your portfolio, whether it's for yourself or a senior loved one. Careful planning allows the family to understand the impact of potential long-term care and health care costs to a retirement or legacy plan. And early planning also makes the transition process to receive long-term care much easier, as difficult decisions will already be made.

When meeting with your financial professional, be prepared to discuss where you would prefer to receive your care, the role your family members will play in providing support and the priority in which assets are to be liquidated, if the time comes when there is a need to cover expenses.

According to an AARP report titled 2020 Report: Caregiving in the U.S., 41.8 million Americans provide care for recipients over the age of 50. That's 16.8% of Americans, up from 14.3% in the 2015 survey. Of those 41.8 million Americans, only 31% said their loved one received any paid health care help. The same report said 28% of those caregivers used up their personal short-term savings, and 17% reported they took on more debt.

The impact of a long-term care event is not limited to the person needing care. No matter how close family members may be, depending on a child, sibling or other relative for long-term care may cause personal resentments, ruin favorable family dynamics and damage relationships.

Your financial professional can help you and your family understand your plan through a family conversation.

Long-term care planning has many unknowns—is it needed, how much will it cost when it's needed and how long will benefits be needed? Planning allows you to prepare funding to meet your care wishes, whether they include nursing home care, assisted living, at-home care or family member care.

Many long-term care costs are not covered by Medicare. The average monthly price for a semi-private room in a nursing home facility was $7,513 in 2019, increasing to $8,517 for a private room. Expenses were higher for in-home care skilled nursing, which averaged just above $16,000 a month for both homemaker services or a home health aide, according to Genworth Cost of Care Survey. The actual costs associated with care vary by geographical area. While it's impossible to know exactly how much money you may need for long-term care, understanding the costs, it's easy to see why planning is so important for your entire family.

Having important conversations

Long-term care can encompass many different issues, including the ability to manage finances, provide elements of self-care, maintain your home, as well as monitor decline in one's health. As you're meeting with your financial professional about your planning, it's also important to have a discussion about how the family would handle a situation if cognitive decline becomes an issue.

Having this conversation with your legal and financial professionals can provide an additional layer of protection for your family assets, especially against fraud or financial abuse.

Your financial professional is positioned to help you and your family understand and focus on your wishes, allowing you to feel confident you're prepared for the future.

Charitable giving more important than ever

Many nonprofit organizations rely heavily on end-of-year donations to fund their services for the next year. When the 2017 Tax Cuts and Jobs Act was enacted, the double standard deduction and lower potential tax liability may have reduced the incentive for some to make charitable donations. But earlier this year, the Coronavirus Aid, Relief, and Economic Security (CARES) Act included new tax advantages for charitable giving, making it an option all investors can consider.

Because many nonprofits now need funding to make up for shrinking endowments, the charitable giving section of the CARES Act is intended to encourage and incentivize more people to donate. And for high-net-worth individuals who take advantage of the temporary rule changes, 2020 could be a one-time opportunity to benefit from leaving a legacy gift or making a difference for an organization you're passionate about.

Charitable giving tax implications

The CARES Act allows tax deductions on two types of charitable gifts. First, it allows up to $300 given to a qualified charity to be claimed as an above-the-line deduction. Because the new $300 standard deduction is above the line, taxpayers can take the deduction without itemizing. So you can donate up to $300 and still take the standard deduction. It may not make a big difference in your overall tax liability, but a $300 contribution could be meaningful to your charity of choice—especially when aggregated with other like-minded donors.

Second, for taxpayers who will itemize deductions, the CARES Act effectively suspends the limit on deductions for cash contributions to public charities for 2020. Historically, deductions for cash contributions to public charities were limited to 50% of an individual taxpayer's adjusted gross income (AGI). The Tax Cuts and Jobs Act in 2018 increased that figure, allowing taxpayers to deduct charitable contributions of cash to public charities up to 60% of their AGI.

Since the CARES Act temporarily allows you to deduct up to 100% of your AGI for certain qualifying contributions, that means you may be able to satisfy your entire tax liability through charitable gifts.

Rethinking giving

Due to the pandemic, many professionals and business owners may experience a year of lower income in 2020, and as a result may not be as motivated to give. But for those who've been considering a Roth IRA conversion, combining a conversion with a charitable contribution could be advantageous.

Converting a traditional IRA to a Roth IRA triggers income tax liability on the contributions made to the traditional IRA. But by completing the conversion during 2020, and also making a sizable contribution to a charity you value, you may be able to mitigate some or all of that tax liability and help the charity at the same time. So if you combine charitable giving in conjunction with a Roth IRA conversion while benefiting from the 100% deduction, it can add up to a triple win.

To take advantage of the CARES Act changes, the charitable donations have to be in cash, not in a donor-advised fund or stock. But individuals who've lost money in the market could sell some stock at a loss and donate the proceeds to charity, benefiting from a tax write-off on the loss as well as on the charitable gift.

If you are interested in including charitable giving as part of your 2020 wealth plan, connect with your financial professional before the end of the year.

Don't let home projects cause a financial challenge

Usually home improvement projects are planned. It may be a new home purchase remodel or giving your home a fresh, new look after living in it for 20 years. When these projects happen, you have anticipated expenses and a budget to cover the costs of the project.

However, sometimes home improvement projects are suddenly required, like in the aftermath of a natural disaster. And sometimes they happen spur of the moment when life unexpectedly provides extra time to accomplish those wish-list items. In either case, you may not have planned for those home improvement project expenses, and as a result you may need to do a little financial juggling to manage them.

Unanticipated home improvement project funding

Funding surprise home improvement projects takes some creativity. With natural disasters, home insurance helps homeowners pay for unexpected home damage repairs covered by flooding, winds, fire, snow and earthquakes, to name a few. And for those spur-of-the-moment projects, you could consider a mortgage refinance, home equity line of credit or a securities based line of credit to finance the improvements you want to make.

Explore a strategic source of portfolio liquidity

An RBC Wealth Management client found himself in the second situation this summer. He wanted to take advantage of extra time at home, and needed $150,000 for a remodel. He had planned to do a cash-out refinance on his mortgage. When he found out he'd be paying a large amount in closing costs and the title policy on the mortgage refinance, he then approached his RBC Wealth Management financial professional, asking to liquidate $150,000 in assets. This was when the markets were turbulent, and this liquidation would have set his portfolio off track for meeting his financial goals.

The client's financial professional reminded him that they had previously set up a securities based line of credit, RBC Credit Access Line, offered by Royal Bank of Canada. Because it was established, it was ready for him this summer when he needed it. The client was able to borrow the $150,000 against his eligible assets, providing him with financial flexibility to start his home remodel project while maintaining his investment portfolio and keeping his long-term financial strategy in place while the markets recovered from the March lows.

Covering your assets

If you find yourself interested in completing an unplanned honey-do task, but don't have the budget planned for it, your investments may be the solution you need. An RBC Credit Access Line can help you prepare for the unplanned and the unexpected. It is easy to set up with no cost until used. Once established, it is ready when you are.

Contact your financial professional about the possibility of setting up an RBC Credit Access Line, so it will be available if, and when, you need it.

RBC Credit Access Line is a securities-based, demand line of credit offered by Royal Bank of Canada, an Equal Opportunity Lender and a bank affiliate of RBC Capital Markets, LLC. Subject to Credit Approval. Securities-based loans involve special risks, are subject to minimum collateral requirements, and are not suitable for everyone. Additional restrictions may apply. You should review the provisions of the RBC Credit Access Line agreement and related disclosures, and consult with your own independent tax and legal advisors about any questions you have prior to using RBC Credit Access Line.

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