Investor's**Edge**

First Quarter 2018

Live empowered with goals-based wealth management

Managing wealth has long been an asset-oriented and numbers-based proposition. As you and your financial advisor work together, the focus is often on portfolio performance. And metrics such as market index benchmarks and future balance targets take center stage.

There is good reason for this method. The numbers measured may help you feel that you are making rational, objective, fact-based decisions. And in a way, the numbers do serve this important purpose. However, if one is honest with oneself, there are times when choices are equally likely to be based somewhat on emotion, intuition and a "gut feeling."

Now there is an even better way to choose appropriate wealth management strategies and solutions. It's an approach that shifts the focus from the value of assets in your portfolio to defining and prioritizing your unique goals, then tracking your ability to achieve them financially.

A subtle change in mindset

With this approach the vision you have for your future, especially your vision for retirement, is the critical element. The numbers play a supporting role, which is where they belong.

The payoff is twofold. We have greater context for the numbers we use to manage wealth and measure your progress. But more importantly, by placing proper perspective on your portfolio – life first, money second – we put the end before the means in terms of decision-making.

What is important to you?

Essentially, the goals-based planning approach breaks down your vision for the future into three key areas: your needs (e.g., housing, health care) your wants (e.g., travel, golf club membership) and your wishes (e.g., remodel kitchen, purchase classic car).

Once you have identified your needs, wants and wishes, you can put "price tags" on all of them. At this point, you will want to be specific: Where do I want to travel? How often? What sort of kitchen remodel do I have in mind? And you will also want to put some order to your goals – which ones are more important to you?

More meaningful "numbers"

Now, by bringing in the "income" side of the financial equation, you will be able to quickly see which of your goals are affordable and which may require scaling down or adjusting to better meet your highest priorities. Your main goal, of course, is to meet your basic needs.

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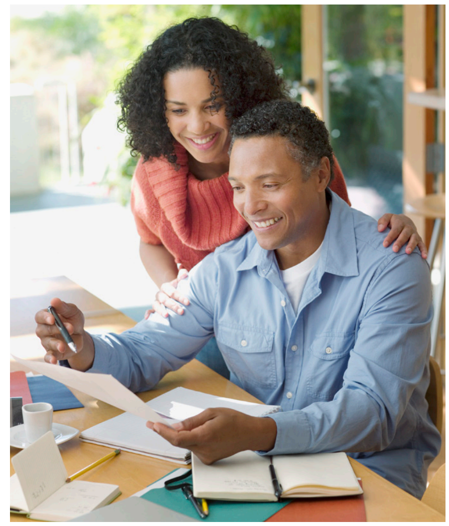


Inside this issue

Live empowered with goals-based wealth management, continued

So if you determine that between your investments, Social Security and other sources of income, you can cover your living expenses and pay for your health care (see accompanying article on page 5), you will gain confidence and peace of mind about your future.

You can then move on to your wants and wishes. Which ones can you afford? Can you downsize some of them – e.g., perhaps going with a more modest kitchen makeover or a less costly "dream car" – to help ensure you can afford the other, more pressing wants?

In addition to defining and prioritizing what you want to achieve, this approach to wealth management helps identify the concerns you may have that could interfere with your goals. Running out of money and leaving a financial legacy to loved ones and favorite charities are common financial topics that people worry about as they grow older.

Recognizing these concerns allows us to consider them as we make wealth management decisions. Anticipating potential issues and taking action in advance are two practical ways to help you avoid potential pitfalls that may hinder your ability to reach the goals you have for your life.

> Goals-based planning not only improves our ability to manage wealth effectively – it provides a mechanism for aligning your wealth with your life's purpose.

Perhaps of similar importance to you is that being aware of concerns can help you prevent overcompensating for them. There may be times when your cautions are greater than the actual risks they pose. The goals-based planning process may help assign the proper amount of resources to mitigate these risks. As a result, you may enjoy the peace of mind and financial freedom necessary to dream bigger and do more of the things you want for yourself and people you care about than your concerns may have previously allowed.

Take charge of your financial future

At its very core, your wealth is simply a tool to achieve your needs, wants and wishes. Assets and income streams give us more choices and options, but, in the end, money is only an instrument that allows one to live a rich life. What "rich" means varies greatly from one person to another. For some, it is giving back to the community through sharing their time and talents in addition to their good fortune. For others, it means freeing up time and resources to pursue their passions. Goals-based planning not only improves our ability to manage wealth effectively – it provides a mechanism for aligning your wealth with your life's purpose.

Living empowered means enjoying tremendous flexibility as your life changes. It also means feeling greater confidence in achieving your retirement vision. For more information, please contact your financial advisor today.

Our firm 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.

Lifestyle needs offer a blueprint for retirement housing

During your career-building decades, housing will probably be your biggest expense. And guess what? Housing likely will be a major expense during your retirement as well.

As you plan for your retirement goals (see accompanying article starting on page 1), it may help to understand that although your retirement journey will likely begin in your current home, your evolving needs are likely to drive change over time.

Today's seniors have a variety of choices when exploring their living arrangements and increasingly more services designed to help them transition as their needs change. Identifying the right type of housing at each stage requires recognizing how your needs might change and balancing considerations like level of care, personal preference and costs.

Maintain a private residence

Staying in a single-family dwelling to "age in place" can be a fit for seniors in good health who are still independent and seek a cost-effective solution. However, even a plan to stay in a home or townhome may require some accommodations. A few of the more popular choices include:

- Downsizing for ease of upkeep and maintenance
- Single-level living with bedroom and bath on the main floor
- Safety amenities, such as a walk-in bathtub, handrails or larger doorways
- Maintenance services, such as cleaning, lawn or snow-removal services
- A shift in geography to be nearer to family and friends or better health systems

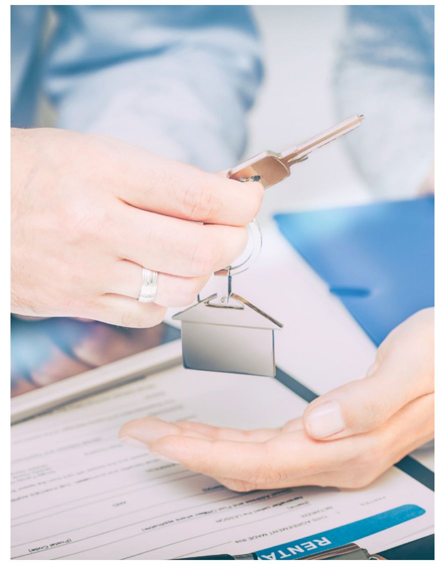
Move to an independent or assisted-living community

As you age, you or your partner may find that you prefer or require help with day-to-day tasks like preparing meals, laundry or housekeeping. Eventually you may even require help with personal services like bathing and dressing.

Today's senior living communities offer options that can adapt as your needs change, as well as deliver social outlets and structure to keep you active and engaged. Costs are largely determined by size of residence and assistance required, but they typically range from $1,500 to $4,000 per month, with memory care services often available at a premium. This can be a practical option for couples when the needs of one spouse advance beyond the care that the other spouse is able to provide.

Stay in a long-term care facility or nursing home

When the need comes, a nursing home offers the highest level of care and, with it, the largest price tag. Stays at a nursing home generally range from short-term issues like rehabilitation following a fall to requiring treatment for chronic and complex conditions. Care is delivered by licensed nurses available around the clock, with most facilities offering special memory care



units for dementia and Alzheimer's disease. Costs range from $4,000 to $8,000 per month.

Having so many choices requires careful financial considerations. There may be tax trade-offs to think about, depending on whether you rent or own. The extent of your care structure, insurance needs and other factors must also be evaluated.

Of equal importance are quality-of-life issues – because you could spend two or three decades in retirement. So plan ahead and choose wisely for each stage of retirement.

For more information on planning for retirement housing, please call your financial advisor.

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Diversification basics help plan for tax efficiency

Portfolio diversification may be an essential concept as you plan for your goals. Stock portfolios are diversified by market capitalization, sector, stage of business cycle and location. Fixed-income portfolios are diversified by issuer, credit rating, maturity and location.

While asset diversification is fundamental, it is just as important to achieve tax diversification. Specifically, it may be prudent to further diversify your investments into three tax categories.

Tax-deferred

Tax-deferred accounts include a traditional IRA, employer-sponsored retirement plan or deferred annuity. IRAs and 401(k)s are typically funded with pretax dollars, which may help reduce taxable income in the tax year that dollars are contributed, and all types of deferred accounts allow interest, dividends and capital gains to compound year after year without being taxed.

Distributions are subject to tax at your ordinary income tax rate when they are withdrawn. There may be a penalty for withdrawals made before age 59½, and minimum distributions are required annually from these accounts after age 70½.

Taxable

Your standard brokerage account is a taxable account. Gains on securities held in taxable accounts for one year or less are subject to short-term capital gains tax equal to your ordinary income tax rate. Securities held for more than one year are subject to a lower long-term capital gains tax.

Qualified dividends are also taxed at the more favorable long-term capital gains rate. Securities sold for a capital loss and purchased within 30 days before or after the sale are subject to the "wash-sale" rule, which will disallow the capital loss to be deducted.

Interest income on corporate bonds is taxed at federal and state levels as ordinary income in the year it was earned. Treasury securities are subject to federal income tax as ordinary income but are exempt from state and local taxes. Government agency bonds are generally subject to federal and state taxes as ordinary income, although certain types may be exempt from state taxes.

Tax-free

If you are eligible to invest in a Roth IRA or if your employer offers a Roth 401(k), your earnings grow tax-free and distributions are not taxed, provided you do not start taking withdrawals until you are 59½ and you have had your account at least five years. Annual minimum distributions are not required for Roth accounts.

Or consider municipal bonds, which pay interest free of federal taxes, and, in some cases, are free of state and local taxes too. Municipal bonds generally pay a lower interest rate than corporate bonds, but, given their tax benefits, municipal bond yields might actually be higher on an after-tax basis, especially for taxpayers in higher tax brackets.

Tax diversification is complex. In short, there is no simple formula for achieving an "ideal" tax diversification, so you need to consider your unique goals and circumstances in planning how to most efficiently invest in taxable, tax-deferred and tax-free accounts. Ultimately, taxes should not drive all your investment decisions – but they should not be ignored, either.

Tax diversification and tax management are part of our comprehensive approach to wealth management. To review how tax strategies may affect how we plan for your goals, please call your financial advisor.

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Five steps to prepare for future health care costs

When you retire, some of your living expenses may go down, but health care is not likely to be one of them. In fact, health care costs may well rise throughout your retirement years. Whether retirement is a future dream or a current reality, you need to anticipate your needs for health care and plan for how you will pay for it.

Given the importance of health care, however, there is a startling disconnect between concern about it and planning for it, according to the results of a survey conducted by RBC Wealth Management in partnership with Ipsos.

80%
of Americans are concerned about having sufficient health care or elder care as they or a spouse grow older.

10%
of the concerned group have factored health care costs into their retirement plan.

With so many people uncertain about how they will pay for retirement health care, why are so few of them taking appropriate precautions? Some may figure that Medicare will cover everything – which is an incorrect assumption – while others may simply be avoiding the topic. But failure to plan for it may put you at undue risk, especially when future health care costs for a healthy 65-year-old couple retiring today are likely to exceed $400,000.[1]

Project your personal longevity

Based on your health and family history, estimate your longevity – so you will know how many years of health care you may need to cover.

Estimate your future health care costs

Be realistic about your future health care needs. From age 45, annual spending on health care increases dramatically from $8,000 per year to over four times that much at age 85.[2] In addition to needing more care, the cost of care itself may increase 5 percent or more annually.[3]

Choose appropriate Medicare coverage

Understand the four parts of Medicare, what they cover and what they cost. Enroll in Part A and/or Part B within three months of reaching age 65. Changing your coverage can be expensive and time-consuming.

Maintain your independence as you age

20 percent of Americans will be 65 or older by 2030, according to U.S. Census Bureau estimates. Most of these seniors will own their own home and expect to stay there and "age in place." This may be possible with advancements in technology. (See accompanying article on page 3.)

Plan for potential long-term care

70 percent of retirees will need some form of long-term care.[4] The median rate for a private room in a nursing home is $92,000 annually.[5] Medicaid (not Medicare) is the primary source of funds. However, Medicaid is intended for those who can demonstrate extreme financial need. Long-term care insurance and other strategies may help you avoid having your financial legacy diminished by long-term care costs.

You cannot control all your health care costs – but you can control what you do to prepare. Taking action today may help you enjoy a happy and healthy tomorrow.

To discuss any potential concerns about funding retirement health care costs, please call your financial advisor. A complimentary copy of the Wealth Insights report *Taking Control of Health Care in Retirement* recently published by RBC Wealth Management is also available.

1 HealthView Services 2017 Retirement Health Care Cost Data Report

2 Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, 2010 data

3 HealthView Services 2017 Retirement Health Care Cost Data Report

4 U.S. Department of Health and Human Services

5 Genworth 2017 Cost of Care Survey

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