Investor'sEdge

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Three ways to pass along your financial wisdom

Wonderful as it may be to pass along wealth to your children, it's just as important to share your financial values, philosophy and know-how with the next generation.

Whether your children are in preschool, high school or beyond, it's likely neither too early nor too late to teach your kids about money, financial management, saving, investing and giving.

Many high-net-worth parents, however, don't prepare their children for large inheritances, neglecting to provide guidance or to arrange the wealth transfer in ways that will protect both family members and family wealth.

Prepare your family for wealth transfer

Many financially successful parents—uneasy about discussing money—haven't taught their sons and daughters about finances or given them an "inheritance education" in interacting with portfolio managers, wealth advisers and lawyers. The children may inherit wealth in their adult years with little clue about how to handle it.

Money conversations are important, as U.S. heirs are expected to inherit more than $3.2 trillion within a generation, according to RBC Wealth Management's 2017 Wealth Transfer Report, which is based on a survey of more than 1,200 Americans with average investable assets of $4.3 million.

The report found that most inheritors were largely unprepared, unsupported and uninformed about the inheritance process. This often leaves children overwhelmed and susceptible to making financial mistakes, jeopardizing the inheritance and the children's financial safety.

Families that successfully transfer wealth often set up children's trust accounts with third-party trustees. Beneficiaries need to learn about the trusts—including budgeting and living within their means—at an early age. (If you and/or your spouse are remarried, see accompanying article, "Estate planning essentials for blended families" on page 4 for more information.)

Provide opportunities to learn about money

Structured financial guidance typically doesn't start until age 28, according to RBC's report, however financial education can start years earlier, as soon as a child is old enough for an allowance.

Financial advisors, wealth managers and private bankers often are the best teachers. For this reason, parents or

Continued on page 2

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Inside this issue

1-2 Three ways to pass along your financial wisdom

3 Can your family business survive a natural disaster?

4 Estate planning essentials for blended families

5 Include the whole family in end-of-year gift planning

Three ways to pass along your financial wisdom, continued

grandparents sometimes ask their financial advisors to join family meetings so that they could share some financial knowledge with their children.

Business owners often excel at passing along financial know-how and values, as they tend to involve even their young children in the business. The youngsters may start by taking out the trash or otherwise getting their hands dirty.

Putting a child on the payroll can also help them learn to put money aside. An allowance for younger children, often with chores as part of the arrangement, is another way to teach kids about money.

Many parents are aware of the power of compounding. They will encourage their children to save their allowance, and a lot of parents will match dollar for dollar.

To help children learn about budgeting and cash flow, some parents encourage their children to have three categories for their savings: one for personal savings, one for personal spending and one for charitable giving.

Pass your knowledge with success

It's important for families to talk with their children about their expectations on how their children will manage the wealth they inherit. In addition to good financial management skills, this may also include charitable giving opportunities to keep the family legacy going strong for many generations.

Well-thought-out charitable giving is a great way to pass along family values. Including children on the conversation of how the family supports different organizations is an excellent opportunity to give them the family history and experience for when they're ready to take over the program. (Please see accompanying article titled "Include the family in end-of-year gift planning" on page 5 for more information.) Some families will establish family board meetings where the topics of investing, charitable giving and family budgeting are discussed to help prepare children and grandchildren for the time they will inherit the family estate.

For help passing your financial wisdom on to your children, please contact your financial advisor.

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Can your family business survive a natural disaster?

Discuss contingency plans with family members

Unexpected disasters have the potential to crush a family business both literally and figuratively. From devastating wildfires to severe flooding with a violent tornado thrown in for good measure, natural disasters can strike any family business. In the aftermath, having access to liquid financing may help speed the recovery process tremendously.

The Munich Re's NatCatSERVICE, one of the world's most comprehensive databases for analyzing and evaluating natural catastrophes registered 850 natural disasters globally in 2018, 20 percent of which happened in North America. Floods, flash floods and landslides made up 46 percent of the incidents, with storms following close behind with 42 percent of the disasters. Insurance payouts were reported at $80 billion to cover the global claims, which reached $160 billion.

As a responsible business owner, you have proper insurance policies to cover your company from everything like property damage to loss of business income. Those insurance payments will certainly help your family business get back up and running. But sometimes it takes time for the paperwork to process, and while you're waiting, bills and employees are waiting to be paid.

An RBC Credit Access Line, offered by the Royal Bank of Canada, may provide your family with same day liquidity, so you have financial flexibility to handle the needs of your business while maintaining your investment portfolio and keeping your long-term financial strategy in place. If you have a business portfolio established, the line would be created using your eligible business assets. In a solely owned business situation, you may combine your eligible personal accounts with your business accounts to pledge the RBC Credit Access Line.

In the minutes, hours and days following a natural disaster, your response time may be a key factor in your company's continuity and longevity. While you wait for the insurance payments, your business needs immediate liquidity to keep business operations running.

The odds of a natural disaster affecting your business may not be top of mind, but with an RBC Credit Access Line you are ready with a business continuity plan that includes immediate access to liquidity—just in case. It can help you prepare for the unknown and the unexpected. Once established, it is ready when you are. There is no cost to set it up, nor any costs until you draw on the account.

Talk with your family about contingency plans for the family business, and consider reaching out to your financial advisor about RBC Credit Access Line.

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Estate planning essentials for blended families

National Estate Planning Awareness Week will be observed October 21–27 this year. While almost everyone can benefit from comprehensive estate planning, it is especially important for "blended" families.

By blended families, we mean families which may include:

- children/grandchildren and spouses from previous marriages,
- a current spouse,
- his or her children/grandchildren from previous marriages, and
- any children/grandchildren brought into the current marriage.

You may know a blended family or two. And if you are part of a blended family, your loved ones may appreciate the time you take to ensure your estate plans are in order—well before they are needed.

The power of a name

You may want to update the beneficiary designations on your retirement accounts and insurance policies. These designations supersede all the carefully worded language you might have constructed in your estate planning documents, such as your will or revocable living trust.

For example, if your updated will directs everything to your current spouse but your former spouse is still listed as the primary beneficiary of your IRA, then your former spouse—not your present-day spouse—will receive the IRA assets.

While updating your beneficiary designations is important, it is not the only beneficiary-related concern. With the intention to provide everyone with something, it is not uncommon for a spouse to name a current spouse as primary beneficiary and to name children from a previous marriage as "equal contingent beneficiaries."

However, in this case, the primary beneficiary receives all the assets, and is free to do whatever he or she wants with the money. To help ensure that your wishes are carried out, you can name multiple primary beneficiaries and designate the percentage of the asset each beneficiary will receive.

A revocable living trust may benefit you

A last will and testament is a key estate planning tool. Yet if you want to avoid the time, expense and publicity of probate—while gaining the ability to be quite specific about how, and when, you want your assets distributed—you may want to consider establishing a revocable living trust.

You could create a revocable living trust and serve as trustee yourself. After you pass away, the trust can provide your surviving spouse with income for life. Then, after your spouse dies, your children from an earlier marriage can receive the remainder of the trust.

However, problems can arise if you name your surviving spouse or one of your children as the "successor trustee" who will take charge of the trust upon your passing. Here is why.

Let's say your spouse, acting as successor trustee, decides to invest only in income-producing securities. If he or she lives another 20 years, the value of the investments within the trust may decline considerably—leaving your children with less than you might have wanted. On the other hand, if you name one of your children as trustee and he or she invests strictly in growth-oriented investments, your surviving spouse may be left with a greatly reduced income stream.

To be fair to everyone, you may want to engage a professional third-party trustee. This individual, or company, is not a beneficiary of the trust and is not entitled to share in the assets of the trust.

Prenuptial agreement: A wedding gift that lasts

If you remarry, you may find that drawing up a prenuptial agreement can remove a source of potential stress for your new spouse and your children from an earlier marriage.

As a binding contract, a prenuptial agreement needs to be coordinated with other elements of your estate plans. Once assets are blended in financial accounts, spouses can have a claim on them. So if you and your new spouse have agreed to keep your assets separate—in order to pass an inheritance to your own children—you need to spell out that separation in your "prenup," your will, your living trust and any other relevant estate planning arrangements.

Communication is key

Whether you are updating beneficiary designations, creating a revocable living trust or crafting a prenuptial agreement, clear communication will be key to effective estate planning. By sharing your plans with your current spouse, children from a previous marriage and anyone else affected by your wishes and decisions, you can help spare your loved ones from hard feelings—and perhaps even a few unpleasant surprises.

To discuss your estate planning needs, please contact your financial advisor.

This information was adapted from an article originally published on *Forbes* WealthVoice.

Our firm does not provide tax or legal advice. Consult your tax advisor or attorney regarding your specific circumstances and goals.

Include the whole family in year-end charitable giving

Talk about philanthropic goals at holiday get-togethers

When everyone is gathered at your house for the holiday season, put wealth planning conversations on the agenda. That way you'll have the undivided attention of your entire family, making it easy to involve children and grandchildren in wealth planning discussions.

Defining the family legacy is a large part of wealth planning, and an important step in helping transition the family wealth from one generation to the next.

When your family members work together on a common goal like developing a united legacy, you may experience a much higher success rate in maintaining your family wealth from generation to generation.

Start the discussion by sharing an overview of the family financial plan, including what is—and has been—available for donating to charities. By providing a historical overview of the family's giving presence, you may set the stage with your expectations for future generations.

Ask each family member to promote the organizations and programs they most wish to support. Have a discussion centered on what is important in terms of causes and charities for the family as a whole, and build a plan that acts on that passion.

If your discussion is complicated by the rapidly approaching end-of-the-year tax deadline date, your family may want to consider using donor advised funds (DAFs). DAFs offer an easy way to make gifts over multiple years for tax purposes, plus people other than the grantor, like your children, can make contributions and generate their own income tax deduction. Throughout your lifetime, the DAF allows you to recommend which charities receive grants, how much they receive and when funds are disbursed. Plus, you can recommend how fund contributions should be invested.

Keep in mind, the 2019 standard deduction is now $24,400 for couples married filing jointly ($12,200 for single filers), but that donated amount into a DAF is the only requirement needing completion in 2019. Bunching charitable donations over multiple years into a single-year donation amount may allow some tax benefits on income taxes. Your family can decide at a later date which organizations will receive the donations, and when.

Note, if you—and/or your spouse—need to make required minimum distributions from your IRA account(s) and you wish to potentially limit your tax liability through qualified charitable distributions, you are not allowed to deposit those distributions into a DAF. They must be made directly to a specific charity.

It may be beneficial to discuss your family's charitable giving options with your financial advisor prior to holding the family meeting so you can share the overall best financial picture. Then, when the discussion is finalized, you're ready to move forward with the new family legacy.

For help with year-end charitable giving decisions, and to discuss whether a DAF may be an appropriate tool for your family's philanthropic goals, contact your financial advisor.

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