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How to enjoy a steady income—even when markets are bumpy

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Retirement is a phase of life meant for enjoying the fruits of many years of labor. However, the path to your worry-free retirement can be detoured by the unpredictability of financial markets.

Running out of money in retirement was a top fear of RBC Wealth Management clients in a 2023 survey. Here are some strategies to help keep your retirement income steady, even in the face of market turbulence.

Establish an emergency fund

In retirement, having an emergency fund is crucial. Set aside a portion of your savings in a liquid and easily accessible account, such as a money market fund or a high-yield savings account. This fund acts as a safety net during market downturns, confirming that you can cover your essential expenses without having to sell investments at unfavorable prices. Additionally, having an RBC Credit Access Line, through Royal Bank of Canada, can help you have access to liquidity to avoid selling assets as well as to prepare for any unexpected life events.

But once your emergency fund is developed, it's important to keep it protected. RBC Insured Deposits offers you protection of cash with up to $5 million of aggregate coverage in Federal Deposit Insurance Corporation (FDIC) coverage per depositor in each insurable ownership capacity. Plus, any cash more than the FDIC limits is placed automatically into a U.S. government money market fund.

Consider annuities

Annuities can be designed to provide a steady stream of income over a specified period or often for the rest of your life. A fixed annuity guarantees a fixed rate of interest for a specified period of time which allows for predictable growth during market volatility, while a variable annuity may increase or decrease in value based upon performance of underlying investment strategies. Income from annuities may be structured by adding optional riders to provide a guaranteed income stream for life based on the claims-paying ability of the issuing company—helping provide peace of mind for retirees.

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Investment and insurance products are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

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Create a laddered bond portfolio

Building a laddered bond portfolio involves investing in bonds with varying maturity dates. As each bond matures, you reinvest the proceeds in new bonds, maintaining a consistent income flow. This strategy helps reduce the impact of interest rate fluctuations and provide a predictable stream of income, regardless of market conditions. Also see the article on page 5 titled Fixed income opportunities during times of rising interest rates to learn more about bonds.

Strategize for tax impact

Make smart investment choices to minimize your tax impact and maximize your wealth. For example, your income may drop initially once you stop working and enter retirement, but you could be in a higher tax bracket later, when your required minimum distributions (RMDs) kick in at age 73.

If you're in a lower tax bracket early in retirement, you could look at accelerating the distribution of your IRA funds before your RMDs begin. Or, you could take advantage of being in a lower capital gains tax rate to sell assets.

A Roth IRA conversion is another opportunity to maximize income while also considering the impact of taxes on future generations that may ultimately inherit your assets. This strategy aims to take advantage of lower income resulting in lower tax brackets early in retirement by converting assets from pre-tax to a Roth IRA. Those assets can then be withdrawn tax-free later, either when taxable income is potentially higher later in retirement or after death through tax-free distributions to beneficiaries.

When you need to tap into your investment and retirement accounts, the timing and order of how you draw down those accounts is critical and can make a big difference in the taxes you end up paying, and when you pay them.

Regularly review and rebalance

Market conditions can change rapidly, and your retirement portfolio should evolve accordingly. Set up an annual meeting with your financial professional to review your investments and rebalance your portfolio to confirm it aligns with your risk tolerance and long-term goals. Rebalancing involves adjusting your asset allocation back to your target percentages to help prevent your portfolio from becoming too skewed toward a particular asset class that may be overly affected by market volatility.

Maintain a long-term perspective

While short-term fluctuations in the markets may cause concern—especially if you are planning for retirement and looking forward to the next chapter of your life—as long as you stay invested, the loss is merely a paper loss, and doesn't become a realized loss until you sell. History tells us that recoveries happen and the best offense is a good defense that holds the line. Retirement is a journey that spans decades. Maintain confidence in your diversified portfolio and your well-thought-out retirement plan and avoid making hasty decisions based on market noise.

Seek professional guidance

Navigating the complexities of retirement planning and investment management can be daunting, especially during volatile market periods. Contact your financial professional to help you tailor a strategy to your specific needs and goals. And when markets become turbulent, he or she can help you keep your emotions in check and help assist you in maintaining a steady approach the next time markets take a dip and help you make informed decisions.

Don't qualify for life insurance? Check out these alternatives

Purchasing life insurance coverage early is recommended to help keep costs reasonable when creating and managing a thorough protection strategy for your wealth plan. But for some people, insurance options may not be cost-reasonable due to existing health conditions.

In 2018, the Milliman Long Term Care Insurance survey reported only 59% of applicants for long-term care insurance ended up with coverage—of the 41% who did not purchase coverage, 25% were declined for health reasons. Thankfully, there are options available that may be suitable for your unique needs and offer ways to help you secure the future for you and your loved ones when conventional insurance coverage is not a practical solution for you.

Annuities

These insurance contracts do not require underwriting and are designed to pay out invested funds in the future for a specified period of time or the remainder of your life, depending on the type of annuity you purchase. Your cost is a series of either monthly or lump-sum payments, and once the annuitization period is over, you will receive the cash payments. There are many tax considerations that occur with annuities, so be sure to work with your financial professional to determine the best plan for your situation.

Guaranteed issue life insurance

For individuals with potentially disqualifying conditions like cancer, use of a handicap parking permit, sleep apnea or heart conditions, to name a few, guaranteed issue life insurance may be a viable alternative. This type of policy does not require a medical exam or extensive health inquiries. It guarantees coverage regardless of your health status. While premiums for guaranteed issue policies tend to be higher, they provide an opportunity to secure a basic level of coverage.

Simplified issue life insurance

Simplified issue life insurance strikes a balance between traditional policies and guaranteed issue coverage. Although you are not required to undergo a medical exam, you will be asked to answer a limited set of health-related questions. This type of policy may work for individuals with relatively stable pre-existing conditions or those with controlled health issues. While premiums may still be higher than traditional policies, they are generally more affordable than guaranteed issue premiums.

Group life insurance

If you're not retired and still working, you may have access to group life insurance through your employer. Group policies often have more lenient underwriting standards; however, the coverage amount may be limited. You'll need to determine if some coverage is better than no coverage.

This list isn't comprehensive, as there are additional insurance options like final expense insurance or accidental death and dismemberment (AD&D) which may provide the coverage you need in your life. Work with your financial professional to determine what kinds of insurance products will benefit you and your family effectively.

Incorporate charitable giving into your wealth plan

With the holidays fast approaching, so comes the annual season for giving. Americans give nearly $500 billion to U.S. charities each year, according to Lilly Family School of Philanthropy, and Double the Donation reported that 30% of all annual donations are made in December.

The reasons for sharing one's wealth are varied as are the causes to support. According to Giving USA, the top charitable causes in 2022 in the U.S. were:

1. Religion
2. Human Services
3. Education
4. Gifts to grant-making foundations
5. Health

Regardless of what you support or why you give, it's important for your philanthropy to be part of your wealth management plan. Incorporating charitable giving into your plan includes consideration of your annual income, income taxes, investment portfolio and your legacy and estate planning goals.

A simple first step is to develop a philanthropic mission statement for you and your family. Having a clear and succinct statement of what you and your family value is important to make an impact today and serve as a giving guidepost for future generations.

Year-end holiday gatherings with family members of multiple generations may provide an opportune time to develop, or annually review, your philanthropic family mission statement. Consider scheduling a family meeting focused on giving. Then invite your financial professional to serve as a third-party resource to help navigate any complex money matters. He or she can also help you and your loved ones effectively address any potential issues that may arise in the context of family dynamics.

When you hold your philanthropy mission meeting, approach it as a positive opportunity to:

- Discuss and share your values
- Impart family values on younger family members
- Educate the next generation on philanthropy and your future wishes
- Make your community and the world a better place

Your mission statement may help your philanthropy become more focused and impactful giving—instead of being reactionary or spread over many causes. It can also lead to next steps, such as how you choose to distribute your funds to charitable causes in the long term.

One of the fastest-growing means of donating to charities is through donor-advised funds (DAFs). DAFs may be more affordable, flexible and easy to establish for families that want to give over time, but don't want to invest the time or money that private foundations require. DAFs can serve as intergenerational charitable wealth transfer vehicles as well.

As you share your wealth with the causes you hold dear, your financial professional can help you integrate your philanthropy into your wealth plan to have an impact on the world—in a manner that aligns with your values and honors your legacy.

Here's an example of how a DAF can be utilized:

> Consider Roger and Kathryn, an affluent couple with two children—Sophia and Oliver—who wanted to impart their philanthropic beliefs upon their children while reducing their taxable income. Because they wanted to donate more than $100,000 of their income over five years, they were able to utilize a donor-advised fund. The children each picked a cause that was important to them. To support those causes—an animal rescue and a homeless shelter—they created the "Sophie and Oliver Charitable Fund" and structured $10,000 donations to each annually over the life of the fund. The family also toured the local nonprofits to learn the impact of their charitable giving.

Contact your financial professional today and ask for Charitable Giving: Realizing your vision for a better world wealth insights document.

Case studies are for illustrative purposes only. Case studies do not necessarily represent the experiences of other clients, and they do not indicate future performance.

Fixed income opportunities during times of rising interest rates

More than a year after the Federal Reserve began bumping interest rates to slow inflation, fixed income investments may deserve a fresh look from investors who are looking for a low-risk strategy in markets that are continuing to act a little unsettled. Fixed income securities often help provide a good balance within an investment portfolio, as fixed schedules of payments from these investments vary from both long-term and short-term investing opportunities.

Your financial professional has access to an extensive, competitive selection of fixed income investments, customized to address your unique needs and goals.

Floating Rate Notes

Floating Rate Notes (FRNs) are in demand among investors when it is expected that interest rates will increase. These are fixed income securities where the interest rate is tied to a short-term benchmark rate like the Treasury rate, the Fed funds rate or even Secured Overnight Financing Rate (SOFR). As those rates adjust, so will the interest payments.

FRNs present risk if interest rates decrease, which would result in lower coupon payments. The Federal Reserve has two more meetings scheduled through the end of this year, providing the potential for interest rate changes. All payments on FRNs are subject to the creditworthiness of the issuer.

Fixed income ladders

Investors can build fixed income ladders by purchasing fixed income securities—such as corporate bonds, U.S. agency and Treasury securities, municipal bonds and certificates of deposit—in staggered maturities (one-year, two-year, three-year, five-year, etc.). The goal of building a ladder is to reduce risk associated with changing interest rates by structuring a portfolio so fixed income securities mature.

This strategy makes reinvestment of principal less sensitive to changing interest rates by smoothing interest rate variability out over time.

Investors could benefit from any increase in interest rates by reinvesting proceeds from maturing bonds or other securities at the higher rate. And if interest rates should fall, other bonds at higher rates may be still in place.

If you think interest rates will continue to rise, you could shorten the sequential maturity intervals to allow for more frequent reinvestment.

Conversely, if you are of the opinion that interest rates are going to be reduced in future Federal Reserve meetings, investing in additional longer-term maturities would be an option to investigate.

Work with your financial professional to determine the best laddering or FRN strategies for your portfolio, especially as the Federal Reserve may be ending its long rate hiking cycle.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the funds.

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. Securities-based loans involve special risks and are not suitable for everyone.

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Annuities are designed to be long-term investments and frequently involve substantial charges such as administrative fees, annual contract fees, mortality & risk expense charges and surrender charges. Early withdrawals may impact annuity cash values and death benefits. Taxes are payable upon withdrawal of funds. An additional 10 percent IRS penalty may apply to withdrawals prior to age 59-1/2. Annuities are not guaranteed by FDIC or any other governmental agency and are not deposits or other obligations of, or guaranteed or endorsed by any bank or savings association. With fixed annuities, both the money you invest and the interest paid out are guaranteed by the claims-paying ability of the insurer. Investments in variable products will fluctuate and values upon redemption may be less than the original amount invested. Investors should consider the investment objectives, risks, and charges and expenses of an annuity carefully before investing. Prospectuses containing this and other information about the annuity are available by contacting your financial professional. Please read the prospectus carefully before investing to make sure that the annuity is appropriate for your goals and risk tolerance.

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