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To plan, or not to plan, for Social Security?

Retirement planning is important for everyone who wishes to stop working at some point in their life, but especially for anyone born in 1968 or later. That's because the Social Security Administration reports it will no longer be able to fully fund Social Security payments starting in 2035, assuming Congress doesn't make changes before then. If your children were born after 1968, they will reach full retirement age after the anticipated fund depletion date.

For young adults in their 20s and 30s, Social Security may only be a notion they assume will be there in the future. The good news is, young adults have time to plan for the possibility that Social Security may or may not be available, or be paid in full when they qualify for it.

Flexibility is key

It's important for young adults to start wealth planning early. Regardless of one's point of view on the future viability of Social Security, it is important that young professionals start saving—period.

Time is the biggest factor with the benefit of compounding money. The sooner a young adult can focus on saving a portion of his or her income, the more likely they are going to stay within their means for the rest of their lives.

As part of retirement planning, consider approaching Social Security benefits cautiously, mostly because the monthly payments aren't huge. Young professionals may want to focus early financial planning efforts on building emergency funds,

Continued on page 2

Inside this issue

1–2 To plan, or not to plan, for Social Security?

3 A climate of opportunity

4 Why wealth planning is a must for LGBTQ+ couples

5 Five critical money conversations for women to have with their financial professional

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To plan, or not to plan, for Social Security, continued

purchasing life insurance and preparing for how they may need to help care for older parents. These are all potentially expensive items that Social Security payments won't cover. Plus, factors like student loans and spending interests tend to get in the way of thinking about saving for retirement. For these reasons, young adults and financial professionals may want to discuss when to shift focus to retirement savings and how to adjust spending habits when the time comes so that sufficient savings can be accumulated to help fund retirement goals.

Of further concern and interest to young adults today is the fact that 2035 is another projected time when Social Security payments may come under threat. Studies conducted in 1981 determined the funds would have to be reduced in 1983 if changes weren't made. In 1983, Congress approved legislation changing benefits affecting people who are now in their 60s by changing the minimum retirement age when you can collect full Social Security benefits (age 67 or anyone born in 1960 or later) and also taxing benefits.

If legislative changes don't happen, the Social Security Administration reports benefits would be cut to 80%, starting in 2035. While time remains for Congress to make new changes prior to that, it may be practical for younger adults to plan around the possibility of benefits changing.

That's not to say younger people should not include Social Security when planning. As long as you review your plan year-over-year, you may have time to make changes.

Another strategy that may help younger people feel more confident about retirement planning is to apply different scenarios for Social Security, including adjusting for anticipated cost-of-living increases. Projecting spending needs based on various anticipated inflation increases can help clients and financial professionals determine what they may need to prepare for when it's time for investments to help produce income during retirement.

No crystal ball

During his presidential campaign, President Joe Biden proposed increasing the payroll tax for Social Security. As of January 1, 2021, workers were taxed on up to $142,000 of their income. Biden's campaign discussed taking that amount down to $137,000 (with inflation adjustments also included). The campaign also proposed taxing people who earned more than $400,000, in effect providing a tax break for earned incomes between $137,000 and $400,000.

There's a long road ahead to see if those proposals make it into legislation, but should future changes be forthcoming, many experts believe that Social Security will be restructured in a way that does not affect benefits for Americans who are close to reaching full retirement age while allowing time for younger generations to plan around the changes.

Although it's impossible to predict what future administrations and Congress will do to potentially change Social Security, young adults may have 30 to 40 years to prepare financially for a happy and comfortable retirement. Yet this clear advantage also presents a challenge, from the simple fact that it may be difficult for young people to think that far ahead. After all, the distance between "now" and retirement seems to be so vast when you are in your 20s and 30s. It feels like a lifetime away.

But many people who are retired or are nearing retirement say they wish they had started saving earlier. So use the time you have to your advantage. Contact your financial professional and get started today.

Social Security facts as of January 1, 2021

- Money paid into Social Security via paychecks goes into an independent trust fund, not the general operating fund of the government. Congress does not have the ability to use Social Security funds for other projects. Confusion occurs because between 1969 and 1990, the trust fund account was included as part of the unified budget for accounting purposes, but not for administration of finances purposes.
- Anyone born 1960 or later is full retirement age at 67.
- Since 1975 the Social Security Administration has calculated cost-of-living adjustments (COLAs) to keep benefits on par with inflation. The COLA for 2020 was 1.3%.
- A person retiring in 2021 would receive maximum monthly Social Security benefits of $3,895, assuming they retired at age 70 and had high lifetime earnings.

Source: Social Security Administration ssa.gov.

Give your children an edge

To help the young adult in your household plan for retirement, set up an appointment with your financial professional.

A climate of opportunity

Savvy investors are eyeing President Joe Biden's intentions related to the Paris Agreement with great interest and see potential opportunities in 2021 and beyond.

Announced at the UN Framework Convention on Climate Change in 2015, the Paris Agreement is essentially a pledge by participating member countries to do their best to prevent the global temperature from rising two degrees Celsius above pre-industrial levels by assessing their carbon emissions profiles and committing to reducing these emissions. The U.S. was involved, withdrew from the agreement in November of 2020, and rejoined the agreement shortly after Biden took office.

The World Bank estimated that the Paris Agreement created a $23 trillion global investment opportunity in emerging industries such as solar and wind as participating countries sought to shift energy sources in order to comply.

During his campaign, Biden released a $2 trillion, multiyear plan[1] with the ultimate goal of moving the U.S. to 100% clean energy and net-zero emissions by 2050, which would quickly move the U.S. back in line with the Paris Agreement. However, it remains to be seen how much of this plan can be implemented, the level of congressional support these measures would receive, and how quickly it could be put in place. Despite these possible headwinds, it seems evident that climate change will be a priority during Biden's presidency.

A tailwind for responsible investing

The new administration's focus on climate risks and opportunities may bring a strong tailwind to responsible investing, which looks at factors beyond simple financial considerations when assessing the risks and return potential of an investment. These factors generally include environmental, social and governance (ESG) information and can be applied to investment portfolios in a number of ways.

Clean energy

Clean energy programs like solar or wind have great opportunity for growth, as the Energy Information Administration estimates in 2019 only 17% of the U.S.'s energy comes from renewable sources.[2]

One of Biden's proposals calls for the removal of all fossil fuel subsidies for U.S. oil and gas companies, which amount to $17 billion, and without them, 45% of U.S. oil production would be unprofitable, according to OilChange International and the Sierra Club. A growing number of investors have already removed most, if not all, of these companies from their portfolios through a practice called fossil fuel free investing, and by doing so, have already removed this risk from their portfolios.

Sustainable technology

Biden's plan calls for the investment of $400 billion over 10 years in new clean technology, such as new battery technology, carbon sequestration, carbon-free hydrogen, zero net energy buildings and decarbonizing industrial production of steel, concrete and chemicals. Any of these new technologies could present attractive investment opportunities as well as the positive, measurable effect that impact investors seek.

Think economically

In addition to the environment, climate changes impact the economy in many ways. Consider, for example, the winter freeze experienced in Texas in February, and how that impacted local and national economies. There are many sections of the United States that are not prepared for climate-related events, from temperature changes to wind, fire or floods.

The opportunity

It is difficult to know which of President Biden's proposals will actually make it into law this early in his term. However, it may be assumed that there will be an additional focus on environmental issues for at least the next four years. This creates an opportunity for a rise in responsible investing in the U.S. market and a chance for savvy investors to consider adding responsible investing solutions to their investment portfolios.

Contact your financial professional

Learn more about responsible investing opportunities for your portfolio.

[1] Joe Biden Climate Plan (https://joebiden.com/climate-plan)
[2] https://www.eia.gov/tools/faqs/faq.php?id=92&t=4

Why wealth planning is a must for LGBTQ+ couples

When planning for retirement, LGBTQ+ people between the ages of 45 and 75 rely largely on their own knowledge and education, according to a study conducted by Services and Advocacy for LGBTQ+ Elders. However, 51% of LGBTQ+ older people are very or extremely concerned about having enough money to live on.

Thanks to the same-sex marriage legalization in 2015, estate, wealth and tax planning are largely the same for gay and straight unions.

- Estate planning refers to planning who will receive your assets after you die, how those assets will be distributed, how you would like to be cared for if you become incapacitated before death and guardianship of any minor children.
- Wealth planning includes a broad spectrum of activities: how you build and protect your assets throughout your lifetime, planning for major expenses such as vehicles and mortgages and long-term costs such as a child's education, purchasing a home or saving for retirement.
- Tax planning informs both wealth and estate planning, helping to anticipate what taxes must be paid during different life stages.

Before marriage equality became law in 2015, some same-sex couples did a lot of sophisticated planning, which provided them with similar tax treatment to that of heterosexual couples. Now, even with the ability to enjoy the legal benefits of marriage, some couples may choose to not tie the knot due to tax considerations. That's because gaining legal recognition as a married couple may put them into a higher tax bracket than if they were to file their taxes jointly.

Another financial consideration for couples choosing to marry is how a spouse is treated through corporate benefit plans, including health and wellness benefits, as well as pensions, which may vary by company and region.

Same-sex couples may also need professional advice if one of them relocates to another country, perhaps for a new job opportunity, and wants their spouse to come with. It can become particularly complicated if that country doesn't recognize same-sex unions.

Planning for children/heirs

Many same-sex couples have children. These may be children from a previous relationship, or perhaps from an adoption, surrogacy or other arrangement. While the law in these areas is complex and varies widely across jurisdictions, estate, wealth and tax planning goals for children are similar to that of heterosexual couples.

For wealth planning, couples should save for their kids' education, as well as any other expenses they want to help out with, such as buying a first car. Estate plans may need to be updated to include children, and if they're not yet adults, guardianship. With tax planning, same-sex couples may also consider taking deductions as part of their joint taxes for expenses such as a child's education, whereas before 2015, they may have claimed it only on one person's taxes.

Having equal rights as parents also means potentially having to pay child support if the same-sex couple seeks a divorce down the road.

When LGBTQ+ couples choose to marry, it's important for couples to meet with their financial professional(s) to develop wealth plans that match their lifestyles and goals.

Your financial professional can also collaborate with your attorney(s) and accountant(s) to develop appropriate estate plans and tax strategies for your wealth management goals.

Contact your financial professional

Ask about wealth planning, estate planning services and how tax planning considerations can affect both.

Five critical money conversations for women to have with their financial professional

Women are an economic powerhouse—earning, controlling and inheriting more wealth than ever before. Women are adding to their assets at a rate of $5 trillion per year globally according to "Women in Wealth, Managing the Next Decade of Women's Wealth" published by the Boston Consulting Group in 2020. With this growing wealth comes more financial responsibility and complexity, often intertwined with juggling careers, caregiving and life's transitions.

Yet in 2018, only about half of women felt confident about managing investments compared to more than two-thirds of men, based on findings of "Women and Financial Wellness: Beyond the Bottom Line," published by AgeWave. This disparity remained consistent, even when women and men earned the same scores on financial literacy tests.

By taking an active role in their financial lives, women can gain confidence in managing investments. These five topics may offer a good foundation for money conversations a woman can have with her financial professional to help increase confidence in her financial future.

1 Achieving financial goals

Balancing family and work is a concern for many women, and you can work with your financial professional to develop plans allowing you to do both. Some areas of discussion include saving for both retirement and college tuition for the kids, ways to make major purchases without interrupting long-term financial planning goals and how your wealth can initiate positive change.

2 Accumulating wealth

With generally longer life expectancies, women may need to both accumulate more assets and invest for more growth potential over time. Considerations a woman should discuss with her financial professional include her investing style and risk tolerance, as well as how she can actively pursue retirement planning.

3 Protecting wealth

Many women want to live independently while caring for loved ones during their later years. Taking appropriate steps to protect wealth may help preserve individual autonomy and help offer peace of mind about future financial security. A good discussion to bring up with your financial advisor includes creating a survivor plan in the event something happens to yourself or spouse, which should include confirming legal and financial arrangements are updated. It's also important to discuss what type of long-term care is needed and how to fund it.

4 Turning wealth into income

Women are far more likely than men to face financial hardship during retirement. The typical income for women 65 and older is 25% lower than for men, and that gap widens to 44% by age 80 and older, according to the National Institute on Retirement Security. To help plan for different retirement circumstances, a woman should ask her financial professional if she is able to retire comfortably, what expectations she should have regarding Social Security income and what to expect from employer-sponsored retirement plan benefits from a former spouse, or if her spouse dies.

5 Transferring wealth

Taking care of family is an inherent trait for many women, who may wish to have that care continue well after their lives have ended. Transferring wealth includes several aspects from planning for tax liability to confirming that your wishes are fulfilled. Your financial professional can also help you plan for sharing wealth during your lifetime—so you can enjoy the impact it makes—as well as protecting your family's privacy from probate court.

Additional resources

Ask your financial professional for a copy of Women and wealth: a planning workbook. It features useful information to help you learn about the important financial issues you may face—as well as practical worksheets to help provide the insights you need to prepare effectively for the financial future you want.

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