RBC Wealth Management

WealthMonitor

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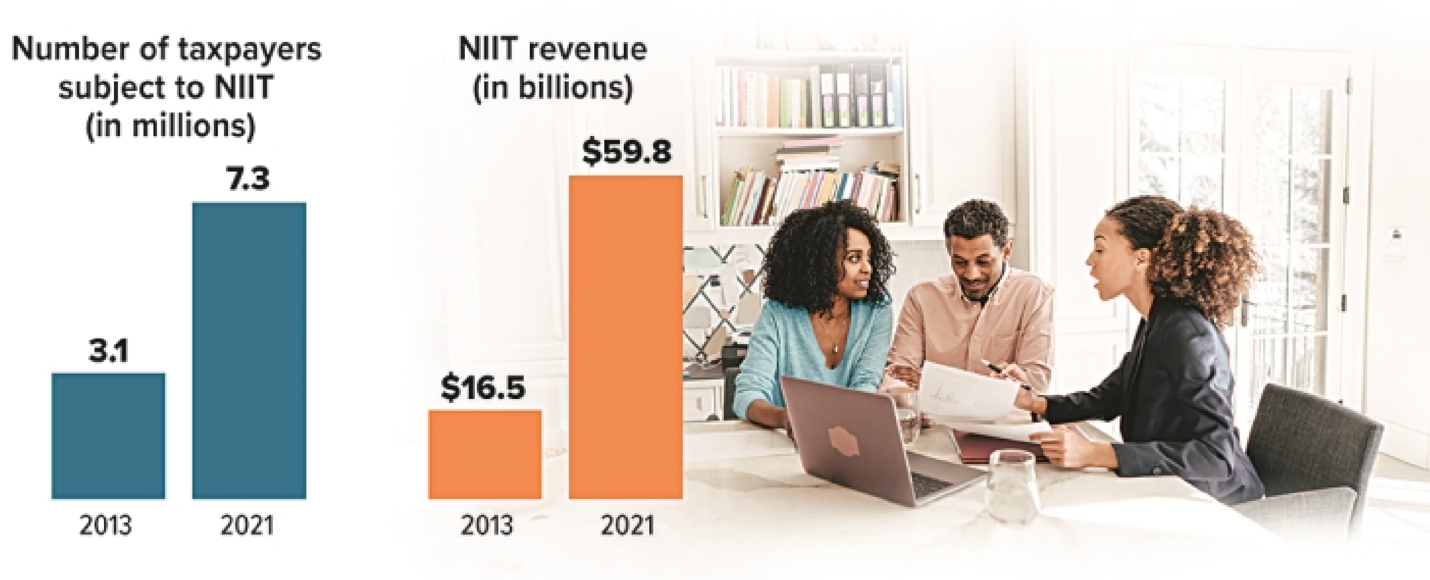
Investors Beware: This Surtax Is Creeping Up on You

High-income taxpayers are subject to a 3.8% net investment income tax (NIIT) from capital gains, dividends, interest, certain royalties, rents, and passive income if their modified adjusted gross income (MAGI) exceeds $200,000 for single filers or $250,000 for married joint filers. The number of taxpayers paying the NIIT has more than doubled since it took effect, mostly because these income thresholds were not indexed to inflation, and the revenue collected has more than tripled.



Source: Congressional Research Service, 2023 (uses IRS data)

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Beware of These Life Insurance Beneficiary Mistakes

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. While naming your policy's beneficiaries should be a relatively simple task, there are a number of situations that can easily lead to unintended and adverse consequences. Here are several life insurance beneficiary traps you may want to discuss with a professional.

Not naming a beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together or that your named beneficiary may die before you and you haven't named successor beneficiaries. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death benefit paid to your estate

If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payments to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming a minor child as beneficiary

Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law. If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

Disqualifying a beneficiary from government assistance

A beneficiary you name to receive your life insurance may be receiving or be eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to a government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Life Insurance Payout Options

Most life insurance policies offer several options to the policy beneficiary, including:

Lump sum payment	The most common choice. A one-time payment is made of the death benefit proceeds to the beneficiary.
Lifetime annuity	The death benefit proceeds are converted to an income annuity, which makes a fixed, periodic payment to the beneficiary for the rest of his/her life.
Fixed period annuity	Like the lifetime annuity, except the payments will be made over a specified period of time, such as 10 years, after which, payments cease.

Creating a taxable situation

Generally, life insurance death proceeds are not taxed when they're paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one and the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds for her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.

Trailblazers: Women Who Made Financial History

March is Women's History Month. What better time to reflect on the contribution women have made to the field of finance? What follows are the stories of just five of the many women who helped blaze the trail for others in investing, banking, finance, and economics.

Victoria Claflin Woodhull and Tennessee "Tennie" Claflin

Victorian-era sisters Victoria Woodhull and Tennie Claflin were pioneers on many fronts. Not only did they launch the first brokerage house by and for women, they started a progressive newspaper supporting women's rights and were also suffragists. In 1872, Woodhull was the first woman to run for president.

The sisters' rise to fame had quite unconventional beginnings. Their father was a "snake oil salesman" who made his young girls serve as psychics and healers in his scams. Woodhull later parlayed this unusual experience into a business relationship with the superstitious tycoon Cornelius Vanderbilt. With the backing of his fortune, the sisters opened Woodhull, Claflin & Co., New York's first female-owned brokerage firm. Through surreptitious means (a hidden back door and a women-only lounge), the company helped women manage their own money during a time when it was frowned upon to do so.[1]

Maggie Lena Walker

Maggie Lena Walker was born to enslaved parents in 1864 in Richmond, Virginia. At just 14 years old, she joined the local council of the Independent Order of St. Luke, an African-American benevolent society that aided the sick and elderly, promoted humanitarian causes, and encouraged individual self-sufficiency. Walker eventually assumed leadership of the organization, where she served until her death. Among her achievements were launching *The St. Luke Herald* newspaper, which encouraged economic independence and, in 1903, becoming the first African-American woman to charter a bank — the St. Luke Penny Savings Bank.

Upon opening, the bank helped hundreds begin saving money, including one person who opened an account with just 31 cents. Walker also encouraged children to save by handing out penny banks and allowing them to open accounts after saving 100 pennies.

The bank later merged with two others to become The Consolidated Bank and Trust Company, the nation's oldest bank continually operated by African-American management until 2009.[2]

Muriel Siebert

The first woman to buy a seat on the New York Stock Exchange (NYSE) and the first to be a superintendent of banking for the state of New York, Muriel Siebert was also the first woman to lead a NYSE member firm.

Considered "a scrapper" with "the same brash attitude that characterized Wall Street's most successful men," Siebert made it her life's mission to fight for women to occupy the most vaunted seats at Wall Street's proverbial tables. She donated millions to help women secure careers in business and finance.

At a 1992 luncheon where she was honored for her life's work, Siebert said women "...are still not making partner and are not getting into the positions that lead to the executive suites. There's still an old-boy network. You have to keep fighting."[3]

Dr. Janet Yellen

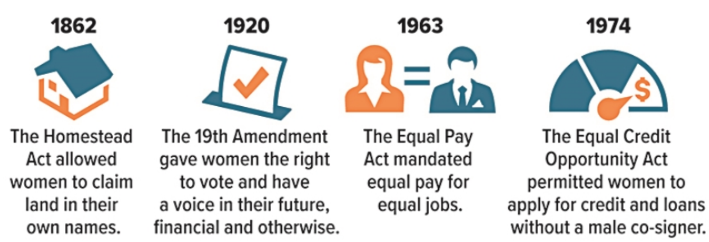
Currently serving as U.S. Secretary of the Treasury — the first woman to do so — Dr. Janet Yellen has been a standout in the field of economics for decades.

Born to a middle-class family in Brooklyn, New York, Dr. Yellen graduated summa cum laude from Brown University in 1967 and earned her Ph.D. in economics from Yale in 1971, the only woman to do so that year. After teaching at several top universities, including Harvard and the London School of Economics, she served as a member of the Federal Reserve Board of Governors.

In 1997, President Bill Clinton appointed her as the first woman chair of the White House Council of Economic Advisors. She later went on to serve the Federal Reserve System in a variety of leadership roles. In October 2013, President Barack Obama nominated her for the position of Federal Reserve Board Chair, the first woman to hold that role.

Dr. Yellen is not only the first woman to lead the U.S. Treasury, the Federal Reserve Board, and the White House Council of Economic Advisors, she also is the first *person* to have held all three posts.[4]

Milestones in Financial HERstory



Source: HerMoney, 2022

1) Museum of the City of New York

2) National Park Service and the National Women's History Museum

3) *The New York Times,* August 25, 2013

4) National Women's History Museum and Investopedia

New SAVE Repayment Plan Offers Key Benefits

In July 2023, the Department of Education launched a new income-driven repayment (IDR) plan for federal student loans called the Saving on a Valuable Education (SAVE) Plan. The SAVE Plan is the most generous IDR plan to date, and like all IDR plans, it calculates a borrower's monthly payment amount based on income and family size.

The SAVE Plan replaces the existing Revised Pay As You Earn (REPAYE) Plan, and all borrowers who are currently enrolled in REPAYE will be automatically transferred to SAVE.

How SAVE helps borrowers

The SAVE Plan has many benefits, including lower monthly payments, a full interest subsidy for the entire time a borrower is enrolled in the plan, and shortened repayment terms compared to previous IDR plans. SAVE is being implemented in phases, with some benefits taking effect in 2023 and others that are scheduled to take effect in July 2024.

Key benefits that took effect in 2023:

- The amount of income protected from loan payments increased from 150% to 225% of the federal poverty level. Borrowers whose incomes are at or below the 225% threshold will have a $0 monthly payment (this equates to about $32,800 a year for a single borrower or $67,500 for a family of four).
- Unpaid interest will not accrue, so loan balances won't grow as long as borrowers make their monthly payments as calculated under SAVE (even when a borrower's monthly payment is set to $0).

Key benefits scheduled to take effect in July 2024:

- For undergraduate loans, monthly payments will be capped at 5% of discretionary income (compared to 10% under REPAYE), and graduate loans will be capped at 10% of discretionary income. Borrowers who have both undergraduate and graduate loans will pay a weighted average each month of between 5% and 10% of their income based on the original principal balances of their loans.
- For borrowers with original principal balances of $12,000 or less, all remaining loan balances will be forgiven after 10 years of payments. For original loan balances over $12,000, the maximum repayment period will increase by one year for every additional $1,000 borrowed. For example, a $13,000 loan will be forgiven after 11 years of payments, a $14,000 loan will be forgiven after 12 years of payments, and so on. The maximum repayment period under SAVE will be 20 years if *all* loans in repayment are undergraduate loans and 25 years if *any* loans in repayment are graduate loans. (The same maximum terms of 20 and 25 years applied under REPAYE.)

To learn more and to enroll in the SAVE Plan, borrowers can visit studentaid.gov/idr.

Source: U.S. Department of Education, 2023