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Second homes, key considerations and risks

Many retirees are drawn to the idea of a second home, a concept that extends beyond providing a vacation spot for loved ones to gather. Before such a purchase, there's much to contemplate.

Factors to consider

Location matters

Selecting the optimal location for a second home is a decision that can mold the entirety of the retirement experience. The choices may seem endless—from the tranquility of serene beaches to the invigorating embrace of crisp mountain air or the dynamic energy of vibrant city life. It's not merely a geographical decision but a lifestyle choice that influences the day-to-day rhythm of your retirement.

Beyond aesthetic, practical considerations will add another layer of significance. As you research, keep

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in mind the travel logistics to and from the chosen location, especially if you have family members dispersed across different regions. Remembering this ensures that your retreat remains an accessible haven for familial connections and shared moments.

Moreover, the proximity to health care facilities takes on heightened importance during retirement. Securing a seamless connection to medical services provides both peace of mind and the assurance of prompt assistance when needed. In essence, the right location transcends being a point on the map—it becomes an integral part of crafting a retirement that harmonizes personal preferences, practical considerations and the essential element of well-being.

Calculating costs

It is important to determine a realistic budget for the acquisition of a second home. This step is not merely a formality but a vital cornerstone, requiring thoughtful consideration of various ongoing expenses.

Beyond the initial purchase, the financial blueprint must factor in recurring obligations, such as property taxes that contribute to the local infrastructure and homeowners' association fees. Additionally, the impact of local taxes on your financial portfolio should be assessed with due diligence.

Insurance coverage

The significance of comprehensive property and casualty insurance coverage cannot be overstated, especially when contemplating the acquisition of a second home for retirement. This robust insurance shield acts as a bulwark against a spectrum of potential risks, extending far beyond mere structural damage. It encompasses the safeguarding of personal belongings and protection against liability issues, fortifying the overall resilience of your investment.

The dynamic nature of life necessitates a proactive approach to insurance. Regularly reviewing coverage is a strategic measure, so it not only remains sufficient for current circumstances but also stays abreast of any property upgrades or shifts in personal situations. This foresight is invaluable, providing adaptability to changes in the insurance market and fostering a continuous state of comprehensive protection.

Before purchasing your second home

Second homes in retirement offer a unique blend of adventure and stability. Careful consideration of location, wealth planning and understanding the importance of property insurance helps align your investment and lifestyle goals. When redefining notions of leisure

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and exploring new possibilities, the second home option emerges as a compelling avenue for creating lasting memories and securing a comfortable and fulfilling retirement. By navigating the allure and considerations of second homes, retirees can embark on a journey that blends the excitement of adventure with the tranquility of a well-planned retirement.

While doing research and before signing a purchase agreement, explore the resources available from RBC Wealth Management, including these online articles:

- www.rbcwealthmanagement.com/en-us/insights/where-will-you-live-in-retirement
- www.rbcwealthmanagement.com/en-us/insights/tips-for-snowbirds-heading-south-for-the-winter

As with any major financial investment or wealth planning decision, contact your financial advisor for guidance and support.

Navigating climate and natural disaster risks

With more climate-driven disasters, location and planning are more important than ever when considering a second home purchase. In states that are at the frontlines of climate-driven change, insurance is becoming harder to come by and the expense of coverage is becoming more difficult to bear.

Climate preferences

Understanding average temperatures, evaluating personal tolerance for extremes and researching climate resilience are key factors to consider. When choosing a location for retirement, it's imperative to recognize that climate-related risks can have financial implications, influencing property maintenance costs and shaping the trajectory of long-term insurance needs. The assessment of climate preferences becomes an integral part of the decision-making process. But delve into more than just average temperatures, consider your tolerance for extremes and research the climate resilience in the areas of top consideration. Details matter in your second home decision to achieve your wealth planning and legacy goals.

Natural disaster risks

Natural disasters are not something you can plan for but taking a proactive approach to natural disaster risks is essential when it comes to preserving your second home space. Go beyond just acknowledging the possibility of natural disasters; take a meticulous exploration of historical disaster data, a detailed assessment of property-specific risks, and a strategic consideration of measures to fortify the long-term investment against those risks. By navigating these intricacies with foresight and diligence, homeowners can not only protect their property from unforeseen events but also lay the groundwork for a resilient and secure investment in the face of evolving environmental challenges.

Tax considerate planning may pay off during volatile markets

Market swings are not new, but what are investors to do differently during volatile markets? Several options may be considered with your financial advisor, including Roth IRA conversions, tax loss harvesting, charitable giving, as well as other gifting.

Consider a Roth IRA conversion

With a Roth IRA conversion, you convert some or all of your money in a traditional IRA into a Roth IRA and owe income taxes on any funds you convert. A down market could be a good time to consider a Roth IRA conversion or partial conversion, because when your IRA's value is lower, the tax liability of a Roth conversion would be reduced. Once converted, your assets grow tax free and your withdrawals in retirement are also tax free as long as you have had the Roth for five years and you are older than 59½. Your financial advisor can help you assess if this strategy is right for you and your situation.

Look into tax loss harvesting

Tax loss harvesting is a strategy where you can sell investments like stocks, bonds, mutual funds and exchange-traded funds at a loss during market downturns to offset having to pay taxes on capital gains realized from profits from other assets. Be sure to work with your financial advisor in strategizing this opportunity, as you'll probably want to replace any assets you sell with similar assets to maintain a balanced portfolio. You will need to be careful not to buy the same asset to help you avoid violation of the IRS wash-sale rule.

Charitable giving to the rescue

If you're over the age of 70½, charitable giving through your IRA is an option. And if you're over the age of 73 where required minimum distributions (RMD) are required, a Qualified Charitable Donation (QCD) to a qualified charity may provide you with a triple win.

1. You fulfill your RMD requirements (up to $100,000) for the year.
2. You reduce your taxable income by the amount of your QCD.
3. You support the causes that you hold close to your heart.

Note, you are not allowed to take the charitable deduction for the donation on your taxes. Consult with your tax advisor to determine if this strategy would benefit your tax situation.

Estate planning and gifting

Be aware of the upcoming expiration for many of the favorable estate tax provisions enacted by the 2017 Tax Cuts and Jobs Act. The estate and gift tax exemption this year for an individual is $13.61 million for lifetime gifts made, or bequests made by someone passing away, but is scheduled to revert to an expected $6.8 million for individuals in 2026. Planning for the sunset of those provisions may significantly help your family.

Giving assets to friends and family can help reduce your estate taxes but requires strategy to determine the best approach. For example, this year you can give any number of people up to $18,000 each (or $36,000 for a married couple combining gifts). Assuming you do not need the assets for your life expenses, this is an option for reducing your estate value prior to the 2026 sunset.

Work with your financial advisor to create a strategy that reflects your risk tolerance, time horizon and financial goals, allowing you to make relevant adjustments over time as the markets fluctuate.

Studying college tuition costs

Even with college tuition inflation slowing in recent years, college education costs continue to be a big-ticket item.

The average costs for one academic year for college tuition and fees, room and board, plus some other expenses such as books, was $60,420 at a four-year private institution and $28,840 at a four-year public, in-state school in 2023–2024.* That's $241,680 to attend private college full-time for four years or $115,360 at a state-subsidized college or university, based on the College Board's most recent Trends in College Pricing and Student Aid 2023.

Of course, the overall cost for college depends on many variables, ranging from school type and location to full- or part-time study, program of study and any degree changes, if a study-abroad or domestic study-away program is part of the plan, as well as whether it takes four years or more to attain the desired degree or degrees.

Like with any financial investment, planning ahead is critically important. Advance planning is especially key to help avoid joining the ranks of student debt holders. The outstanding U.S. federal loan balance was $1.62 trillion—24% of which was held by borrowers age 50+, according to the College Board's 2022 report.

So, whether you are looking to earn a degree in the near future or you are planning far ahead for the educational pursuits of children or grandchildren—born already or not—your financial advisor is a good place to start.

They can help you wade through the many options available to meet your funding needs. Some of the tools to help with educational expense planning, include:

- **The development of an integrated plan, such as the RBC WealthPlan**
- **Savings accounts like the RBC Cash Management Account**
- **Custodial accounts like the commonly known 529 savings plan**

Utilizing a 529 plan for education is an option that's not subject to U.S. federal tax when used for qualified expenses. Also, under the SECURE 2.0 Act Roth rollover provision, 529 plan owners may roll over funds not used for college tuition into IRA accounts for retirement.

Scholarships, grants and financial aid programs are funding options worthy of exploration as well, but they are not guaranteed and they are based on various criteria and have separate application processes.

Some individuals and families find educational consultants helpful in navigating the college preparation, application and admission processes. For client ease and a value-add, RBC Wealth Management has established a relationship with third-party vendors who offer educational consulting. Your financial advisor can provide additional information and a referral to receive the discounted rate.

So regardless of whether the dream is to study AI, obtain an MBA or become a doctor, your financial advisor is prepared to work with you, an educational consultant or other professionals, to help you and your loved ones achieve goals and fulfill dreams.

*Costs shown are average estimated (enrollment-weighted) for full-time undergraduate. Source: Trends in College Pricing and Student Aid 2023, New York: College Board. © 2023 College Board.

Incorporating transition and carbon investing into your portfolio

The sector of transition investing is rapidly growing with many innovative solutions. Businesses working to transition to net zero are preparing and adapting for future policy, legal and regulatory regimes, evolving consumer preferences, new technologies, etc.

Those who can quickly adapt and navigate the evolving global landscape of the climate transition theme will be more likely to capture market share and maintain a competitive and investable advantage.

Transition investing

In the simplest terms, transition investing provides financing to support progress toward net zero or removing the creation of greenhouse gases. Instead of removing support through divestment, transition investing covers investments in high-emitting and hard-to-abate sectors (i.e., steel and concrete) that require substantial financing to implement their climate strategies and lower emissions.

Net zero

Net zero means cutting greenhouse gas (GHG) emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere by oceans and forests. It is about achieving a balance between the GHG emissions produced by human activity and those removed from the atmosphere. The path to net-zero investing means supporting companies with ambitious carbon reduction goals and compensating for remaining emissions that cannot be mitigated using carbon removal technologies.

Carbon investing

Carbon markets are a growing sector where emissions credits are purchased and sold and derivatives are traded. Carbon credits are a commoditized product that permits companies to legally emit greenhouse gas—at the rate of one ton of CO2 or GHG per credit. The credits enable carbon to be tracked and traded like any other commodity. Ultimately, the carbon markets incentivize companies to reduce their GHG emissions in two ways: they must spend money on extra credits if their emissions exceed their allowance or they can make money by reducing their emissions and selling their excess credits.

TCFD

The Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board (FSB), has developed a framework to help public companies and other organizations more effectively disclose climate-related risks and opportunities through their existing reporting processes. TCFD focuses on the main categories of governance, strategy, risk management, metrics and targets.

ISSB

The International Sustainability Standards Board is responsible for developing sustainability disclosure standards to provide a

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truly global baseline of sustainability disclosures to further inform economic and investment decisions. The better information investors have, the better investors can act in supporting economic and investment decision-making.

RBC climate blueprint

RBC lays out its climate strategy in the RBC Climate Blueprint, which shares some of the important ways that the organization is making progress and taking action through four key areas of focus:

1. Help clients as they transition to net zero: Aiming to empower clients on their journeys with solutions, products and advice.
2. Holding RBC accountable: Setting goals and targets and measuring progress to help keep on track. RBC has committed to achieving net-zero emissions in its lending by 2050.
3. Inform and inspire a sustainable future: Action starts with knowledge. RBC shares insights and ideas to help communities, governments and organizations build better solutions.
4. Advance net-zero leadership in RBC operations: Committed to reducing RBC's global emissions by 70% and sourcing 100% of electricity use from renewable and non-emitting sources by 2025.

Investors—both institutional and retail—are increasingly aware of the role they can play in the transition and the integration of environmental, social and governance (ESG) data into portfolios through responsible investment.

For information about RBC's commitment to reach net zero by 2050, ask your financial advisor for RBC's Climate Report 2022 and Net-Zero Report.

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