

# THE Rational Optimist™

## The SECURE Act: What You Need to Know

BY JEFFREY JANSON, CFP®, AIFA®, SENIOR WEALTH ADVISOR



On Friday, December 20th, 2019, the Setting Every Community Up for Retirement Enhancement Act, aka the “SECURE Act,” was passed into law by Congress, tied to crucial legislation needed to keep the government funded and open.

It was the most impactful piece of retirement legislation passed in the last ten years, and the implications of the Act are just now being parsed, interpreted, and understood by the financial services industry.

While the SECURE Act has instituted some far-reaching changes, we want to make you aware of some of the provisions of the Act and how they may affect you. So, what follows is by no means an exhaustive list; instead, these are just a few of the changes that may commonly affect our clients.

### *Required Minimum Distributions (RMD's) will now begin at age 72; not age 70½*

To clarify, if you have turned age 70½ *before* December 31st, of 2019, you will still need to take your RMD (no later than April 1st, 2020). Only those turning 70½ *within* the calendar year of 2020 or after may elect to wait until age 72 before beginning their RMD's. If this is confusing, your wealth advisor can help determine if and how you will be affected by this new law.

### *You may now contribute to your Traditional IRA after age 70½*

This new law applies to those taxpayers who have *earned income*, and the normal IRA funding limits, \$7,000 for those aged 70 and above, still apply. Of particular note, this only applies to IRA contributions associated with the 2020 tax year and beyond.

In other words, if you are over 70½, you cannot make an IRA contribution for the calendar year of 2019. However, for those

who choose to work post-age 70, this new law allows additional tax-favored savings toward retirement and the tax break that goes with it.

### *Inherited Retirement Accounts*

This new legislation closes a tax loophole used by affluent investors to extend the tax advantages of their IRA across multiple generations of their families by effectively killing the “Stretch IRA” concept. A Stretch IRA was an estate planning strategy that extended the tax-deferred status of an Inherited IRA upon its passing to a *non-spouse* beneficiary.

The stretch strategy enabled an IRA to pass from generation to generation. At the same time, beneficiaries enjoyed the compounding effect of tax-deferred and tax-free growth, all the while only being reduced by the small Required Minimum Distribution (RMD) amount.

The SECURE Act now restricts the amount of time over which distributions must payout to individual beneficiaries to no more than ten years in duration. However, there are still exceptions for spouses, disabled individuals, and individuals not more than ten years younger than the IRA owner.

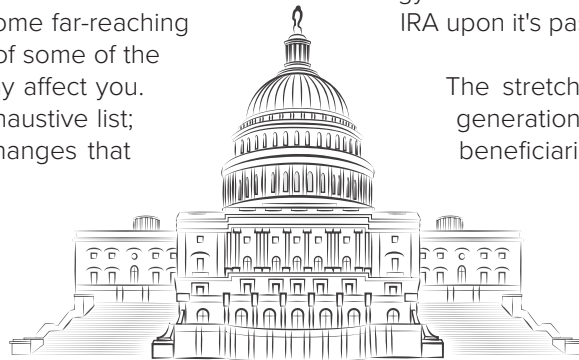
### *Expenses for Birth or Adoption*

The SECURE Act now allows for penalty-free (not tax-free) withdrawals from qualified retirement plans for birth or adoption costs, up to \$5,000. Though not required, it may be re-paid back into the account within a still yet-to-be-determined timeframe.

### *Changes to Company-Sponsored Retirement Plans*

Long-term part-time employees will now be allowed to participate in their company's 401(k), after one year of service and 1,000 hours worked or three years of service with at least 500 hours

*Continued on page 7*



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# IPO: A Go or A No for 2020?

BY JASON PRINT, CFP®, CO-PRESIDENT & CEO



Is Direct Listing a new way for companies to go public? Could there be a change from the old school way of having one of the major investment banks provide the distribution platform?

Recently, two high profile companies have decided to go public the untraditional way, and in a surprise to many, the result was a rather smooth process. Could this be the wave of the future?

In April of 2018, Spotify Technology S.A. (SPOT) went public via a direct listing, and we saw early institutional investors take huge positions on day one. This past spring, Slack Technologies (WORK) went public via a direct listing as well.

While the stock did dip lower in price from its first day of trading, Slack surprised investors and market makers alike by opening with formidable trading volume.

The process has been rather smooth, leading many to question whether this method will be used more often by companies in the future.

## *An overview of the process of direct listing vs. traditional IPO:*

In a traditional initial public offering (IPO), new shares are created, underwritten, and sold to the public; in a direct listing, no new shares are created, and only existing, outstanding shares are sold with no underwriters involved.

The more traditional method for decades has been to choose one or a few of the well-known Investment Banks as an intermediary to essentially create new shares of the company and act as an intermediary.

The underwriter works closely with the company throughout the IPO process, including deciding the initial offer price of the shares, helping with regulatory requirements, sometimes buying the available shares from the company, and then selling them to investors via their distribution networks.

The Investment Banks will round up interest and call on their network of

pension funds, mutual funds, and large institutions to gather attention and purchase large blocks of stock.

Before the IPO, the company and its underwriter partake in what's known as a "roadshow." In this scenario, the top executives present to institutional investors to drum up interest in purchasing the soon-to-be public stock.



Gauging the interest received from network participants helps the underwriters set a realistic IPO price of the stock. Underwriters may also provide a guarantee of sale for a specified number of stocks at the initial price and may even purchase anything in excess.

Underwriters charge a fee per share, which may range anywhere from 2% to 8%. This charge means that a notable portion of the capital raised through the IPO goes to compensate intermediaries, sometimes totaling in the hundreds of millions per IPO.

## *The direct listing process is quite different:*

Companies may choose a direct listing strategy for a few reasons. They may not have the resources to pay underwriters, may not want to dilute existing shares by creating new ones or may want to avoid lockup agreements.

The zero- to low-cost advantage also comes with certain risks for the company, which also trickle down to investors. There is no support or guarantee for the share sale, promotions, or intermediary to help if things go off track.

Slack is a workplace-oriented app designed to ease communication through chat channels, akin to large group

messaging. The company hopes to appeal to a variety of companies and replace email as a primary source of communication.

The CEO Stewart Butterfield stated they didn't need to raise capital, and therefore a direct listing made good sense for their situation. The insiders were comfortable with the sale of only a few percent of the company in its first days of trading. They were looking to bypass the closed-door process of raising capital from private investors.

Some of the big IPO's this past year that have gone the more traditional route, such as Uber and Lyft, have not exactly gone well from a pricing standpoint.

Spotify and Slack have defied the conventional critique that direct listings lead to volatility spikes as the intermediary smooths out the buyers and sellers to accurately determine the actual value.

A company that may not need capital can afford to sell small pieces over time or have an attractive recognizable brand name could be a great candidate for a direct listing. Today's technology and social media make a direct listing easier than ever.

Since some IPO's struggled in 2019, such as UBER and LYFT, while other direct listings have been more successful, it will be interesting to see which paths more firms take in 2020. A likely candidate for direct listing in 2020 is Airbnb; it certainly has the brand and household recognition.

Best Regards,



<https://fortune.com/2019/09/26/what-is-a-direct-listing-vc-ipo/>  
<https://www.cnbc.com/2019/08/22/goodbye-ipo-hello-direct-listing.html>  
<https://www.businessinsider.com/the-difference-between-a-direct-listing-and-an-ipo-2019-6>  
<https://www.cnn.com/2019/06/19/tech/slack-ipo-direct-listing/index.html>

# The Most Unpredictable Retirement Expense

## Part One: Understanding the Risk

BY ANDREW DICKENS, DIRECTOR OF PENSION SERVICES & WEALTH ADVISOR



As financial planners, our goal is to help you create a living guide for asset management, investment risk, cash flow, and estates to last for generations to come. Life happens, and circumstances will change. Our goal is to help you adapt and manage the changes and even the unforeseen events in life.

One unpredictable and unforeseen circumstance that our clients are faced with is booming health care costs. This topic poses concern for many of the individuals we work with. What takes precedence is our role in navigating clients and their loved ones through any health-challenging times in their life, helping them smooth the course with reassurance and ease.

As an aviator, we implement three different methods to identify, assess, and mitigate risk in our circumstances and actions. I'm going to use a risk matrix to we commonly use in aviation to initially identify risk in operations before we even get off the ground.



Likelihood	Severity			
	Catastrophic	Critical	Marginal	Negligible
Probable	High	High	Serious	Medium
Likely	High	Serious	Medium	Low
Remote	Serious	Medium	Low	Low
Improbable	Low	Low	Low	Low

Using this matrix, the financial risk we'll define is "significant health care expenses." What is "significant?" Let's compare two different scenarios: a future, one-time medical expense of \$150,000, and spending \$50,000 annually, for the duration of six years (totaling \$300,000).

We need to determine the likelihood of a significant health care expense in our lifetime. Individual situations will vary, but some factors to consider include:

- ▶ A person's overall health
- ▶ Family Medical History
- ▶ Risky Hobbies
- ▶ Statistics
- ▶ Bad Luck

Now obviously there is some guesswork involved here, and while we don't generally expect some tragic medical event to befall us, the experience should convey the slim likelihood that we'll all be lucky enough to pass away in our sleep before ending up in a hospital or nursing home beforehand. And while each person's personal medical and family history is different, the statistics are not.

In decreasing order of likelihood, we will use "probable," "likely," "remote," and "improbable." For severity, in decreasing order,

we will use "catastrophic," "critical," "marginal," and "negligible."

Let's consider the seriousness of the event and its impact on the financial plan, since we've codified a dollar amount to two different comparisons based off the following:

- ▶ Event Timing
- ▶ Current medical insurance coverage, including Medicare and Medigap
- ▶ Current Long Term care insurance coverage
- ▶ Resources

A younger client may not have the financial resources or insurance coverage to manage any significant event. In contrast, an older, retired couple with resources may be better equipped to manage it. Having the proper insurances in place can reduce the impact of potential expenses.

For some people, the events described above still wouldn't significantly impact their overall financial well-being, but for others, either event could create catastrophic impacts.

Once we've identified the likelihood and severity, it's time to use our risk matrix to assess the risk level. This allows us to prioritize planning to mitigate that risk.

This matrix is the same chart we use in risk analysis for any pre-flight issues. As you can see, the event in question can pose anything from a high, severe, medium, and low risk.

While we do our best to address different aspects of retirement risk, sometimes it helps if we work through an exercise like this with you. If you have questions about health care risks in your plan, let us know. We have planning tools, questionnaires, cost maps, and other resources we can use to make sure we have the proper insurance in place and assets set aside in case of an unexpected health care event.

In part two, I'll discuss planning techniques used to mitigate health care expense risks in retirement

Regards,

# The Scales of Purchasing Decisions

BY CHAD WARRICK, CO-PRESIDENT & CEO



Each day we, as consumers, make purchasing decisions. Many of which are recurring or monotonous in nature – such as household bills, groceries, gas, or dinner at our go-to place.

Then, we have the less frequent, large purchases which typically require more planning. Purchases, such as a new car, home, RV, motorcycle, or second home, are worth planning for, considering their longevity of use and the fact that there is more at stake.



The word “planning” doesn’t necessarily imply a long-time horizon. However, it should include the consideration of a few things.

**1 Value:** At a very fundamental level, our first consideration is, “Does this purchase provide a sufficient amount of value in exchange for my money?” This analysis is, of course, subjective, based on your need, what you gain from the purchase, and how much you’re willing to pay. I find that my planning conversations with clients typically take place after they have answered “yes” to this question. We quickly move on to the next consideration.

**2 Funding:** Our second consideration is, “How do I want to pay for this purchase?” Naturally, conservative buyers are inclined to avoid

losses more so than to seek gains. We see this inclination highlighted when we discuss the option of financing a large purchase, under circumstances where the buyer can pay cash.

At first glance, it may seem more appealing to avoid the cost of loan expenses and interest by funding the purchase with cash. However, we may consider absorbing loan expenses and interest if that amount is only a fraction of the potential return on our invested assets.

Financing versus paying in cash is not a debate we can resolve with one universal answer—however, we should evaluate the projected net return for each scenario. Depending on individual circumstances, one approach may favor the other. We can quickly assess opportunity costs with just a few pieces of information to help you efficiently plan for large purchases.

**3 Timing:** Once we have determined that the purchase is worth making, and we know how we will fund the purchase, we should also consider: “Is the timing right?” This question is a valid concern.

First, if we are liquidating assets to pay for the purchase, we may want to take advantage and liquidate at a time where your account has produced favorable returns, even if it is well in advance of the purchase time frame.

This strategy reduces the risk of having to liquidate after a market selloff, mainly if we are concerned about the potential loss we would subsequently realize.

On the other hand, if your tax circumstances could benefit from capital

losses to offset anticipated gains – then, perhaps we would want to liquidate at that time to fund a future purchase.

The time of year in which you negotiate price could result in a higher likelihood of price reduction. Lastly, we would also want to consider taking a distribution from an Individual Retirement Account if you are at an age where a minimum distribution is required.

We can also apply the consideration of funding to the opportunity cost analysis of debt payoff versus savings accumulation. One compartmentalized angle of this debate is that we should prioritize debt payoff before savings accumulation can begin.

However, allocating all surplus resources to debt management dismisses the opportunity of absorbing potential gains, through the power of compounding interest. Let’s take a look at a hypothetical scenario:

***A young adult, today, carrying a student loan balance of \$40,000, car loan balance of \$28,000, and credit card balances of \$12,000, with a surplus budget of \$1,500 per month which he is deciding whether to allocate to a savings account or towards accelerating debt payoff.***

Here are a few snapshots of where he stands throughout the next ten years, under the two scenarios :

*Continued on page 6*



*As a value-added service to you, please feel free to tell your family, friends and colleagues that they may use us as a sounding board for their financial concerns free of charge and without obligation.*

# Bunching Deductions and DAFs

BY KRISTIANA DANIELS, CFP®, SENIOR RELATIONSHIP MANAGER



The year 2018 was the first year with the Tax Cuts and Jobs Act tax rules in action. The results of these new tax rules were impactful for many households, especially when considering the deductions – standard vs. itemized. Fewer people itemized deductions in 2018.

With a standard deduction of \$24,000 for a married couple, many people are finding themselves not itemizing their deductions. These new rules have the potential to change your tax planning in a few different ways.

It is essential to be as thoughtful as possible with the deductions that qualify as itemized deductions (such as charitable gifts) so that we can make sure you get the biggest bang for your buck.

**\* This bunching strategy of alternating between the standard deduction one year and itemizing the next, is designed to maximize the total tax deductions taken over a rolling 2-year period.**

One approach that is helpful for many people that have itemized deductions that are often close to the standard deduction is the tax planning strategy of Bunching Deductions. When utilizing this strategy, we consider and plan your tax situation two years at a time.



In one year, we pay and take as many itemized deductions as possible. In contrast, in the subsequent year, we choose to take the standard deduction, thus maximizing the allowable itemized deduction number for your benefit. This bunching strategy of alternating between

the standard deduction one year and itemizing the next, is designed to maximize the total tax deductions taken over a rolling 2-year period.

Here are a few common deductions that we can consider when planning to bunch deductions:

► **Medical Expenses** – We realize that most medical expenses are unplanned, however, if you have been putting off expensive prescription purchases or elective surgery, it would

be wise to try and group those items into the same year. As a reminder, the total of your medical expenses that you can deduct is the amount over 10% of your AGI for 2020.

► **Property Taxes** – If you have the tax bill in hand, you can pay next year's taxes before the end of the year. In this case, you would be able to claim that amount as a deduction for the current tax year. Note that the cap for the deduction allowed for state and local taxes is \$10,000.

► **Charitable Contributions** – This may be the most advantageous way to bunch your deductions. If you regularly give to a charity, it would be most beneficial to give all your donations in one year. The most common objection we hear to this strategy is that you want the charity to receive your gift each month as usual. We have good news for you – you may be interested in a Donor Advised Fund (DAF).

A DAF is an account that you can donate your appreciated assets to all in one year. This account will hold your funds until you decide to grant a specific amount to a charity, allowing you to take the deduction for the charitable gift in the year that the gift of appreciated assets was made.

It still enables you to give funds monthly (or at your discretion) to the charities of your choice. The charity will never know the difference in your gifting strategy, but you will be able to utilize your deductions as efficiently as possible.

By bunching your deductions, we would designate a year to itemize and a year to standardize your deductions. By assigning a tax purpose to each year, we can tax plan to position you as best as possible to take advantage of all the tax relief within the current tax code.

We are always looking for effective strategies to implement within your financial plan to achieve your goals. Give us a call to discuss the details of tax planning within your financial plan.

Best Regards,

*Kristiana*

**Let us know how we can help.  
Thank you for your TRUST and CONFIDENCE.**

worked per year. Under the old rules, many part-timers were excluded from participating in the 401(k) entirely.

For companies that offer a 401(k), and encourage their employees to save in it via automatic enrollment, the safe harbor maximum percentage at which they can start their employee's deferral has increased from 10% up to 15%.

The company can now also receive a tax credit if they offer auto-enrollment to their employees, thus incentivizing the employer to help their employees save for their retirement.

As you can imagine, having all of these provisions (and many more not listed here!) become law close to the end of 2019 has caused all the custodians (Schwab, TD Ameritrade, and Fidelity) to scramble. Custodians are working hard to update their staff knowledge and software and to accommodate and track all of these new changes to the law.

We will plan to discuss any specific provisions of this tax law change that may personally affect you sometime this year during our regular meeting(s) with you in 2020. In the meantime, if you have any questions regarding the new law before then, please feel free to reach out directly to your Summit wealth advisor. We are happy to assist you!

Regards,



**Our Offices Will be Closed on  
Monday, February 17th  
for President's Day**

### ► Scenario 1 - **Minimum Payments & Saving:**

- January 2022: debt has reduced slightly, savings balance is about \$40k
- December 2024: debt has decreased significantly, savings balance is about \$110k
- November 2030: All debt has been paid off, savings balance is about \$354k

### ► Scenario 2 - **Snowball Debt Payoff then Saving:**

- January 2022: Car loan and credit cards are paid off, savings balance is \$0
- December 2024: All debt has been paid off, savings balance is about \$70k
- November 2030: All debt has been paid off, savings balance is about \$334k

Under Scenario 1, by the end of 10 years, the net difference is about \$20k more in savings. This scenario also reaches a substantial saving balance early on – whereas savings do not begin until late 2022 under Scenario 2.

All in all, personal finance truly is at personal as it comes. The planning strategy we recommend for you is likely not going to work for many other people – this is why we encourage personalized discussions surrounding your cash flow planning.

We are also happy to serve as a sounding board to your family and friends – if you find they would benefit from an opportunity cost analysis.

Be Well,



## Qualified Charitable Distributions (QCDs) on Your Tax Return

The past several years of our Rational Optimist Newsletter has had several featured articles showcasing the charitable gifting strategy known as a Qualified Charitable Distributions (QCDs). This strategy allows those who are subject to RMD's to make charitable gifts directly from their Individual Retirement Account (IRA) to help satisfy their Required Minimum Distribution.

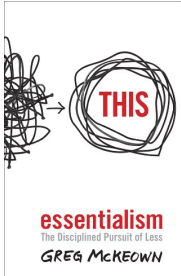
If you implemented this strategy, it is important to make sure that it is reported accurately on your tax return. QCDs are reported as a normal distribution on IRS Form 1099-R for any non-Inherited IRAs. In other words, the Form 1099-R will NOT make any mention of your QCDs. Please tell your tax preparer the amount of IRA distributions that were QCDs. This will allow him or her to mark the appropriate amount as non-taxable on your return. For Inherited IRAs, it is also your responsibility to tell your tax preparer the amount of IRA distributions that were QCDs. The QCD will be reported as a taxable distribution.

As always please do not hesitate to reach out with any questions or concerns.

# SUMMIT SPOTLIGHT

A LOOK INTO THE LIVES OF THE SUMMIT TEAM

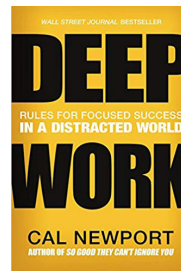
## Productivity BOOKS TO READ IN 2020:



### Essentialism: The Disciplined Pursuit of Less

by Greg McKeown

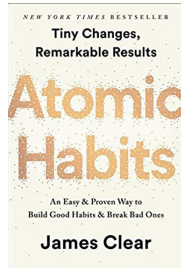
The Way of the Essentialist isn't about getting more done in less time. It's about getting only the right things done. It is not a time management strategy, or a productivity technique. It is a systematic discipline for discerning what is absolutely essential, then eliminating everything that is not, so we can make the highest possible contribution towards the things that really matter. Essentialism is not one more thing—it's a whole new way of doing everything.



### Deep Work: Rules for Focused Success in a Distracted World

by Cal Newport

Deep work is the ability to focus without distraction on a cognitively demanding task. It's a skill that allows you to quickly master complicated information and produce better results in less time. Deep work will make you better at what you do and provide the sense of true fulfillment that comes from craftsmanship. Most people have lost the ability to go deep—spending their days instead in a frantic blur of e-mail and social media, not even realizing there's a better way.



### Atomic Habits: An Easy & Proven Way to Build Good Habits & Break Bad Ones

by James Clear

A proven framework for improving—every day. Clear reveals practical strategies that will teach you exactly how to form good habits, break bad ones, and master the tiny behaviors that lead to remarkable results. Reshape the way you think about progress and success, and give yourself the tools and strategies you need to transform your habits—whether you are a team looking to win a championship, an organization hoping to redefine an industry, or simply an individual who wishes to quit smoking, lose weight, reduce stress, or achieve any other goal.



### The ONE Thing: The Surprisingly Simple Truth Behind Extraordinary Results

by Gary Keller and Jay Papasan

By focusing their energy on one thing at a time people are living more rewarding lives by building their careers, strengthening their finances, losing weight and getting in shape, deepening their faith, and nurturing stronger marriages and personal relationships. You'll learn to cut through the clutter, achieve better results in less time, build momentum toward your goal, dial down the stress, overcome that overwhelmed feeling, revive your energy, stay on track, master what matters to you. The ONE Thing delivers extraordinary results in every area of your life—work, personal, family, and spiritual. WHAT'S YOUR ONE THING?

Covers & Summaries: Amazon.com

## What's New In Your Life?

Changes in your job? Family? Finances?  
Get 2020 Clarity with your  
Summit Financial Plan



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