

The Monthly Monitor

January 1, 2020
Volume 2 Issue 1

WERNICK SPEAR WEALTH MANAGERS
3401 Enterprise Parkway, Suite 220
Beachwood, OH 44122
216.282.3378
www.wswealthmanagers.com

INSIDE THIS ISSUE

1. SECURE Act
2. Mutual Fund
Cost Basis 101
3. Important 1099 Tax
Information
4. Stay Tuned!
5. Get to Know Autumn
6. As Always....



SECURE Act & Tax Extenders Creates Retirement Planning Opportunities & Challenges

In the context of financial advisors and the clients they serve, the first, and probably most notable change resulting from the SECURE Act, is the elimination of the so-called “stretch” provision for most (but not all) non-spouse beneficiaries of inherited IRAs and other retirement accounts. Under current law, non-spouse designated beneficiaries can take distributions over their life expectancy, but for many retirement account owners who pass away in 2020 and beyond, beneficiaries will have ‘only’ 10 years to empty the account. On the one hand, without any other distribution requirements within those 10 years, designated beneficiaries will have some flexibility around the timing of those distributions; however, certain types of “see-through” trusts that have been drafted to serve as beneficiaries of retirement accounts may find that they’re no longer able to make annual distributions to the trust under the new rules (only to suddenly have both the IRA and trust forcibly liquidated at the end of the 10-year window).

...Continued on Page 2...

SECURE Act & Tax Extenders Continued

Other notable retirement planning changes under the SECURE Act include lifting the restriction on making contributions to a traditional IRA after age 70 ½ (as long as there is earned income to contribute in the first place), and an age increase for the onset of RMDs from age 70 ½ to age 72. However, as was the case with the IRS's recent proposal to update the RMD life-expectancy tables, since only about 20% of retirees take no more than only the amount that they're actually required to take, any changes in the rules around RMDs will have little effect on the remaining 80% who are already withdrawing more out of their accounts than the IRS requires. In addition, the SECURE Act does *not* change the age at which an individual can make a Qualified Charitable Distribution from their IRA, which remains at age 70 ½ and now creates a unique 1- or 2-year window where IRA distributions may qualify as charitable contributions, but *not* as RMDs (that haven't yet begun).

Beyond the changing or elimination of various age-based thresholds for retirement accounts, the SECURE Act also includes an allowance for a penalty-free distribution up to \$5,000 for a qualified birth or adoption, the creation of a Fiduciary Safe Harbor for selecting a "Lifetime Income Provider" (i.e., annuity company) for ERISA fiduciaries (thus assuaging at least some liability concerns around using lifetime income annuities in qualified plans), a substantial increase in the tax credit available to small businesses when establishing a retirement plan (as well as a brand new tax credit for small businesses that adopt an "auto-enroll" provision in their retirement plans), an increase in the allowable auto-enrollment "default" 401(k) plan contribution, improved access to employer plans for long-term part-time workers, and a significant reduction in the barriers to creating and maintaining Multiple Employer Retirement plans (which in theory will help to create economies of scale for lower plan costs when a group of small employers band together to provide a retirement plan)... as well as several other miscellaneous, smaller retirement provision changes.

Other notable non-retirement provisions attached to the SECURE Act include a repeal of the TCJA-introduced Kiddie Tax changes (reverting *away* from a requirement to use trust tax brackets and *back* to using the parents' top marginal tax bracket), adjustments to the medical expense deduction threshold (back to 7.5%-of-AGI again for 2019 and 2020!), expanded provisions for 529 college savings plans to be used for Apprenticeships and (up-to-\$10,000 of) student loan repayments, and a series of Tax Extenders for the mortgage insurance premium deduction and the higher education tuition and fees deduction.

Ultimately, the key point is that, although not nearly as sweeping as the Tax Cuts and Jobs Act of 2017, the SECURE Act of 2019 makes numerous updates to the rules around retirement plans in an effort to increase access to employer-sponsored retirement plans, and (hopefully) takes a positive step towards addressing the so-called retirement crisis. But as with other legislation in recent years, what legislation may give with one hand, it takes with the other, and in practice, many financial advisors may spend more time dealing with what is lost under the SECURE Act - in particular, the stretch IRA - than what is gained. At the very least, though, financial advisors will be busy in months ahead as they re-evaluate plans for clients impacted by the new and updated provisions introduced by the SECURE Act.

Mutual Fund Cost Basis 101

What does cost basis mean in mutual funds?

The cost basis of any investment is the original value of an asset adjusted for stock splits, dividends and capital distributions.

How do I calculate the average basis for the sale of mutual fund shares?

To figure your gain or loss using an average basis, you must have acquired the shares at various times and prices.

Example:

Mr. Jones initially makes a \$150,000 purchase of HFQIX (Janus Henderson Global Equity Income I) on May 18, 2016. While holding that position in his account, periodic dividends and capital gains are paid out and reinvested into the mutual fund. This is added to the original investment to determine the adjusted cost basis. Even though it appears as though Mr. Jones has lost approximately \$4,500 on the position, **he actually has a gain of \$44,500**. The adjusted cost basis is now \$194,507.26 for accounting purposes. This is relevant to mutual funds held in taxable accounts.

(Includes dividends and capital gains)

(Adjusted Cost Basis) →

Cost Basis	Date Acquired	Share Quantity	Cost per Share	Gain / Loss	Market Value
\$194,507.26	n/a	26,836.24	n/a	(\$4,506.78)	\$190,000.48
\$2,720.74	12/17/2019	387.57	\$7.02	\$23.25	\$2,743.99
\$2,923.05	9/30/2019	442.886	\$6.60	\$212.58	\$3,135.63
\$4,759.98	7/1/2019	713.64	\$6.67	\$292.59	\$5,052.57
\$2,470.40	4/1/2019	363.829	\$6.79	\$105.50	\$2,575.90
\$2,518.05	12/19/2018	397.796	\$6.33	\$298.34	\$2,816.39
\$2,707.60	10/1/2018	377.103	\$7.18	(\$37.72)	\$2,669.88
\$4,441.98	7/2/2018	613.533	\$7.24	(\$98.17)	\$4,343.81
\$2,339.71	4/2/2018	305.445	\$7.66	(\$177.16)	\$2,162.55
\$2,362.55	12/20/2017	297.926	\$7.93	(\$253.24)	\$2,109.31
\$2,552.63	10/2/2017	326.841	\$7.81	(\$238.60)	\$2,314.03
\$4,141.42	6/28/2017	545.642	\$7.59	(\$278.28)	\$3,863.14
\$2,166.72	3/29/2017	293.593	\$7.38	(\$88.09)	\$2,078.63
\$2,166.47	12/28/2016	305.567	\$7.09	(\$3.06)	\$2,163.41
\$2,391.50	9/28/2016	333.543	\$7.17	(\$30.02)	\$2,361.48
\$3,844.46	6/28/2016	583.378	\$6.59	\$285.85	\$4,130.31
\$150,000.00	5/18/2016	20,547.95	\$7.30		

↑
(Original Investment)

Important 1099 Tax Information

If you were a client with us at Wells Fargo Advisors, it is VERY likely that you will be receiving two 1099 and/or 1099-R tax documents (one from WFA, and one from Cambridge). You can expect these to be mailed out sometime between late January to late February. If you use an accountant for your taxes, you will need to forward both documents to them before tax filing. If you feel as though your WFA tax documents do not arrive within a reasonable time frame, please reach out to Wells Fargo Advisors directly at 1-800-727-0304. **Unfortunately, we do not have access to any tax information from WFA.**

Stay Tuned!

If you were able to attend our annual December event at Beechmont, we hope you enjoyed the evening's food, festivities, and of course, our keynote speaker, Mike Alexander. We are currently planning for an educational event in the Spring, so please stay tuned for more details to follow!

Get to Know Autumnn

- Favorite color: Lilac Purple
- Secret talent: Cake decorating
- Favorite vacation: Italy in 2015
- Childhood nickname: Noodle
- Number of siblings: 6
- First job: Student page at Westlake Porter Public Library
- Celebrity crush: Jake Gyllenhaal
- Favorite TV show: Grey's Anatomy
- Tucker, her hound-shepherd mix, will be celebrating his 6th birthday on January 31st!



As Always...

The highest compliment we can receive is your referral!



WERNICK SPEAR WEALTH MANAGERS
3401 Enterprise Parkway, Suite 220
Beachwood, OH 44122
216.282.3378
www.wswwealthmanagers.com