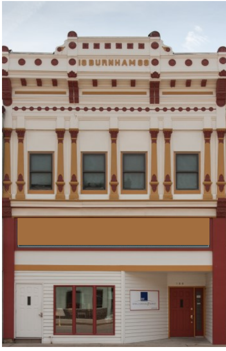


Our Quarterly Report

"For our own success to be real, it must contribute to the success of others."

Rewald, Sebranek, & Frawley An Independent Firm **July 2019**

SECURE Act & RESA

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed the House of Representatives at the end of May by a 417-3 vote. The bill now is at Congress awaiting their vote. At the same time though, the Senate Finance Committee has been working on a bill called The Retirement Enhancement and Savings Act (RESA). The aim of both bills are to improve the nation's retirement system. There's a high probability something will happen this year, but the final law will likely be a concoction of the two. Below are a handful of the major proposed changes we see and the main differences between the two bills.

Part-time Employees

- Current laws allow employers to exclude their part-time employees from eligibility for a 401k plan.
- SECURE Act, your employer must allow you to participate if you work at least 500 hours a year and have been at the employer for at least three consecutive years.

Required Minimum Distributions (also known as RMD)

- Current law requires that participants start withdrawing their retirement savings at age 70.5.
- SECURE Act increases the minimum distribution age to 72.
- RESA increases the minimum distribution age to 75.

IRA Contributions

- Current law does not allow a person over the age of 70.5 to contribute to a deductible IRA. However a person over the age of 70.5 could contribute to a Roth IRA.
- SECURE Act would repeal the age limitation for deductible IRA contributions.

Expand 529 Account Flexibility

- SECURE Act would allow individuals to use 529 money to pay for apprenticeships and qualified student loan repayment loans of up to $10,000.

Lifetime Stretch of Inherited Retirement Accounts

- Current law allows beneficiaries of an IRA, Roth IRA, or 401k to stretch the balance out of over the life expectancy of the heir.
- SECURE Act requires all inherited retirement accounts to be withdrawn within 10 years. The only exceptions are for surviving spouse or a minor child of the account owner.
- RESA allows a stretch on the first $400,000 of aggregated IRAs and the exceeding balance must be distributed within 5 years.

The two items we are following very closely are the raising of the 70.5 age limit for required minimum distributions and the restrictions placed on lifetime stretches of inherited retirement accounts. The latter will accelerate the depletion of inherited accounts and should be viewed as a tax generating provision. The potential tax burdens of faster distributions of inherited retirement accounts will increase the need for proper estate planning and potentially more strategic Roth conversions during the life of the account owner. As we learn more we will definitely share it with you. Please plan for it to be a topic of discussion in our year end reviews!

2019 Index Returns (Year-to-Date)

Major Stock Indices	(As of 6/30/2019)*	Major Bond Indices	(As of 6/30/2019)*
S&P 500	+18.54%	U.S. Aggregate Bond Index	+6.11%
Dow Jones Industrial Ave	+15.40%	U.S. High Yield Bond Index	+10.12%
MSCI EAFE	+14.03%	U.S. Treasury: 20+ Year	+11.14%
MSCI Emerging Markets	+9.22%	CPI—Headline	+1.80%

**Source: MSCI Net Returns, Barclays Capital*

Financial Planning with Terry

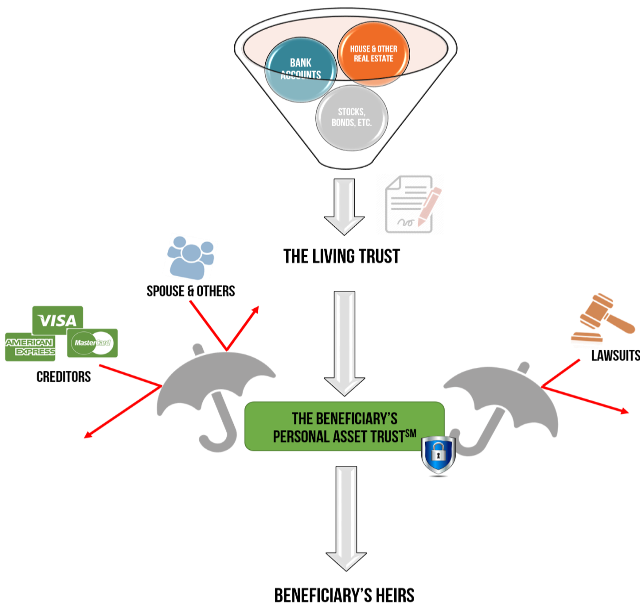
Terry Sebranek, Financial Advisor

Is a Personal Asset Trust Needed?

When we bring up the topic of estate planning and our group's preference for Personal Asset Trusts, it's not unusual for a client to state something like "My kids are in good marriages. Not on drugs or addicted to anything either. They are independent and earning more money than I ever did. Why then is a Personal Asset Trust needed?" A majority of the time the clients are spot on, and their kids are in great shape. However, our perspective is they are great TODAY, but what about five years from now or a couple decades?

I encouraged my parents as well as my in-laws to use Personal Asset Trusts within their estate plans for all their children, including Jenna and me. Are Jenna and I on the brink of divorce? Do we have creditor issues or close to filing bankruptcy? Do we have spending problems and our parents are trying to rule us from the grave? The answer to all of these is no and neither of our siblings are in these predicaments either.

My wife and I are both self-employed. There's a chance someday that we could get sued, whether it be a significant medical malpractice suit for Jenna or a financial mistake made in my business. By our inheritances being within a Personal Asset Trust, we could possibly lose everything of our own but our inheritances would be protected. Jenna's brother and sister-in-law own a very successful flooring and remodeling business. What happens if Jenna's brother has negligence on a handful of large projects that create millions of dollars of damages? He could lose his business but not his inheritance insulated by a Personal Asset Trust.



We had a client who couldn't see the merits of a Personal Asset Trust. He wanted to leave close to $1 million outright to each one of his three kids, all in their mid-late 50s, which by the way was far and above what each of them had saved independently on their own. We probed, "Let's say you pass away and each one of your kids receives $1 million. What would you like when they die?" The client commented "The money goes to the grandkids." We countered "Not so fast, according to Wisconsin law, the $1 million inheritance would go to his wife/your daughter-in-law." You could then see the wheels turning in the client's head. What if my daughter-in-law gets remarried? Will she have a prenup? What happens if the second spouse goes to a nursing home? What happens if the second spouse outlives my daughter-in-law, she might leave it all to him rather than my grandkids? Once the client was walked through this scenario, he was all onboard of using a Personal Asset Trust.

One way to consider a Personal Asset Trust is the similarity to YETI gear. YETI's have become quite popular with their ability to keep things insulated—whether freezing cold or boiling hot. If I had the option to choose between a regular cup or a YETI to hold my coffee, I could get by on either one but my preference would be the YETI. Not only is it better quality but offers more insulation to keep my drink warmer longer. There are times I get sidetracked and return an hour later and my coffee is just as warm as I left it, whereas if it was in a regular cup, I'd be dumping it down the drain and brewing another.

Who would not want the option to inherit within the YETI of estate planning, a Personal Asset Trust? Personal Asset Trusts insulate inheritances from the future unforeseen storms of life we can't even imagine lurking on the horizon—divorces, lawsuits, bankruptcies, second marriages, etc. It keeps family money in the family. It is by no means "one size fits all," but we encourage all parents to give their heirs the ability to use the insulation provided by a Personal Asset Trust. Should the heir find it unnecessary or burdensome, if they are their own trustee, they have the ability to take all of the assets out of their trust and commingle it with their own personal property. Yet with RSF being your advocate after you've passed from this world, we'd represent your values and educate your heirs on the great benefits of this wonderful tool.

Jesse & Joe's Dispatch

College Funding 101

As we write, your college student has moved back home for the summer or perhaps you are in the midst of sending your first off to college, however Jesse of our office has his eyes set on this fall and the approaching tuition, textbook and room/board expenses needing to be paid. Summer goes by so fast and before you know it, your college student is texting you saying "Here's my tuition bill. OBTW, it needs to be paid by the end of the week. Thanks!" It's already Wednesday night. Yes it does happen and trust us, you're not the only one.

When it comes to disbursements from 529 college savings plan, we recommend and prefer to have a two week heads up. This gives us breathing room for any paperwork needing to be signed as well as mail time. However we can handle and work with last second emergencies.

There are numerous ways to pay for college and each one is unique for each particular family—ranging from sending a check directly to the college to reimbursing a child's or parent's checking account for expenses already paid. Throw in tax credits like the American Opportunity or Lifetime Learning and how to coordinate those benefits with 529 withdrawals, there are a significant amount of moving parts.

Lastly, the Trump tax changes allow for up to $10,000 of 529 college savings plan money to be used for private K-12 tuition expenses. For those individuals who send their children or grandchildren to a Montessori grade school or perhaps a Catholic high school, we need to have a conversation to see if there are any overlooked benefits and possible advantages of using 529 money for K-12 education.

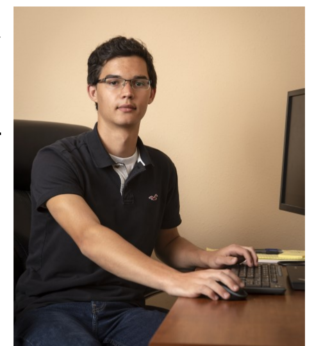
The Basics of What We Need

In order to provide the highest quality of service as general contractor of our client's financial plan, there are a handful of items that are extremely vital for us to have a copy of in our records. Here are the most vital:

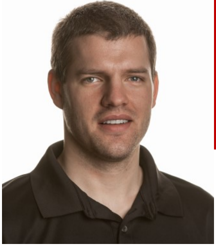
- Most recent income tax return
- Estate plan documents such as wills, trusts, power of attorneys, etc.
- Net worth statement showing values of outside assets and liabilities
    - Employer provided retirement plan (401k, 403b, SIMPLE, SEP, etc.)
    - Real estate
    - Mortgages
- Retirement income statements (pension, Social Security, etc.)
- Insurance coverage (life, disability, health, long term care, etc.)

For the rest of 2019, it is our goal and intention to wrap up any loose ends or hanging chads of planning documents we do not have readily accessible. This is on our radar and you may very well be on our list because you are missing one of the above. By RSF having this information, we can provide you higher quality service, better recommendations and more holistic financial planning.

Introducing Alex Levy



Alex joined us last fall as an intern three days a week after school and will be in office a few more hours this summer. In the fall he will begin his Junior year at Richland Center High School. Alex is active in National Honor Society and Student Council. In regards to the latter, Alex is in charge of organizing the homecoming parade and is on the building improvement committee. In his free time he loves to trout fish, deer hunt and spend time with his family—most especially his two younger brothers and grandparents. When it comes to school, Joel and Alex don't share quite the same philosophy. Joel's mantra is and was "C get degrees." When we asked Alex about failing, he quietly pondered for a moment and humbly confessed "I didn't study once and got an A– on a test." Alex is currently ranked second in his class with a 4.012 GPA.



Kaleb's Corner

Kaleb Frawley, Financial Advisor

Pension Crisis

The pension crisis facing many blue collar workers in America's heartland hasn't been well publicized nationally but it will become a political point of contention in the near future. The main culprit is what is known as multiemployer pension plans. A multiemployer pension plan is where a handful to hundreds of companies contribute funds to pension plans on behalf of their workers, with payments negotiated through union contracts. The plans are common for coal miners to truck drivers to construction workers. While most of the 1,400 multiemployer plans in the U.S. are not in any danger, some 130 plans are projected to be insolvent within 15 to 20 years. Like FDIC for your banking accounts, there is a government-run corporation to insure defined-benefit pensions called the Pension Benefit Guaranty Corporation or PBGC for short. The problem though is as these 130 plans start to fail, the PBGC will be underfunded and bankrupt by 2025. If that's the case, over a million people could lose their pensions.

The largest unfunded, endangered plan is the Teamster Central States Pension Fund (38% funded with a $41 billion liability). The plan includes 385,000 participants and more than 1,000 contributing employers, mostly in the trucking industry. Back in the early 1980s, the plan had two active participants for every inactive one. Today now there is just one active participant for every five receiving benefits. Deregulation of the trucking industry starting under President Reagan opened the door to smaller, non-union operators, shrinking the Teamsters' footprint over the years and the decline of unionized workforce in the private sector has thrown more fuel onto an already existing forest fire.

My Dad is a 40 year active member of the Teamster Central States Pension Fund, turning age 62 later this year. Each year for the past 10+ years, he has received notifications in the mail about the financial trouble of his retirement pension. As he approaches retirement, these notifications become more and more real. If my Dad was to retire today, Central States promised him a monthly pension of approximately $3,500 per month for the rest of his life. However, their current projected insolvency (out of money) date is 2025. Thus the PBGC guarantee would kick in. The amount guaranteed under PBGC for 40 years of service would be approximately $1,430 per month. Not $3,500 but better then nothing. Yet, remember if Central States and other pension plans fail, the PBGC will go bankrupt as well. Thus my Dad could go from receiving $3,500 per month today to nothing in six short years. My Dad shrugs his shoulders and says "I guess I'll just keep on trucking," but for many people already retired and collecting their pension, going back to work isn't an option.

As a result of this looming pension crisis and financial dilemma, a bipartisan group of lawmakers has introduced legislation to finance loans for troubled pension plans. Pension funds would pay interest on the loans for 29 years and the principal would be due in the 30th year, but the loans could be forgiven if plans couldn't repay them. The goal would be to keep pension retirement benefits intact while giving the pension plans more time to improve their funding gaps. Yet it is expected many conservative politicians will balk at the idea of government backed loans for private pension funds as it sounds like a "bailout." We will see what traction this legislation receives or what other possible solutions are debated and presented.

My Dad's only regret is he wished he was offered a 401k plan with an employer match rather than forgoing wages to put money aside into a future pension—"If I had the $1,000 a month my employer has been contributing into my pension and rather invested that into a 401k myself for 40 years…...I'd have a lot of money!"

The reason behind this story isn't to make you feel sorry for my Dad, rather provide you an update of what looms on the horizon because it will affect us all in some fashion from our pocketbooks to the voting booth. Furthermore it reiterates the importance of one's personal responsibility for investing for their own retirement and more importantly doing the due diligence on the health of your employer's pension plan—government or private sector. If you are eligible for a pension or receiving one now, next time you receive your annual report, spend a few minutes and educate yourself with how well funded your pension really is.

Kaleb's Corner

Kaleb Frawley, Financial Advisor

Charitable Legacy Using Your IRA Dollars

A little over a year ago I was visiting with my parents and updating them about my/Maggie's estate plan and their possible future responsibilities. My Dad spoke up and said "We are leaving money to the Catholic school too." With the recent priest sex scandal and the unknown long term financial viability of our local Catholic school at which my Mom has been the secretary of for 20 years, you could tell my Mom was a little uncomfortable with the bluntness of that statement. I politely corrected my Dad and said "Currently everything goes 50-50 to Keisha and me. Nothing is written down to go to the school or church. However is that something you'd like done?" Almost in unison, both my parents said "Yes, but….."

My Mom continued "We only want to leave money to the school if they are going to use it wisely, are in a good financial position and managed properly (good staff and enrollment)." My Mom has witnessed firsthand the importance of culture at a school and how quickly that can change as staff turns over, or how a lump sum memorial can be spent for a want rather than a need. Dad said "You and your sister can decide when the time comes. We trust your judgment. You think like us." This was the first time my parents had communicated their charitable inclinations and expectations of my sister and me. Yet if they leave a charity as a designated beneficiary, it would be nearly impossible for us to override that commitment at their death, perhaps decades in the future, if the charity wasn't meeting their high quality standards. There had to be a better solution.

As we spoke about the pros and cons of how to accomplish their charitable intentions, the wheels started turning. Rather then leaving everything to my sister and me outright, they wanted to tithe (give 10%) of their investment accounts to charity. Because Roth IRAs are tax-free forever, Dad wanted to make sure those were left to us. This left his tax deferred pre-tax IRA which if either of us kids inherited we would have to pay income taxes on. With a quick calculation we were able to determine that 10% overall would equate to approximately 40% of the account value of his pre-tax IRA. Instead of listing St Marys' Catholic School as a 40% beneficiary, we agreed on the following: 30% Keisha, 30%, Kaleb, 20% Donor Advised Fund for Keisha and 20% Donor Advised Fund for Kaleb. What are Donor Advised Funds and why did we end up using them?

A Donor Advised Fund is a program of a public charity that functions like a tax-advantaged charitable checking account that can be used solely for giving. Upon death, IRA assets can fund a Donor Advised Fund and by doing so, income taxes are avoided. The money can be distributed to charities immediately or over time but that money must go to charity eventually. A designated account successor can be named to make grant recommendations over time to the charities he or she would like to support.

My parents found this to be a great solution for them. They want to be charitably inclined at their death, pass those philanthropic values onto us and make sure charities are fully vetted. My sister and I will still inherit nearly everything 50-50, however we will have a portion of our inheritance earmarked to be used for charitable causes near and dear to our hearts as well as our parents. We can use the Donor Advised Fund assets to leave memorial gifts in our parents' name, create an ongoing scholarship in their memory, give to our church, use the funds to go on mission trips, just to name a few examples. My parents could leave the money directly to a few charities at their passing, but they prefer to pass their example of stewardship onto us.

It can also be a tax savings strategy for both generations:

1) The money left from the pre-tax IRA to a Donor Advised Fund is received 100% tax-free.
2) If the pre-tax money was inherited outright by the heir in an IRA and then an heir wanted to donate some of their inheritance to charity, this would create a taxable distribution to the heir. Because of the new higher standard deduction limits ($12,200 single / $24,400 married couple), the heir would likely receive little to no income tax deduction for their charitable giving.

It is our belief there are other charitably inclined individuals like my parents who want to pass philanthropic values on to their children or heirs but don't know how to. <u>Instead of your heirs inheriting everything outright, have you considered them receiving a portion of their inheritance to do good for others?</u>

Reminiscing With Rewald

Joel Rewald, Financial Advisor

Reflecting Back on 41 Years

Recently my wife Lisa asked me, "Joel how long has it been since we moved to Richland Center and opened shop?" I replied, 41 years ago. Then recently a client asked Kaleb, "What is going on with Joel, has he retired?" Terry chimed in about another long-term client who said; "I used to hear from Joel almost monthly, what is he up to?" However, before I go on about what I am up to, allow me to go on with some reminiscing in what helped get me to this place.

From the late 1970's through the early 1980's, interest rates skyrocketed, we jumped in with both feet promoting a commission-free Kemper money market fund. By doing so, you might say we "unlocked banks' safes and began emptying them" where yields went from 12% to over 17% in less than two years. Much of those dollars we parked in money markets were redeployed into bonds, utility stocks and front-loaded mutual funds, which meant commissions for me. But that wasn't all, I too got snake bitten some by the temptation splayed out there by the brokerage house I was then affiliated with to advise our clients to invest in alternative investments they helped sponsor (ex. oil and gas partnerships).

Unfortunately, with these alternative investments, which paid the brokerage houses handsomely and of which a chunk trickled down to me as well, they didn't pan out as well as they were presented and whatever tail wind we received on the aforementioned was lost. When it became apparent to me that these alternatives led to significant and permanent losses, I dreaded what I had a hand in and what I deserved to face. Instead of what I had coming, I received forgiveness for selling what I now call tainted goods. Thankfully Lisa either forgot or chooses to be kind and not remind me, but I too "ate what we cooked" by investing some of our savings "alternatively."

After leaving Edward D. Jones in 1983, we opened shop in downtown Richland Center for Blunt, Ellis & Loewi, headquartered out of Milwaukee. Unlike Jones which focused on setting up shop in small towns where there was no competition, we found ourselves by far in the smallest market in the Loewi system. Loewi along with four other regionals from Cleveland to Los Angeles were merged into one, which morphed into Kemper Securities. In the late 1990's when the parent, Kemper Insurance, spun off its brokerage division to its employees, we were rebranded again, as EVEREN. Essentially same team but one headquarters in Chicago. Finally, in the late 1990's, we went independent and divorced ourselves cold turkey from the commission platform and affiliated with Raymond James. Then a few years ago, Raymond James gave us an offer we could not refuse, and we gracefully researched whom would be a great fit for the RSF family and we decided upon Commonwealth, which has been a great fit, one we hope doesn't change due to them going public or selling out.

Now back to what have I been up to. I am free from the day to day of RSF and therefore liberated. From my vantage, the care extended to RSF's client-families and friends is far superior to the days when the server was primarily me. Throughout the day and each night, I get copied in with RSF updates and therefore the care they provide. From my perspective, RSF for the most part, overdelivers on its value proposition of influencing what they can and let the financial markets deliver the investment returns. As a result, I do what I value most from my home office or when I am on the road. Much to most of that is directly or indirectly is concentric with RSF's end in mind in caring for our client-friends.

So, in the autumn of life, as long as I am relevant to RSF, I am not going anywhere. RSF has given me this opportunity to ponder and plumb more of what is written on my heart, albeit striving to promote significantly better local governance as well as chiming in on RSF's regularly scheduled agenda-driven meet-ups. To quote Lisa, and remember she is the big city Racine girl; "Joel, a day doesn't go by even when we are in St. George, UT dodging winter that I am so grateful for putting our stakes down in Richland County." RSF is giving me the opportunity to contribute and retain me as a partner, albeit one working from home or Utah. Does it get any better? Finally, I want to thank you, our clients, for also helping make this a reality.

Reminiscing With Rewald

Joel Rewald, Financial Advisor

Inverted Yield Curve

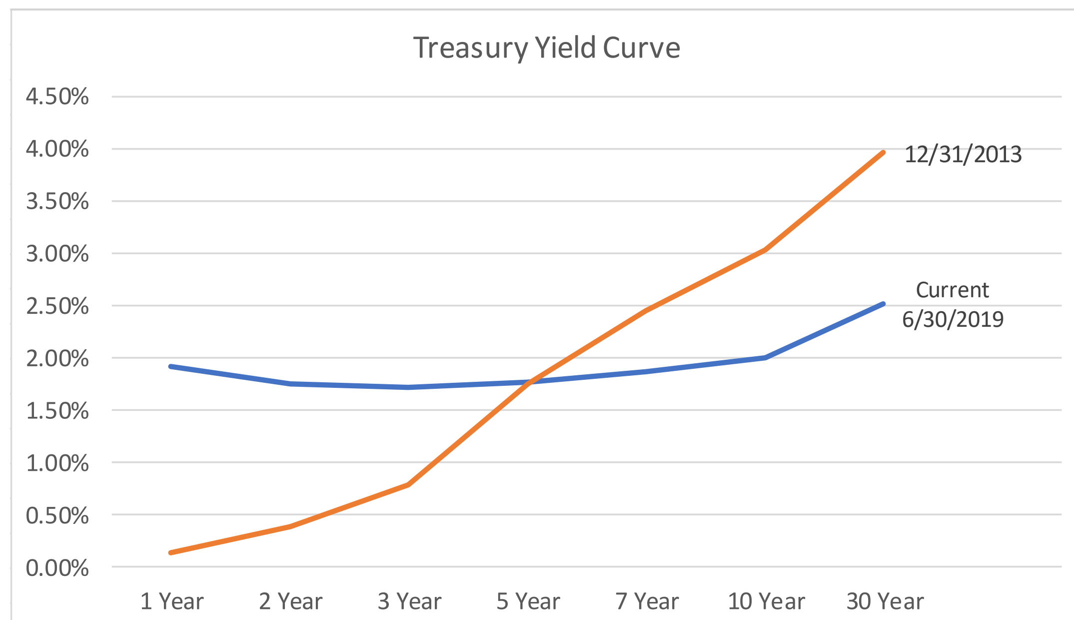
The buzz over the last few months has been in regards to the yield curve inverting. In the chart below of the Treasury Yield Curve, the orange line is from December 2013 and represents a normal yield curve whereas the blue line represents current Treasury interest rates and is an example of an inverted yield curve. An inverted yield curve occurs when short-term rates are higher than long-term rates. Currently a 10 Year U.S. Treasury is earning 2.00% but a 2 Year U.S. Treasury is earning 1.79%. An inverted yield curve simply means long-term investors expect short-term rates to fall in the future. What does all this mean and why should we care?

Typically an inversion of the yield curve through history has often occurred prior to an economic recession. However it does not cause a recession. Typically, the yield curve inverts because the Fed drives short-term interest rates too high and over-tightens monetary policy. It's this tight monetary policy that causes the recession, the inversion is a symptom of the bigger issue. Investors, realizing the Fed is too tight, push long-term rates down because they expect the Fed to reduce short-term rates in the future. It's the overly-tight Fed that causes both the recession and the inverted yield curve.

We do not believe the current narrowing yield spread signals a looming recession on the horizon because in our opinion the Fed is far from being tight. We are in the camp that rates are should rise in the future rather than fall. If anything, the 10 Year U.S. Treasury is vastly overvalued. For this reason, we encourage savers to prefer high interest bearing money markets and CDs with maturities of less then 18 months.

Consider if you pull a Rip Van Winkle, fall asleep today and wake up in 30 years, what do you think you would find to be the better investment? Earning 2.5% per year for 30 years in a U.S. Treasury Bond and receiving your original investment amount back or investing your principal into the S&P 500 Index where you'll receive a dividend yield of 2.00% but no principal guarantee? Compound interest and history says we can sure make a strong argument for the latter.

We don't know when, but interest rates will rise and when they do we don't want one of our clients to be on the other end of owning a "30 Year U.S. Treasury earning 2.50%." History doesn't repeat itself but it often rhymes; as I find myself humming along to the tunes of the 1980s.



"The stock market has predicted nine of the last five recessions."

-Paul Samuelson

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June was Dairy Month in Wisconsin

Symphony Tier Bars

One cup butter, softened
Two cups sugar
Four eggs
Three teaspoons vanilla
Two cups flour
One-half teaspoon salt
Two cups chopped pecans
Two squares (1 ounce each) unsweetened baking chocolate, melted
Frosting*

Cream butter and sugar until fluffy. Add eggs, vanilla, flour and salt. Beat well. Stir in pecans.

Spread one-half of batter in a greased 9- by 13-inch pan. In remaining batter, blend the melted chocolate. Spoon and spread over first layer.

Bake in a moderate (350° F) oven 30 minutes. Cool and frost.

***Frosting**
Five tablespoons flour
One cup milk
One cup butter
One cup sugar
Two teaspoons vanilla
Grated chocolate to garnish

In a 2-quart saucepan, blend flour and milk. Cook over low heat until a thick paste is formed, stirring constantly. Cool.

Cream butter, sugar and vanilla. Add cooled paste mixture and beat at high speed for 5 minutes.

This is a recipe that was shared with us by a client-friend. Not approved by your cardiologist, but certainly a tasty treat to share for a get-together, office meeting or family reunion!

There is always a lot of love in Grandma's cookbooks. The best recipes are always on the torn/spilled on pages. Don't wait until it's too late – share some recipes and some time in the kitchen with those you care about most!