SUMMIT
FINANCIAL GROUP, LLC

SUMMIT PERSPECTIVE FALL 2015

In a flash, three quarters of 2015 is in the rear view mirror. While the markets were quiet in the first half of the year, volatility came back in force this summer culminating in the first market correction worthy of the name since the debt ceiling crisis of 2011. Many of you were on our conference call as we openly discussed the market activities, and your actions during this time have made us quite proud. Many with cash flow available have added to their long term portfolio, while the remainder has seen fit to view this correction (as we do) as a "normal" market phenomenon that happens rather frequently. As the year end approaches, your advisor will be looking at your portfolio and taking advantage of tax loss harvesting, rebalancing, and making sure you are allocated appropriately for your specific goals.

As we head into the home stretch of 2015, we invite you to enjoy the 4th quarter edition of the Summit Perspective. There is a treatise on Long Term Care – an issue that both important and in the news of late. Jay Gilson has written a helpful article on year-end tax planning, and there are some updates from our charity golf tournament and next spring's Summit Symposium speaker lineup! Enjoy the fall weather, and maybe, just maybe some rain to end our infernal drought!

Long Term Care Conundrum

How does one deal with a risk that has a high probability of occurrence, an unquestionably high cost when it happens, and insurance products meant to hedge the risk that are complex and more expensive than they used to be? This is the conundrum facing Americans heading into retirement when it comes to Long Term Care. Please understand that the article's aim is not to promote a particular insurance company or product. This is not a sales pitch. The objective is to help you better understand options available to you when paying potential Long Term Care Expenses.

The rising cost of medical care is a huge issue facing retirees. While the term "medical care" loosely describes any type of medical expense, the combination of Medicare and supplemental medical insurance covers a great deal of the acute care that may be needed. While the cost of those coverages will likely increase, there is a potentially far more costly form of care looming on the horizon – Long Term Care. Long Term Care is defined as the ongoing care of individuals who can no longer independently perform basic activities of daily living (ADLs)--such as bathing, dressing, or eating--due to an illness, injury, or cognitive disorder. This care can be provided in a number of settings, including your home, assisted-living facilities, adult day-care centers, hospices, and nursing homes. Many people mistakenly believe that their general health insurance will pay for long-term care or that Medicare will cover it when they get older. In reality, neither health insurance nor Medicare covers traditional "custodial care" for chronic conditions, if that is the only care needed.

Today, the odds of a married couple age 65 needing Long Term Care are approaching 70%, meaning that in a typical retirement it is almost certain that at least one person will need care. Combine that with the demographics that predict the number of people over age 80 (those most likely to need Long Term Care) will triple over the next 30 years[1], and you have a recipe for trouble. As the supply of care providers gets strained and the demand for care increases, costs could increase dramatically. As the costs for home care, nursing homes, and assisted living escalate, you may wonder how you're going to be able to afford long-term care – and you should!

When faced with a risk that has a high probability and a high cost, it usually makes sense to outsource that risk to an insurance company. In the case of Long Term Care, that was the solution for those in good health for many years. However, the insurance industry miscalculated several things about Long Term Care that have had negative impacts. Incorrect assumptions led companies to seriously underprice policies, and the result was the subsequent need for rate hikes, or in some cases the exit from the industry for carriers.

One of the biggest miscalculations that carriers made was on interest rates. Instead of rising as expected, rates plunged during the financial crisis and have been slow to climb off their crisis lows.

Source: 1 Administration on Aging, Dept. of Health & Human Services, A Profile of Older Americans, 2014

LONG TERM CARE ARTICLE CONTINUED ON BACK

Year End Tax Moves

As the 2015 year comes to a close, many start to think about minimizing their taxes. The general approach to tax maximization strategies is to defer income and to accelerate deductions. This approach can be successful but careful consideration must be given to your specific situation and ideally projections are run with your tax professional.

Income generally should be deferred to the next year if you believe your tax rate will be lower or if the additional income will cause you to jump to a higher tax bracket this year. On the flip side if you are self-employed, increasing your self-employment income to be able to maximize a retirement contribution may outweigh the general rule to defer income.

Taxpayers should consider realizing losses on existing stock holdings while maintaining the investment position by selling at a loss and repurchasing at least 31 days later or swapping it out for a similar but not identical investment. This is often referred to as loss harvesting. However, if the 31-day repurchase is not adhered to, the sales are considered a wash sales transaction and the losses are disallowed.

Long-term capital gains still maintain their preferential rates, but are subject to the additional 3.8 percent Medicare investment tax. Short-term capital gains are subject to ordinary income rates and the 3.8 percent Medicare investment tax.

When it comes to deductions paying your real estate taxes, personal property taxes and state income taxes before year end in order to push down your taxable income by increasing your itemized deductions. However, be aware that these deductions can be phased out and/or be limited by alternative minimum tax.

If you are in alternative minimum tax and you are subject to the additional 3.8% Medicare investment tax, the prepayment of the state income tax will possibly lower the income subject to the 3.8% Medicare investment tax. To determine the actual benefit of this strategy necessitates running a projection to assess the applicability to you.

Charitable donations made during the year are deductible for both regular and AMT purposes. One of the more tax efficient methods of making charitable donation is to donate appreciated stock that would be a long term gain if sold rather than an equal amount of cash. The donation is equal to the fair market value at the date of donation yet the appreciation is not taxed. An annual limitation of the size of the donation must be considered to be able to claim the entire donation.

IRAs can be ideal for teenagers because they likely will have many years to let their accounts grow tax-deferred or tax-free. The 2015 contribution limit is the lesser of $5,500 or 100% of earned income. Traditional IRA contributions generally are deductible, but distributions will be taxed. On the other hand, Roth IRA contributions aren't deductible, but qualified distributions will be tax-free.

Choosing a Roth IRA over a traditional IRA is typically a no-brainer, provided a teen doesn't earn income exceeding the standard deduction ($6,300 for 2015 for single taxpayers), because he or she will likely gain no benefit from the ability to deduct a traditional IRA contribution.

If your children or grandchildren don't want to invest their hard-earned money, consider giving them the amount they're eligible to contribute — but keep the gift tax limits in mind. If they don't have earned income and you own a business,

> "Don't let the tax tail wag the dog."

consider hiring them. As the business owner, you can deduct their pay, and other tax benefits may apply. ***Warning:*** The children must be paid in line with what you'd pay nonfamily employees for the same work.

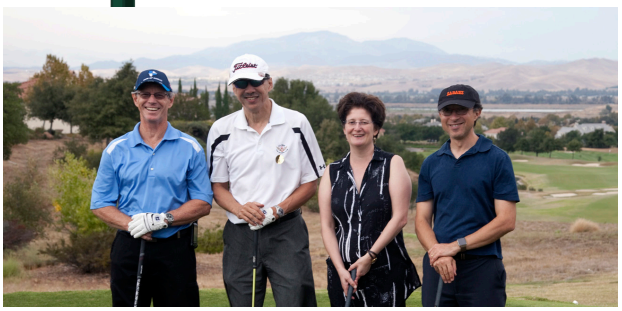
Annual gifting should be considered as part of your wealth strategy. You can give $14,000 to as many individuals as you would like. A husband and wife can each give $14,000. For example, a couple could make $14,000 gifts to each of their three children, for a total of $84,000. You can make unlimited gifts for medical, dental and tuition for as many relatives (or friends) you would like provide that the payments are made directly to the provider. Both the annual gifts and the medical or education gifts are not counted against the lifetime gift exemption.

The old adage of "Don't let the tax tail wag the dog" applies to year-end strategies. Year-end tax moves should always be considered in conjunction with sound business and investment decisions and you should always consult with your tax professional. TR#1306909 DOFU 9/2015

Spreading Holiday Cheer!

Thank you to all our clients and friends who supported the **13 Annual Charity Golf Tournament**. Together we raised over $35,000 for Surtec Adopt-A-Family!

Surtec was thrilled with the outpouring of support through our event. With the funds raised from this tournament, the charity will be able to serve an additional 100 families through out our local east bay community (a 20% increase from last year). Because of this increase Surtec Adopt-A-Family could use more helping hands this December. If you would like to help wrap gifts or deliver holiday cheer please sign up to get involved at: **www.summitadvisors.com/holiday-cheer**



Pictured: Dean VanFleet, Les Tong, Laura Smoliar, Mark Arbore

Congratulations to our golf tournament winners!

1st Place: Anthony DiRegolo, Jason Heise, Bob Stafford, Tom O'Brien
2nd Place: James Kepke, Ed Schumann, Peter Holley, Jack Cowden
3rd Place: Jeff Key, Steve Williams, William Wentworth, Kevin Wentworth

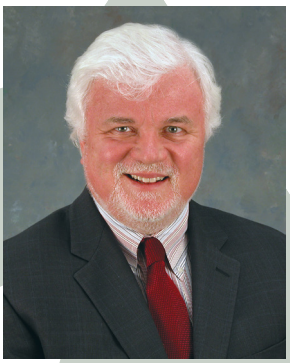
View the golf event page on our website to read more about the event and to see the photos from the tournament.

www.summitadvisors.com/charity-golf-tournament

Save The Date for Summit Symposium

March 5, 2016 at Palm Event Center

Summit Symposium is an event we hold for our clients and friends as a way to Entertain, Educate, and Inspire. It's an opportunity to meet one another, be enriched and enjoy some great food and wine, as well! We're proud to invite our clients to the Summit Symposium and hope that you'll join us.



George I. Connolly, CLU®, ChFC®
Division Head, Wealth Management Group

George is one of Summit's most trusted mentors. His varied and distinguished background provides a unique perspective on the world of finance. George was an attorney specializing in complex estate and financial matters, a financial advisor who built a substantial business, and is currently president and CEO of a national broker/dealer with over 1,000 affiliated advisors. His insights about the trends in financial planning and investing will be as valuable to our clients as they are to the Summit leadership team.

AmyK
Founder and Intelligence Activist of AmyK International, Inc.

AmyK is a catalyst for helping individuals be brilliant and happy in life. As a Keynote Speaker and Think Tank facilitator, AmyK focuses exclusively on the critical thinking skills and behaviors required for brilliant leadership, innovation and self-actualization. She is captivating and uncanny all at the same time and will provide our clients with an experience to ignite how they think about creating a more meaningful, energized, happy life.

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Long Term Care
(CONTINUED)

Low rates have reduced the returns that insurers have earned on invested premiums, making long-term care insurance less profitable. Insurers also assumed that many more people would drop their policies than actually have. More people sticking with the coverage means more people eventually go "on claim," leading insurers to face larger payouts than they anticipated.

Price hikes have generated ill will for the industry. Yet it's not like the carriers are trying to make a lot of money on those older policies, said Al Schmitz, a principal and consulting actuary with actuarial firm Milliman in Milwaukee. "They're just trying to stop the bleeding."

Given that backdrop, what is a prudent individual to do about the potential for large Long Term Care expenses? Below are 5 things to consider when thinking about Long Term Care:

1 Keep Your Current Policy - If you have an existing Long Term Care insurance policy, you should consider holding onto to it, and keep paying for it! In many cases, the benefits from older policies may be richer, and the premiums less expensive than policies issued today. Even if your carrier gives you a substantial premium increase – it may still be in your best interest to keep that coverage in force.

2 Look at Long Term Care Insurance Differently - With some creative design, LTC policies can still be a critical tool to hedge the risk of a care need. Many older policies contained benefits for an unlimited timeframe, and had high levels of inflation protection, but the costs for those features today can be prohibitive. Instead, you might consider a policy that pays a substantial benefit ($200 per day or more) for 3-5 years and has more modest inflation protection (3%, or linked to Consumer Price Index). It might not cover 100% of a future care need, but it can go a long way towards protecting your nest egg while still allowing money in your budget for the retirement you envisioned.

3 Add a Long Term Care Rider to a Life Insurance Policy – Life insurance companies have responded to the changes in the LTC marketplace by adding Long Term Care riders to their permanent life insurance contracts. By paying a bit more in premium than a typical life insurance contract, the face amount of the policy can now be used as either a death benefit, or a long term care benefit. The attraction here is that you know the death benefit amount is going to benefit your family one way or another. Either your beneficiaries receive tax free death benefits, or you access long term care dollars without having to spend other assets. These policies are intended for those who already have a need for life insurance. Because life insurance policies contain expenses and fees for mortality charges, the premiums are typically higher than for traditional long term care policies. However, the idea that premium dollars can perform double duty for life insurance or Long Term Care benefits is attractive in some instances.

4 Evaluate Hybrid or Linked-Benefit Policies - For those with the ability to reallocate a portion of their investment portfolio to cover Long Term Care, hybrid policies are worth investigating. Unlike the life insurance / LTC rider combination, the Hybrids don't offer a substantial death benefit. They are designed for the client who wants to insure against a Long Term Care need, but doesn't like the idea of paying premiums for insurance that might never be used. These hybrid policies are typically funded in a lump sum, or in a few substantial premium payments. They provide a substantial Long Term Care benefit upon the first premium payment, and if you were to pass away they would pay a death benefit, but it wouldn't be much above the premiums paid in. Additionally, after a surrender period, most policies allow you to access your premium dollars (typically 80-100% of what you have paid in) if you no longer want the coverage. While these policies should never be considered an "investment", the flexibility of having LTC coverage, the assurance that your beneficiaries receive a death benefit of at least your premiums paid, and the chance to recoup your costs if you surrender the contract is attractive to those who have the ability to fund them.

5 Recalculate if you Plan to Self-Insure – Many people dislike the idea of buying insurance to cover the possibility of Long Term Care. After seeing the statistics, it becomes clear that Long Term Care is a real risk, and ignoring it wouldn't be wise. Whether a health condition precludes you from obtaining any type of insurance, or because you are convinced you can handle it with your own resources – make sure you run some projections on what it might cost if there was a care need. Today's Bay Area care facilities can easily cost over $10,000 per month for full time care. If you inflate that over 20 years it is expected to be almost $30,000 per month[(2)]. You can vaporize a portfolio very quickly at that rate of spending. You may want to consider building a little more wiggle room into your retirement projections before retiring so that you feel comfortable that you can truly afford that risk.

The Long Term Care Conundrum will continue to challenge Americans for years to come as the baby boomers age and more and more people require care. It seems logical that the rising demand would create more competition for providers both in the care space and in the insurance to pay for that care, but the timing and the financial ramifications can't be confidently forecasted. While we can't predict how care costs will escalate or the insurance industry will respond to the marketplace, there are steps you can take to plan today. Use your advisors as resources to help you understand your risk so that you don't need to leave your cost of care to chance. TR #1232056. DOFU 08/2015

Source: 2 Inflation rate of 5.5% was used in this calculation.