GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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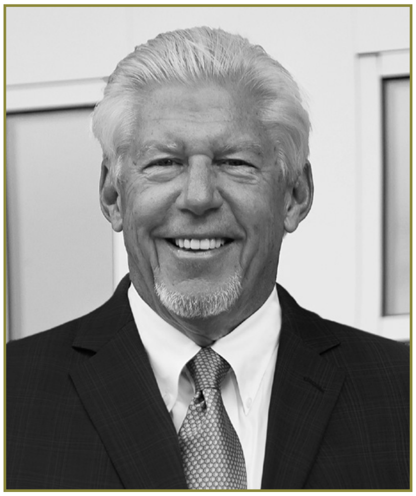


William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

The recent surge in the Delta variant of COVID-19 informs us that while we might wish that the pandemic is over, it is not. Let's set aside the headlines and examine some data to help us determine the state of our current condition. In March of 2020, our research team at Greenleaf Trust adopted the practice of focusing on the condition of the pandemic to help us accurately understand the economic circumstances that we were in. The recession created by the pandemic was severe and occurred with terrific velocity. It was clear that recovery from the recession would require steps to cause disease remission and government intervention to support the economy until organic growth could take its place.

Quarantine, masks and sanitation practices were the initial remedy until a vaccine could emerge to win the day against the COVID-19 virus. For 613,000 Americans who died as a result of the pandemic, these remedy steps were not sufficient or came too late. The vaccine rollout in January of 2021 created the catalyst for significant reductions in new cases, hospitalizations and deaths, and for many of us who had endured months of quarantine the hope of a return to pre-pandemic life. Signs of economic recovery were positive, and people began to gather in ways they hadn't been able to for many months. Still, the reality of the condition we were in did not yet warrant a return to pre-pandemic practices. The goal of 70% vaccination rates by July seemed easily within our reach, as millions of Americans were being vaccinated each day and tens of thousands were recovering from COVID-19 with antibodies generated in their immune system. Surely the combination of both remedies could get us to remission by late summer. So where are we relative to this expected optimistic goal?

Headlines would lead us to believe we have failed to reach our goals, so let's peel away the layers of the onion and see where we are. Did we reach 70% fully vaccinated by the end of July? No, we did not. CDC data reveals that as of the end of July 69.9% of Americans have received at least one dose of the vaccine, and that 165 million Americans are fully vaccinated (about 51% of our total population). Depending upon how you look at the data it is either a story of success or failure. When we examine the demographics of the population, we get a much more positive view of the

Commentary, continued

condition of remission. For those who are 64 years of age or older, 80% are fully vaccinated and 90% have received at least one dose of the vaccine. For those 18 years of age through 63 years of age, 69% have received one dose of the vaccine and 61% are fully vaccinated, while only 21% of those under 18 years of age but not less than 12 years of age have received one dose of the vaccine. Currently our daily vaccination rate is 660,000 per day, which if held constant would not achieve 70% fully vaccinated until late December of this year.

In general, our vaccination coverage has protected the most vulnerable age demographic at an 80% level, and nearly 74% of all new cases are contracted by those not vaccinated. COVID-19 is still with us. Current and future variants will continue to place unvaccinated individuals at risk of infection, and depending upon the individual immune and health conditions of those infected, cause continuing hospitalization and, unfortunately, additional deaths. While we are not out of the woods, we understand the direction of the journey and are making what now seems like painstakingly slow incremental progress towards remission. The progress seems far more positive than the headlines suggest. So what economic condition are we in and what are the implications for continued recovery considering that we have not yet achieved remission of COVID-19? As always, we turn to the data.

> "In general, our vaccination coverage has protected the most vulnerable age demographic at an 80% level, and nearly 74% of all new cases are contracted by those not vaccinated."

The New York Federal Reserve Bank's Weekly Economic Indicator (WEI) was reported on July 29 at 8.37%, which mirrored the most recent GDP data but was down nearly 3.5 points from the April 17 high of 11.83. Remember, the WEI measures in real time economic data around consumption, production and labor, so any data input that changes in any of those categories will impact the index, but in general a positive number is good and a higher positive number is better. The relativity of the index is that it is measuring economic activity against the same data exactly one year ago to the date it is released, resulting in a measurement that allows us to evaluate the current trend in place. As reported, we would say that activity surrounding consumption, production and labor is significantly better than last year and registering strong growth but with less velocity than during the first quarter of this year.

As we know, 70% of GDP growth is related to the consumption activity of the 335 million Americans, and the single largest factor in Americans' optimism about consumption is employment. All of the historical data available on the relationship between GDP growth and consumer activity reveals that when consumers, their neighbors and relatives are employed their confidence about the forward period of time increases. When consumers' confidence increases they spend more and save less, and when confidence decreases they do the opposite, thus is the very relative and elastic relationship between consumer activity and GDP growth.

Payrolls rose 850,000 in June and, as expected, much of that payroll growth was in leisure, hospitality, retail and business services. Manufacturing, construction, engineering and healthcare all held steady. The unemployment rate held steady at 5.9%, as did the labor participation rate of 61.6%. Much has been written about labor participation during the pandemic recovery, with a strong implication that federal stimulus, combined with state assistance for the unemployed, has deterred individuals from seeking employment and has caused labor shortages. Some states, through legislative action, have reduced or even refused Federal stimulus in order to reduce support for the unemployed, assuming that doing so would force the currently unemployed to seek employment. The target of this employment need was the $12.00 – $15.00 per hour wage rate. Without even commenting on the moral and ethical actions of those states that took this legislative action, let's examine the latest jobs report to see if these assumptions are evidenced in the data.

Records of labor participation rates have been kept in great detail since shortly after World War II. The US labor participation rate peaked in 1998 at 67%, and has been in a slow incremental decline through the Great Recession of 2008, where it bottomed at 59%. Post recession, the rate gradually increased and returned to the 63.4% level in 2019, and thus the current 61.6% rate is 1.8% below the previous post recession high.

The current unemployment rate of 5.9% is composed of 9.5 million who claim to be unemployed. Our previous low benchmark for unemployment was in February of 2020 at a rate of 3.5% consisting of 5.7 million workers claiming unemployment status. Of the current unemployed, 6.2 million reported that they were unable to find work because their previous employer closed or lost their business due to the pandemic. Those responding to this category in the survey also indicated that transportation and childcare impacted their search for other employment opportunities and, as expected, they were in the category of last hired and first fired. In essence, they represent the lowest wage rate and were locally employed and often highly dependent on less than full time employment that was close to their home. Reducing their benefits will not cure the conditions that keep them from being employed. Restoring their work and childcare opportunities might.

Organic growth of our economy will replace government stimulus and will restore, over time, growth of small businesses in communities where others failed during the pandemic. The last hired and most vulnerably employed depend heavily on the locally owned small businesses that were devastated by the pandemic recession. The organic growth of these opportunities will not likely occur for some time.

"Some states, through legislative action, have reduced or even refused Federal stimulus in order to reduce support for the unemployed, assuming that doing so would force the currently unemployed to seek employment."

Michael F. Odar, CFA®
President

A New Home for Research

As you know, we are extremely proud of our research team at Greenleaf Trust. Our 12-person in-house investment research team is led by Nick Juhle, Senior Vice President and Director of Research, and includes professionals from diverse backgrounds specializing in portfolio construction, manager selection, equity research, fixed income research, alternative investments, and trading. Seven members of the team have achieved their Chartered Financial Analyst (CFA) designation. Their mission is to create comprehensive investment solutions that help our clients reach their goals. They are guided by our investment philosophy that believes independence and an open architecture platform allow for unbiased investment decision-making.

As we have continued to grow, and our research team's numbers and responsibilities have continued to broaden, we needed to make sure they had a space built for the needs of the team, clients, and future growth. That's why we are excited to announce our new 6,200 square foot suite featuring cutting-edge technology and sophisticated functional design at 277 South Rose Street in Kalamazoo for our research team. We started planning the new space back in 2019 with our architect TowerPinkster, construction manager CSM, and property manager Catalyst Development. And, with only a few delays, the research team eagerly moved in last month. The new custom-built suite was intentionally outfitted with an open design to further enhance collaboration. It also has an all-glass trading room with the largest stock ticker in Michigan, 10 private offices, and plenty of meeting space. The technology in the suite also showcases our research team's capabilities and underscores our commitment to purposeful growth for the benefit of our clients. The next time you are in Kalamazoo please stop by, we would love to show you around.

"Our 12-person in-house investment research team... includes professionals from diverse backgrounds specializing in portfolio construction, manager selection, equity research, fixed income research, alternative investments, and trading."

Michigan Economic Update

Christopher D. Burns, CFA®, CPA, CFP®
Vice President
Investment Strategist
Senior Fixed Income Analyst

In the summer of 2019, we intended to create an annual series of Perspectives articles updating our audience on the outlook for the Michigan economy. But, as the poet Robert Burns said, the best laid plans of mice and men often go awry.

In 2020, tracking the economic and market impact of COVID consumed our attention.

Now in 2021, with calmer markets and a clearer path forward on the virus, we will return in earnest to our focus on the Michigan economy. In this article, we will cover (1) the labor market, (2) the auto industry, and (3) home prices.

This article follows two important conferences that address the outlook for Michigan.

1. In mid-May, the state government's House Fiscal Agency hosted the Consensus Revenue Estimating Conference. The unimaginative name belies the excellent information and forecasts provided by economists and auto industry experts. These forecasts help Michigan's lawmakers establish the state budget and provide useful information to investment managers like Greenleaf Trust.
2. In January, the Detroit Branch of the Chicago Federal Reserve Bank hosted the Automotive Outlook Symposium. Economists from Ford and various industry research groups provided near-term outlooks for auto sales, production, and labor negotiations.

Let us begin with an update on the labor market.

MICHIGAN'S LABOR MARKET

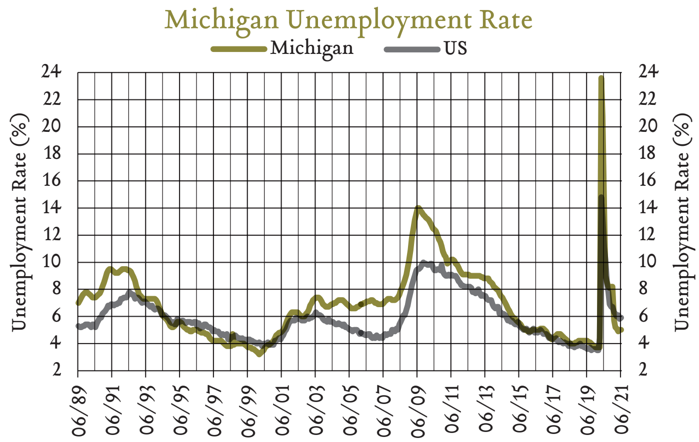
Heading into the pandemic, the unemployment rate in Michigan reached a low of 3.7%. This was the lowest level since the late 1990s. 4.45 million Michiganders were employed.

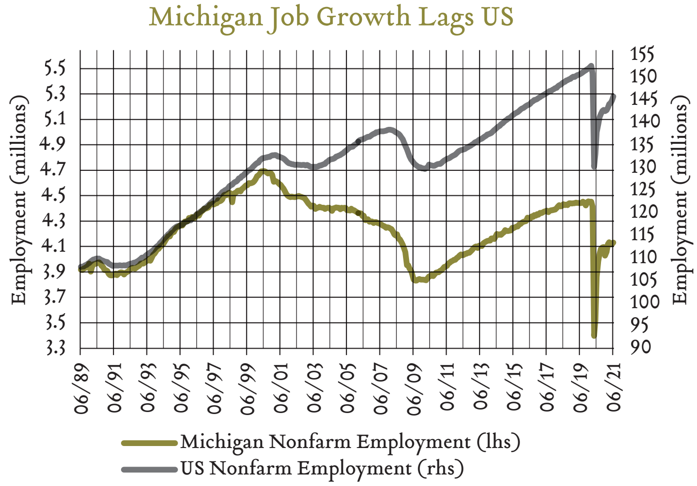
In three months, from March to May 2020, employment fell to 3.4 million, a 24% reduction in jobs. The statewide unemployment rate peaked at 23.6%.

Today, the Michigan economy has recovered more quickly than the nation overall. The unemployment rate is down to 5%. Total employment has improved to 4.13 million. That is still 321 thousand fewer jobs, roughly 7% less, than pre-pandemic, but we are clearly recovering quickly. The key to a full recovery will be enticing participants back into the labor force, as the state's labor force participation rate is currently 59.1%, below the 62% registered before the pandemic.

"…with calmer markets and a clearer path forward on the virus, we will return in earnest to our focus on the Michigan economy."

Michigan Economic Update, continued





"…[Michigan's] labor force participation rate is currently 59.1%, below the 62% registered before the pandemic."

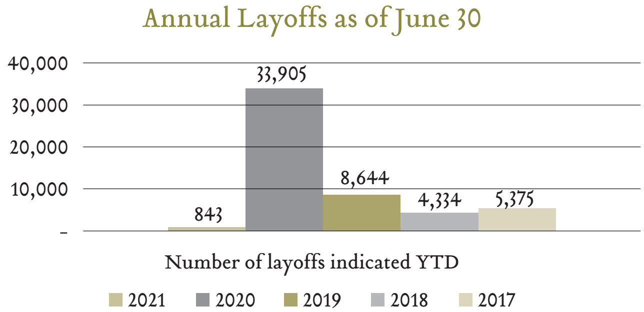
However, the recovery has been very uneven both in terms of sectors and geography. In particular, employment in the Leisure & Hospitality sector remains 21% below pre-pandemic levels.

Michigan Employment by Sector				
	Feb-20	Jun-21	Change	% Change
Trade, transportation, and utilities	798,400	772,500	(25,900)	-3.2%
Education and health services	692,300	643,300	(49,000)	-7.1%
Professional and business services	654,200	618,100	(36,100)	-5.5%
Manufacturing	619,200	569,900	(49,300)	-8.0%
Government	616,900	580,900	(36,000)	-5.8%
Leisure and hospitality	435,500	342,300	(93,200)	-21.4%
Financial activities	229,600	226,200	(3,400)	-1.5%
Construction	177,300	176,300	(1,000)	-0.6%
Other services	167,200	145,600	(21,600)	-12.9%
Information	55,400	49,300	(6,100)	-11.0%
Mining and logging	6,900	6,900	-	0.0%
Grand Total	4,452,900	4,131,300	(321,600)	-7.0%

Several counties have seen a full recovery already, but unemployment remains significantly above pre-pandemic levels in most regions.

County	May 2021	May 2020	May 2019	Change since 2019	Population
Wayne	6.0	27.4	4.7	1.3	1,749,343
Oakland	3.4	20.3	3.2	0.2	1,257,584
Macomb	4.4	26.6	3.9	0.5	873,972
Kent	4.9	16.9	2.8	2.1	656,955
Genesee	7.5	25.2	5.7	1.8	405,813
Washtenaw	4.7	13.7	2.8	1.9	367,601
Ingham	5.9	15.7	3.2	2.7	292,406
Ottawa	4.3	15.8	2.6	1.7	291,830
Kalamazoo	5.3	14.9	3.1	2.2	265,066
Livingston	2.9	20.6	3.0	-0.1	191,995
Saginaw	7.0	21.2	4.6	2.4	190,539
Muskegon	7.9	24.7	3.9	4.0	173,566
St. Clair	4.3	26.8	4.3	0.0	159,128
Jackson	5.9	19.8	3.4	2.5	158,510
Berrien	5.7	18.6	3.7	2.0	153,401
Monroe	6.7	21.0	4.0	2.7	150,500
Calhoun	6.8	21.8	3.9	2.9	134,159
Allegan	4.8	16.1	2.9	1.9	118,081
Eaton	5.5	17.8	3.0	2.5	110,268
Bay	6.1	19.3	4.2	1.9	103,126

Fortunately, in 2021 firings have been extremely low. Layoffs announced through the state's WARN system total only 843 jobs, which is about 85% lower than a typical year.



"In summary, there is a robust recovery underway in Michigan's labor market."

In summary, there is a robust recovery underway in Michigan's labor market. It will likely take several years to recover fully to the tight labor markets of 2019 and may hinge on continued progress in the auto industry.

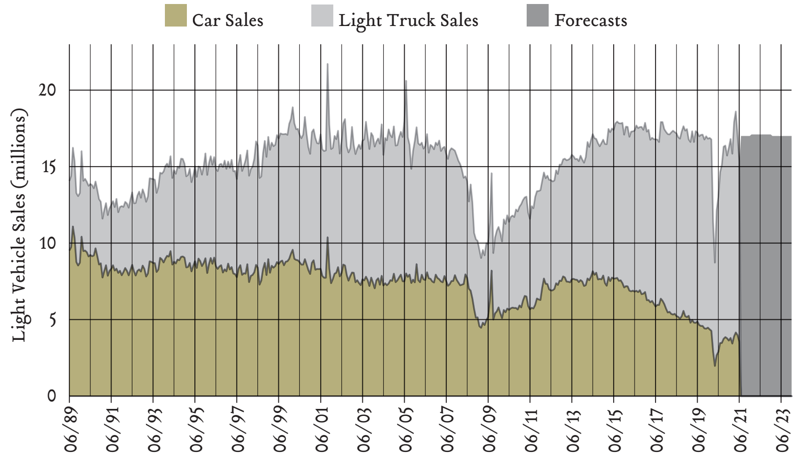
THE AUTO INDUSTRY

COVID has driven significant volatility in the auto industry. In 2020, light vehicle sales fell 15%. Thus far in 2021, demand has rebounded, but production has been challenged by supply shortages, particularly in semiconductors. In addition, the long-standing trend of the new vehicle sales mix shifting away

Michigan Economic Update, continued

from cars and toward trucks continued through 2020 and 2021.

Auto Sales Expected to be Stable



"...looking forward, we expect stability from the auto industry. There is room for manufacturing job gains as production shortages normalize."

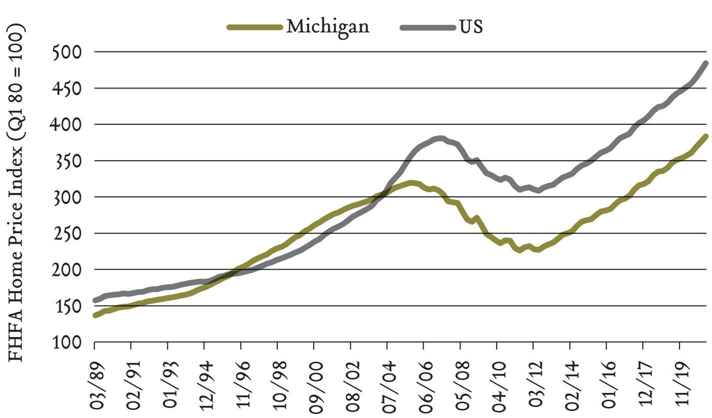
The Consensus Revenue Estimating Conference produced expectations of stable unit sales of 17 million in 2021, 17.1 million in 2022, and 17 million in 2023. In addition, the Big 3 (Ford, GM, and Fiat Chrysler) market share, which in the 1990s topped 70% of the domestic market, is expected to be stable around 40%.

So, looking forward, we expect stability from the auto industry. There is room for manufacturing job gains as production shortages normalize. However, it is evident that Michigan's economy continues to diversify away from the auto industry and that is evident in the regional dynamics of home prices.

MICHIGAN'S HOUSING MARKET

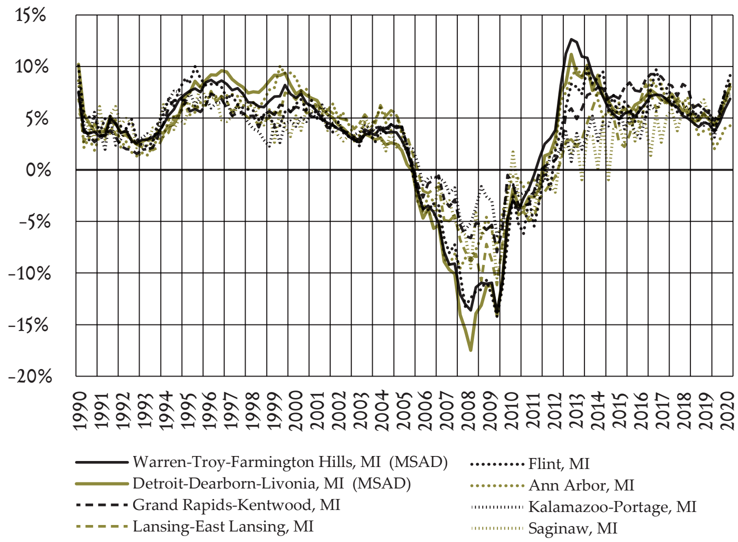
Home prices across the state increased by 5–10% in 2020 and 2021. Today, the Grand Rapids MSA has overtaken Ann Arbor as the state's most valuable residential real estate market, notable because both markets are less reliant on the auto industry than regions in East Michigan. Zillow lists the median home value in Michigan at $208,300, up from around $150,000 in 2019.

Home Prices Accelerate

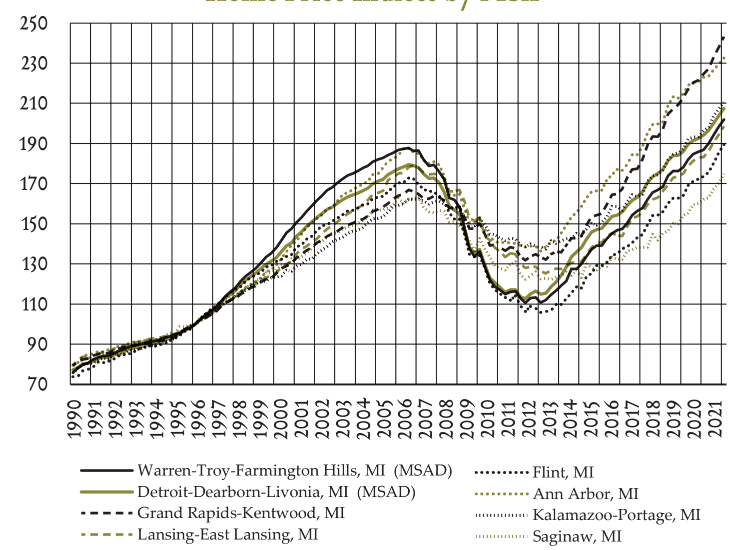


There has been significant variability in home prices across regions in Michigan. In 2021, prices in every major region are higher than their pre-financial crisis levels. In Grand Rapids, nearly 50% higher.

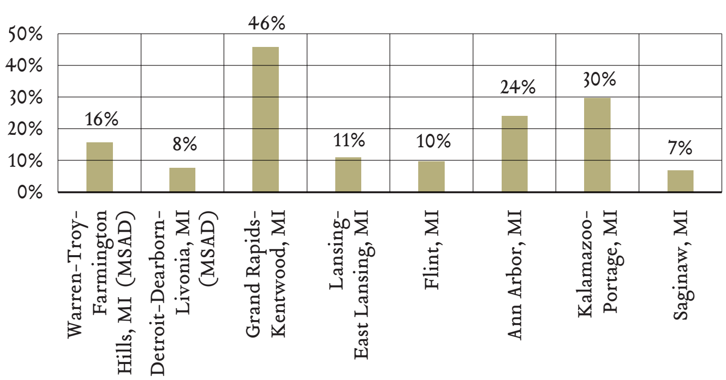
Annual % Change Home Price Indices by MSA



Home Price Indices by MSA



Current Home Price Indices vs. Pre-Crisis Peaks



"Home prices across the state increased by 5–10% in 2020 and 2021."

Michigan Economic Update, continued

Some of the catalysts for rising real estate prices may be behind us. Mortgage rates are unlikely to drop significantly below their 2021 range of 2.8%–3.2%. New housing supply is likely to catch up with rising demand in the coming years. We believe that job and wage gains will need to drive significant further appreciation. Fortunately, the outlook appears favorable for the labor market in the coming years.

> "Following significant disruption due to COVID, Michigan's economy is normalizing."

CONCLUSION

Following significant disruption due to COVID, Michigan's economy is normalizing. Unemployment is falling, wages are rising, and home prices are appreciating. Looking ahead, we expect the state to continue diversifying away from the auto industry as other sectors grow more quickly. We still have a long way to recover, and as we do, Greenleaf Trust will be here to serve our Michigan communities and to help our clients achieve their financial goals.

Sources:
Auto Sales: Bureau of Economic Analysis

Unemployment: Bureau of Labor Statistics Local Area Unemployment Statistics
https://www.bls.gov/lau/

Michigan Consensus Revenue Estimating Conference
http://www.house.mi.gov/hfa/Consensus.asp

Chicago Fed Automotive Outlook Symposium
https://www.chicagofed.org/events/2019/automotive-outlook-symposium

Layoffs: State of Michigan Workforce Development Agency
https://www.michigan.gov/wda/0,5303,7-304-64178_64179---,00.html

Home Prices: Zillow & Federal Housing Finance Agency Home Price Indexes
https://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index.aspx

State Fiduciary Income Tax Savings – Delaware Trusts

Lara Jones-Perrins
Trust Officer
Greenleaf Trust Delaware

A fundamental goal in creating an irrevocable trust is to minimize the effect of taxes on trust assets. Besides shielding trust assets from estate, gift and/or generation-skipping taxes, creating an irrevocable trust can also shelter it from state income taxes. Establishing an irrevocable trust in Delaware allows trust assets to potentially grow free of state income tax coupled with greater growth potential of trust assets over time. Favorable income tax treatments make creating or moving a trust to Delaware attractive for many.

Delaware tax law allows a deduction for income accumulated for non-resident beneficiaries. Delaware does not impose state income tax on income and capital gains earned by an irrevocable trust when beneficiaries are non-Delaware residents. If there are both Delaware and non-Delaware resident beneficiaries, the amount of Delaware fiduciary income tax assessed will be reduced proportionately. However, it's vital to note that beneficiaries who receive trust distributions may still be subject to state income taxation based on their state of residency.

Who can benefit from creating a Delaware Irrevocable Trust? Fundamentally a Michigan resident who desires to create an irrevocable trust while living or at death for non-resident Michigan beneficiaries. A simple example would be:

> Jon Martin is a Michigan resident who is looking to create an Irrevocable Trust for his grandchildren, Jack and Jill, who reside in Pennsylvania. Jon will fund the trust with highly appreciated stock, 100 shares of Pear Inc., with a tax cost of $100 and a fair market value of $2,000,000. If Jon were to appoint Greenleaf Trust Delaware as the corporate Trustee, the initial tax savings when the assets of the Trust are fully diversified would be roughly $85,000. The trust assets will continue to grow free from state income tax.

Michigan	
Proceeds	$2,000,000.00
Tax Cost	$100.00
Capital Gain	$1,999,900.00
MI Tax Rate	4.25%
MI Tax Due	$ 84,995.75

Delaware	
Proceeds	$2,000,000.00
Tax Cost	$100.00
Capital Gain	$1,999,900.00
Deduction for Income attributable to DE Non-Resident Beneficiaries	($1,999,900.00)
DE Taxable Income	$0.00
DE Tax Rate	6.60%
DE Tax Due	$0.00

> "… creating an irrevocable trust can also shelter [trust assets] from state income taxes."

KEY ASPECTS OF CURRENT STATE INCOME TAX SAVINGS

The Trust is irrevocable and taxed as a non-grantor trust for income tax purposes.

MICHIGAN

- 4.25% tax on taxable income
- Tax is imposed on accumulated income of a Trust IF the trust is created under the Will of a Michigan resident or the settlor of the Trust was a Michigan resident at the time the trust become irrevocable, when ANY of the following conditions are met:
    a) The Trustees are not Michigan residents
    b) The assets of the Trust are neither held, located nor administered in Michigan
    c) All beneficiaries of the Trust are nonresidents

State Fiduciary Income Tax Savings – Delaware Trusts, continued

DELAWARE

- 6.60% tax on taxable income over $60,000
- Delaware tax law provides a deduction for income accumulated for non-resident beneficiaries IF the trust is a Delaware resident Trust. The trust become irrevocable when ANY of the following conditions are met during more than one-half of any taxable year:
  a) The trust has only one trustee who or which is (i) a resident individual of DE (ii) a corporation, partnership, or other organization having an office to conduct trust business in DE
  b) The trust has more than one trustee, and at least one of the trustees is a corporation, partnership, or other organization having an office to conduct trust business in DE
  c) The trust has more than one trustee, all of whom are individuals and one-half or more of whom are resident individuals of DE

"Favorable income tax treatments make creating or moving a trust to Delaware attractive for many."

The state of Delaware has a proven track record as a trust-friendly jurisdiction with substantial tax benefits for nonresidents. When it comes to state tax savings Delaware is an excellent option. Creating or moving an irrevocable trust to Delaware is possible by way of Greenleaf Trust Delaware.

Kathleen J. Waldron, QKA
Vice President,
Assistant Director of
Retirement Plan Division

It's That Time of Year – Government Form 5500 Filing

The IRS requires that retirement plan sponsors file a Form 5500 by the end of the seventh month following the close of the previous plan year. Thus, if a plan is operating on a calendar year, the form would be due on July 31. However, in 2021, July 31 is a Saturday; when that date falls on a weekend, the form is due on the next business day. Plan sponsors also have the option of extending the deadline for 2½ months to October 15 (for calendar year end plans) by filing a Form 5558 Application for Extension of Time to File. A little background surrounding this required form is helpful to most plan sponsors.

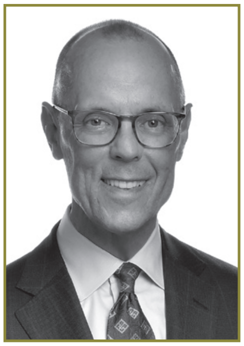
Under the Employee Retirement Income Security Act (ERISA) (the federal law that governs retirement and welfare plans [(e.g., health, life and disability plans)], the Department of Labor (DOL), the Internal Revenue Service (IRS) and the Pension Benefit Guaranty Corporation (PBGC) all impose an annual report requirement on employee benefit plans. However, substantial overlap exists between the responsibility and jurisdiction with respect to the different types of plans. For example, most retirement plans are subject to both a DOL and IRS annual report filing requirement. The IRS, DOL and PBGC have consolidated their annual report into a single form – Form 5500. Therefore, if a plan is subject to annual reporting from more than one of the government agencies, it can satisfy the annual reporting requirements by filing a single Form 5500 with the DOL. The DOL then makes the information available to the other government agencies. The Form 5500 provides the government with its principal source of information to: (1) regulate retirement and welfare plans, and (2) identify plans for audits and investigations. The government uses the information from the Form 5500 not only for regulation purposes, but it also uses the information to establish and modify government tax, economic and social policy.

The DOL has the primary responsibility for processing the Form 5500. The DOL provides a Form 5500 with nine schedules. The schedules the plan sponsor includes with its filing depend on the type of plan and the plan features. The DOL utilizes electronic procedures for filing a Form 5500. Generally, all plans must file electronically (EFAST2). Under EFAST2, a preparer either will use a private software program or the DOL's web-based system to prepare the Form 5500 and schedules. Greenleaf Trust uses a software program for our preparation of Form 5500 and schedules.

For companies with fewer than 100 employees, 5500-SF (Short Form) is available. For those with 100 or more employees the standard Form 5500 is required with multiple schedules and needs to have an independent audit conducted. The main portion of the form reports the overall financial assets in the plan at the start of the year and breaks down the allocation by investment type (mutual funds, etc.), the movement of assets throughout the plan year (contributions, distributions, earnings, etc.) and the assets at the end of the plan year. In addition, large plans have to submit additional schedules that are specific to identifying service providers (e.g. independent auditors, recordkeepers) and fees paid to each of these service providers.

While the plan sponsor is ultimately responsible for signing and filing Form 5500, in most cases, the recordkeeping analysts in our Retirement Plan Division at Greenleaf Trust are responsible to prepare the form and schedules for our clients. We have the knowledge and experience to ensure that the form is completed accurately and timely for our clients and are happy to provide this valuable service. Please contact any one of our Retirement Plan Division team members if there are further questions regarding this filing requirement.

"The government uses the information from the Form 5500 not only for regulation purposes, but it also uses the information to establish and modify government tax, economic and social policy."



Doug P. Bajor, CFA®, CPA, CFP®
Senior Wealth Management Advisor

SLATs: Not Something You Buy at Home Depot

Estate planning is rich with acronyms and can make you feel as though you are searching for an item within the vastness of a Home Depot store. Uncertainty looms as you roam the many aisles looking for the item. Even after you locate what you need, it can be challenging and frustrating to finish your project. Spousal Lifetime Access Trusts (SLATs) are an estate planning technique that sounds like it might be found in the lumber section of your favorite home improvement store. This article will discuss some of the benefits of SLATs for families with more complex estate planning needs.

WHY CREATE A SLAT?

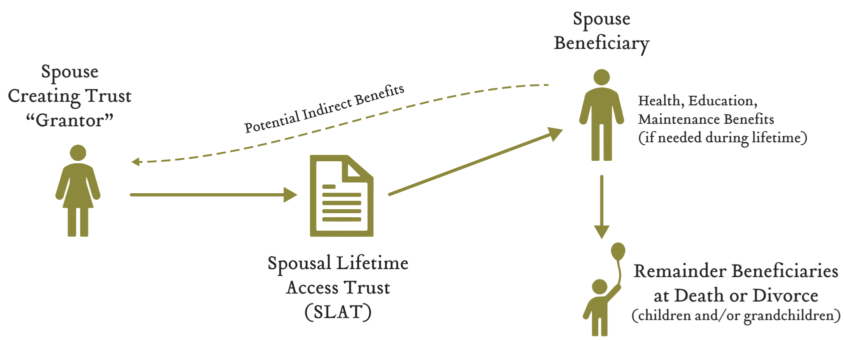
SLATs are designed to help complete gifts by one spouse (the donor of the assets and the grantor or "creator" of the trust) to children, grandchildren or others, while still providing access to the trust for the other spouse, if necessary, for health, education, and support and maintenance needs during their lifetime. SLATs are established to have future appreciation of assets occur in the SLAT rather than be included in the estate of the donor. Currently, individuals are allowed to exclude up to $11.7 million per person from estate taxes. However, concerns exist that this exclusion may be reduced to $5 million by a "sunsetting" of the current laws on December 31, 2025 (or earlier) to $3.5 million by Congress.

> "One of the key aspects of SLATs is that you want as much appreciation as possible to be outside of the estate of the grantor to avoid future estate taxes."

HOW DOES A SLAT WORK?

A SLAT is often established as an irrevocable grantor trust. The grantor selects assets to gift or transfer to the trust. These assets most often include cash, securities, real estate, and closely-held business interests. The grantor usually elects to pay the tax on income generated by the trust so that the portfolio can grow as much as possible outside of their estate. The non-grantor spouse can be selected as a trustee, but many times an independent trustee is used. The trust provisions can be broad or narrow with regard to distributions from the trust to the non-grantor spouse and other family members such as children or grandchildren. One of the key aspects of SLATs is that you want as much appreciation as possible to be outside of the estate of the grantor to avoid future estate taxes. So, non-grantor spouses will often only take withdrawals as needed. Some clients find comfort in this structure in cases where they are concerned about whether they transferred too many assets to other family members in their efforts to minimize estate taxes. This point is a key advantage of SLATs over direct gifts to family members when dealing with large dollar amounts.

Spousal Lifetime Access Trust (SLAT) Flow Chart



CAN BOTH SPOUSES ESTABLISH SLATS?

Each spouse can establish a SLAT for the benefit of the other spouse. However, great care must be taken to make sure that the SLATS are not identical or substantially similar regarding trust provisions, especially as relates to distributions/beneficiaries, types of assets held, and the timing of the creation of the trusts. Otherwise, the trusts could still be included in the estates of the grantors under the Reciprocal Trust Doctrine. This doctrine may cause the IRS to disregard the trusts for estate tax purposes as they could be deemed to have been created for the benefit of the donors.

WHAT HAPPENS UPON THE DEATH OR DIVORCE OF THE NON-GRANTOR SPOUSE?

Since the grantor has relinquished control of the assets in creating the SLAT, he or she will lose the indirect access to the trust assets through their spouse upon divorce or death of that person. The risk of divorce could be mitigated by terminating the non-grantor spouse's interest in the trust in the event of divorce. With regard to a premature death of the grantor, life insurance can provide additional funds to support the surviving spouse. Such insurance proceeds would also be excluded from estate taxes.

CASH FLOW/SPENDING ANALYSIS

Before funding a SLAT, a cash flow projection analysis should be performed to estimate if the amount of assets retained by the grantor and his/her spouse outside of the SLAT are sufficient to support their lifestyles.

SUMMARY

A SLAT can be a great estate planning tool for certain individuals and families with larger estates that want to minimize the amount of estate taxes and maximize the level of growth of assets outside of their estates available for future generations. The use of a SLAT should be considered within a holistic review of key factors affecting the overall comprehensive wealth plan. But you can't get a SLAT at Home Depot no matter how hard you search!

"A SLAT can be a great estate planning tool for certain individuals and families with larger estates that want to minimize the amount of estate taxes…"

Stock Market Pulse

Index	7/31/21	Total Return Since 12/31/2020
S&P 1500	1,004.61	18.06%
Dow Jones Industrials	34,935.47	15.31%
NASDAQ	14,672.68	14.26%
S&P 500	4,395.26	17.98%
S&P 400	2,703.67	18.00%
S&P 600	1,341.28	20.60%
NYSE Composite	16,602.29	15.69%
Dow Jones Utilities	907.42	6.85%
Barclays Aggregate Bond	2,379.96	-0.50%

P/E Multiples	7/31/21
S&P 1500	27.1x
Dow Jones Industrials	21.4x
NASDAQ	96.9x
S&P 500	27.5x
S&P 400	23.9x
S&P 600	24.5x

Key Rates

Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.04%
T Bond 30 Yr	1.89%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,004.61	27.1x	1.32%
S&P 500	4,395.26	27.5x	1.33%
Dow Jones Industrials	34,935.47	21.4x	1.73%
Dow Jones Utilities	907.42	18.9x	3.42%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.57%

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