GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

We have been focusing our commentary on a consistent number of indices and surveys over the past six months, to attempt to gain insight into economic trends in place relative to consumption, production, employment, inflation and recessionary trends. This month's commentary will be more of the same, with perhaps a little deeper dive into some of the measurements.

As the global pandemic began in February 2020, we found the New York Fed's Weekly Economic Index (WEI) particularly helpful and relevant in helping us to understand the conditions our country was in with respect to consumption, production and employment, and that tool continues to be of substantial use. The September 1 WEI reading was +2.53%, reversing the previous month's increase (+3.58%). The individual component indexes negating growth in initial unemployment declines and increases in retail sales and rail traffic were declines in steel production, federal tax withholding, consumer consumption, electricity output and fuel sales. It is helpful to remind ourselves that the WEI is measuring real-time data against data for the same period 12 months ago and thus a reading of +2.53%, while down from the previous month's reading of +3.58%, is still a net positive with respect to GDP growth year over year.

The financial press spent a lot of time reporting on the PMI release. As mentioned previously, the PMI (Purchasing Managers Index) is a survey of specific companies across 18 industry sectors, who agree to report, using a specific tool provided by the Institute for Supply Chain Management, on the current condition of their respective business. The tool measures order book, raw materials, inventory, supplier deliveries, labor utilization, finished goods production and shipments. The PMI is intended to measure the prevailing direction both upstream and downstream in demand and production. The Index is considered to be a leading indicator of the economy and is closely watched. A reading of above 50 is considered to be indicative of positive or expanding GDP and, conversely, a reading of below 50 is considered to be recessionary, or a contracting GDP. As with every index the details matter—July's reading, published at the end of August, came in at 52.8, which was the same as the previous month's reading. Peeling away the layers, we see that new orders improved slightly and supplier deliveries were steady, *Economic Commentary, continued*

indicating a more normalized supply and demand relationship. Employment improved, as evidenced by the jobs growth in manufacturing, while production (orders shipped) slowed during the period. Anecdotal sentiment was positive, with five positive or growth sentiments offered for every negative or cautionary comment; however, 18% reported order book contraction, which was slightly lower than previous surveys.

The Conference Board released their July survey results in late August and the next release will be September 27 for data gathered in August. For the period, the CCI (Consumer Confidence Index) rose from 95.3 to 103.2. The Present Situation Index (PSI) mirrored that report rising from 139.7 to 145.4 and the short term index, often referred to as the expectation index, increased from 65.6 to 75.1, revealing the first increase in three months. In every category the number of positive responses grew while the number of negative responses declined. Dear to consumers' hearts are gas prices which continued to decline. September 1 prices for unleaded came in at an average of $3.79 per gallon nationally with wide dispersion between states (California being the outlier on the upside). One week ago, prices were $3.85 per gallon, one month ago they exceeded $4.00 at $4.11 per gallon, and 12 months ago consumers were paying $3.21 per gallon. The biggest and quickest driver of price change is the futures price of crude oil. If that price remains stable, gas prices will be stable as well. Crude represents 54% of the cost of each gallon of gasoline with refining and distribution each being equal at about 18% of each gallon's cost. Federal and State taxes on fuel average about 10%–11% of the cost. The relationship between crude production and demand globally is both very efficient and very elastic. Global production is managed very well and is very sensitive to demand, and therefore, very unlikely to intentionally create excess supply. It has taken several months since the Russian invasion of Ukraine for the entire supply chain of crude producers to reestablish equilibrium between global demand and daily barrel production levels, however, the most recent trends in at-the-pump prices suggest that progress is being made.

> "… what seems routine in the measurement of our economy instantly becomes political, especially in the volatile and pressure-filled mid-term election cycle that we are in."

The US Bureau of Labor Statistics revealed on September 2 that non-farm payrolls increased by 315,000 in July, but that unemployment increased to 3.7%. Those unemployed grew to 344,000 during the month, and the actual labor participation rate grew to 62.4%, which remained one percent below the pre-pandemic level of February 2020. For the fourth consecutive month, those teleworking declined with the current total being 6.5% of the workforce, which based upon popular media's seemingly constant focus on mobility and remote work surprised me more than a little.

Many economic data points become political and what seems routine in the measurement of our economy instantly becomes political, especially in the volatile and pressure-filled mid-term election cycle that we are in. You have heard and read me say many times before that when the election cycle begins, truth becomes the victim. We have now moved to a constant election cycle where truth has been redefined and facts are simply someone's opinions. As a person who loves numbers and data sets, these times are especially challenging. Inflation is certainly an economic content area that is rife with political overtones. If your party is in power then today's inflation is temporary and caused by global logistical issues created by the pandemic and Russia's invasion of Ukraine. It will be resolved by equilibrium in the supply and demand curve and has also increased wages and the standard of living for many at the low end of the wage scale. If your party is the opposition trying to regain control of power, inflation is an evil tax eroding purchasing power and caused by runaway spending by the party in power. We won't solve the divide between those two perspectives on these pages and, to be certain, both parties would and will change their current position as soon as their power status changes, and they would do so with equal doses of dignity as well as indignity, all the while keeping a straight face.

"We have now moved to a constant election cycle where truth has been redefined and facts are simply someone's opinions."

If we were to stick to the facts, they are as follows. For the month of July inflation was reported at 8.5% which is below the expected forecast of 8.7% and below the previous month's record of 9.1%. For the second month in a row core inflation grew at 5.9% and again was below the expected forecast of 6.1%. The lower rate was due to falling prices of gasoline, fuel oil, natural gas, new cars and airline fares. Food, shelter and used cars continued slightly higher.

Our Greenleaf Summer

Michael F. Odar, CFA®
President and
Chief Executive Officer

Well, summer is just about over. There is a slight breeze in the air, the kids are back in school, football is back, and pumpkin flavored coffee is back in the stores. It was a beautiful busy summer with even more normalcy seemingly returning to our lives. We were certainly busy at Greenleaf Trust, so in the spirit of going back to school, I thought I would let everyone know some of the highlights of our summer.

For the first time in a couple of years, we were able to hold signature events for our clients and friends in each of our Michigan markets. We started in June with a dinner at the new Madrid restaurant in Grand Rapids and then a clambake later that month at the Detroit Golf Club. We then headed north in August to our clambake in Bay Harbor and a farm-to-table dinner at Brengman Brothers Winery in Traverse City. We ended the season with our clambake in Kalamazoo at Kalamazoo College and just recently our inaugural clambake in Midland at the Midland Country Club. Each event was uniquely special and provided everyone there an important opportunity to reconnect face-to-face and simply enjoy a wonderful meal

Our Greenleaf Summer, continued

and each other's company.

While the signature events provided us opportunities to reconnect with clients and old friends, our annual Picture Day in August allowed us opportunities to reconnect with each other. Everyone in the company was in Kalamazoo for photos for our annual report. It was truly an amazing day to see everyone again and interact with each other in person. You could actually feel the positive energy in Kalamazoo that day. Our foundational relationships with each other are a critical ingredient to our culture. For quite a few teammates this was the first time meeting in person, considering we now have 176 teammates and 36 of them have joined the team since the last time we got together for Picture Day.

"While the signature events provided us opportunities to reconnect with clients and old friends, our annual Picture Day in August allowed us opportunities to reconnect with each other."

We were also honored for the second summer in a row as the #1 Cool Place to Work in Michigan (medium-sized company category)! We ranked 6th overall out of 100 companies. Cool Places to Work in Michigan is a research-driven program from Best Companies Group. The award focuses on a company's practices, programs and benefits and surveys employees from their perspective. We were evaluated on our workplace policies, practices, and demographics, followed by a comprehensive survey of our teammates.

As summer was wrapping up, Karen Baldwin, Director of Human Resources, and I met with every teammate in our company in small groups as part of our annual Perspectives and Solutions meetings. The meetings provide us opportunities to collaborate and provide perspectives and solutions to teammate questions and needs. We have been doing these meetings for a long time and can trace many of the improvements we have made to our company through these candid interactions. They are gratifying to all of us and help make us better for our clients.

Our summer reflected our embracement and commitment to our four "Cs" – Clients, Colleagues, Community, and Culture. Important work was done in each of these areas. We look forward to continuing this work throughout the rest of the year and are already starting our strategic planning for next year. I hope your summer was as meaningful as ours.

Collapse of Confidence

Nicholas A. Juhle, CFA®
Chief Investment Officer

Many investors and market pundits describe themselves as contrarians. They argue the way to investment success is to zig when others zag. Warren Buffet encapsulates the idea well with his famous quote, "Be fearful when others are greedy and greedy when others are fearful."

It sounds simple, but how do you know when others are greedy, or fearful? Sometimes, it might be obvious. During the early 2000s, tech bubble, greed in tech-related IPOs might have been easy to spot. We would argue that the picture today is a lot more nuanced and a lot less clear. In this article, we will summarize the data and provide an update on what we are terming 2022's collapse of confidence.

The Data

Economists and consulting companies have a rich history of conducting and publishing surveys. In our assessment of sentiment and confidence, we rely on three categories of surveys: investor, consumer, and business surveys. Each category has its own implications for markets and the economy as shown in the corresponding table.

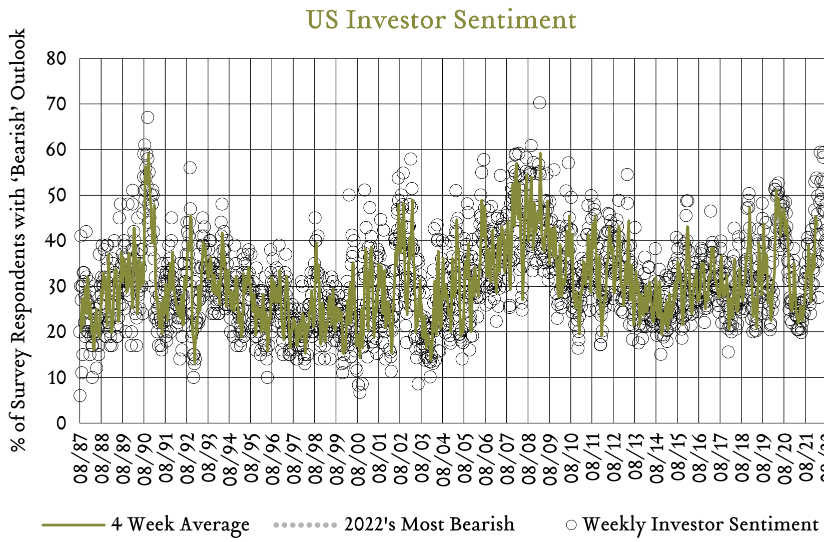
Survey Category	Implications
Investor Sentiment	Pricing of financial assets
Consumer Confidence	Consumer spending Housing market Business cycle
Business/CEO Confidence	Corporate profits Business investment Business cycle

"Be fearful when others are greedy and greedy when others are fearful."
– Warren Buffet

First, let's distinguish between investor sentiment readings and confidence readings. Investor sentiment captures respondents' outlook for the market. Specifically, the AAII Bearish Sentiment Index asks investors to predict whether the stock market will be higher (indicating bullish sentiment) or lower (indicating bearish sentiment) six months into the future. The survey is done on a weekly basis and dates back to 1987.

In the first half of 2022, the survey returned three of the most bearish readings on record indicating investors' expectations for stocks to fall further in the second half of the year. We will see how the rest of the year shapes up, but historically, extreme levels of bullish or bearish sentiment have actually been a pretty good contra-indication of what's to come.

Collapse of Confidence, continued



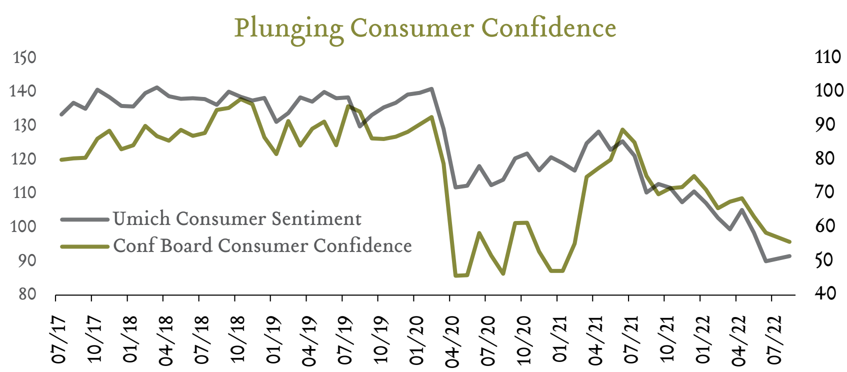
Similar levels of bearishness arose in October of 1990 in the wake of the oil price shock following Iraq's invasion of Kuwait and in March of 2009 following the financial crisis. Just when it seemed like things could only get worse, the tide turned. Stocks returned 33% in the 12 months following October 1990 and finished 2009 66% higher.

"... consumers feel less confident today than they did at any point in the last 44 years..."

Consumer Confidence

Confidence readings are intended to capture respondents' attitudes about the path of economic conditions as opposed to necessarily the path of the market. We do acknowledge the relationship between the economy and financial markets, but think the distinction here is important.

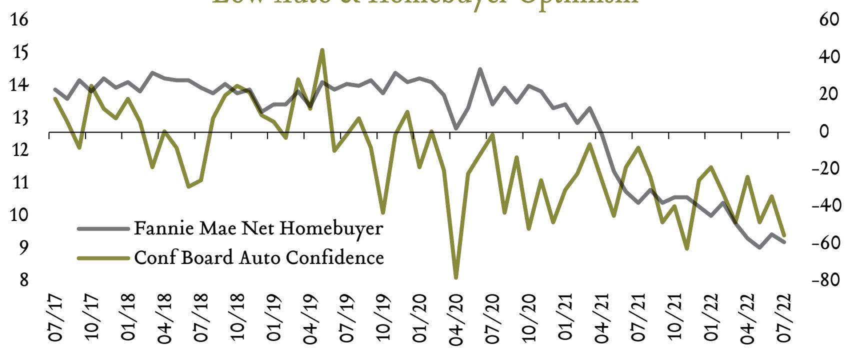
The University of Michigan Consumer Sentiment Index, which dates back to 1978, declined to a record low in June. Based on this measure, consumers feel less confident today than they did at any point in the last 44 years, including at the onset of the pandemic and in the throes of the financial crisis. Another metric, the Conference Board Consumer Confidence Index, shows a precipitous decline over the last year, but to levels that align more closely with historical averages.



Rampant inflation has been a headline issue and a significant overhang for confidence levels. Arguably, most U.S. consumers have very little historical reference or experience with the inflation levels we face today. Living through the highest inflation in over 40 years is both uncomfortable and unfamiliar. Tacking large price increases onto big ticket items has changed consumers' perceptions and attitudes, and potentially their intentions with regard to large purchases.

We can see this pessimistic shift reflected in surveys designed to evaluate automobile and homebuyer optimism. Fannie Mae's survey only dates back to 2010 but suggests consumers feel substantially worse about the prospect of buying a home today than at any point in the last twelve years. In fact, only 17% of respondents believe it is a good time to buy a home right now. Respondents are so sour on the housing market that both the percentage of people who think it is a good time to buy as well as the percentage of people who think it is a good time to sell have fallen this year. The Conference Board Auto Confidence Index has also declined sharply over the last year.

Low Auto & Homebuyer Optimism



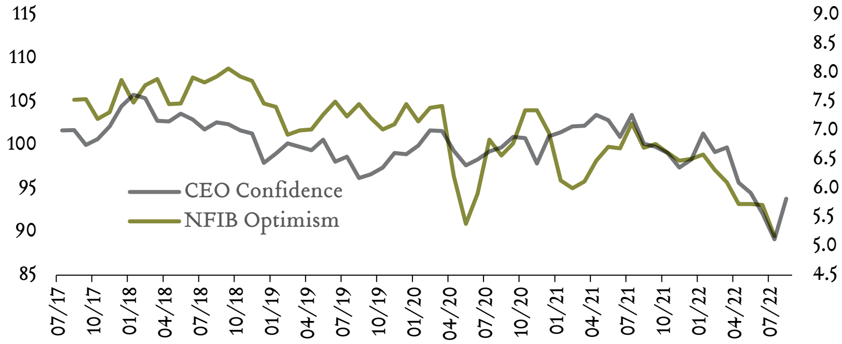
> "We can see this pessimistic shift reflected in surveys designed to evaluate automobile and homebuyer optimism."

Business/CEO Confidence

Corporate executives and business owners have to consider future economic and business conditions when determining how to run operations and allocate capital. Changing attitudes among consumers, and business owners' own feelings as consumers likely influence their forward views on the economy. Relative to last summer, when readings were fairly strong, surveys of business owners and corporate executives have weakened significantly. Optimism among small business owners, as measured by the National Federation of Independent Business (NFIB), is now lower than it was at the onset of the pandemic. Think about that. Business owners are more concerned today than they were when the global economy came to a screeching halt in the face of the most significant public health crisis in 100 years!

Collapse of Confidence, continued

Business Confidence Weakened

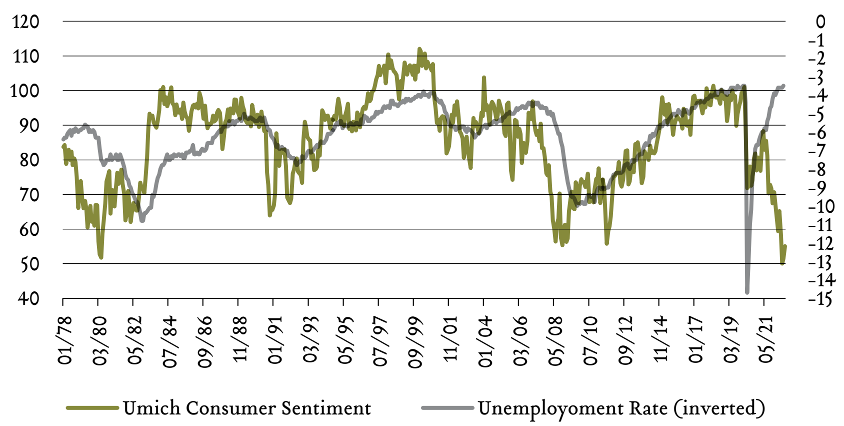


Summary

This year has marked a collapse of confidence and time will tell if it is justified. Do valid concerns about deteriorating economic conditions accurately manifest in our feelings ahead of time? Or… could our feelings (however misguided) influence behavior to create a self-fulfilling prophecy? While either could be the case and there's no shortage of risks to consider, we would argue that, for now, the economic landscape is stronger than survey respondents would have you believe. Keep in mind that the unemployment rate just hit 3.5% in the US, matching its lowest level since we've had sentiment data to analyze.

> "… we would argue that, for now, the economic landscape is stronger than survey respondents would have you believe."

Consumer Sentiment & Unemployment



We have to wonder:

- Is this really one of the three worst environments for US equities in the last 35 years? If you believe investor sentiment surveys, it is.
- Is this really the worst period for consumers since 1978? If you believe the University of Michigan consumer sentiment survey, it is.
- Are things really worse for both homebuyers and sellers simultaneously? Fannie Mae respondents say so.
- Is the business outlook really worse than when the economy was shuttered for COVID?

Harkening back to Warren Buffet's quote, we encourage you to ask yourself another question: does it seem like now is a time people are feeling greedy or fearful? Thank you for your continued support of Greenleaf Trust and for the opportunity to serve on your behalf.

Time to Revisit QPRTs and Split-Purchase Trusts?

George F. Bearup, J.D.
Senior Legal Trust Advisor

Federal interest rates are on the rise, which opens new planning options for many individuals to consider. These federal interest rates are used to value retained interests for federal gift tax purposes. Specifically, the so-called IRC 7520 rate is equal to the mid-term applicable federal rate (AFR) times 120%, rounded to the nearest two tenths of 1%. The mid-term AFR rate for August 2022 was 3.80% [3.15 times 1.2.] One year ago, the same 7520 rate was 1.2%. Accordingly, if an individual were to transfer $1 million to a trust and retain the right to income for 10 years when the IRC 7520 rate was 3.8%, the value of the right to receive income for 10 years would be about $300,000; subtracting that amount from the $1 million value of the transferred property to the trust would result in a taxable gift of about $700,000.

Low interest rates have prevailed over the past several years which, in turn, have reduced the benefits of funding a personal residence trust or engaging in a split purchase of a residence. However, the recent rise in the federal interest rates makes using either a personal residence trust or a split-purchase of a residence something more individuals should consider as a part of their estate plans. In contrast, the rapidly increasing IRC 7520 rate has made a grantor retained annuity trust, or GRAT, less effective as an estate planning tool to shift wealth in a tax efficient manner.

> "…the recent rise in the federal interest rates makes using either a personal residence trust or a split-purchase of a residence something more individuals should consider as a part of their estate plans."

Example: In August 2021, the IRC 7520 rate was 1.2%. If a 72 year-old senior family member transferred their $1 million home into a qualified personal residence trust (QPRT), and they retained a 10-year right to use and occupy the home, that transfer would result in a taxable gift of about $890,000 of the remainder interest in the QPRT. If the same transfer of the $1.0 million home to the QPRT occurred in August, 2022, when the IRC 7520 rate is 3.8%, that results in a taxable gift by the senior of about $690,000. Note that the $690,000 current gift would result in a transfer of a $1 million asset in 10 years, which from the beneficiary's perspective represents a 3.78% annualized compounded return. If the transferred home grew in 10 years from $1 million in value to $1.5 million, (an approximate 4% annualized compounded return in the home's value) then the return to the QPRT remainder beneficiary is greater than an 8% annualized compounded return. The benefit with the use of a QPRT is that all future appreciation in the home is transferred to the QPRT remainder beneficiaries free from any gift tax.

Consequently, while the reduction in the IRC 7520 rate in recent years may have been viewed as reducing the effectiveness of a personal residence trust, the increase in the rate over the past year has increased the viability of a QPRT as an effective estate planning tool. Moreover, for those individuals who are concerned about the scheduled 'sunset' of their applicable federal estate and gift tax exemption starting in 2026, the use of a QPRT to shift future appreciation in a residence outside of their taxable estates makes sense.

"… the increase in the [IRC 7520] rate over the past year has increased the viability of a QPRT as an effective estate planning tool."

Alternatively, instead of an individual giving a remainder interest in a home that he/she already owns, he/she could acquire a life estate in a new residence and have another family member (or a trust for younger family members) acquire a remainder interest in the new residence. This might be an appealing option if recent retirees decide to move to another state, like Florida. Even if the senior family member already owns the home, he/she could sell the remainder interest to a family member (or a trust for family members) for full consideration without causing any federal estate tax problems or the payment of any federal gift tax.

Both the split purchase of a new residence and the sale for full value of the remainder interest in an existing residence will fall under the personal residence exception of the Tax Code. [IRC 2702.] In addition, if the sale of the remainder interest was to a grantor trust established for family members,([i.e. its income is taxed to the residence owner) there should be no capital gain recognized on the sale of the remainder interest to the grantor trust.

Example: A 72-year-old individual under the IRS mortality tables has a life expectancy of 14 years. Assume that he/she would like to retain a 10-year interest in the new residence. The value of the purchased 10-year right-to-exclusively-use term in the residence is about 31% and the remainder interest is worth 69% of the value, again using the IRC 7520 rate of 3.8% for August 2022. The 72-year-old could also purchase a life estate in a new residence; the value of that purchased life estate would be about 39% with the remainder interest paying about 61% of the residence's fair market value.

Or consider an even younger senior family member who is age 60; their life estate would reflect about 54% of the purchase price, and the remainder interest's purchase price would be about 45% of the residence's fair market value if the IRC 7520 rate is 3.8%. In fact, the value of the remainder interest in the residence deceases when the IRC 7520 rate increases. If the 60-year-old individual purchased a life estate, and the IRC 7520 rate was 5%, the value of the life estate increases to 63% and the value of the remainder interest decreases to 36% of the residence's fair market value. In short, the split purchase of a new residence, or the sale of a remainder interest in an existing residence is best either for younger individuals, or when a higher IRC 7520 rate prevails.

An additional benefit to a split purchase of a new home over a QPRT is that there should be no valuation issues to worry about. The home's value will presumably be its purchase price, and the individual who purchases the life estate's share of the that price will be determined under the IRS' life expectancy tables. Another potential benefit with a split purchase of a new residence is that unlike a QPRT, which when its exclusive use term ends either requires the senior family member to move out of the residence, or start to pay fair rental value for the use of the residence, the purchase of the life estate interest means that the senior family member who purchases a life estate will not have to move out at a later date or pay fair rental value for the use of the home when the QPRT exclusive use term comes to an end.

While the recent rise in the IRC 7520 rate has reduced the tax benefits of a GRAT as a wealth-shifting strategy, that same increase in rates has given new life to QPRTs under the IRC 2702 exception of the Tax Code, and even more so to a split purchase of a new residence. Estate planning strategies come and go depending upon the IRC 7520. That is something to keep in mind.

"While the recent rise in the IRC 7520 rate has reduced the tax benefits of a GRAT... that same increase in rates has given new life to QPRTs..."

New Discretionary Match Contribution Communication to Participants

Christina E. Sharp, QKA®
Senior Relationship Specialist

Many employers who sponsor a 401(k) plan use a pre-approved plan document with adoption agreements. Every six years, plan document providers update their 401(k) documents with regulatory changes and file them with the Internal Revenue Service (IRS) for review and approval. Once the documents have been pre-approved by the IRS, employers must adopt this pre-approved plan by a certain date. Most recently, the pre-approved Cycle 3 plan documents were required to be adopted and signed by plan sponsors no later than July 31, 2022.

In this pre-approved Cycle 3 document, the IRS added the requirement that employers must begin to provide a discretionary match communication to eligible employees beginning the Plan Year following the Cycle 3 401(k) plan document adoption. Originally the IRS had considered eliminating discretionary match provision due to Treasury Regulation 1.401-1(b)(1)(ii), that states "plans must provide a predetermined formula for allocating the

New Discretionary Match Contribution Communication to Participants, continued

contributions made to the plan among the participants," which is often referred to as "definitely determinable benefits." A discretionary match provision allows employers to avoid a definitive match formula or the match computation period (pay-to-pay, quarterly, annually) in the plan document. The IRS agreed to continue to allow discretionary match provisions on the condition that plan sponsors provide in writing to the trustee/recordkeeper the exact details of the discretionary match and send a discretionary match communication to participants.

The discretionary match communication must provide the eligible employee details of the discretionary match, such as the formula or flat dollar amount allocated to participants as well as the timing of the allocation, such as pay-to-pay or annually. Additionally, the communication must provide information if the match is different per divisions or job classes. And, if the plan provisions provide for a true-up contribution, which means the match is based upon the entire plan year contributions, this must be included in the communication. The actual match contribution amount the participant receives will be part of the employee's benefit statement, not this general communication.

"This annual communication provides a great opportunity for employers to highlight this employer match benefit to employees."

At first, the IRS proposed this summary to employee be designated a regulatory notice and then agreed to allow it to be considered a required participant communication. Many employers restated their 401(k) plan in 2021, which means this communication is due for the 2022 plan year. The communication to participants may be provided any time before the deadline, which is 60 days after the employer allocates the final match contribution. For example, if a company restated their plan for Cycle 3 in 2021 and allocated the final matching contribution for an annual match for plan year 2022 on April 1, 2023, then the communication must be provided to the employee by May 30, 2023. Some plans allocate the match contribution pay-to pay. For a calendar year plan allocating the match pay-to-pay, the deadline for this communication would be 60 days after the final contribution, which would be approximately early March. This discretionary match communication may be provided electronically to employees.

An employer match contribution enhances an employee's savings for retirement and is a valuable provision in a retirement plan. This annual communication provides a great opportunity for employers to highlight this employer match benefit to employees.

To ensure compliance with this new requirement, Greenleaf Trust will review plan document match provisions for clients who utilized our plan document service to adopt the Cycle 3 401(k) restatement. Greenleaf Trust will work with the plan sponsor, who elected a discretionary match provision, to meet this requirement by collecting written documentation of the discretionary match from the employer, as well as prepare and send the communication electronically to the participants prior to the deadline.

Using Disclaimers as an Estate Planning Tool

Carlene R. Korchak, CTFA
Vice President
Senior Trust Relationship Officer

My husband tells me that to do any job right, you need the right tools. He practices what he preaches because we have a garage full of tools for any job you can imagine. (He and Tim "The Tool Man" Taylor have a lot in common.) The problem is, I can stand in our garage and know that the right tool is there – somewhere—to help me do whatever project may need to be done, but I have no idea which tool to use.

The same can apply to estate planning. There are many tools in the estate planning toolbox, and your team at Greenleaf Trust is committed to helping our clients and prospective clients understand the tools that may be appropriate for each family's situation to meet their goals.

One estate planning tool that sometimes is not at the forefront is the use of disclaimers, somewhat equivalent to the "Sawzall" tool on the shelf in our garage that does many things. Disclaimers can be used in various situations to add flexibility to an estate plan, or to fix a problem after the property owner has passed away.

Pre-death planning with disclaimers can be an effective technique to allow for unknown future circumstances. The property owner can plan ahead, with language built in to his or her documents that can accommodate most situations, including residuary clauses that provide for disclaimers ("takers in default") should a spouse or other beneficiary decide to take advantage of a disclaimer. The disclaiming beneficiary cannot direct where the assets go, so the asset owner can plan in advance for this possibility. I like to say that good estate planning attorneys consider all of the "what ifs" with their clients. In the case of disclaimers, attorneys will routinely discuss opportunities for disclaimers with asset owners to create the ability for the named beneficiary to move assets to the next-in-line beneficiaries who might need the wealth more than the originally-named beneficiary.

> "One estate planning tool that sometimes is not at the forefront is the use of disclaimers..."

Disclaimers can also be useful for post-mortem planning when more facts are known, or if unintended consequences occur in a decedent's estate.

Stated simply, in the world of estate planning a disclaimer is the refusal to take a gift or bequest. Congress has added some rules that cause a disclaimer to be considered a "qualified disclaimer" for federal transfer tax purposes. Here are the basic guidelines for a qualified disclaimer:

- A disclaimer is irrevocable and must be made in writing.
- The disclaimer must be made within nine months from the time the person had the right to receive the asset. (There is an exception for

Using Disclaimers as an Estate Planning Tool, continued

those under 21 years of age at the time they had that right: they may disclaim until nine months after their 21st birthday.)

- The person disclaiming cannot accept an interest or receive any benefit from the asset being disclaimed.
- The person disclaiming may not control or direct the disclaimed asset's disposition in any way and the property must pass either to the decedent's spouse, or to a person other than the person making the disclaimer.

If all of these conditions are met, the disclaimed interest passes as if the named beneficiary had never received the property. The next beneficiary (or beneficiaries) step into the shoes of the disclaiming beneficiary. Unless specifically named by the property owner, state law determines the next beneficiaries.

Other points of note:

- A beneficiary can make a partial disclaimer for a portion of the property he or she is slated to inherit.
- A qualified disclaimer of assets is not considered for gift, estate or generation skipping transfer tax purposes according to federal transfer tax law.
- There is a special opportunity for a spouse (and only a spouse) to disclaim assets. A spouse could disclaim assets, with the assets then passing to a trust where the disclaiming spouse continues as a trust beneficiary. The disclaiming spouse cannot, however, have control of the assets, or have a power of appointment over the trust.

"There are myriad situations where disclaimers could and should be considered."

There are myriad situations where disclaimers could and should be considered. Just to illustrate the potential power of disclaimers, following are just three simplified examples of when it might make sense for a beneficiary to disclaim.

Example #1 - Potential Changes to the Lifetime Gift/Estate Tax Exemption and Lack of Predictability

The current lifetime exemption for gift and estate tax is approximately $12,000,000 for a person who dies this year. However, unless Congress acts, that exemption amount (that now increases annually for inflation) is slated to sunset and return to approximately $6,000,000 in 2026. Congress may act and change the law either before or after the sunset date.

In addition, legally married U.S citizen spouses can share the unused exemption when the first spouse dies if an estate tax return is filed within two years of the first spouse's death. (At this time, this shared unused exemption rule does not sunset in 2026).

The point is, it is difficult to know what the exemption amount will be, not only when a first spouse dies, but thereafter when the second spouse dies.

For example, a married couple has a combined estate worth $15,000,000 with assets held in one spouse's revocable trust that passes to the surviving spouse, and then to the children at the surviving spouse's death. The spouse with the trust assets dies in 2022 having made no taxable gifts during his or her lifetime. The deceased spouse's remaining unused exemption of approximately $3,000,000 can be added to the surviving spouse's lifetime exemption if an estate tax return is timely filed. The surviving spouse has few assets of his or her own, but also does not need $15,000,000 for living expenses throughout his or her lifetime, and would like the children to benefit sooner rather than later at his or her passing.

As long as all of the requirements are met for a qualified disclaimer, the surviving spouse can disclaim a portion of the trust assets not needed for living expenses, let's say $6,000,000 in this example, which allows the children to receive those assets at the time of the disclaimer per the terms of the trust, without any gift tax consequences to the surviving spouse.

In our example, the surviving spouse passes away in 2026, when his or her exemption is $6,000,000 (if the law is not changed), plus the deceased spouse's unused exemption of $3,000,000, for a total of $9,000,000. The value of the surviving spouse's estate (if we consider no growth in assets since 2022) is $9,000,000, and no estate tax is due.

In this case, if the surviving spouse had retained all of the assets and disclaimed none, the estate tax due at death would be approximately $2,100,000. Not only do the children receiving the disclaimed assets have use of those assets sooner, saving $2,100,000 in estate tax by doing a qualified disclaimer is quite a good deal!

Example #2 - Keeping Things Equal

Another example of potential use of a disclaimer is dealing with a situation we see too often, in my opinion. Without understanding the consequences, during their lifetimes, parents who own a bank account add one of their children as a co-owner of the account to facilitate bill payment.

The parents' overall goal is to leave their assets equally to their children, as stated in their wills and/or trusts. By adding one of their children to their bank account they have just created several issues: inequality of inheritance to their children, potential gift tax consequences, and risk of losing their bank account assets to their co-owner child's creditors.

In this example, when the second-to-die of the parents passes away, the bank account passes outright to the child who is the surviving owner. Nothing from the bank account will pass to the other children, potentially

"Without understanding the consequences, during their lifetimes, parents who own a bank account add one of their children as a co-owner of the account..."

Using Disclaimers as an Estate Planning Tool, continued

straining the relationship between the siblings, especially if the bank account has a sizable balance.

The child who inherits the property could disclaim the bank account. As long as the parents' wills or trusts provide for all of their children to receive assets equally, the bank account proceeds could then be divided and pass equally to all of the children via the disclaimer. *Of note, this would be considered a non-qualified disclaimer because the disclaimant had an interest in the assets.* This disclaimer would be considered a gift from the child who inherited the account to his or her siblings. However, if the gift to each of the siblings is less than the annual exclusion amount ($16,000 for gifts to any one individual in 2022), no gift tax would be incurred by the child making the gift. Making this disclaimer might be worth it to keep peace in the family, whether or not it is a reportable gift for gift tax purposes.

Totally separate from the issue of inequality of inheritance issue described above, when the parents added the child as co-owner of the bank account, 1/3 share of the balance at the time the child was added is considered a gift (hopefully less than the annual exclusion amount), and it also exposed the parents' bank account to any creditor claims for their co-owner child (think divorce, bankruptcy, lawsuit claims). There are much better and safer ways to handle this situation, including the use of a Durable Financial Power of Attorney naming the child as agent, adding a child as an "authorized signer" on the account, or, for our clients, Greenleaf Trust can assist with bill payment services when needed.

"Naming a trust as a Traditional IRA beneficiary is complicated ... It can also be very expensive"

Example #3 – Trust as Beneficiary of an IRA

Naming a trust as a Traditional IRA beneficiary is complicated, and cannot be changed once the IRA account owner has passed away. It can also be very expensive when you consider that an irrevocable trust is taxed at the highest marginal federal income tax bracket of 37% when the trust's income, which includes required Traditional IRA distributions to the trust, exceeds about $13,300 during the year. If the surviving spouse and children are named as current beneficiaries of the trust, the trust may be taxed at a much higher rate than if the spouse or children had been named individually.

In addition, if the beneficiary designation has not been updated in many years, the original purpose of naming the trust may no longer apply, such as providing for minor children who are now adults. Also, the SECURE Act of 2019 and the ongoing interpretations of the new rules by the IRS are creating sometimes confusing and very complex situations when a trust is named as beneficiary of an IRA.

If there is appropriate disclaimer language in the trust, the spouse and children could disclaim the IRA portion of the trust. Individual inherited

IRAs could then be established for each of them, and required distributions would be taxed at their respective marginal income tax brackets. The SECURE Act rules for individual beneficiaries are still complicated, but clearer than when a trust is named.

There are risks and cautions when considering a disclaimer of property.

- State tax laws vary, so it is important to consider local laws in addition to federal tax law prior to making a disclaimer.
- Before making a disclaimer (qualified or not), make sure to understand who will be the recipient of the disclaimed property. If specific "contingent" beneficiaries are not named, state law will dictate the ultimate beneficiaries. In Michigan, there is a "Table of Consanguinity" that provides this direction.
- Often the reason for disclaiming property is related to tax savings. Tax savings will not occur at the federal level unless all four requirements for a qualified disclaimer are met, including the requirement that a non-spouse disclaimant may not receive the disclaimed property in any way. Sometimes there are contingencies built into IRA agreements, wills, and trusts that may cause the disclaimed asset to eventually pass to a non-spouse disclaiming beneficiary that will negate the tax savings. It is important to review all aspects of the property owner's documents to assure there are no issues if tax savings is the goal.
- Timing and lack of control over the disclaimed property are important considerations for qualified disclaimers. The election to disclaim is irrevocable, and we recommend using the services of a good estate planning attorney when considering this option.

Please keep this flexible and useful estate planning tool in mind when updating your estate plan documents with your attorney. If you have a specific situation where you feel a disclaimer might be useful, please let your client centric team know and we will be happy to discuss it further with you.

"Often the reason for disclaiming property is related to tax savings. Tax savings will not occur at the federal level unless all four requirements for a qualified disclaimer are met..."

Series I Savings Bonds… Is the Hype for Real?

Allison L. Birmingham, CWS®, CCFS™
Senior Wealth Management Advisor

The year 2022 has kept us on our toes. Stock market volatility, inflation, and world turmoil have led the way. However, among all the noise, there have been some highlights that are worth exploring. One catching our attention: Series I Savings bonds. But are they worth the hype?

Since February 2022, nearly $11 billion in I bonds have been issued, compared to an estimated $1.2 billion during the same period in 2020 and 2021, per Treasury Department records. One of the main causes for the jump is the fact that Series I Savings bonds are currently offering staggering annual interest payments of 9.6%, based on the bond's latest inflation rate calculation (tied to March's consumer-price index). That's 9.6% annualized for bonds backed by the full faith of the United States government. You will not find a better deal in fixed income right now. So, is the hype for real?

The composite rate for I bonds issued from May 2022 through October 2022 is 9.62%	
Here's how we calculate that composite rate:	
Fixed rate	0.00%
Semiannual inflation rate	4.81%
Composite rate = [fixed rate + (2 x semiannual inflation rate) + (fixed rate x semiannual inflation rate)]	[0.0000 + (2 X 0.0481) + (0.0000 X 0.0481)]
Composite rate =	(0.0000 + 0.0962 + 0.0000000)
Composite rate =	0.0962
Composite rate =	9.62%

"… Series I Savings bonds are currently offering staggering annual interest payments of 9.6%…"

I Bonds are purchased electronically from the government at Treasury Direct, a website which putting it lightly, lacks sophistication. The mind-blowing yield, in a challenging fixed income environment, is computed every six months (May and November) and compounds semi-annually. There is a fixed component (currently 0%) and an inflation-indexed component tied to the CPI, which resets semi-annually.

On top of the opportunity for a risk-free fixed income asset, the tax benefits aren't too shabby. For all individual investors, I bonds are exempt from state income taxes, while federal income tax can be deferred until redemption. Should an individual elect to use I bonds for Qualified Higher Education Expenses – tuition and fees, books, supplies, room and board higher education costs – interest earned is entirely tax-free.

With every good opportunity lies a limit. Annually, an investment within Series I Savings Bonds are limited to $10,000 per person, and accounts can only be held individually. Although joint accounts are prohibited, spouses for example can open separate accounts to maximize potential. The government does grant opportunity for additional investment, up to $5,000, if an individual uses all or part of their tax return to purchase I bonds directly. The request for bonds via your tax return must be in increments of $50 (any remaining refund amount not used to purchase bonds will be refunded to the individual).

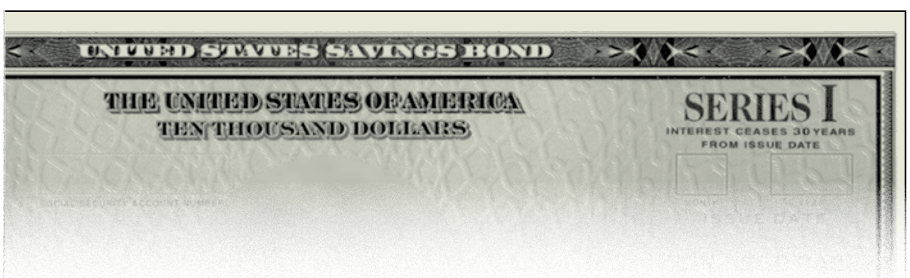
Every rose has its thorn, and I Bonds do have some disadvantages.

As previously mentioned, the Treasury Direct website looks as though it was created in the mid-90s and is not a pleasurable user experience. Arrive to the site with time to spare, and much patience. As compared to other marketable securities, I bonds in particular are difficult to rebalance and are entirely untouchable for the first 12 months. The investor should assume the I bonds are illiquid for the entire penalty-free holding period of five years. Should the investor liquidate early, a penalty of three months' worth of interest is forfeited. The government prohibits the purchase of I bonds within retirement accounts (IRA's, 401(k)s), and therefore purchases can only be completed within taxable accounts.

It's hard to predict how long the near-10% Series I Savings Bond yields will sustain. However, some analysts predict the reset in November will be similar, possibly even an increase. The new rate would apply to any bonds purchased between November 1, 2022 and April 20, 2023.

If you're searching for unique ways to put to use the excess funds in your savings account, and further diversify your portfolio amid the choppy stock market, you might consider Series I bonds as a safe long-term investment with a reliable return. For the most part, the hype seems to be fully-backed; however, $10,000 at a time.

"It's hard to predict how long the near-10% Series I Savings Bond yields will sustain. However, some analysts predict the reset in November will be similar, possibly even an increase."



Stock Market Pulse

Index	8/31/22	Total Return Since 12/31/2021
S&P 1500	903.48	-15.98%
Dow Jones Industrials	31,510.43	-12.01%
NASDAQ	11,816.20	-24.06%
S&P 500	3,955.00	-16.15%
S&P 400	2,431.05	-13.60%
S&P 600	1,183.98	-14.77%
NYSE Composite	14,801.25	-12.27%
Dow Jones Utilities	1,009.08	5.20%
Barclays Aggregate Bond	2,101.88	-10.75%

P/E Multiples	8/31/22
S&P 1500	18.8x
Dow Jones Industrials	17.4x
NASDAQ	37.5x
S&P 500	19.3x
S&P 400	14.6x
S&P 600	14.4x

Key Rates

Fed Funds Rate	2.25% to 2.50
T Bill 90 Days	2.77%
T Bond 30 Yr	3.29%
Prime Rate	5.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	903.48	18.8x	1.66%
S&P 500	3,955.00	19.3x	1.65%
Dow Jones Industrials	31,510.43	17.4x	2.13%
Dow Jones Utilities	1,009.08	18.9x	3.23%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.63%

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