GREENLEAF® TRUST

# Perspectives

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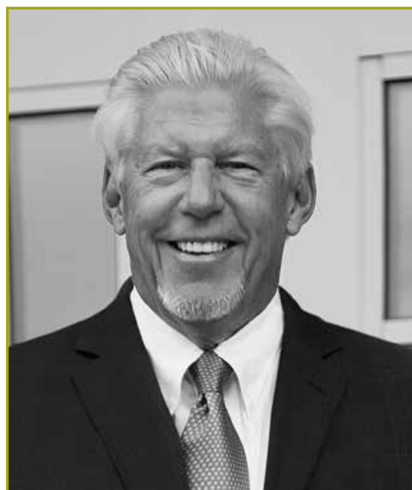


*William D. Johnston*
*Chairman, Greenleaf Trust*

Populism in Europe – European Elections 2017 4

Unsigned Wills: Really! 8

What Will Happen with Transfer Taxes? 11

Target Date Funds: A Useful Investment Tool or a One-Size Fits All Solution? 12

Financial Planning Resolutions 14

## Economic Commentary

President Trump may be a political novice when it comes to understanding the culture that is inside the beltway, but he has paid attention to the axiom universally held on political capital. The first 100 days of any new administration are critical to the future of the administration, because political capital fades fast and is usually expired within three to four months of winning an election. The daily onslaught of "executive orders" following the inauguration are evidence that President Trump understands the urgency to initiate policy moves while simultaneously rewarding supporters by being steadfast to his campaign doctrine and promises. What every other President has also learned is that "executive orders" can be fleeting, and that the real coup is converting the orders to legislation that then become codified in public policy.

Public policy is important. I heard those words from Professor Morrison as a sophomore in a Public Policy class in my undergrad days. I admit that as a nineteen year old immature student, I had no real clue about the importance of what the yellow-bow-tie-wearing Professor Morrison was railing on about. After four decades of observing and working in the financial world I have come to understand up close and personal the importance of public policy, both good and bad.

I have had the opportunity to learn that public policy matters and, more importantly, how it weaves its way from campaign promise to codified legislation is important, and that the details matter immensely. Good policy has the law of unintended consequences fully vetted before being enacted, and bad policy doesn't. The financial world that I live in is a highly regulated world, with multiple layers and multiple jurisdictions of regulations. We are regulated by the Federal Reserve, FDIC and the State of Michigan. All businesses that function in our space of trust banking and wealth management enjoy the same regulation. All would tell you that the cost of doing business in this industry has grown dramatically over the past decade, and that the costs to manage our responsibilities to meet the advance of regulatory requirements annually has exceeded the rate of growth of any other line item on the expense side of the ledger. This description is not one of anger, but simply fact,

*Commentary, continued*

and is true for not only our industry sector but is true for nearly all sectors of our economy. When you hear people say or read content about the cost to our economy due to regulation, know that the cost is real and tangible.

The cost to employ internal team members whose only job is compliance with regulation is real and, by the way, they do a terrific job and are highly experienced and valuable members of our team. The cost to employ outside legal counsel to review and advise on compliance matters is increasing annually, and we value their wise counsel. The time and energy cost of our executive team and board of directors is real and increasing, as the size of our business grows and regulatory requirements become more complex. All businesses, both privately owned as well as publicly traded, have experienced the same phenomena over the past decade.

"For every regulation there is a cost to the economy as well as a benefit to those the regulation protects. Really good public policy delivers maximum benefit to those it protects while minimizing the economic costs to deliver that benefit."

For every regulation there is a cost to the economy as well as a benefit to those the regulation protects. Really good public policy delivers maximum benefit to those it protects while minimizing the economic costs to deliver that benefit. There is a sense within the regulated sectors of our economy that the cost benefit ratio has gotten out of balance, and with that imbalance we have suffered an economic cost that has negatively impacted our GDP. "Executive orders" are simply the Presidential direction to his team, as well as the teams of legislative support personnel, to get to work on policy that will result in legislation that will codify the intent of the "executive order." Last week the President issued an "executive order" that would require every regulatory body to eliminate two regulations for every new regulation that their agency introduced into law. On the surface this order was pleasing to those who have felt the unbalanced hand of regulation over the past decade. The most important part of the order is of course the details that make their way to the final result. We can say, in concept, that reducing regulation may reduce costs and therefore be additive to GDP growth; however, that result may not be achieved if the cost of new regulation is greater than the cost imposed by rescinded regulations. The devil will be in the details, which is why it probably makes sense not to rush to judgment about "executive orders" being delivered on a daily basis from the new administration. As we mentioned in our year end update and 2017 projection, it remains too early to build a case around the tax or regulatory impact on our economy until we gain clarity on the details of what will be codified into law with legislation.

Those who assume that I am for a deregulated environment in general would be wrong. Regulation almost always exists for the protection of

citizens, and the need to do so due to previous abuses that were not guarded against. Public health and safety are critical, and both require really well thought out public policy that answers best the question of protected good and economic cost. Consumers have been abused and taken advantage of when greed and syndication of product joined forces. The losses and costs to consumers need protection and the industries that serve and sell to consumers must be required to comply with standards that protect the very people they serve and sell to. Regulations that achieve that goal while simultaneously delivering the balance necessary minimize the cost to GDP growth make perfect sense, and require well thought out policy to deliver on both of those needs.

Terms like nationalistic, protectionist and isolationist mean different things to each person. Some value those terms and others are unsettled by them. Tariffs have been on the front burner of the President's intended policy to "build a wall" on the US-Mexico border. The policy appears to be intertwined with the President's notion that trade agreements negotiated by the previous five Presidential administrations have been bad for the United States. In particular, the President has expressed strongly that the North American Free Trade Act, or NAFTA, as well as the Trans-Pacific Partnership, or TPP (not passed into legislation), are and would be bad for the United States. This discussion has caused significant unease among trading partners, and also has developed questions about business planning strategies within industries that either supply or sell into trading partner economies.

Tariffs are rarely, if ever, one way streets. The assumption that one country can impose restrictive tariffs on another without causing a reaction is naive at best. 49% of all S&P 500 companies serve and sell into global markets. Tax impact matters to the expense line of each of these global companies. Policies that support the advancement of markets and the reduction of expense to develop, manufacture and sell to the maximum number of people, wherever they live, makes sense. Policies that punish and restrict, on the other hand, restrict customers, add to cost, reduce profits and penalize consumers who, by the way, are the engine for GDP growth in every economy. The assumption that a tariff will not be absorbed by the consumer is relaxed thinking at best and, in fact, could well result in a new implied tax on the consumer. Globalization is not a genie that we can put back in the bottle; rather, we must develop policy that promotes growth and one that doesn't penalize our consumers and, thus, our economy. It is probably true that 2017 will be a year of fleshing out the details of an abundance of policy proposals. May we live in interesting times.

"Globalization is not a genie that we can put back in the bottle; rather, we must develop policy that promotes growth and one that doesn't penalize our consumers and, thus, our economy."

*John Graham*
*Guest Author*

# Populism in Europe – European Elections 2017

*As a long-time friend of Greenleaf Trust specializing in foreign economic and financial markets, John Graham shares his global investment perspective as a guest contributor in this month's Perspectives. John is a founding member of Rogge Global Partners headquartered in Great Britain and former head of JP Morgan's Multicurrency Asset Management Practice in London.*

After the populist outcomes of the Brexit referendum and the US Presidential election, all eyes now turn to Europe where a series of elections in 2017 could have a significant impact on the course taken by the countries on the Continent. Already, we have seen a shakeup in the political order with Italian Prime Minister Matteo Renzi losing his referendum on Italian Senate reform and thus losing office, while in France, Francois Fillon beat out former President Sarkozy and former PM Juppe to the nomination as candidate for the Republican party. With populist and right wing parties rising in the polls, will a wave of populist change sweep over the Atlantic to engulf Europe and European institutions? The answer is, as always with Europe… complicated.

Whatever the local issues in Europe, there is one overriding theme: immigration. Until June of last year, popular worries about immigration remained the province of the tabloid newspapers and right wing "fringe" parties like the UK Independence Party (UKIP) and the Front National (FN). However, with Brexit being approved in Britain and Donald Trump's victory in the US, immigration is no longer a hidden issue. Fears about immigration, particularly Muslim immigration, are the core of conversations about border control and the future of the European Union.

"After the populist outcomes of the Brexit referendum and the US Presidential election, all eyes now turn to Europe ..."

One could argue that one of the most significant developments in the coming European elections came in Washington, DC last week when Donald Trump banned travellers from several Muslim countries, showing that immigration and travel bans can be created given enough political will. This action will echo throughout Europe, resonating in the core populist portion of the electorate. It has already forced Angela Merkel to come out against the bans, undermining the small strides she has made over the past few months to position herself to the right of her previous stance on this issue.

### Election calendar

Holland – 15th March, 2017
France - 23rd April, 2017 (round one) and 7th May, 2017 (round two)
Norway – 11th September, 2017
Germany – 24th September 2017
Czech Republic – October 2017

Let's look at the three elections which will likely have the most impact on the future of Europe.

### Holland

Holland will be the first to vote in the upcoming round of European elections. Geert Wilders, the leader of the Freedom party (PVV) comes out of the same anti-establishment mould as Donald Trump and Nigel Farage, with the exception that he has been charged and convicted of "inciting discrimination" at a rally of his supporters. The PVV continues to poll ahead of any other party, however, using its theme of anti-immigration and anti-Islam to turn the landscape of traditionally liberal Holland on its head.

I recently attended a private gathering of the chattering classes of Amsterdam. Everyone, without exception, was horrified at the rise of Wilders. Nonetheless, as we talked, everyone was very dissatisfied at the disintegration of the social contract in Holland. Of special concern is the erosion of health care benefits under a newly privatized system run by insurance companies rather than by a National-Health-type government agency. While objectively the healthcare system in Holland is among the best in the world, an ageing population, coupled with immigration, has put strains on the benefits available. This relative deterioration in social services is what is leading to the rise of parties like 50+, a pensioner's interest party.

It is likely then, in Holland, that the PVV will get the largest number of seats. However, the other parties have vowed not to work with Wilders, so a type of grand coalition will likely have to be created. A Wilders (PVV) victory will give rise to further press commentary about the rising tide of populism and, if he is not allowed to rule, questions about the democratic process.

> "One could argue that one of the most significant developments in the coming European elections came in Washington, DC last week..."

### France

On the face of it, the French Presidential election looks like another domino in the populist cascade. However, as always in France, things are more complex than elsewhere.

By far the most popular political leader currently is Marie Le Pen who, while running on the same anti-immigration agenda, has re-positioned her father's Front National (FN) party as more tolerant and unbiased. Her party consistently tops the opinion polls, when voters are asked which party they favour, with 25% of voters favouring the Front National. However, in France there are two rounds of voting in presidential elections. If one presidential candidate does not receive 50% of the vote, there is a runoff between the two candidates with the highest vote totals in round one. In projections for a second round, Le Pen loses badly to Francois Fillon, the former Prime Minister under Nicolas Sarkozy and candidate of the The Republicans (LR). By tapping into voter frustration with the Socialist Administration of Francois Hollande, Fillon has become the popular conservative alternative to Le Pen, beating her 60% to 40% in the second

*European Elections, continued*

round according to recent polling.

The alternative to Fillon, outside of the Front National, looks to be an independent. Emmanuel Macron, an investment banker and Minister of the Economy whose progressive En March! Party (EN) runs neck and neck with Fillon in the first round and, in recent polls, beats him in the second round (58% to 42%). Macron also beats Marie Le Pen 65% to 35%.

Rounding out the picture is the Socialist Party, who just named Beniot Hamon, a left-wing rebel in the Bernie Sanders mode, to be its candidate. The Parti Socialiste (PS) thus moves away from the centrist, very unpopular policies of current President Francois Hollande. Further complicating the picture for the Left is the rise of Unsubmissive France (FI), a "citizen's movement," much like the Five Star Movement in Italy. Led by Jean-Luc Melenchon, FI has gained support at the expense of the Socialist Party in recent polls.

"On the face of it, France looks less likely than Holland to be caught up in the populist wave. However..."

On the face of it, France looks less likely than Holland to be caught up in the populist wave. However, while Francois Fillon looks well ahead at this point, there are two caveats. First, his wife, Penelope (from Wales of all places), is being investigated for having "non-jobs" as his parliamentary secretary and literary advisor (being paid EUR 600,000 by the government over 8 years, it is claimed). If this scandal blows up further or drags him into it, the field in the election could open further. Second, as we know, polls are suspect when immigration is the theme. Therefore, watch this one closely.

### Germany

One can easily argue that the Dynamic Duo of Angela Merkel, Prime Minister of Germany and Mario Draghi, President of the European Central Bank (ECB) have kept the European Union and the Euro afloat since the Financial Crisis. Without Merkel's political leadership and Draghi's willingness to move the ECB from a passive to activist approach, Europe would have been in even more severe political and economic crisis than now. However, new challenges are appearing for both of them. The ECB is facing the end of effectiveness of its quantitative easing program and Angela Merkel is facing a challenge from the right which questions her past stance on European integration and immigration.

The wildcard in this election is the Alternative for Germany, the AfD. Led by Frauke Petry, the AfD, once a Euro sceptic party, now espouses the populist mantra of Geert Wilders and Marie Le Pen: stop immigration, control the borders, control the "Luegenpresse," the lying press (a phrase used in Nazi Germany and by some in the US election), eliminate Islam from Germany and leave the Euro.

Until recently, it looked like Angela Merkel would win re-election, but with a reduced majority (made up of her Christian Democratic Party, CDU, and the Christian Socialist Party, CSU, its sister party in Bavaria).

However, much previous analysis was done on the basis of the unpopularity of Sigmar Gabriel, the leader of the Socialist Democratic Party (SPD), the opposition party in the Bundestag. In the last two weeks, however, Martin Schultz, the President of the European Parliament, has taken over as the leader of the SPD and will provide a much stiffer challenge to Merkel than anticipated. With the rise of the AfD and the shift in leadership in the SPD, the coming German election looks much closer than anyone predicted. Again, look for an unseen block of voting to emerge as the citizens of heretofore liberal Germany are reluctant to tell pollsters of their opposition to Muslim immigration.

### Conclusion

Whatever politicians may say, the threat to the ongoing viability of the European Union in the upcoming elections is real and far reaching. By the end of 2017, we will see new leadership in Holland, France, Italy and possibly Germany. Serious questions are being asked by European electorates about EU policies and these elections have become a proxy for referenda on the EU which were never allowed to happen in many European countries. While the core of Europe remains liberal and socialist in nature, as we saw in Britain, there is almost as much support on the left for anti-immigration and anti-EU policies as on the right. In 2017, we can expect election results which further shake the EU establishment. As investors, we will need to be cautious about predicting results and nimble if we are to take advantage of opportunities which arise from the changing landscape.

“Whatever politicians may say, the threat to the ongoing viability of the European Union in the upcoming elections is real and far reaching.”

### Investment Implications

1. Bonds. While core bond yields are likely to be underpinned by the ECB, look for a widening of spreads in the peripheral markets, including France, especially if there is a shock result in the French election. Spreads will also widen on European bank paper. If Angela Merkel does not make it back into power, look for big spread widening in the credit markets and questions about the viability of the Euro as worries about Greek finances (already a problem), the commitment of Italy, and questions about the relationship of the German Government to the ECB arise.
2. Currency. One can expect continued pressure on the Euro (EUR) this year especially versus the US Dollar. With rates and inflation likely to remain low in Europe while rising in the US, the EUR is likely to trade lower over the year.
3. Equities. Given the political uncertainty discussed above and uncertainty around the global economy coming from changing geopolitical relationships, one might expect European stocks to underperform domestic equities in the short term, though arguably, much of this news is already in the relative prices of the two markets.

*George F. Bearup*
*Senior Trust Advisor*

# Unsigned Wills: Really!

Just when you think you know what the law requires, along comes a court decision that throws water on that conventional thinking. Such was the situation last fall when the Michigan Court of Appeals in *In re Estate of Sabry Mohamed Attia (October 10, 2016)* surprised many estate planners with a decision that permits an unsigned Will to be admitted to probate as the decedent's Last Will and Testament.

The decedent had visited his attorney with the intent to make a new Will which he expressed to the attorney and also to other persons. Based on that visit, the attorney prepared a Will and made arrangements for the Will to be signed in front of two witnesses as Michigan's probate laws generally require. But the decedent died the same day that he was scheduled to sign the new Will. The unsigned and undated Will was subsequently offered to be admitted to probate by some of the decedent's children. The probate judge refused to admit the unsigned, undated, un-witnessed Will to probate, noting:

*'If the [L]egislature wanted to permit an unsigned Will to be permitted [sic], then I think the statute would say, although a document was not executed or was not executed in compliance with the statute then that would have been more appropriate language...So I think it's a bright line rule in Michigan and I certainly welcome the Court of Appeals to address it. So I am going to grant Summary Disposition [denying the admission of the offered, unsigned, un-witnessed Will to probate.]'*

"Just when you think you know what the law requires, along comes a court decision that throws water on that conventional thinking."

The Michigan Court of Appeals accepted the probate judge's invitation. It started its analysis with the observation that Michigan's probate laws 'are to be liberally construed and applied to promote its purposes and policies, including to discover and make effective a decedent's intent in the distribution of the decedent's property.'

Michigan's general statute with regard to the validity of a decedent's Will requires that a Will be (i) in writing, (ii) signed by the testator, and (iii) signed by at least two individuals, each of whom signed within a reasonable time after he or she witnessed either the signing of the Will by the testator, or the testator's acknowledgment of his or her signature or acknowledgment of the Will. If a Will does not comply with these requirements it will be treated as a *holographic Will,* whether or not it was witnessed, if it is nonetheless dated and if the testator's signature and the document's material portions are in the testator's own handwriting. In either instance however the testator's signature is a precondition to the Will's validity.

Where the Court of Appeals took a left turn was its focus on another statute which is also a part of Michigan's probate law. That statute

provides an exception to the Will execution requirements just cited. That *exception* statute provides:

'Although a document or writing added upon a document was not executed in compliance with [MCL 700.2502] the document or writing is *treated as if it had been executed in compliance with* that section if the proponent of the document or writing establishes by clear and convincing evidence that the decedent intended the document or writing to constitute any of the following: (a) the decedent's will...'

Based upon the wording the probate code's *exception* statute, the Court of Appeals found that the signature of the testator, the date it was signed, and the signatures of the two subscribing witnesses as required under the basic Will execution statute, were all unnecessary upon a showing of *clear and convincing evidence* of the testator's intent. The upshot is that an unsigned, undated, un-witnessed document that purports to be a decedent's Will might be still admitted to probate as the decedent's Last Will, arguably replacing an earlier Will that was signed by the decedent which bears the decedent's signature, date, and the signature of two witnesses.

The 'clear and convincing evidence' burden of proof is illusive, and whether that burden has been met will turn on each document's own set of surrounding facts to demonstrate the testator's intent. The clear and convincing evidence burden of proof is often described as 'so clear, direct, and weighty and convincing as to establish a fact finder to come to a clear conviction without any hesitancy of the truth of the precise facts at issue.' More than likely there will be differing opinions if there are enough facts to meet that standard of proof.

The facts of *Attia* will more than likely satisfy the high clear and convincing burden of proof since the decedent went to a lawyer for the express purpose of having a Will prepared, his intent was communicated to others besides the drafting attorney, the Will was prepared based upon Mr. Attia's directions, and the Will was scheduled to be signed the day that Mr. Attia died. But what if the Will had been prepared, but Mr. Attia failed to come to the lawyer's office for over six months before he died? Did he still intend it to be his *Last Will* with the passage of that amount of time? What if a document sets forth Mr. Attia's wishes about how he wanted his estate to be distributed on his death, perhaps a handwritten note that he made to himself, but that unsigned document was neither labeled a *Will* nor was it prepared by an attorney- could this still be treated as a Will? How will we know if it is a testator's *Last* Will if we can dispense with a required execution date?

A more common situation is when a lawyer prepares a rough draft of the Will that is based upon a discussion with his or her client, the draft Will is sent to the client to consider its terms and provisions, a few handwritten

"The 'clear and convincing evidence' burden of proof is illusive, and whether that burden has been met will turn on each document's own set of surrounding facts demonstrate the testator's intent."

*Unsigned Wills, continued*

"…arguably any piece of paper that expresses some intent how assets might be distributed on an individual's death, can now be offered as the decedent's Last Will."

notes may be scribbled by the client in the margin of that *draft* Will, and the client dies with that unsigned draft Will in his or her possession. Can that draft Will be offered into evidence as the client's Last Will and Testament, arguably replacing an earlier Will that was formally signed, dated, and witnessed by two individuals? *Attia* seems to say *yes*, assuming the clear and convincing burden of proof is met.

Unsigned draft Wills, and arguably any piece of paper that expresses some intent how assets might be distributed on an individual's death, can now be offered as the decedent's Last Will, which means that we can expect a lot more probate court litigation initiated by disgruntled heirs if they can locate some unsigned writing that they claim reflects the decedent's final wishes. There is a reason why Michigan's law requires that a Will be formally signed and dated by the testator in the presence of two impartial witnesses, in order to assure that the Will can survive subsequent challenges as to its reliability and finality. Apparently we have now evolved to a time when some evidence of testamentary intent will trump the execution formalities that are normally associated with a Will, which could easily become an invitation to fraud and manipulation by dissatisfied heirs. Until Michigan's Legislature acts to overrule *Attia*, any draft Wills that are lying around the house should be destroyed if you are not certain that they reflect your final wishes as to the disposition of your estate, or who is put in charge of administering your estate.

# What Will Happen with Transfer Taxes?

*Wendy Z. Cox, J.D., CTFA*
*Vice President*
*Director of Personal Trust*

They say that nothing is certain but death and taxes. With the change in administration, many people are wondering what will happen with the estate, gift and generation skipping taxes. As of this moment, the current system remains in place. The annual gift tax exclusion for 2017 remains at $14,000, and individuals may also pay education expenses directly without gift tax concerns. The estate tax lifetime exemption has been raised to $5,490,000, or $10,980,000 for married couples. As the lifetime exemption has increased, the focus of tax planning has shifted for many clients from a focus on reducing estate tax to a focus on reducing the income tax.

There is much speculation that the estate and gift tax may be eliminated. The speculation regarding the generation skipping tax is murkier. Nearly all agree that there would need to be a replacement for the estate tax, should it be eliminated. A couple of scenarios seem to be the most likely.

The first would eliminate the step up in the basis at death and return to the modified carryover basis system that existed in 2010. Under this system, the beneficiary's basis is equal to the lesser of the decedent's basis in the property or the fair market value of the property. If the beneficiary sold the assets, he or she would pay the relevant capital gains tax. Practitioners found this system very difficult because many times the original cost basis is difficult to calculate.

As a result of the difficulty surrounding modified carryover basis, some advocate for the adoption of something similar to the Canadian system. Referred to as the estate administration tax, the estate assets are treated as a deemed sale at the time of death, unless the estate is inherited by the surviving spouse. Any capital gains triggered by the sale are included in a final income tax return. The final return also includes the value of any retirement accounts, and income received from stocks, bonds, real estate investments and life insurance proceeds in the year of death. The estate then pays the government any income taxes owing on the sale prior the remainder being inherited by the beneficiaries.

Another possibility is that lawmakers will get distracted with the other items on their agenda and do nothing, or do something that no one has yet conceived.

In the past 20 years, the lifetime exclusion has ranged from $650,000 to the current $5,490,000, and one year of no estate tax. The only thing that is certain is that as the political winds shift so will the tax system. As the circumstances change, if they change, your advisors will help craft solutions that the meet the changing circumstances.

Before we get ourselves twisted into knots over what might happen, it is important to remember that estate planning is done for many reasons

"There is much speculation that the estate and gift tax may be eliminated. The speculation regarding the generation skipping tax is murkier. "

*Transfer Taxes, continued*

besides taxes. Grantors of estates should always focus on their family goals and legacy when thinking about planning. What is it that the money is intended to do—provide a nest egg, provide for family members, care for those with special needs, provide asset protection from creditors or divorce, contribute to charitable or other philanthropic purposes? Planning should be crafted with these goals in mind, and then to tax advantage of the current tax system.

To make certain that your estate plan meets your goals, we recommend that you consult with your estate planning counsel, your accountant, and your team at Greenleaf Trust.

# Target Date Funds: A Useful Investment Tool or a One-Size Fits All Solution?

*Quinn C. McCormick*
*Participant Services Coordinator*

Navigating the world of retirement plans can be difficult for many participants. Saving for retirement is daunting in and of itself. Throw in choosing a contribution rate and an investment option and the task becomes increasingly overwhelming. Luckily, the rise of target date funds has changed the landscape for the average participant. Target date funds (TDFs), also referred to as "age-based funds" or "lifecycle funds," allow participants to pick one fund for their money that invests based on their age. TDFs are meant to be a "set it and forget it" option with many automatic features including diversification, rebalancing, and shifting to become more conservative as the retirement date approaches. Because of these features, they have become popular not only among participants but also as the Qualified Default Investment Alternative (QDIA) for many plans. Lifecycle funds allow employees the option to participate in their retirement plans without feeling like they have to become an investment expert.

> "TDFs are meant to be a 'set it and forget it' option with many automatic features…"

With so many great qualities, how can participants go wrong with a lifecycle fund? While there are many benefits of lifecycle funds, there are also some criticisms.

### Is it oversimplified?

Target date funds simply take into account the age of the investor when picking the appropriate fund. You pick the date that most closely aligns with when you plan to retire (or turn 65). Funds tend to have higher stock allocation while participants are young and gradually shift to a more conservative portfolio as participants approach retirement. While this is a good strategy, it doesn't take into account other factors such as risk tolerance,

current situation, outside assets, etc. Simplification is one of the biggest advantages of TDFs, yet retirement needs are very individual. Is the solution customized enough to meet participants' needs?

### How often is it rebalancing?

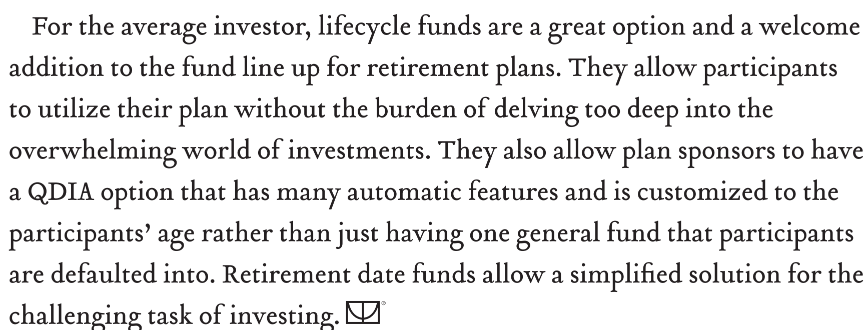
While this issue was more prominent when retirement date funds first came on the market, some critics are concerned with the frequency of rebalancing, stating that it is not frequent enough. Rebalancing can occur quarterly, semi-annually, annually, or less frequently. It is good practice to ensure that accounts are rebalanced at least annually. The target date funds used at Greenleaf Trust are rebalanced each quarter. TDFs take the responsibility of rebalancing away from participants and take the emotion out of rebalancing. Participants are often reluctant to sell out of a portion of a well performing fund, so the automated rebalancing feature is a nice enhancement. It is important for participants and plan sponsors to do their research to confirm that rebalances are occurring at a regular and appropriate frequency.

### The level of risk is not appropriate for the needs of the participant.

The general idea of TDFs is to be aggressive while participants are young and shift to become more conservative as participants get close to retirement. While this is the basic idea, fund companies have differing strategies and levels of risk tolerance. T. Rowe Price, for example, tends to have a more aggressive strategy in its retirement date funds than other companies. It is important for participants to look at the allocation and make sure that they are comfortable with the level of risk. Just because a participant will be 65 in 2040, doesn't mean that the 2040 fund is the only option or the best option for them. Maybe they plan to retire early or have very low risk tolerance. The 2030 fund may be a better option based on their current situation. It is important to take into account the specific needs of the participant when choosing their investments.

"The general idea of TDFs is to be aggressive while participants are young and shift to become more conservative as participants get close to retirement."

### What's the verdict?



For the average investor, lifecycle funds are a great option and a welcome addition to the fund line up for retirement plans. They allow participants to utilize their plan without the burden of delving too deep into the overwhelming world of investments. They also allow plan sponsors to have a QDIA option that has many automatic features and is customized to the participants' age rather than just having one general fund that participants are defaulted into. Retirement date funds allow a simplified solution for the challenging task of investing.

*Andrew L. Riker, CFP®*
*Vice President,*
*Senior Wealth Management Advisor*

"If you haven't already done so, create an estate plan. If you do have an estate plan, it may be appropriate to revisit it if it has been more than five years since you have done so…"

# Financial Planning Resolutions

Anytime is a good time to work on making sure your financial planning affairs are in order. However, for those who need an excuse or a nudge, add it to your New Year's resolution list and get moving. This article provides just a few (but some of the more important) financial planning considerations to evaluate.

## Develop or Re-evaluate Your Estate Plan

There are dozens of benefits to having a proper estate plan including: making sure assets pass efficiently (outside of probate) according to your desires at passing, that the most preferable person(s) will be making financial and healthcare decisions on your behalf should incapacity occur, that designated guardians are named to take care of minor children, and that a trustworthy and competent individual or institution settles affairs at your passing.

If you haven't already done so, create an estate plan. If you do have an estate plan, it may be appropriate to revisit it if it has been more than five years since you have done so, or if there have been changes in your family circumstances including: change in net worth, change of residency, marriage, divorce, birth, adoption, or change in relationship with a beneficiary currently named in your estate plan. Also, check that the beneficiaries on your retirement accounts and insurance policies are up to date and are in accordance with your desires.

## Review Insurance Coverage

Life insurance is most likely appropriate if family members would otherwise face financial difficulty as a result of your passing. It can also be used as an estate planning tool. If you have coverage that you have not looked into for a number of years, it would be prudent to get a handle on the current state of the coverage, especially if it is a whole life policy.

Umbrella liability coverage should be in place for most individuals, especially those with substantial assets or salaries. Coverage is affordable and can cover individuals for liabilities above amounts covered by homeowners and auto insurance limits.

That annoying Aflac duck does make a good point, disability insurance is a very important for most working individuals. If you don't have coverage, consider the financial implications for you and your family if you were not able to work because of illness or injury. Keep in mind that as a result of the illness or injury, your expenses could actually be higher. If this scenario would present a financial challenge, disability insurance should be obtained.

## Save Appropriately

The New Year is a good time to re-evaluate retirement savings amounts and strategies. Individuals are able to contribute $18,000 to employer sponsored 401(k), 403(b), or 457 plans in 2017. Individuals 50 and older are able to contribute an additional

$6,000. IRA contribution limits are $5,500 for 2017, and individuals 50 and older can contribute an additional $1,000 "catch-up" amount. In addition to saving as much as possible, it's important to make sure you are contributing to the best vehicle. Those who believe they will be in a higher tax rate in retirement, with a long investment time horizon, or who are likely to accumulate more assets than needed, should consider saving to Roth retirement vehicles. Those who are currently subject to high tax rates, can reduce taxable income by contributing to traditional retirement accounts.

### Pay Down or Refinance Debt

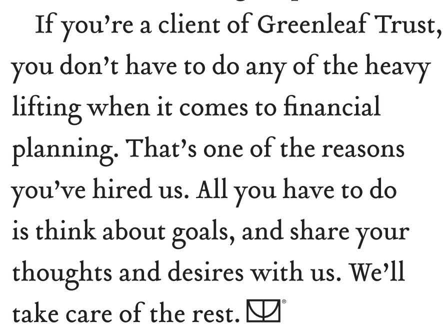
If you have a mortgage, it's unlikely you have a high interest rate due to the super-low rates we have experienced over the last ten years. However, if you have debt with a variable rate (such as a home equity line, credit card, or margin related to an investment account), now is a good time to look into the rate and consider refinancing the debt with a fixed rate or paying down or eliminating the debt.

### Consider Making Gifts to Charity and Family

Most who read this newsletter have the means to be making gifts to charity annually. Of course for many there are tax advantages to making charitable gifts. More importantly, however, we should give to charity because there are many who need our assistance and we can help. Many wait until the end of the year to make charitable gifts, but charities certainly wouldn't mind receiving gifts earlier in the year. Now is a good time to think about charitable causes that align with your interests. Once such charities are identified, if you have appreciated stocks, consider gifting them instead of cash. The charity won't have to pay capital gains tax on the stock when it is sold. Another tax advantaged way to give to charity for those over 70 ½ years of age is to gift all or a portion of your required minimum distribution to charity to avoid paying income tax on that amount (the charity doesn't have to pay tax on it either).

Those who desire to make gifts to family, especially those with a taxable estate, should consider completing gifts near the beginning of the year. Individuals are able to give $14,000 (a married couple can give up to $28,000) to any individual in 2017 without gift tax considerations. 529 college savings plans are good savings options for those who desire to help save for future college expenses.

If you're a client of Greenleaf Trust, you don't have to do any of the heavy lifting when it comes to financial planning. That's one of the reasons you've hired us. All you have to do is think about goals, and share your thoughts and desires with us. We'll take care of the rest.



"If you're a client of Greenleaf Trust, you don't have to do any of the heavy lifting when it comes to financial planning... All you have to do is think about goals, and share your thoughts and desires with us."

## Stock Market Pulse

| Index | 1/31/17 | Total Return Since 12/31/2016 |
|---|---|---|
| S&P 1500 | 529.90 | 1.80% |
| Dow Jones Industrials | 19,864.09 | 0.62% |
| NASDAQ | 5,614.79 | 4.35% |
| S&P 500 | 2,278.87 | 1.90% |
| S&P 400 | 1,687.19 | 1.68% |
| S&P 600 | 834.20 | -0.40% |
| NYSE Composite | 11,222.96 | 1.50% |
| Dow Jones Utilities | 668.87 | 1.42% |
| Barclays Aggregate Bond | 108.29 | 0.21% |

| P/E Multiples | 1/31/17 |
|---|---|
| S&P 1500 | 19.4x |
| DJIA | 18.9x |
| NASDAQ | 23.2x |
| S&P 500 | 19.2x |
| S&P 400 | 21.4x |
| S&P 600 | 22.4x |

## Key Rates

| | |
|---|---|
| Fed Funds Rate | 0% to 0.25% |
| T Bill 90 Days | 0.50% |
| T Bond 30 Yr | 3.05% |
| Prime Rate | 3.75% |

## Current Valuations

| Index | Aggregate | P/E | Div. Yield |
|---|---|---|---|
| S&P 1500 | 529.90 | 19.4x | 2.00% |
| S&P 500 | 2,278.87 | 19.2x | 2.07% |
| DJIA | 19,864.09 | 18.9x | 2.40% |
| Dow Jones Utilities | 668.87 | NA | 3.38% |

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.05%

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