Perspectives

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Chairman, Greenleaf Trust

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Economic Commentary

Given recent action in financial markets it is probably good to review some basic fundamentals of market dynamics and the implications of those dynamics on both short and longer term future results. Our country and in fact nearly all of the developed world, as reflected in G20 economies, has been recovering from a sharp and deep recession for the past ten years. The rate of growth during the recovery has been consistent yet incremental, and has been fueled largely by artificially low interest rates created by central bank infusion of capital into the global financial system. Our Federal Reserve system led the way by consolidating weak banks with stronger institutions and curing the balance sheets of all banks by allowing them to borrow money at historically low interest rates. This action allowed banks to invest and lend money at rates that improved their asset quality and therefore brought stability to the financial system. The strategy worked well. Liquidity and access to lending returned, thereby fueling growth in our economy. While the anemic GDP growth rate that averaged just below 2% over the past ten years was frustrating, the implications of the consistency of growth delivered important results. Unemployment dropped to a 17 year low, our housing market recovered and consumers became more confident. Recently as competition for labor has increased wages, which were stuck in neutral for most Americans, have begun to rise. To be certain, the recovery has been unequal for many. Those with access to capital were able to invest at very low valuations and to buy real or hard assets such as real estate at very low prices. In essence, those with money had many opportunities to make more money during the recovery that most did not have.

The implications for the stock market were clear. With interest rates at historically low rates, investors sought higher returns as the economy improved. Stocks had little competition for investors' dollars. Investing in stocks with yields of 1.7% seemed less risky when comparing the potential return of Treasury bonds paying nearly the same rate. The attraction to US Stocks was further amplified by the devaluation of foreign currencies in the first five years of the global recovery, driving the prices higher for unique hard assets such as collectibles, Manhattan

Commentary, continued

real estate and US Equities. Was the bull market in stocks fueled by higher earnings results and future expectations of continued growth, or simply the fact that other investment alternatives, such as bonds, offered little competition for investors' dollars? The answer is some of both, and the return to volatility in the stock market recently is the result of the repricing of equities due to the end of the bull market in bonds. To fully understand this repricing we must first revisit the fundamentals of bond pricing and valuations.

There is an inverse relationship between price and yield in a bond investment. If interest rates rise, the value, and therefore price of bonds, will decline. Conversely, if rates decline, the value of the underlying fixed income asset will rise. During the recession rates declined as central banks, such as the United States Federal Reserve Bank, kept rates low by easing access to capital for US Banks. The Federal Reserve has now not only signaled, but, through their actions of rate increases, demonstrated that their watchful eye is on inflation and that future rate hikes are almost assured. For the first time in nearly a decade, the stock market is in the early stages of having competition for investor dollars. The stabilization of G20 economies has furthered the retreat from US investments, as foreign investors have more confidence in their own currencies, and therefore, returned or repatriated some of their investment dollars to their own countries.

"The stabilization of G20 economies has furthered the retreat from US investments, as foreign investors have more confidence in their own currencies…"

During the financial crisis, which created the massive recession of 2008, there was a global demand for safe assets, which fortunately still infers US debt securities. The historically high government borrowing to infuse liquidity into the system and shore up financial institutions was met by a massive demand for the US debt that was being issued. Today, US debt faces a different and more tempered demand, just at the time when the US Government needs to issue more debt to cover expanding deficits.

The short term forecast for tax revenues is down and implies a near term need to borrow more. The inverse relationship between bond price and yield suggests that if there is a smaller appetite globally for US debt, bond prices will fall, and therefore, yields will rise further, justifying the expectation of greater competition for investors' dollars among investable assets.

Adding to equity investors' worries about an increasing supply of US debt securities is the recent jobs and wage data. Year over year job growth continues at a 2.0 million job increase rate. Help wanted internet postings now exceed 5.0 million, and recent wage rate data reveals an annualized rate of +2.9%. Federal reserve meeting notes also report substantial

discussion on the wage rate implications of tightening labor supply. While commodity pressure remains mute, the change in leadership of the Federal reserve has shifted the balance of philosophy to slightly more hawkish with respect to rate hikes and more focused on inflation than the previous leadership.

In the end, valuations do matter and always have. When investors turn their full attention to valuations almost always varies and is often driven by seemingly catalytic events that cause the average investor to think "What happened, why did the equity bull market run out of steam?"

It is not absolutely certain that the recent sell off and repricing of stocks is signaling the end of the near ten-year bull market in stocks. The current sell off could be a normal, and some would say much needed, correction of an overheated market. Yet it is also worth examining what has changed and how that change can and will impact current, near-term and longer-term pricing of equity assets. The ten-year bull market in bonds has ended. The Federal Reserve has begun a steady tightening of rates as their focus turns to inflation. Their rate hike program coincides with the need of the government to issue more debt while the global appetite for that debt diminishes. To any observer of interest rates, this supply and demand equation equals higher bond yields going forward. Whenever the spread between "safe yields" i.e., US Government Debt Securities and dividend yields of equities widens, investors always question more closely their desire to own risk assets, and therefore, pay much closer attention to valuations. As we said before, in the end, valuations do matter.

"The ten-year bull market in bonds has ended. The Federal Reserve has begun a steady tightening of rates as their focus turns to inflation."

George F. Bearup
Senior Trust Advisor

A 'New World' of Charitable Giving

Often the phrase 'planned giving' is used to describe the transfer of wealth to charities on an individual's death. But planned giving also can include lifetime transfers that benefit charities while also improving an individual's available income. The recent Tax Cut and Jobs Act (the Act) will have a dramatic impact on planned giving over the next several years, some of which might be positive, or it could impede charitable giving for many Americans. The Act's ultimate impact on philanthropy will only be determined over time. Some observations follow on what to expect with regard to planned giving in light of the new tax Act.

Less Lifetime Giving?

Unlike mortgage interest payments, which remain deductible (to a limit), a charitable gift does not express an individual's choice of ways to expend their discretionary income. Rather, a charitable gift represents the donor's income that is foregone in favor of voluntarily funding societal needs that would otherwise be borne by government, or not at all. With the effective 'doubling' of the income tax standard deduction ($12,000 for individuals; $24,000 for a married couple) few will be able to use the income tax deduction associated with a lifetime charitable gift, unless the aggregate of all of their deductions exceeds the standard deduction amount. This change in the income tax laws could seriously impact charities that rely on annual giving by Americans of modest means. If there is no usable income tax charitable deduction available to the donor, the donor may be less inclined to make a gift to charity.

> "The recent Tax Cut and Jobs Act (the Act) will have a dramatic impact on planned giving over the next several years..."

Planned Giving Encouraged?

The elimination of the federal estate and generation skipping transfer (GST) taxes for most individuals through the 'doubling' of an individual's transfer tax exemption, at least through 2025, means that more assets will be available upon the individual's death to leave to family members, and possibly to charities if the decedent views there to be 'more than enough' to be distributed to his or her heirs. Individuals, who are charitably inclined, will consequently have more assets available at their death, with virtually no estate tax concerns, that can be redirected to create and satisfy their charitable bequests.

Planned Giving Discouraged?

It is also possible that there will be a disincentive to make charitable gifts on death as a result of the Act. With the doubling of the federal estate and gift tax exemption amount, now $11.2 million per person,

fewer individuals will consider a charitable bequest as a means to off-set a federal estate tax liability on their death. An individual would have to own an estate in excess of $11.2 million before the federal estate tax becomes a concern ($22.4 million if the individual is the survivor of a marriage where the deceased spouse's unused exemption amount remains available to the surviving spouse). But these very favorable estate and GST exemption amounts exist only through 2025, after which the 'old' estate tax exemption amounts return at the historic levels (roughly $6 million in exemptions in 2026.) Faced with this future 'exemption cliff', it may make sense to include conditional charitable bequests in an estate plan, if death occurs after 2025 and the deceased individual's estate is not fully covered by their then available estate or GST federal tax exemptions (or their 'enhanced' exemption if they are the surviving spouse). Such contingency planning might require the addition of a formula in a Will or Trust that directs a portion of the decedent's estate to be distributed to a charity to the extent that the decedent's taxable estate is not fully covered by the federal tax exemption that is available to their estate at the time of their death. Such a formula would transfer a portion of the decedent's estate to a charity rather than to the federal government.

Charitable Remainder Trusts Encouraged?

With the dramatic run-up in the stock market in 2017, many individuals may be looking at much larger investment portfolios with imbedded capital gains. Those portfolios may need to be diversified to adjust for that explosive growth in value in 2017, or to shift investments to future perceived growth areas, e.g. emerging markets. How does an individual obtain diversification in investments, improve cash flow, carry out philanthropic goals, and not pay any capital gains? Answer: Create a charitable remainder trust (CRT). A CRT offers a tax-free trading environment and a way to build a future source of income that could be taxed at more favorable rates than other income under the tiered taxing structure of a CRT's distributions. Simply stated, the appreciated investments are transferred to a CRT, which is an irrevocable trust, of which the individual serves as the CRT trustee. That transfer results in a current income tax charitable deduction for the present value of the 'remainder' interest in the CRT, which ultimately is to pass to a charity on the individual's death. The CRT trustee then sells the appreciated investments and reinvests the sales proceeds, thus diversifying the CRT's investment portfolio. The sale of the appreciated securities by the CRT trustee is tax-free, as the CRT is treated as a tax-exempt charity,

"How does an individual obtain diversification in investments, improve cash flow, carry out philanthropic goals, and not pay any capital gains? Answer: Create a charitable remainder trust (CRT)."

Charitable Giving, continued

which means that the CRT does not recognize or report the capital gain as taxable income. Consequently, 100% of the sales proceeds can be reinvested by the CRT trustee. A CRT can be structured in many different ways to meet the needs of the individual for whose benefit it is created. For example, the CRT could require a fixed amount to be annually paid to the individual beneficiary for the rest of his or her lifetime (a charitable annuity trust, or CRAT), or a fixed percent of the annual end-of-year value of the CRUT's assets for the rest of the individual's lifetime (a charitable remainder unitrust, or CRUT), or CRT distributions could be paid out over two lives, e.g. a husband and wife. Alternatively, a CRAT or CRUT could be structured to make distributions for a fixed number of years, e.g. 20 years. The key point is that rather than have the individual pay an immediate capital gain tax on the sale of the appreciated portfolio, if the CRT sells the appreciated portfolio, the dollars otherwise paid in capital gains taxes are instead reinvested, continuing to work to support the individual (and possibly the individual's spouse) for the balance of their lifetime. As distributions are annually paid from the CRT, part of those payments will be taxed as capital gains, part as ordinary income, and part a tax-free return of capital. In sum, rather than avoid the capital gains completely, instead the gains are recognized over time when annual distributions are made from the CRT. It is possible, too, that the income tax charitable deduction for the present value of the remainder interest in the CRT might be large enough to actually provide some tax benefit if it exceeds the individual's standard deduction amount, which then permits them to itemize their income tax deductions for the year in which the CRT was created.

"The Act may actually have a positive impact on and encourage even more individuals to use a Qualified Charitable Distribution if they are philanthropically inclined."

Qualified Charitable Distributions Increased?

The Act may actually have a positive impact on and encourage even more individuals to use a Qualified Charitable Distribution if they are philanthropically inclined. This rule in the Tax Code [IRC 408(d)(8)] permits an individual over the age 70½ to transfer up to $100,000 per year from his or her IRA directly to most charities (but it excludes distributions to donor advised funds). The direct charitable distribution from the IRA will satisfy the donor's required minimum distribution for the year, without either having the income or the charitable deduction appear on his or her Form 1040 income tax return. The effect of this rule means that some individuals can use the standard deduction on their income tax return while also indirectly deriving the benefit of the 'charitable deduction' by virtue of excluding the qualified

charitable distribution from their reportable taxable income altogether. More individuals may take advantage of the IRA qualified charitable distribution opportunity now that the Act has substantially increased the standard deduction and slashed other income tax deductions.

Future Concerns (or Continuing Opportunities)

There was a major concern leading up to the enactment of the Act that Congress was going to eliminate the inherited stretch IRAs which permits an IRA or 401(k) beneficiary to take the taxable distributions from the deceased owner's IRA or 401(k) over the beneficiary's life expectancy. There was also a concern that Congress viewed the benefits of a Roth IRA as more like a tax abuse, and thus it might require that Roth IRA owners to start to take required minimum distributions during their lifetime (exposing the income earnings derived from those required Roth distributions to current income taxation.) Neither of those developments occurred with the passage of the Act. However, if Congress finds itself looking at even larger deficits, i.e. the "trickle-down" effect of the tax cut Act does not materialize, it is possible that Congress might revisit these revenue generating changes.

Testamentary Charitable Remainder Trust

If Congress moves toward the elimination of the inherited stretch IRA there may be yet another use for a CRT. The benefit of the stretch IRA is that the beneficiary takes their required minimum distribution of the taxable IRA distributions over their life expectancy (permitting the remaining assets held in the inherited IRA to continue to grow in a tax-deferred environment.) The general discussion in Congress was to curtail the stretch period to no longer than 5 years after the IRA owner's death, which would result in an acceleration of the taxable income distributed from the inherited IRA to the beneficiary. Instead, if the IRA was made payable to a testamentary charitable remainder trust (CRT) on its owner's death, the benefits of the stretch IRA can be replicated to a large degree. A CRT is a mini-charity which generally does not pay income taxes. If the IRA is made payable to the CRT it, unlike an individual named beneficiary, will not pay any income taxes on the IRA funds distributed in a lump sum to the CRT. When the CRT trustee makes annual payments to the CRT beneficiary (the person the IRA owner would normally have named as the IRA beneficiary) he or she will pay ordinary income taxes on the CRT distribution, just like they would have had they remained as the beneficiary of the IRA. But the CRT is set up to make distributions over the designated CRT beneficiary's lifetime and they are not limited to an artificial period like

"It is hard to say what the impact of the Act will have on philanthropy in the years to come. It is clear, though, that philanthropy will be challenged..."

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Charitable Giving, continued

five years. The result of using a CRT is that payments will continue over the CRT beneficiary's lifetime, which is close to what the beneficiary would have received if the stretch IRA rules had continued. The "trade-off" for the tax-deferring result of naming the CRT as the IRA beneficiary is that upon the CRT individual beneficiary's subsequent death, the remaining CRT assets (formerly the IRA assets) then pass to a designated charity. The testamentary CRT is also a useful device to consider if the IRA owner is concerned about his/her beneficiary's spendthrift tendencies, as the CRT can afford creditor protection to the CRT beneficiary that an inherited IRA cannot provide.

It is hard to say what the impact of the Act will have on philanthropy in the years to come. It is clear, though, that philanthropy will be challenged in the years to come. However, some lifetime charitable gifts using a CRT can provide immediate income tax relief to the individuals who create them. And while it is possible that the doubling of the federal estate and GST exemptions may prompt fewer decedents to exploit the federal estate tax charitable deduction, the fact that the increased estate and GST exemptions are scheduled to drop back to current levels in 2026 may warrant the use of conditional charitable bequests in wills and trusts.

The Delaware Advantage

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

Tonia Kennedy
Vice President, Trust Officer
Greenleaf Trust Delaware

We are pleased to introduce Greenleaf Trust Delaware, a limited purpose trust company, and our talented Delaware team — established as an additional benefit for our clients and their advisors to avail themselves of the benefits commonly termed the "Delaware advantage." Delaware is often the jurisdiction of choice in which to establish an irrevocable trust because its laws are viewed as highly favorable, compared to other states, with regard to: ease of modification of irrevocable trusts, directed trustees, avoidance of state income tax on accumulated trust income and capital gains, silent trusts, special purpose trusts, and numerous other differences. The Delaware Court of Chancery is remarkably experienced in trust administration, having established its infrastructure in 1792. Delaware also has a highly supportive legislature, legal and banking community.

Ease of Modification of Irrevocable Trusts

There are currently five methods available under Delaware law to modify an irrevocable trust: consent petition, nonjudicial settlement agreement, decanting, merger and consolidation, and nonjudicial modification agreement. While most other states, including Michigan, have modification statutes, the Delaware courts have a great deal of experience with modification and generally view it favorably.

Directed Trusts

Delaware has a "directed trust" statute which permits trustees to be directed on investments and distributions. A directed trustee on investments permits the trustee to make investment decisions as directed by a third party investment advisor named in the trust, which can be particularly helpful if a closely-held business is held in an irrevocable trust. With the enactment of the Uniform Directed Trustee Act, many other states, including Michigan, are now considering adopting the statute. Delaware, however, has long established experience with directed trusts.

continued

About Greenleaf Trust Delaware:

Greenleaf Trust Delaware, a Delaware limited purpose trust company, is regulated by the Office of the Delaware State Bank Commissioner. Greenleaf Trust Delaware is wholly owned by Greenleaf Financial Holding Company, a Delaware corporation. Greenleaf Financial Holding Company is also the sole owner of Greenleaf Trust, a Michigan non-depository trust bank regulated by the Michigan Department of Insurance and Financial Services. Both Greenleaf Trust and Greenleaf Trust Delaware provide various fiduciary and non-fiduciary services, including trustee, custodial, agency, investment management and other non-depository services. Greenleaf Trust and Greenleaf Trust Delaware offer personal trust, retirement plan and family office services to families and entities.

Greenleaf Financial Holding Company and its subsidiaries do not provide legal, tax or accounting advice. Please consult your legal, tax or accounting advisors to determine how this information may apply to your own situation.

Delaware Advantage, continued

Silent Trusts

Often the settlor of a trust does not want the trust beneficiary to know the amount of wealth held in a trust out of concern that the wealth might lead the beneficiary to a life of indolence. Delaware law allows settlors to create silent trusts that may eliminate a beneficiary's right to be informed of the existence of the trust for a period of time. Although the statute is silent as to the time period, most practitioners believe a reasonable time period should be used.

Special Purpose Trusts

Delaware permits the creation of special purpose trusts that do not have individual beneficiaries. Trusts may be created for pets, collections such as art or wine, or a legacy cottage. Michigan permits pet trusts with specific requirements, but not trusts for other special purposes.

"The Delaware Court of Chancery is remarkably experienced in trust administration, having established its infrastructure in 1792."

Self-Settled or Asset Protection Trusts

At common law a person could not create and fund a trust with assets, become the beneficiary of that trust, and then prevent creditors from accessing the trust. Although many states, including Michigan, have recently passed statutes which permit this type of trust, Delaware law is very strong and established on this point.

Avoidance of State Income Taxes on Accumulated Income and Capital Gains

As a result of tax law changes, more emphasis is placed on saving income taxes, including the income taxation of irrevocable trusts. Trusts that accumulate income, often a dynasty trust, are subject to both federal and state income taxes. Some irrevocable trusts are designed to accumulate income. If that accumulated income is subject to state income taxation that wealth can be substantially eroded over time. Delaware's state income tax is imposed on a trust's accumulated income only if Delaware residents are the trust beneficiaries.

Trusts Can Be Perpetual

Delaware allows the creation of trusts funded with personal property to remain in trust in perpetuity. Real property held in trust continues to be governed by a 110-year limitation, but this limitation may be avoided simply by placing real property in a limited liability company or a family limited partnership. Michigan has an opt out form of the statute that allows trusts to continue into perpetuity. Thus, depending on the facts and trust language, a dynasty trust in Michigan may face a 90-year duration.

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

The Changing World of Saving for Education

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

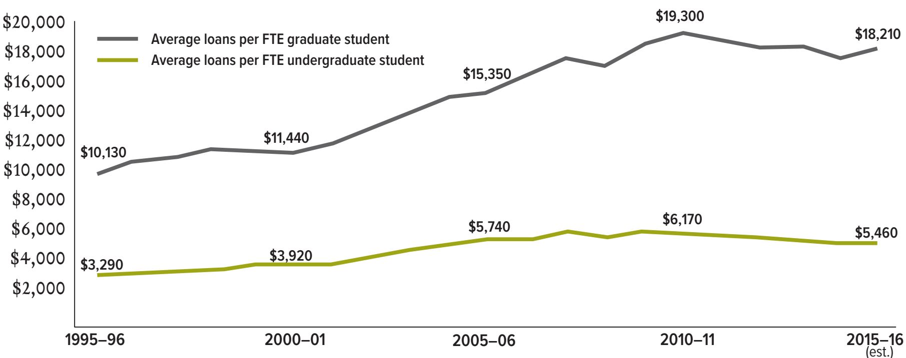
As a Wealth Management Advisor and a mother of three, I find myself cringing while reading endless amounts of publications on the increasing costs of college education and the rising levels of student loan debt plaguing graduates. As my recurring contributions cycle into each of my children's 529 plans, I often recalculate how close we are to even denting the cost of college in 10, 13, and 16 years. Barely.

Among other expenses rising quicker than inflation — prescription drugs, gas, real estate, movie tickets, Disney tickets (ugh), cable television — the cost of a college degree is expected to rise the quickest. A certification, granting an individual the opportunity to earn more over the course of their working life by applying their education into the work force, should do anything but plague them with debt. One would think.

Fact check. Per the College Board data, tuition and fees at a public four-year college totaled $2,966 for the 1996-1997 school year; this figure then jumped 225% to $9,650 for the 2016-2017 school year. Ultimately, this equates to a 6.1% average annual gain — Ouch! For four-year private colleges, the jump was from $12,823 to $33,480, a 4.9% average annual increase. Put into perspective, over the 20-year period from 1997 to 2017, inflation boosted overall prices by about 52%, or an average annual rate of only 2.1%. Furthermore, these costs are now translating into loans that are taking mant more years to repay (see the following chart).

> "Among other expenses rising quicker than inflation… the cost of a college degree is expected to rise the quickest."

Average Annual Loans per Full-Time Equivalent (FTE) Student 1995-96 to 2015-16



Notes: Includes both federal and non-federal loans.
Source: Sandy Baum, Jennifer Ma, Matea Pender and Meredith Welch, *Trends in Student Aid 2016* (New York: College Board, 2016), table 3.

As we begin a new year, we also embark on a new challenge to understand a rudimentary, at the very least, version of the 2018 tax overhaul — for the purpose of this article, more specifically, the changes impacting financial aid savings, which play a crucial part in the ultimate impact on student loan debt.

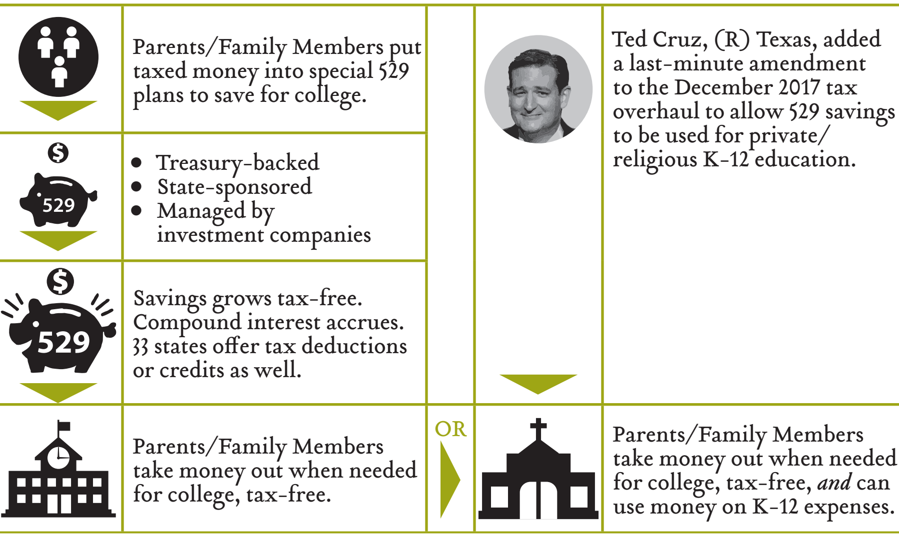
Tax law is a twisted concept, so understand this: If your taxes end up being

Saving for Education, continued

lower under the new tax law, then lower taxes indicates additional cash flow to cover college costs. However, financial aid is the opposite. Taxes paid (owed) is actually a financial aid deduction. So lower taxes paid means a lower financial aid deduction, resulting in higher financial aid income and lower financial aid eligibility. Clear as mud? Be sure to have a tight grip on this concept if you anticipate financial aid making up the difference between college savings and college costs. Furthermore, Adjusted Gross Income is the driving force in the Expected Family Contribution formula for financial aid eligibility. Since almost all the new tax changes are "below-the-line" (reduction of taxable income), Adjusted Gross Income will not be affected, only taxes paid. Taxes continue to be a complex challenge for most to understand, then coupled with the Expected Family Contribution formula, it becomes clear why families need professional guidance to complete financial aid application forms.

"To make saving in a 529 even more attractive, families are now permitted to use money in 529 plans to pay for tuition at K-12 schools."

Should your family be among the Americans paying less tax in 2018, you may consider redirecting excess cash flow into education savings – especially in light of the facts above. To make saving in a 529 even more attractive, families are now permitted to use money in 529 plans to pay for tuition at K-12 schools. This expands the use of 529 savings accounts so that families can withdraw up to $10,000 per year tax-free to use for "public, private or religious elementary or secondary school" expenses. Since first designed in 1996, a 529 plan was to help families set aside funds for future college costs. This new addition to the law is a breakthrough. More than allowing students to receive an opportunity for a personalized education from kindergarten through college, parents and grandparents now have the opportunity to support this plan and (in Michigan) receive state tax deductions. More reason to save and more reason to ensure kids are receiving the education they need with funding from a tax-free college savings plan. Further explained in the following illustration:



Again, these are just a few general tax law changes that could affect the majority of college-bound families. Of course, there is a plethora of information not mentioned here affecting saving for college and the new tax code. We have merely scratched the surface. Above all, saving for college in a vehicle such as a 529 is beneficial for most, no matter your tax bracket, given the in-state tax deduction and tax-free growth for qualified expenses. The opportunity to also apply those dollars for K-12 education makes the plan just that much more attractive for families, grandparents, parents, etc.

Meanwhile, I will continue my contributions while keeping up with the ever changing tax world; hanging on to the subtle hope my children are able to have only slightly less student loan debt than the average. Happy saving!

It should be clear that my colleagues and I at Greenleaf Trust are not tax experts, do not receive remuneration for providing tax advice, and otherwise that is not our role as individuals; nor does Greenleaf Trust as a firm.

"… saving for college in a vehicle such as a 529 is beneficial for most, no matter your tax bracket, given the in-state tax deduction and tax-free growth…"

Christina E. Sharp
Senior Relationship Specialist

Successful Participant Retirement Outcomes

"Studies have shown that automatic enrollment considerably boosts the employee participation rate."

The beginning of the year is often the time to organize, evaluate progress and set new goals. The ability for employees to retire at normal retirement age often depends on their retirement readiness. Employers can structure plan designs focused on successful outcomes for participants. With that in mind, here are some suggestions for review and potential design changes for your retirement plan.

Automatic Enrollment

Studies have shown that automatic enrollment considerably boosts the employee participation rate. In 2016, a study reported plans designed with the automatic enrollment feature had an overall plan participant rate of 82%, versus an average participation rate of only 57% for plans with voluntary enrollment. A plan sponsor may elect to automatically enroll all newly eligible employees going forward, or implement a retroactive automatic enrollment. Very few employees opt out of being automatically enrolled, and this design provides employees with a much better chance of having adequate savings at retirement.

Automatic Enrollment Deferral Rate

Perhaps the retirement plan already has the automatic enrollment feature, yet the automatic deferral rate was established at a lower rate such as 3%. To help employees save for retirement, employers should consider if the deferral rate allows the employees to take full advantage of the employer match. For example, if the employer offers a matching program such as 50% on the dollar up to 6% of employee contributions, then consider setting the automatic enrollment deferral rate at least 6%. Plan sponsors can further help employees save for retirement by adding auto-escalation, such as annually increasing deferrals by 1% to a cap of 10-12%.

Employer Contribution

On average, it is recommended participants save 12-15% annually. With the most common match formula of 50% on the first 6% an employee defers, the typical employee savings rate is 6%. Thus, the combination of the employee and employer contribution equates to a savings rate of 9%, lower than the recommended annual savings rate. However, employers are

beginning to revise their match formula, such as 25% on the dollar up to 12%, motivating employees to contribute 12% to receive the full employer contribution of 3%. This stretching of the match formula, motivates employees to save more and potentially reach the recommended goal of 15% annually (12% employee deferral + 3% employer contribution).

Additionally, employers are recognizing that employees are not saving enough for retirement, and electing to pay at least a portion of employee bonuses as an increase to employer profit sharing contribution, or increasing their match contribution.

Loans

By employers offering loans in the plan employees may think it is a good option, yet it impacts retirement readiness. While the participant has the money out on loan, those savings are not invested in the market and potentially growing. And, most likely, if the employee leaves the company the loan will not be repaid, and thus not returned to the participant's retirement savings. Plan sponsors should consider limiting participants to only one outstanding loan, or perhaps a loan for qualified hardship reasons only. Better yet, eliminate the loan provision completely.

Eligibility

The sooner an employee is eligible to participate in the retirement plan, the sooner they are able to prepare for retirement. Some plan designs do not allow the participant to submit deferrals until one year after hire. Plans sponsors can consider reducing this time frame, such as immediate or 90 days, and additionally allowing the employee to defer the first payroll after eligibility rather than waiting for a specific entry date, such as quarterly.

Another plan enhancement idea is to set the employer contribution eligibility to align with the eligibility date for the employee to defer. For example, if an employee is eligible to defer immediately upon hire, and the employer match contribution begins immediately, the employee is more likely to enroll into the retirement plan benefit.

If you wish to discuss any of these Plan design suggestions further, please contact the Retirement Plan Division.

"Plan sponsors should consider limiting participants to only one outstanding loan, or perhaps a loan for qualified hardship reasons only."

Lucas W. Mansberger, CFA, CAIA
Senior Manager Selection Analyst

Industry-Leading Partners Enhance the Family Office at Greenleaf Trust

Greenleaf Trust is committed to bringing the best to our clients. We take the time to understand clients' unique financial goals and constraints, and then bring our full resources to bear in meeting their needs. Through this process, we recognized that clients of The Family Office at Greenleaf Trust have specific investment management needs that require a specific approach. In particular, we identified a need to expand our investment platform to include a wider range of private alternatives strategies and externally-managed separate account strategies.

Beginning in mid-2015 we set out to create a distinct investment platform for clients of The Family Office at Greenleaf Trust. This platform needed to reflect Greenleaf's investment beliefs, institutional values and high standards of care for client assets, but also to prudently offer investment options that augmented our traditional investment platform. It became clear that the surest way to meet these goals was to partner with an established investment consultant to assist us in building the platform.

After an evaluation process and onsite visits with a number of global and boutique investment consultants, we elected to retain Rocaton Investment Advisors as our partner.

"... clients of The Family Office at Greenleaf Trust have specific investment management needs that require a specific approach."

Rocaton Overview

Rocaton Investment Advisors is an SEC-registered investment advisor located in Norwalk, Connecticut. The firm was founded in 2002 and is 100% employee-owned. Rocaton focuses on providing objective investment consulting and advisory services to institutional investors and has $548 billion in assets under advisory as of September 2017. They offer services in manager search and selection, asset allocation and alternative investments as well as in other areas. Importantly, their private ownership, conflict-free advice, and client-first focus align well with key pillars of Greenleaf's approach.

The most significant benefit of partnering with Rocaton has been their consultation regarding investment manager research and

monitoring. Rocaton employs 16 manager selection personnel, who serve as a de facto extension of Greenleaf's own research team. This substantial team allows Rocaton not only to meet with a broader set of managers, but to spend more time with individual managers. More frequent onsite due diligence, rigorous monitoring, and access to an expanded roster of managers adds tremendous value to our in-house expertise.

The enhancement to our research team's resources are particularly important in the realm of private alternative investing. Private alternative investment strategies are usually more complex, less liquid and offer less transparency than publicly-traded mutual funds. Having research personnel focused on alternatives, including a focus on operational due diligence, gives Rocaton a deep understanding of investment managers across many different strategy types as well as how best to manage the risks unique to those strategies.

In a more qualitative sense, our partnership with Rocaton allows us to benefit from their insights borne of working with a diverse roster of institutional investors. Rocaton's clients include foundations and endowments, insurance companies, and corporate pension and defined contribution plans, among others. Through their work, Rocaton has engaged deeply with a wide variety of investment philosophies and approaches. Those experiences have translated into a robust dialogue between Greenleaf and Rocaton that has challenged and enriched our team's thinking to the benefit of all of Greenleaf's clients.

"More frequent onsite due diligence, rigorous monitoring, and access to an expanded roster of managers adds tremendous value to our in-house expertise."

Rocaton KEY FACTS

- Founded in 2002
- 100% employee-owned
- $548 billion in assets under advisement for 85 clients (as of 9/30/17)
- 64 personnel, including 16 investment manager research personnel
- CIO magazine named Rocaton CEO Robin Pellish one of the world's ten most influential investment consultants in 2017
- Named by Greenwich Associates as one of three 2016 Greenwich Quality Leaders among mid-sized consulting firms

Enhance the Family Office, continued

"From this opportunity set, Greenleaf then undertakes an internal research and due diligence process to translate the ideas into investment recommendations."

Family Office Investment Platform Investment Process

Our Family Office platform investment process is designed to efficiently blend Greenleaf's internal research and investment capabilities with Rocaton's resources and expertise while maintaining the independence and accountability of both parties. The two phases in our process include 1) investment idea generation conducted in conjunction with Rocaton and 2) Greenleaf Trust's internal research and due diligence process.

The idea generation process is an iterative one in which Greenleaf and Rocaton collaborate closely and communicate frequently. The process begins with Greenleaf establishing parameters and portfolio needs that are shared with Rocaton. Rocaton then conducts its own original research and comes back to the Greenleaf Research Team and Investment Committee with recommendations for Greenleaf and Rocaton to review and discuss. The outcome of the idea generation process is a set of potential asset class exposures, proposed asset allocation frameworks, and a menu of investment managers that that have been through Rocaton's due diligence and approval process.

From this opportunity set, Greenleaf then undertakes an internal research and due diligence process to translate the ideas into investment recommendations. Here, the Research Team develops an independent view of ideas generated in the first phase. Under Investment Committee oversight and review, team members construct and evaluate different combinations of portfolios, conduct independent asset allocation analysis using Greenleaf's proprietary risk and return assumptions, and have due diligence meetings with proposed investment managers. Private alternative fund managers and third-party separately managed account managers undergo a further review process that includes external legal review of investment management contracts and private fund documentation as well as a detailed review of their business risk management practices, including business continuity plans and information security policies and practices. Ultimately, all managers and portfolios are reviewed in detail and approved by the Investment Committee.

Rocaton plays an important role in the oversight and ongoing development of our continually evolving platform. They monitor investment managers on the platform closely, including in-person meetings and on-site due diligence, and provide ongoing analysis and recommendations on the same, including whether to replace a given manager

and potential options for the replacement. Rocaton also serves as our primary source for new ideas and due diligence into closed-end (private equity-style) alternatives strategies, which form a revolving portion of our fund lineup. Finally, their investment insights and market intelligence continue to inform and deepen our thinking.

The Net Result

Through our partnership with Rocaton and our systematic approach to developing the Family Office platform, we believe we are accomplishing the goals we set when we first embarked on our journey. Our platform includes a suite of distinctive investment strategies and portfolios that are well-suited to the investment needs of clients of The Family Office at Greenleaf Trust. We've established a roster of successful and differentiated investment managers across both traditional and alternative asset classes that were chosen through a thorough, multilayer due diligence and selection process. Importantly, while our investment offerings have evolved and deepened, our approach to investing maintains Greenleaf's focus on portfolio customization, risk management and portfolio-level outcomes. We look forward to continuing to evolve and grow alongside clients of The Family Office at Greenleaf Trust.

"… our approach to investing maintains Greenleaf's focus on portfolio customization, risk management and portfolio-level outcomes."

Stock Market Pulse

Index	1/31/18	Total Return Since 12/31/2017
S&P 1500	651.94	5.43%
Dow Jones Industrials	26,149.39	5.88%
NASDAQ	7,411.48	7.40%
S&P 500	2,823.81	5.72%
S&P 400	1,953.97	2.87%
S&P 600	959.39	2.52%
NYSE Composite	13,367.96	4.48%
Dow Jones Utilities	699.25	-3.32%
Barclays Aggregate Bond	108.10	-1.13%

P/E Multiples	1/31/18
S&P 1500	22.7x
Dow Jones Industrials	20.6x
NASDAQ	24.3x
S&P 500	22.3x
S&P 400	25.3x
S&P 600	29.6x

Key Rates

Fed Funds Rate	1.25% to 1.50%
T Bill 90 Days	1.41%
T Bond 30 Yr	2.94%
Prime Rate	4.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	651.94	22.7x	1.97%
S&P 500	2,823.81	22.3x	2.03%
Dow Jones Industrials	26,149.39	20.6x	2.45%
Dow Jones Utilities	699.25	NA	3.45%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.97%

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