GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

NOVEMBER 2017 VOLUME 26, ISSUE 11

William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

October brought plenty of news on the economic front, Federal Reserve Chair change and tax reform legislation. All are ultimately related and thus it will be a good conversation to have.

ECONOMY

Real GDP grew at an estimated rate of 3% during the 3rd quarter of 2017. Keep in mind that there will be two revisions of this estimate; however, the result seems reflective of the government's Beige Book of economic activity as well as the individual estimates of the Federal Reserve's regional districts and, therefore, we would be surprised to see substantial revisions to the announced estimate. Those forecasting a negative impact of the devastating hurricanes were a bit off the mark, as replacement activity ramped up sooner than anticipated. Whether the activity is "pull forward," as opposed to a sustainable impact, remains to be seen. Automobile dealers are seeing what they refer to as a higher efficiency of insurance replacement activity which has supported what was previously perceived as an inventory glut for both new and used vehicles.

Non vehicle inventories rose for the quarter, adding 0.7% to the economy. Increases in inventories at this time of year are not uncommon, but it is too early to know if the buildup is in anticipation to stronger sales or due to weak demand. Clearly, future results of Q4 data will reveal the answer.

An improving global economy and increased demand for exports helped reduce our trade deficit and added an additional 0.4% to our GDP growth. So that we don't get too excited about the reduction in the trade deficit, remember that Houston is one of our largest import ports and is first in line for the majority of Panama Canal freight and tanker traffic. Houston ports, especially with respect to refinery traffic, are not back up to capacity and this accelerant to our economy is not likely to push through to the fourth quarter.

While inventory adjustments can add and subtract from any one reporting period — thereby providing some "noise" or volatility to a quarter's results — consumer spending, business fixed investment and residential investment provide the measurement of the pulse of the economy. This component is often referred to as private domestic final purchases, and the rate of growth of that component was less robust (+ 2.2%) than we would like to see. A large portion

Commentary, continued

of economists would suggest that this measure is where the hurricanes have the largest potential to impact the economy in the near term, as impacted businesses and housing inventories require longer time frames to recover than other needs such as cars and clothing.

In general, the headline of 3% growth in the third quarter was celebrated a bit more than the underlying reality. Tourism and consumer spending should increase into the fourth quarter. Gas and oil exploration is likely to rebound post-Harvey and -Irma, and housing as well as business investments have a chance to offset what is likely to be a pickup in net imports. Q4 results seem more, not less, likely to mirror those of Q3.

THE FEDERAL RESERVE LEADERSHIP CHANGE

No word at this writing if Janet Yellen will step down prior to her term expiring at the end of January of 2018, now that the president has nominated Jerome Powell to become the next Fed Chairman. Knowing who Jerome Powell is will help you understand that the difference between Janet Yellen and Jerome Powell is more nuanced than significant. Powell was appointed to a term as Fed Governor in 2012. He is a banking and financial services career veteran who, as Fed Governor, supported Chair Yellen's monetary policy leadership. Powell is a long and robust supporter of the Republican Party and is well known to Wall Street as well as banking committee leadership in Congress. His confirmation is not in doubt. The change in leadership is not without some drama, though it is very unlikely to result in any significant policy change. Though the President changed his public persona with respect to Chair Yellen after becoming President, it was well known that he wanted to have his own nominee at the helm. During Janet Yellen's term, interest rates stabilized, inflation remained tame, unemployment fell to 4.1%, the lowest rate in 22 years, and the economy continued to grow. Why not nominate her for a second term? Every Fed Chairman in modern times who completed their first four years was nominated for a second term, and her record certainly deserved it. This president was not kind to Chair Yellen during the 2016 Presidential campaign. He accused her of being in the pocket of the Obama administration and refusing to raise rates when she otherwise should have. He has since been effusive in his compliments of her leadership and even had her to lunch at the White House as he was interviewing other potential candidates. The public record is, well, public, and in the end it was very unlikely that he would retain a nominee of President Obama.

> "If there is to be found a difference between newly nominated Chair elect Powell and current Chair Yellen, it is their academic and public policy writings with respect to regulation."

If there is to be found a difference between newly nominated Chair elect Powell and current Chair Yellen, it is their academic and public policy writings with respect to regulation. While the Federal Reserve's primary focus is on interest rates, economic expansion and inflation, they do regulate the vast bulk of financial institutions. Chair Powell is far more likely to endorse a relaxation of the consumer protection office that was created post recession of 2008 than Chair Yellen. In the end, the President has his nominee who will be confirmed, and policy with respect to rates, inflation and employment will not change. The markets will approve as well.

TAXES

It is, at best, a story problem that would not stump most eighth graders. As a country, our Congress authorizes a budget that spends $3.6 trillion per year. The same Congress legislates tax regulation that raises $3.2 trillion per year. Here comes the two-part question. In order not to add $400 billion to the deficit annually, how much more tax revenue or spending cuts or combination of each must Congress enact through policy and/or legislation to balance the budget? The answer is, of course, $400 billion. A currently released detail of the Republican Party's proposed plan doesn't get to that answer.

We have offered previously that half of our current tax receipts are produced through income tax, both personal and corporate, while the remaining half are produced through employee and employer payroll, social security, and Medicare taxes. The Republican proposed policy is built upon the philosophical belief that lower rates, especially corporate rates, will produce greater economic activity which will employ more people, incentivize greater capital investment and therefore amplify productivity and wage growth. The growth embedded in the philosophy will generate longer-term growth in tax revenues even while the base rates are lower. Further, they believe any increase in deficits will be short-term as growth wins the day.

Democrats will reject the plan, and thus the struggle will be within the Republican Party to gain the 59 votes required to pass the plan. Where will the opposition come from? Deficit hawks who have said for the past eight years that increased spending must be paid for in program reduction or increased taxes, high tax states whose citizens would lose their current state and local income tax deductions from their federal returns, and the financial services industry who were caught off guard with the proposals to change the taxation of retirement asset accounts.

To be certain, the Republican leadership on the hill has an even greater challenge. Tea party leadership, also known as the freedom caucus, has made it clear that tax legislation that does not repeal mandated insurance coverage for individuals will make the tax legislation dead on arrival. As we said a few months ago, tax and healthcare policy are complicated at best. Broad changes impact multiple special interests. More productive change might come in smaller increments.

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Michael F. Odar, CFA
President

“...we started our Retirement Plan division shortly after we opened our doors to accompany our holistic approach to wealth management and serve a need in the marketplace.”

Full Service Retirement Plans

In 1998, Greenleaf Trust’s founding roots were to serve a need in the financial services industry that was being abandoned by large banks in the name of shareholder value. Once-prestigious full service trust departments were being plagued with turnover, self-dealing, and a general apathy to what is most important – the client. The belief in the banking industry was bigger is better. Most banks also had the same thought process with their retirement plan divisions. If a company’s 401(k) plan was under $5 million, many banks were not interested in serving as the plan administrator.

With the opportunity presenting itself, we started our Retirement Plan Division shortly after we opened our doors to accompany our holistic approach to wealth management and serve a need in the marketplace. Our growth in the defined contribution retirement plan market has been steady over the last 18 years. Today, we serve as the administrator to approximately 140 qualified plans including more than 17,000 participants and over $1 billion in assets. Our recipe for success has three simple ingredients.

Full Service Platform

We take pride in being able to oversee every aspect of a client’s qualified plan, easing the plan sponsor’s burden by combining administration, employee education, investment management, plan documentation, recordkeeping, and trustee functions — all under one roof. We even engage in in-depth plan design consulting and, on an ongoing basis, legislative and technical compliance. Most retirement plan providers seem to offer a fragmented service model that disconnects the investment advisor services from the administration (i.e. recordkeeping, plan document work, etc.) of the plan. Although the fragmented model is generally considered more profitable, we believe client service suffers from communication gaps and expertise deficiencies versus having everything under one roof.

Independent Investment Platform

Our in-house, conflict of interest free mutual fund selection process ensures that only high quality, rigorously monitored investment choices are offered to our clients. Many of our competitors use proprietary products in their plan offerings that can heighten fees and inhibit performance.

Participant Services

Across every facet of the qualified plan we provide to clients, we proactively educate and guide employees through one-on-one consultations, group meetings, and interactive (online) investment guidance platforms. So far in 2017, we have conducted more than 1,592 meetings with plan participants to help them navigate their plan and invest for the future. We can also shoulder the responsibility of trustee and fiduciary functions under an ERISA 3(38) capacity, for maximum fiduciary protection. I believe that our participant services are what really distinguish us from the competition. And if you don't believe me, just ask some of our clients.

According to our 2016 Retirement Plan Services client satisfaction survey, 100% of those clients surveyed feel that Greenleaf Trust is easily accessible, are satisfied with the a of contact, feel questions and concerns are answered in a prompt and satisfactory manner, they are treated as a very important client, and would refer someone to Greenleaf Trust as a plan provider.

Managing Capital Gains Distributions: A Wealth Advisor's Holiday Tradition

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

Every November, as the days grow shorter and colder, friends and families gather together from far and wide to celebrate the holidays in the warmth of each other's company. Likewise, every year around this time, portfolio managers, accountants and wealth advisors huddle in their offices, working closely together to ensure the best tax outcomes for their clients. For us at Greenleaf, one of our contributions to the annual advisor huddle is our management of the impact of capital gains distributions. Funds typically make these distributions in late November to mid-December, which can create a tax liability for investors regardless of whether they have recently sold shares. To explain capital gains distributions and how Greenleaf approaches taxes in fund portfolios, we are pleased to once again dust off and republish an article on the topic originally written by our Director of Research, Nick Juhle. Enjoy, and happy holidays!

Most investors are familiar with basic tax principles for individual shares of stock. Mr. Smith buys shares of ABC Company for $100 and sells them for $110 realizing a $10 profit, or gain, on which he is expected to pay taxes. If Mr. Smith holds the shares for more than one year, the gains are considered long-term and subject to a federal tax rate of up to 23.8% (in 2017). If Mr. Smith holds the shares less than a year, the gains are short-term and taxed as ordinary income. The key here though, is that Mr. Smith has to sell the shares to realize the gains. He controls the timing, and has the ability to delay realization of gains and the resulting tax liability for

"… every year around this time, portfolio managers, accountants and wealth advisors huddle in their offices, working closely together to ensure the best tax outcomes for their clients."

Capital Gains Distributions, continued

as long as he holds the shares. The same concept is only partially true when it comes to mutual funds.

A share in a mutual fund represents a share in a portfolio of stocks (or other investments), and the price of that share (the net asset value or NAV) fluctuates with the prices of the underlying securities. The mechanics here are really no different than in the individual stock example above. Mr. Smith buys shares of the ABC Fund for $100, the underlying securities in that fund collectively appreciate by 10%, and Mr. Smith sells them for $110, realizing a $10 gain and the associated tax liability. Pretty straightforward, right? Here's where it gets a little more complicated…

If a mutual fund sells a holding in which it has a gain, it has to distribute that gain to the fund's shareholders in the year it was realized. If the mutual fund buys shares of ABC Company for $100 and sells them for $110, it has to distribute the $10 gain (short or long-term) to shareholders who are responsible for the tax liability. Instead of distributing gains after every transaction, funds typically make a single distribution at year-end which incorporates all gains netted against any offsetting losses or applicable loss carry forwards.

So there are two ways a fund investor can realize gains: 1) by receiving a capital gain distribution from the fund; and 2) by selling a fund share for more than the purchase price. Mechanically, capital gains distributions are processed similarly to dividends. There is a record date (holders of record on this date will receive the distribution), and an ex-date (the first day you can buy the fund without receiving the distribution). This means that a fund could set a record date of December 15 and if our friend Mr. Smith bought shares on December 14, he would receive the distribution and a tax bill. Likewise Mr. Smith could have bought shares earlier in the year and sold them on December 14th and he would avoid the distribution altogether.

Perhaps this seems unfair. The fund accumulates gains all year and then distributes them to whoever happens to be holding the shares on the record date. Fortunately, there is a mechanism in place that prevents fund investors from being taxed twice – specifically, the distribution results in a corresponding reduction to the NAV or price of the fund share, which effectively reduces any gain in the shares themselves.

To illustrate, let's say Mr. Smith buys one share of ABC fund for $100 on December 14 and the fund distributes $10 in capital gains on December 15. Mr. Smith receives the $10 and will pay taxes on that amount (clearly unpleasant), and his share immediately re-prices to $90. Sounds like a lose-lose, but

"Instead of distributing gains after every transaction, funds typically make a single distribution at year-end which incorporates all gains…"

it means Mr. Smith's share could appreciate as much as $10 (from $90 back to $100) before he would realize gains on a sale.

For each of the past several years, the average distribution across our client holdings was between four and five percent. This year, our estimate of the average distribution across our client holdings is approximately three percent. Current estimates show that funds with significant U.S. equity exposure expect to make higher distributions than funds with other types of holdings.

Fortunately, our hands are not completely tied when it comes to taxes. In fact, several steps in our process are inherently geared toward managing tax liabilities generally and specifically as they apply to externally-managed funds. First of all, this discussion does not apply to 401(k)s, IRAs, or other qualified accounts and we ensure clients are maximizing these vehicles in the context of a broader wealth management plan. For non-qualified accounts, our portfolio construction and fund selection processes carefully consider the assumed tax impacts of the strategy or fashion in which our clients are investing. We carefully consider turnover rates, as it is usually the case that higher turnover (more trading) means more realized gains while lower turnover means the opposite. We also evaluate the tax characteristics of different investment vehicles for our clients. This emphasis on tax efficiency is part of what led us recently to increase the use of index-tracking exchange-traded funds (ETFs), which usually experience less turnover and are generally more tax efficient than the average actively-managed mutual fund. We also monitor funds closely for manager or prospectus changes which may drive higher turnover if the portfolio is repositioned. Additionally, we analyze capital gains estimates to inform decision-making around year end — under unique circumstances, there may be benefits to strategic repositioning during the distribution season based on a host of account-specific factors. You can rest assured that we are thoroughly examining every account for opportunities.

Lastly, perhaps a little perspective is in order. Nobody looks forward to paying taxes and rational investors will make every effort to avoid, minimize, or delay them. Greenleaf Trust is in your corner working diligently to ensure that we're sheltering, minimizing, and delaying every chance we get. But at the end of the day, taxable gains are, well… gains. So don't lose sight of the fact that while taxes are a certainty, they're also a certain indicator of a growing portfolio.

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George F. Bearup
Senior Trust Advisor

The Search for Material Purposes in a Trust

The conventional wisdom is that probate is to be avoided at all costs, but why? Probate is the formal legal process to dispose of the assets of an individual who has died (the *decedent*), which entails filing the original will with a probate court, hiring lawyers to file a petition to have the decedent's will formally 'admitted,' paying an inventory fee based upon the value of the decedent's assets that will be transferred pursuant to the will's directions, and periodic notices and reports from the personal representative of the probate estate to the beneficiaries who are identified in the will. Thus, there is unwanted publicity, delay and expense associated with the probate process. In contrast, if the decedent's assets are titled in the name of a trust, the publicity and expense of probate can all be avoided when the decedent-settlor dies. As such, the historic purpose of a trust is to 'avoid probate' on death by exploiting the legal fiction that while the individual settlor of the trust died, his or her trust did not die. But is that the only purpose to use a trust?

"...the historic purpose of a trust is to 'avoid probate'... But is that the only purpose to use a trust?"

The Michigan Trust Code frequently references a trust's *material purpose*. However, that term is not defined in the Trust Code. Rather, the Trust Code only tells us that a trust may be created to the extent that its purposes are (i) lawful, (ii) not contrary to public policy, and (iii) the purposes of which are possible to achieve.

For example, a probate judge cannot accept the trust beneficiaries' proposal to modify or terminate an irrevocable trust if the proposed modification or termination is contrary to the trust's *material purpose*. A trustee is given the authority to terminate a trust when 'no purpose of the trust remains to be achieved.' A probate judge can also modify the administrative or dispositive terms of a trust if the trust's modification or termination will further the settlor's *stated purpose*. Consequently, we have a Trust Code that refers to a trust's *lawful purpose*, a trust's *material purpose*, or a trust settlor's *stated purpose*, but no working definition of any of these concepts when the validity of the trust and how it is administered by a trustee is dependent upon identifying the trust's purpose.

A summary of the common law is not much help either. The *Restatement (Third) of Trusts*, which seeks to summarize the common law of trusts, and on which much of the Michigan Trust Code is based, provides only limited insight into a trust's material purpose. The comments to that *Restatement* observe:

Material purposes are not readily to be inferred. A finding of such purpose generally requires a showing of a particular concern or objective on the part of *the settlor, such as concern with regard to the beneficiary's management skills, judgment, or level of maturity. Thus a court may look for some circumstantial or other evidence indicating that the trust arrangement represented to the settlor more than a method of allocating the benefits of property among multiple beneficiaries or a means of offering to the beneficiaries (but not imposing on them) a particular advantage. Sometimes, of course, the very nature or design of a trust suggests its protective nature or some other material purpose. Restatement (Third) Trusts, Section 65, comment (d).*

Rather than have a court, or the trustee, search for a trust's purpose, or look to circumstantial evidence to reveal the settlor's presumed purpose, consider actually telling the court, the trustee and the trust beneficiaries what your purpose is when you created the trust. The use of a trust to hold title to assets to 'avoid probate' is pretty obvious. But often there is a much larger message when a trust is used than just to 'avoid probate.' A trust's distribution provisions usually reflect some of the purposes why the trust was structured in a specific manner and how the settlor expects the trustee to make distributions from the trust to beneficiaries.

In my later years drafting trust instruments, I often encouraged my clients to try their hand at drafting their trust's *material purpose* provision which was prominently placed in the trust document. I asked them to share their reasons for why their wealth was to be distributed in a specific manner, and the need to express their concerns or desires for how their wealth would impact the trust beneficiaries, especially if there was to be some delay in distributing the inheritance to their heirs. Often their specific values were identified and perpetuated by their trust's provisions. This homework assignment was usually greeted with a bit of apprehension, but invariably the clients shared observations and goals that gave more meaning and impact to their trust instrument than a terse statement that the trust was used merely to 'avoid probate.' This request also was a subtle reminder that, in the end, the trust instrument as drafted was my client's expression of their values, aspirations and concerns, not those of their attorney.

"… consider actually telling the court, the trustee and the trust beneficiaries what your purpose is when you created the trust."

A *material purpose* trust provision does not have to be long and involved, but it should reflect some sense of priority of how the settlor expects the trustee to make distributions from the trust, or how important it is to the settlor for the trust to continue for an extended period of time to assist the trust beneficiaries, or why the trust should not be prematurely modified or terminated by the trustee or the trust beneficiaries, which are now possible under the Michigan Trust Code. It is helpful to the trustee, the trust beneficiaries, and possibly a probate judge, to spend some time identifying what exactly the *material purposes* are for your trust.

Three sample *material purpose* trust provisions follow, two short and

Material Purposes, continued

one extensive:

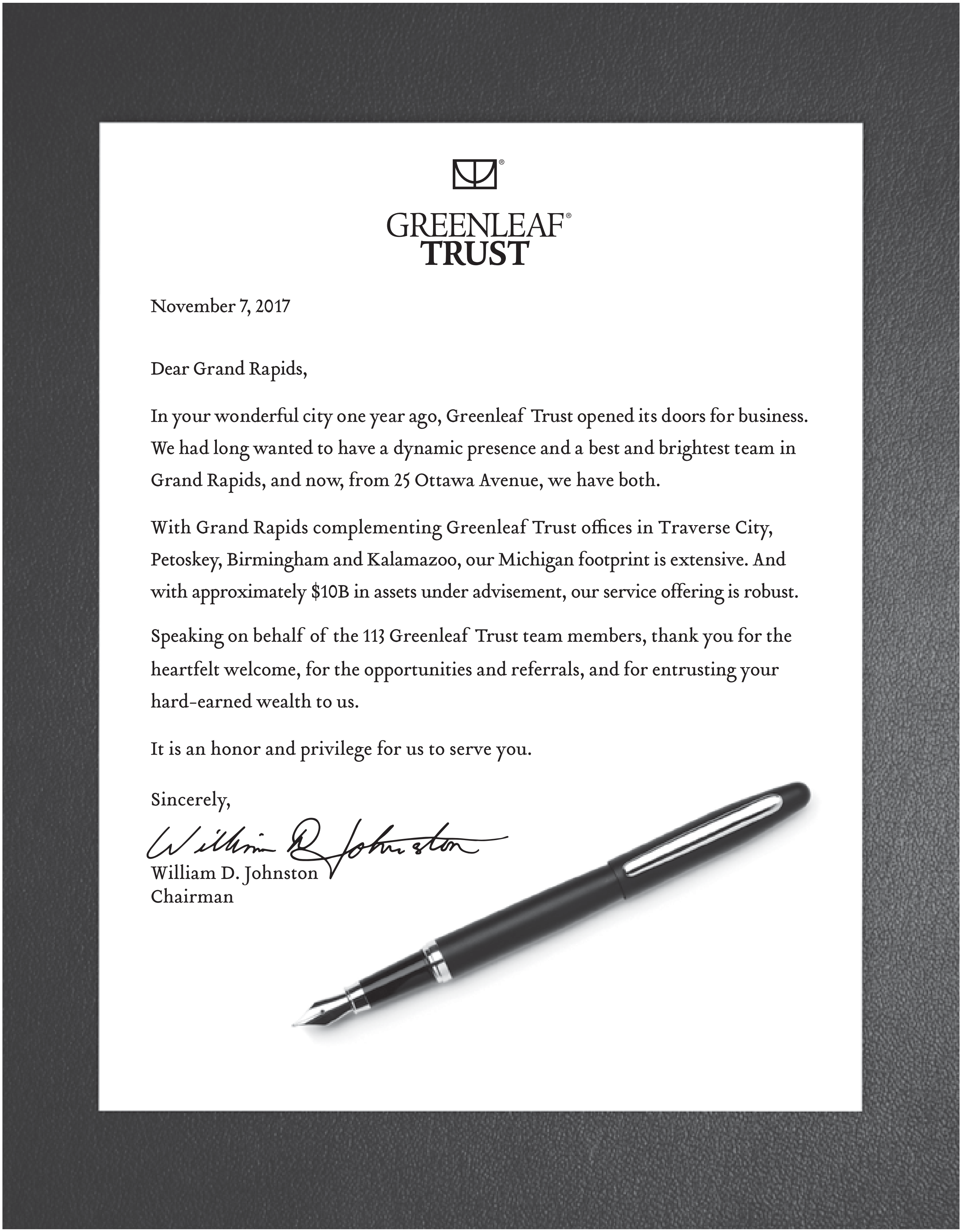
I intend that this trust is to generously provide for the beneficiary throughout the beneficiary's lifetime. If on the beneficiary's death there is little or no money or assets that remain in this trust that is fine with me. As long as the beneficiary is well provided for by this trust my material purposes in creating this trust is achieved.

My overall objective is that my child and his descendants become mature, responsible, self-sufficient and productive adults. Accordingly, this trust is intended to accommodate my desire that the beneficiaries are self-sufficient and that they look to this trust primarily for their health and education purposes only. I intend that each beneficiary shall not depend upon this trust for support if the beneficiary is capable of earning a living; a lack of industry by a beneficiary shall not be alleviated by any distributions or loans from this trust. I envision this trust as only a financial 'back-stop' and not a substitute for each beneficiary to look after himself or herself, and that their self-sufficiency is most likely to occur if the beneficiary does not interfere with the judgment of the trustee.

"It is helpful to the trustee, the trust beneficiaries, and possibly a probate judge, to spend some time identifying what exactly the *material purposes* are for your trust."

It may be that some trusts are established with only a vague desire to benefit others, and that those trusts may reasonably be reshaped and modified as beneficiaries or courts see fit over time. That is not the case with this trust. As expressly indicated throughout this trust, I have very specific purposes that are unequivocally material to me and to which this trust is therefore my attempt to give voice. It is for this reason that the specific conditions imposed by this trust should be treated as a sacrosanct embodiment of my material purposes for this trust, neither ignored, nor manipulated by the judgment of other persons, no matter how much sounder those others consider their current judgment to be as compared to my prior judgment as expressed in this trust. Thus I wish to make it clear that my material purpose is to provide protection of assets and to reward my child's acceptance of and adherence to the values that are expressed in this trust, and this trust alone, regardless of the cost, inconvenience, irritation or impairment of trust administration, even if an alternative mechanism is available and presumed to be better. So long as the provisions of this trust provide for its continuance, it would be inconsistent with my material purposes to modify this trust, terminate this trust, or fail to respect this trust's spendthrift provision and each of the other conditions that I have imposed on trust distributions.

There is far more to the use of a trust than just 'avoiding probate.' Let your trust give voice to your values and goals for its beneficiaries.



GREENLEAF TRUST

November 7, 2017

Dear Grand Rapids,

In your wonderful city one year ago, Greenleaf Trust opened its doors for business. We had long wanted to have a dynamic presence and a best and brightest team in Grand Rapids, and now, from 25 Ottawa Avenue, we have both.

With Grand Rapids complementing Greenleaf Trust offices in Traverse City, Petoskey, Birmingham and Kalamazoo, our Michigan footprint is extensive. And with approximately $10B in assets under advisement, our service offering is robust.

Speaking on behalf of the 113 Greenleaf Trust team members, thank you for the heartfelt welcome, for the opportunities and referrals, and for entrusting your hard-earned wealth to us.

It is an honor and privilege for us to serve you.

Sincerely,

William D. Johnston
Chairman

Jeff T. Pauza, CFA
Wealth Management Advisor

How Millennials (and Their Parents) Can Prepare for the Next Financial Crisis

Ned Stark from HBO's Game of Thrones frequently warns and prepares the people of Winterfell for dramatic battles ahead with the motto "Winter is Coming." The Stark family slogan is intended to constantly remind their supporters of the imminent challenges of the future while also motivating them to prepare while they still can. This brooding message also applies to your personal finances. It's impossible to predict when the next financial crisis will occur, what will trigger it, or how long it will last. Accepting that a financial crisis is always on the horizon will allow you to focus on preparing for tomorrow's financial challenges as best as you can today.

"Accepting that a financial crisis is always on the horizon will allow you to focus on preparing for tomorrow's financial challenges as best as you can today."

A survey from Fundrise recently asked millennials how prepared they were for the next financial crisis. Approximately 63% of millennials responded that they do not feel prepared for the next financial crisis. Even more alarming in this recent study is that 47% of millennials felt there was nothing they could do to prepare for it. The survey also revealed that millennials' investment portfolios suffer from a lack of adequate diversification, highly correlated investments, and above-average investment expenses and fees. While there is no avoiding a financial crisis, we can offer solutions to our Millennial clients so they feel more prepared than their peers. Here are several ideas to tune-up your personal finances for the next crisis:

1. Develop and Implement a Wealth Management Plan
   Our investment philosophy at Greenleaf Trust generates diversified portfolios that are constructed with our clients' goals in mind. This enables clients to remain invested throughout a full economic cycle. A customized plan will help you avoid costly mistakes such as market timing, overspending, inadequate diversification, and high investment fees. Creating an investment plan that is aligned with your spending goals is necessary to ensure you're prepared for the next financial crisis. Now is the perfect time to meet with your advisor and update your plan.
2. Automate
   It's simple to let emotions get in the way of accomplishing financial tasks such as paying bills, contributing to retirement accounts, setting up emergency funds, and establishing savings vehicles. The emotional component can be eliminated by setting up a system so that all of these tasks are accomplished automatically on a regularly recurring schedule.

This will also ensure that you constantly invest during all stages of the economic cycle – removing the behavioral risk of market timing.

3. Avoid Lifestyle Creep
   It's important to establish healthy spending and saving habits early in life. If you start to spend more as your wages increase, it can be a tough habit to break. A healthy solution is to at least annually increase your 401(k) contributions on a schedule that coincides with pay raises. This will automatically prevent spending more money as your wages increase. This strategy will also provide a boost to your savings.
4. Reduce High Interest Debt
   Carrying a credit card balance is an expensive decision considering credit card interest rates remain in the 15% - 20% range. Student loan interest is usually charged in the 5% - 7% range, not as high as credit cards but still a meaningful expense. Paying down high interest debt generates a substantial investment return during all economic cycles since you save the interest expense that is owed on the debt. Reducing high interest debt will also leave you less vulnerable to a job loss or income reduction during the next crisis.
5. Build Emergency Savings
   Holding six to twelve months' worth of living expenses in a low-risk, interest-paying investment account can reduce several of the more challenging effects of a recession such as a job loss and market sell-offs. Your emergency savings should be held in an investment that is readily available such as high interest savings/checking accounts or money market funds. Because a financial crisis is unpredictable your investment needs to be liquid so you'll be able to access the funds anytime.

While there is no formula to prevent the next financial crisis, following these steps can help ensure that your personal finances are structured and organized for all of the different cycles of the economy. Winter is coming, how prepared are you?

"While there is no avoiding a financial crisis, we can offer solutions to our Millennial clients so they feel more prepared than their peers."

Karen A. Bouche, CTFA
Executive Vice President
Family Office Advisor

The Future of Charitable Giving

What prompts one to give to charity? Is it a sense of obligation, religious tithing, an inner mission to improve the world, a desire to leave a legacy, some combination of these…or is it purely because of the tax benefit? I do not believe the tax benefit is the primary reason for most donors to give.

In our work, we have a unique and fortunate opportunity to invest time learning about the charitable landscape, particularly in Kalamazoo County, Michigan. Because our community is so generous and our clients are sincerely interested in giving to others in need, we proactively seek to learn and understand about all of the good work that is being done by a variety of non-profit organizations. As we continue to hear about the promise of tax reform, I can't help but think about how that might impact the local landscape and future of charitable giving. That brings me back to the "why" of charitable giving. If the majority of individuals and families truly do not consider the tax benefits as a reason to give, then there should be minimal impact if the proposed tax laws are adopted. However, the likely reality is that while the tax benefits may not be the leading factor in choosing to give or not to give, it is undoubtedly a factor when determining the amount to give.

"The potential tax law changes … could have a significant impact on how much money families plan to give to their desired causes."

Potential tax law changes, as currently projected, would nearly double the standard deduction, increase the income threshold for filers at the 39.6% tax bracket, introduce a reduced 35% tax bracket for many, and eliminate the estate tax. These changes could have a significant impact on how much money families plan to give to their desired causes. According to a recent study done by the Lilly Family School of Philanthropy, a higher standard deduction would bring the number of households that will itemize down to 5% of all Americans, significantly lower than the 30% of household that itemize their deductions now. With lower income tax rates, the households still able to realize tax breaks by itemizing will see less of a benefit to doing so, compared to when income tax rates were higher. This combination of changes may cause households to give less than before because the tax incentives will not be there for them.

The other significant change being discussed, a repeal of the estate taxes, could cause two possible outcomes. One result could be families reducing the amount of charitable bequests made in their estate plans. This would assume that the bequests, or their amounts, were included in their planning specifically for the tax benefits and desired amount to leave to heirs. With a lack of tax benefit from charitable bequests upon death, perhaps those plans would be modified. Another result could be the exact opposite - more charitable giving. When one passes away, the three remainder "beneficiaries" are heirs, charities or estate tax. Therefore, if estate tax is no longer one of the factors, that leaves more to the other two groups, charities and heirs.

Of course we will be watching this closely to see how it plays out and how it might impact the philanthropic community.

Cost-of-Living Adjustments to Retirement Plans for 2018

Lorey L. Matties
Participant Services Specialist

The Social Security Administration (SSA) recently announced cost-of-living adjustments to the maximum amount of earnings that are subject to the Social Security tax, as well as a nominal increase to monthly Social Security and Supplemental Security Income benefits. The Social Security Wage Base will increase in 2018 from $127,200 to $128,700.

The Social Security tax functions very much like a flat tax. The taxable wage base caps the amount of employee compensation subject to the 6.20% Social Security tax rate imposed on both employers and employees. In 2018, employers must withhold Social Security tax on each employee's first $128,700 of compensation. This means that the employer and employee must each pay $7,979. Compensation above the $128,700 is not subject to Social Security taxes.

The Internal Revenue Service also recently announced various dollar limitations applicable to retirement plans for 2018. Some 401(k)/403(b) and IRA plan limits will remain unchanged because the Consumer Price Index did not meet the statutory thresholds for their adjustment. Highlights include the following:

Retirement Plan Limitations	2018	2017
Annual 401(k), 403(b) and 457 deferral limit	$18,500	$18,000
401(k), 403(b) and 457 contribution catch up limit	$6,000	$6,000
Annual defined benefit limit "415 limit"	$220,000	$215,000
Annual contribution limit "415 limit"	$55,000	$54,000
Annual compensation limit	$275,000	$270,000
Highly Compensation employee definition	$120,000	$120,000
Key employee definition for top-heavy plan	$175,000	$175,000
Income subject to Social Security (wage base)	$128,700	$127,200
Annual IRA contribution limit	$5,500	$5,500
Annual IRA catch up contribution limit	$1,000	$1,000

"The Internal Revenue Service also recently announced various dollar limitations applicable to retirement plans for 2018."

The Saver's Tax Credit for low- and moderate-income workers will reflect modest adjustments as well. The credit is between 10-50% of the individual's eligible contribution up to $2,000. The limit for 2018 is $31,500 for singles; $47,250 for head of household; and $63,000 for married couples filing jointly.

Should you have any questions regarding the various limitations that apply to retirement plans, including some that are not included in the above table, please contact our retirement plan services team.

Stock Market Pulse

Index	10/31/17	Total Return Since 12/31/2016
S&P 1500	596.52	16.30%
Dow Jones Industrials	23,377.24	20.58%
NASDAQ	6,727.67	26.13%
S&P 500	2,575.26	16.91%
S&P 400	1,835.10	11.87%
S&P 600	912.04	9.94%
NYSE Composite	12,341.01	14.01%
Dow Jones Utilities	753.20	17.17%
Barclays Aggregate Bond	109.47	3.22%

P/E Multiples	10/31/17
S&P 1500	22.0x
Dow Jones Industrials	19.7x
NASDAQ	24.1x
S&P 500	21.6x
S&P 400	24.7x
S&P 600	28.8x

Key Rates

Fed Funds Rate	1.00% to 1.25%
T Bill 90 Days	1.08%
T Bond 30 Yr	2.88%
Prime Rate	4.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	596.52	22.0x	1.97%
S&P 500	2,575.26	21.6x	2.03%
Dow Jones Industrials	23,377.24	19.7x	2.45%
Dow Jones Utilities	753.20	NA	3.45%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.91%

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