GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

It is easy in the midst of the political campaign circus to become more sanguine about our current condition than we otherwise should be. "Vote for me because I will save us from either the disastrous condition we are in or soon will be if we don't change now…" seems the mantra of each campaign. How people react to polling questions is mostly determined by how they already perceive economic, geopolitical and domestic policies and is heavily influenced by their current political party affiliation. Political professionals know that there are few true independent voters and thus their task is to excite their candidate's supporters to the level that will energize them enough to actually cast a vote on the primary date. There is only so much oxygen in the room, so many seconds of national air time and so many minutes of mass media coverage opportunities to be had in the process and extreme statements become the norm as candidates seek the most exposure that they can grab. Not to convince undecided or independent voters but to rally their troops.

Within the past two weeks, I have had social setting experiences that reinforce what I already know. The prism through which most people look will determine the light and colors that they see, and contrary to most assumptions each of us has come to our own prism through which to filter our own light, and most of us hold our prisms so dearly that we resist all information, even if we know it to be fact, that will threaten the prism we have crafted. How we came to that order of thinking is very real and personal to each of us. It began with our DNA strands, who our parents were, how we were socialized. We were influenced by our friends and relatives, neighbors and acquaintances, the schools we attended, classes we took and teachers who taught us. We all assume that inquiring minds want to know but… not so much. It turns out that most of us want to know only that which reinforces what we are comfortable with and doesn't challenge us beyond the boundaries that form our prisms. Reflect upon your own experiences. When was the last time one of your friends, relatives, work associates or acquaintances said "Oh wow, that is so different from what I have believed, now I get

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Commentary, continued

it and I will certainly view the world differently from now on." Your answer will not be different from mine or anyone else's. We love to debate, argue, yell, scream, clench our fists and pound the tables but in the end our prisms have been built and once built it is darn difficult to reconstruct them.

The settings I referred to above were dinners during which, in the season of political silliness that we are in, discussion of political candidates and the economy came to the forefront. My efforts to redirect the topics to fishing and golf failed. As I listened to accomplished, intelligent, educated people around the table talk in each setting, it became easy for me to identify their candidate of choice and how they viewed our current condition and who to blame that condition on. It was crystal clear to me that the economic condition that was being described to me and everyone else at those respective tables was far different from the one I studied and worked in every day. The difference being described in those dinner gatherings wasn't so much about what facts the individual knew but rather what they believed. If someone is searching for facts, data, indicators etc., a discussion can be had — absent of that desire it becomes a regurgitation of what they simply believe. Recognizing that I have my own prism through which I view the economy (50 economic indicators supported by data) this is where I believe our current condition stands.

"If someone is searching for facts, data, indicators etc., a discussion can be had — absent of that desire it becomes a regurgitation of what they simply believe."

There has been an understandably keen interest in the ISM index of late as it had declined below the 50% level for five months. Historically, an index reading consistently below 50% would indicate an economy drifting toward recession. The underlying data in the ISM survey demonstrated a high energy sector contribution to the decline. We have written extensively in previous issues about the long logistical chain of supply in the energy sector and the industries impacted in that logistical chain. Our view was that the combination of a strong dollar hampering exports and the severe recession in the energy sectors overweighted the decline in the ISM survey and that all other components and indicators were actually behaving rather well. This week's releases on jobs, employment, wages and the ISM affirms that view. The dollar has weakened a bit, mitigating a bit of the headwind on exports. Unemployment dropped below 5%, now registering 4.9%, and U-6 unemployment remained stable at 9.7%. Consumer confidence rose to 96.2%, and wage growth occurred for the fifth consecutive month while the labor participation level increased slightly. March produced a record number of automobiles/trucks sold.

There will be some important data releases coming in the month of April and we will want to see, but context is important. There has never been a recession without consistent job loss for at least three consecutive months. Since April of 2008, over ten million jobs have been added and for well over seven months new jobs have been reported in excess of 200,000. The economy is not acting or reporting as a recessionary economy. Do we have challenges? Yes, and they are mostly the same as they have been in the past. It appears that what we don't have to fear is an uncertain and unemployed consumer who isn't spending and also saving.

My wife gave me a book to read which I have found to be profound in many ways. The title is *The Road to Character* by David Brooks. I hope Ronda wasn't implying that in the gift that I was lost along my journey to character, but I am deeply thankful to her for giving me the book.

I have enjoyed David Brooks' writing and commentary for many years, though not always agreed with him. I read his *New York Times* columns regularly, and enjoy the structure of his wisdom and thought. In his latest book he unveils a premise that humans seek one of two paths. One is the path to resumé virtues while the other path is the journey to eulogy virtues. After building the premise of each he provides life examples through historical figures — some well known, others without fame — to illustrate the differences in the pathways. The descriptions of the conflicts both within and between individuals as they seek their fit in the world are enlightening, challenging and valuable in the geo-political and domestic political climate we find ourselves in. I highly recommend the book. I guarantee it will challenge you, cause you to be self-reflective and perhaps in ways not always comfortable but well worth the time.

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Michael F. Odar, CFA
President

From Generation to Generation

I know that you recognize the phrase "from generation to generation." We use it prevalently in our marketing materials and it refers to our intent to serve as a trusted advisor for our clients, their children, their grandchildren, their great-grandchildren, etc. Lately, it's had a different connotation to me.

With our team's growth over the last few years, for me "from generation to generation" has also been about how we all work together rather than simply a reference to our longevity. Of our approximately 100 employees, we are now split about equally between Millennials, Generation X, and the Baby Boomer generations. The Millennial generation refers to those born after 1980 and the first generation to come of age in the new millennium. Generation X typically refers to those born between the years 1964-1980. And, the Baby Boomer generation commonly refers to people born during the post-World War II era between the years 1946-1964.

I just spent the last couple of weeks meeting with each of our representative generations in small groups to get their perspective on working together. From those meetings it became clear that there are both stereotypes and very discernible differences between the generations.

We all know the stereotypes. Baby Boomers are stuck in their ways and use too much paper. Gen Xers are cynical and too negative. Millennials are entitled and easily sidetracked by technology. Accepting there may be some elements of truth in these, our opportunity then becomes creating a workplace that embraces cross generational differences and leverages them to better serve our clients.

"In the construction of all of our teams from Client Centric to project management, we are purposeful to include members from different generations."

In the construction of all of our teams from Client Centric to project management, we are purposeful to include members from different generations. In addition to customized coaching, we are creating a more formal mentorship program that involves older generations mentoring younger generations and vice versa. Most importantly, leadership and promotion are not associated with how long you have been in the workforce. Instead, they are based on impact. We have representation from each generation on our Executive Leadership Team.

All generations want essentially the same things at work: respect, feedback, development opportunities, trustworthy leaders, and for their job to have meaning. An age-diverse workforce results in improved collaboration, creativity, and decision-making, all of which will benefit our clients.

Will Stretch IRAs Finally Snap?

George F. Bearup
Senior Trust Advisor

With the political campaigns now in full gear, it is hard to go a day without hearing the promise "no new taxes" from our elected officials and political candidates. But few, if any, are prepared to promise no "acceleration" of existing income taxes, which would be accomplished by the repeal of current IRA distribution rules. The stretch IRA has been a great tool to delay taxation of retirement assets; however, its future is in jeopardy. Candidates may be sincere when they promise to never vote to increase income taxes, but they may still vote to enhance federal revenues when they vote to accelerate when taxes must be paid.

A bit of history helps to understand the tenuous future of the stretch IRA. In 2012 the House voted to eliminate the stretch IRA, but the Senate narrowly defeated the repeal bill in a 51-49 vote. In each of President Obama's subsequent proposed annual budgets the repeal of the stretch IRA prominently appears. It may be only a matter of time before the large financial benefits derived from exploiting a stretch IRA inherited by a non-spouse IRA beneficiary will disappear.

> "Candidates may be sincere when they promise to never vote to increase income taxes, but they may still vote to enhance federal revenues when they vote to accelerate when taxes must be paid."

While a surviving spouse will likely continue to have favorable IRA distribution strategies available, a non-spouse IRA beneficiary's future is not so bright if President Obama's budget proposal passes. It would likely force a non-spouse beneficiary of an inherited IRA to withdraw the account assets over a period of no more than 60 months from the IRA owner's death.

As an example, under the current IRA distribution rules, if you are age 40 and inherit an $1,000,000 IRA, you must take distributions at least annually, however you can delay much of the income tax liability by taking distributions over your life expectancy, or 43.6 years. Thus, in the first year after you inherit the IRA, you must take a minimum $22,935.78 as a minimum distribution ($1.0 million IRA balance divided by a life expectancy of 43.6 years = $22,935.78 distribution amount). Next year the divisor of the IRA balance would be one year less, or 42.6 years, when calculating the annual required minimum distribution. The numerator of the calculation is adjusted based on the previous year end value of the IRA. For example, if the inherited IRA appreciates 5% beyond the first year's required minimum distribution, there would still be an IRA balance as of the end of the first year of $1,050,000 ($1.0 million + $50,000). Following these assumptions, the second year's required minimum distribution amount would be $24,647.89 ($1,050,000/42.6 years).

In contrast, if the stretch IRA rules are repealed and you are forced to withdraw the IRA balance over a period of no longer than 60 months, then your ability to delay taxation for long periods of time is greatly

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Stretch IRAs , continued

diminished. When your required distributions are added to your other sources of income, your marginal income tax bracket will likely increase, and potentially expose you to other taxes such as the 3.8% net investment income tax as well.

If stretch IRAs are soon to be eliminated and you are charitably inclined, there may be a good reason to consider a trust as the designated IRA beneficiary. Instead of naming a conventional irrevocable trust as the IRA beneficiary, consider naming a charitable remainder unitrust [CRUT] as the IRA beneficiary. As the IRA beneficiary, the CRUT will not be subject to the accelerated income taxes that the child would otherwise face if the stretch IRA is repealed. The IRA distribution would not be immediately consumed by the income taxes that would otherwise have to be paid within 60 months of the IRA owner's death if the child remained the beneficiary. Thus, the dollars that would have been paid in income taxes under the 60 month pay-out proposal remain in the CRUT to be re-invested by the trustee for CRUT beneficiary's lifetime support.

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Admittedly this is not a perfect solution. There are costs to set up and maintain the CRUT. A tax return has to be filed each year that the CRUT exists. A charity must be assured of receiving at least 10% of the CRUT's initial assets when the CRUT is set up. The child does not have the immediate access to CRUT principal; rather, the child receives annually a percentage amount of the assets held in the CRUT. If the child dies sooner than his or her predicted life expectancy, the charity, not the deceased child's descendants, will receive a 'windfall' when the CRUT terminates. A CRUT may be an appropriate option if there are substantial amounts held in the IRA that might otherwise have to be distributed over a short 60 months at marginally higher federal income tax rates. Or, consider naming the child as the primary beneficiary of part of the IRA and the CRUT as the beneficiary of the remainder of the IRA; this strategy can mitigate the 'bunching' effect of the IRA's taxable income, subject to the higher marginal income tax rates, into the first five years after the IRA owner's death.

The Unintended Foreign Trust Dilemma

Claire Rosati
Family Office Advisor

The world is changing rapidly. Technology allows people all over the globe to communicate and interact in ways never before imagined. US companies now regularly employ workers overseas; US college students study abroad in greater numbers and also seek employment overseas. It is more common for US citizens to hold international investments and real estate. The odds that someone from your circle of family or friends will have a connection to a foreign country are greater than ever.

These potential international ties can significantly impact the results of a well laid estate plan, or they can make what may seem like a relatively simple estate plan become complicated, if what you have is a "Foreign Trust."

Last month's Perspectives included an article by Sharon Conran, our Estate Settlement expert, where she urged us to consider our beneficiaries when we create an estate plan. As a further extension to the consideration of the capabilities of named beneficiaries, let's consider other important issues that concern the identity of your beneficiaries and trustees when you create your estate plan.

Many of us have estate plans that continue over multiple generations, intended to benefit not only our children but grandchildren and beyond. Given the length of time that a trust might continue, and the continued trend towards more global connections, it is important to understand any potential international ties you might have now or in the future. Understanding these ties could help prevent a current dilemma facing clients and estate planners, "The Unintended Foreign Trust." This is important because the creation of a foreign trust will impose punitive taxes as well as negate the directions you have provided in the trust for disposition of your assets.

"Given the length of time that a trust might continue, and the continued trend towards more global connections, it is important to understand any potential international ties you might have now or in the future."

In 1996 and 1997, US laws were changed to provide rules surrounding the determination of whether a trust is a US trust or foreign trust. While it may seem counterintuitive, the law provides that there is a presumption that your trust is a foreign trust unless the trust passes two statutorily defined tests. These tests are the "Control Test" and the "Court Test." With the Court Test, a US court must be able to exercise primary jurisdiction over the trust. With the Control Test, at least one US citizen must have the power to exercise control over all substantial decisions of the trust, other than merely ministerial decisions. Some examples of substantial decisions of a trustee are as follows:

- Powers to remove, replace or appoint trustees
- Powers to make investment decisions
- Powers to override decisions of other co-trustees
- Powers to exercise discretion over distributions to beneficiaries

Foreign Trust Dilemma, continued

- Powers to allocate between principal and income
- Powers to amend substantive provisions of the trust or terminate the trust

By way of example, perhaps you are one of the many residents who have moved to the Detroit metropolitan area from overseas. Maybe you have been relocated to work for the auto industry. Or you simply wanted to start a new life here in this country. You are a US resident and citizen. When you meet with your estate planning attorney, you create an estate planning trust that names a US trustee, like Greenleaf Trust, as your corporate co-trustee, and which also names your brother, who lives overseas and is a resident/citizen of that foreign country, as the other co-trustee. In the trust document, you grant your brother the power to override decisions of the corporate trustee with respect to discretionary distribution powers.

What are the Consequences of Creating a Foreign Trust?

In our example, while you are a US citizen and you have a US corporate trustee, you have inadvertently created a Foreign Trust. This is because you granted your non-US citizen brother the power to override and control a substantial decision of the trust. As a result, your trust would fail the "Control Test."

"The conversion of your trust from a US trust to a foreign trust will have significant and potentially detrimental tax consequences for you and your family."

The conversion of your trust from a US trust to a foreign trust will have significant and potentially detrimental tax consequences for you and your family. This is because many foreign jurisdictions may not recognize your trust structure as valid and would cause distribution of the assets under their local regime. This local regime could include forced heirship laws where the assets distribute to certain classes of beneficiaries irrespective of your wishes. Further, some foreign jurisdictions may have community property types of laws which can also limit or change the potential disposition of your estate. In addition, inadvertent conversion of your US trust to a foreign trust or the transfer of assets into the foreign trust could trigger a capital gain recognition, or "deemed sale," of your trust assets — subjecting the trust to income taxes on the gains in the trust.

How Do You Avoid the Unintended Foreign Trust?

To avoid a conversion of your trust to a foreign trust, consider the following:

- While you can still name a non-US person to act as co-trustee, consider naming a US corporate trustee and ensure the US trustee controls all substantial decision making for the trust
- Ensure that the trust includes language that situs and governing law of the trust cannot be changed to a non-US jurisdiction
- Ensure that substantial decision making is not granted to a non-US trustee or trust protector
- Include a US citizen Trust Protector in your trust who is given the power to correct any unintended foreign trust consequences

Talking with your estate planning attorney about any potential foreign ties that you may currently have is a first step. A thoughtful discussion about your trustees and beneficiaries can help to avoid an Unintended Foreign Trust Dilemma.

The Ever Changing *Game* of Social Security

Nicole E. Asher, CFP®, CPWA®, ChFC®
Senior Wealth Management Advisor

Why is it that choosing when to take Social Security often feels like a board game? If you happen to be married and born before April 30, 1950 (meaning you will be at your Full Retirement Age [FRA] by April 29, 2016) this game of *Chutes and Ladders* just sent you up the ladder. If you happen to be born between May 1, 1950 and January 1, 1954 (you were age 62 by the end of 2015) you are now in a game of *Stratego* where you can no longer "File and Suspend," but you could "File a Restricted Application" once you reach your FRA. If you, however, were born after January 2, 1954 then you, unfortunately, will not be passing go and will not be collecting $200. Why, you ask? The Bipartisan Budget Act of 2015 (BBA) is the reason that, once again, the rules of the game have changed for our Social Security system. If you are reading this, are married, and you will be at your FRA by April 29th, *act now* as the deadline to pursue the once popular "File and Suspend" and "File and Restrict" strategies end on April 29, 2016. These strategies may not work for your situation, but you should have your options reviewed by your financial professional so that you aren't *Sorry!* later.

The BBA will close up the popular loopholes that have existed for the last 15 years. These loopholes were complicated, and often confusing, and were primarily used by high-income couples to boost income — *Payday*! The original intent of the loopholes was to provide supplemental retirement income, in the form of spousal benefits, for those families with just one breadwinner. The problem was that employees of the Social Security Administration (SSA) were often not well trained in this area, and did not provide advice on these claiming options. The primary benefactors of these loopholes were those individuals who had financial professionals advising them of these claiming options. By "Filing and Suspending," recipients would file for, and immediately suspend, their Social Security benefits. This would enable their spouse to claim spousal benefits while giving their own benefit the opportunity to grow 8% annually until age 70. Another advantage of doing this is to provide your spouse with a higher spousal benefit at your death.

I hate to *Boggle* your mind, but there is another loophole that still needs to be discussed — "Restricting the Scope of your Application." "Restricting" is similar to "File and Suspend," but instead of filing and allowing your spouse to get benefits, the "Restricted Application" allows you to file, delay your own benefit, and just take your spousal benefit. It is only available if you were born before 1954 and can only be used once

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Game of Social Security, continued

you hit your FRA. Once you are at or beyond your FRA you choose either yours or your spouse's benefit... then, at age 70, you switch back to your own benefit.

If you are widowed, the Budget Act did not make changes to these benefits. You can still elect to take benefits as a widow(er). Like a well-played game of *Chess*, there are strategies for taking these benefits as well. You can begin to collect as early as age 60 and then change to your own benefit (delaying and growing your retirement credits) and take at age 70. Or, you can begin to take your own benefit at age 62 and begin your widow(er) benefit at FRA. Widow benefits do not get delayed retirement credits. Be sure and work with your financial professional and have them run the numbers on these strategies to see what is best for you, as there can be sizeable differences.

"Social Security for divorcees should also be noted. If you are divorced, you can collect on your ex-spouses benefit. They do not have to have filed or be collecting, and you do not need to notify them or have any contact with them to do this."

Social Security for divorcees should also be noted. If you are divorced, you can collect on your ex-spouses benefit. They do not have to have filed or be collecting, and you do not need to notify them or have any contact with them to do this. You cannot be remarried, and you must have been married for at least ten years. Additionally, you must be at least age 62, and your ex must also be at least 62. Your benefit or your current spousal benefit is not affected or reduced by your ex-spouse collecting.

In order to collect Social Security you must have earned at least 40 credits. In 2016, you get one credit for every $1,260 in taxed earnings. You can earn up to four credits per year, so it takes wage earners at least 10 years to become eligible. When determining your benefit, the SSA will consider your highest 35 years of wages to calculate your Average Indexed Monthly Earnings (AIME). It is important to note that if you only worked 24 years, SSA will take those 24 years and add 11 years at 0 and average those out. So for those of you who retire early or joined the work force later in life, be aware that the SSA doesn't take your 24 year average...they still use 35. If this sounds like you, and your spouse happens to be a much higher wage earner, don't fret because you will likely take 50% of their benefit versus collecting your own. It's also good to know that past income does get an adjustment for inflation.

Another question we get frequently is, "when should I sign up for Medicare?" You become eligible for Medicare when you turn 65. What many fail to realize is that you must file for Medicare, even if you aren't collecting Social Security. If you fail to do this, you will be in *Trouble* and have to pay a penalty. No "get out of jail free" cards here — unless you are still working and are covered by a group health insurance plan. Medicare Part A is automatic and free; you cannot deny this coverage. Unfortunately, this can be an issue for those with Health Savings

Accounts (HSAs), as you cannot make contributions to your HSA once Medicare begins. Part A coverage actually begins six months before you apply for Medicare; but no earlier than the first month that you were eligible. To avoid getting stuck in this *Mousetrap*, and having to pay a tax penalty, you should stop contributing to your HSA at least 6 months before you apply for Medicare. There is a free Medicare assistance program available called MMAP. You can reach them at 1-800-803-7174 or www.mmapinc.org. This is a non-profit organization that is staffed by trained volunteers. They are well informed and provide good advice on what the best plan is for you as well as choices for Medigap coverage.

When dealing with Social Security, don't take any *Risk*s. Always go to the office and always get copies of everything you do. Try not to work with a representative over the phone as these may be the least qualified representatives, and you will have no proof of your conversation. Don't get me wrong, the SSA is a wonderful organization. Many of us view it only as a retirement benefit that we hope will be there when we retire, but here is some *Trivial Pursuit*: in 2002, Social Security paid out approximately $2.8 million per month to families of those killed in the 9/11 attacks. With 2,350 children and over 850 spouses benefitting from these monthly checks, Social Security was among one of the first insurers to pay out with the first checks being mailed within 3 weeks after the attack and, after Hurricane Katrina, Social Security agents traveled to evacuation centers to assist those who no longer had homes to be sure that they still received their payments.

Deciding when to take Social Security is like a good game of *Twister*. There are many factors that weigh into the equation and can tangle you up — right hand blue, left foot yellow. Figuring out Social Security can also leave you in a precarious position, but you have more to worry about than how you are going to reach the blue circle without falling. Your health/life expectancy, the assets you have saved, how much money you want or need to spend in retirement, taxes, and your risk tolerance are all necessary pieces in the game of Social Security. Since the BBA, the breakeven is typically pushed out further, and without the benefit of claiming strategies your life expectancy is more critical. The optimal strategy is no longer as obvious and planning has become even more critical. We stand ready to assist you with any questions you might have, as you journey through this *Game of Life*.

"When dealing with Social Security, don't take any *Risk*s. Always go to the office and always get copies of everything you do. Try not to work with a representative over the phone..."

Kathleen J. Waldron, QKA
Vice President
Asst. Director, Retirement Plan Div.

Retirement Plan Questions Plan Sponsors Must Answer

As every employee's financial circumstances are unique, providing a one-size-fits-most retirement solution is difficult. Plan sponsors and Greenleaf Trust as your partner can help your employees prepare for retirement with a strong plan design. With this in mind, a few questions must be answered.

What is the objective of your defined contribution retirement plan? A plan sponsor's view of the retirement plan may change over time so an annual assessment of the plan and its design is recommended. One item to consider is the desired level of fiduciary role. The mere fact of sponsoring a plan means that the sponsor is a fiduciary of the plan but there is a way to lessen that role for certain plan types. Greenleaf Trust is able to serve as a discretionary Employee Retirement Income Security Act of 1974 (ERISA) 3(38) trustee which assumes a higher level of fiduciary responsibility. Please contact your Retirement Plan Division representative for information about this enhanced service. A second item to review is the actual plan design to optimize employee behavior. A review of eligibility conditions and entry dates may be in order. In addition, auto-enrollment and auto-escalation are great tools to ensure that participants are saving towards retirement. It is important to pay attention to loan and other in-service distribution options which can create "leakage" from a participant's retirement account balance and result in a condition of lost future value.

"Plan sponsors... can help their employees prepare for retirement with a strong plan design. With this in mind, a few questions must be answered."

What are the demographics and behaviors of your employees?

An employer must consider the age of the employee population. Older, longer tenured employees are much different from new employees enrolled in the plan. Plan sponsors need to ensure employees who are new to the plan are set up to accumulate as much savings as possible. However, do not forget the employees who have been with you for a long time. Greenleaf Trust's Participant Services Team has some impactful presentations and modules that address issues that older employees are facing such as retirement readiness. We would be happy to work with you to present this information to this particular group. Please contact your Participant Services Coordinator if you would be interested in this offering.

Do you want employees to remain in your plan after they retire?

Participants can remain in plans for many years after retirement. Working with Greenleaf Trust, plan sponsors can determine if the employee is better served focusing on an in-plan or out-of-plan solution. Some employers are more paternalistic than others but making the plan participant aware of their options is critical. Greenleaf Trust can help you with these conversations.

Have you reviewed the elements, requirements and deadlines of your plan?

At least annually, the plan sponsor should review the many components of the plan. Rest assured that Greenleaf Trust assists you with many of these functions to ensure that the plan remains compliant. The following list is helpful for this review:

- Review latest Mutual Fund Due Diligence Report
- Review Annual Trust Statement
- Review Annual Form 5500
- Review GLT SSAE-16 and Plan Audit (if applicable)
- Review latest Fidelity Bond
- Review Plan document and any amendments & Summary Plan Description
- Review Authorized Signer list and plan sponsor website access
- Review Covered Service Provider Contract and any amendment
- Review annual Participant Fee Disclosure Notice & other notices
- Review Investment Policy Statement
- Review on-line reports-contributions, distributions, participant statements, etc.
- Review procedures & proper documentation retention for loans (if applicable)
- Review hardship certification & proper documentation retention (if applicable)
- Review rollovers' acceptance & documentation of qualified source
- Beneficiary forms retained with Plan Sponsor

While not an exhaustive list, these questions and the subsequent answers will assist you in ensuring that by sponsoring a qualified plan it is designed properly for the most impactful benefit for your employees. As always, it is an honor and a pleasure to work on your behalf and know that the professionals within the Retirement Plan Division at Greenleaf Trust are available to discuss any of your retirement needs.

"… these questions and the subsequent answers will assist you in ensuring that by sponsoring a qualified plan it is designed properly for the most impactful benefit for your employees."

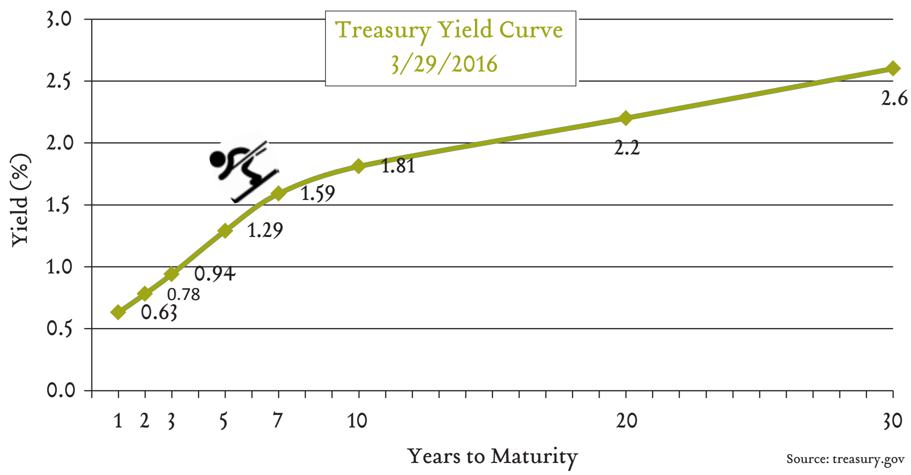
Rolling Down the Slope

Christopher D. Burns, CFA, CPA
Fixed Income Analyst

I recently returned from a ski trip to Breckenridge, Colorado. I was coerced by an old friend, also from Portage, to visit his cousin who lives in Breckenridge and to give skiing another try. Neither of us had skied since our Ski Club days at Portage Central Middle School when we would take the bus to Timber Ridge or to Bittersweet. This trip certainly tested our abilities, but was great fun. The weather treated us kindly as Breckenridge received over 40 inches of snow prior to our arrival and was a mild 45 degrees on the two days we were on the mountain.

It may have been the altitude (the tallest peak is over 13,500 feet high), *Rolling Down the Slope, continued*

but as I rolled down the slopes I thought of fixed income investing. In particular, I was reminded about the fixed income investment strategy of rolling down the yield curve.



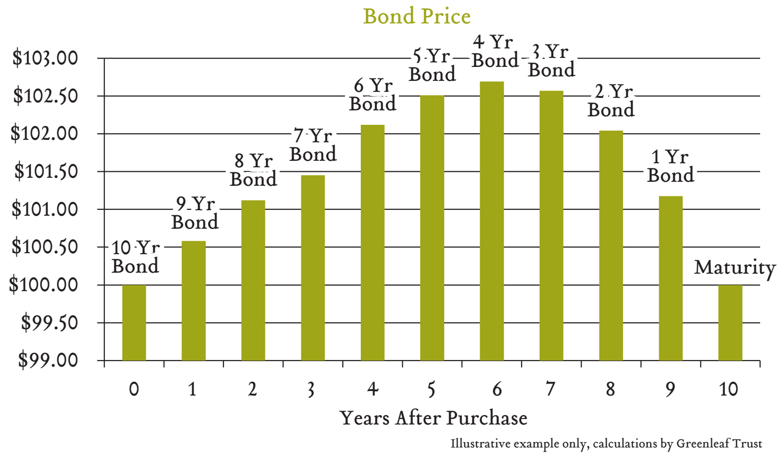
"Rolling down the yield curve is a strategy that can enhance fixed income returns when short-term interest rates are lower than long-term interest rates."

Rolling down the yield curve is a strategy that can enhance fixed income returns when short-term interest rates are lower than long-term interest rates. In fixed income parlance, the term we use for this type of scenario is yield curve 'steepness'. If the yield curve is steep, there is the potential benefit from using a roll down strategy.

To illustrate this concept, let me ask a question. If you buy a 10 year US Treasury bond with a yield of 1.81% (the closing yield as of 3/29/16), what will your total return be if you hold the bond for one year and interest rates do not change in the meantime? Take two seconds to think about it.

If you answered 1.81%, you were close! But this is a common misconception about fixed income returns. In reality, the price of the bond will rise over the course of the year, leading to a greater return than just the coupon income. The key insight is that, as the year passes, the 10 year bond becomes a 9 year bond. As the bond becomes shorter, it also becomes less risky. Partially due to this reduction in risk, the bond experiences price appreciation of a little over 0.50% and generates a total return of 2.39% in year one. Just as you feel safer when you get closer to the bottom of a ski hill, investors feel safer buying a bond that is closer to maturity, and will typically pay more for that safety.

Over the life of the bond, if interest rates do not change, the bond will experience price appreciation each year as it rolls down the yield curve until it becomes a four year bond. After it ages to a four year bond, it will experience price depreciation until it returns to par at maturity. This depreciation occurs because, at the four year point, the bond is priced at a premium, around $102.65. However, the bond will mature in four years at $100.00. So over the remaining four years, even though the bond continues to get less risky, its price will fall in anticipation of maturity at par. Let's chart the bond price over its life assuming that interest rates do not change.



A savvy fixed income manager can use this understanding to enhance returns over a buy-and-hold portfolio by systematically doing the following:

- Buy longer-dated bonds at steep points on the yield curve,
- Hold the bonds and capture price appreciation due to roll-down,
- Sell the bond prior to maturity once price appreciation slows,
- Reinvest proceeds into longer-dated bonds and repeat.

With nominal interest rates low, and potentially staying low for a while, this can be an important return-enhancing strategy. It can also be applied to corporate and municipal bonds and other sectors of fixed income markets. Of course, as with any strategy, this one too has risks. If interest rates change it will alter the roll down dynamic. We do believe, however, that it is a useful tool to have available for enhancing returns.

When considering implementing a roll-down strategy, Greenleaf will also consider transaction costs and tax implications for our clients. Transaction costs can be significant in fixed income markets and diminish the attractiveness of active strategies like this roll down strategy.

An advantage of using an institution such as Greenleaf Trust as a fixed income manager, rather than personally managing a bond portfolio, is the scale and efficiency of trading operations. Greenleaf has relationships with over 30 fixed income dealers and works diligently to achieve efficient execution on behalf of its clients. Greenleaf also has the ability to analyze after-tax return implications of active fixed income strategies for clients. Both of these capabilities are critical to actively managing fixed income portfolios and adding value over buy-and-hold strategies.

If you have any questions or would like additional information, please contact your Client Centric Team..

"With nominal interest rates low, and potentially staying low for a while, this can be an important return-enhancing strategy. It can also be applied to corporate and municipal bonds and other sectors of fixed income markets."

Stock Market Pulse

Index	3/31/16	Total Return Since 12/31/2015
S&P 1500	475.64	1.57%
DJIAK	17,685.09	2.20%
NASDAQ	4,869.85	-2.43%
S&P 500	2,059.74	1.35%
S&P 400	1,445.19	3.78%
S&P 600	686.97	2.66%
NYSE Composite	10,207.38	0.63%
Dow Jones Utilities	668.57	16.74%
Barclays Aggregate Bond	110.83	3.03%

P/E Multiples	3/31/16
S&P 1500	17.8x
DJIAK	16.6x
NASDAQ	21.3x
S&P 500	17.7x
S&P 400	18.9x
S&P 600	19.0x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.21%
T Bond 30 Yr	2.62%
Prime Rate	3.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	475.64	17.8x	2.09%
S&P 500	2,059.74	17.7x	2.15%
DJIAK	17,685.09	16.6x	2.53%
Dow Jones Utilities	668.57	NA	3.13%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.53%

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