GREENLEAF TRUST

# Perspectives

*A Greenleaf Trust Newsletter*

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



## Economic Commentary

An examination of the economic indicators that we routinely monitor reveals little change in the state of the economy. Most of the indicators remain positive with slight changes either up or down. The labor market added 196,000 jobs in March, unemployment and participation rates held steady, and wage growth declined slightly. The economy is acting like an economy would act if it were slowing slightly, and that is exactly what we believed would happen in 2019. The 2018 economy was mostly mid-year loaded with a weak Q1 as well as a soft Q4 (revised down to 2.2% from the estimate of 2.7%).

Q1 of 2019 is expected to be about 2.2% as the implications of the government shutdown will be in play during the reported quarter. First quarter economic activity has historically been among the softest periods of economic growth, and 2019 may well play out in similar fashion. Much of the growth that occurred in the middle of 2018 was to some extent due to tax policy changes that provided some short-term stimulation. As trade policy became more contentious, several sectors experienced negative impacts (agriculture, auto and construction equipment) that were felt as the year unfolded. Fed policy has swung from tightening to neutral in stance, and of late, some financial publications have begun suggesting that we may see some rate decrease before Q3 of 2019. Our sense is that the data reflects more of the same, and talk of stimulation or easing by the fed is unrealistic.

The labor force is by all measures tight, and any slack in it is industry and region specific. Home sales continue to show modest growth and there are increases in both online and print advertisements for construction workers. Growth in wage rates for construction trades is outpacing national averages for wage growth by 34%. Sign-on bonuses are becoming routine in the trades and completion schedules have grown by over three months due to lack of capacity in the industry. This dynamic is particularly true in the coastal southern and western regions of the country. The logistical chain of supplies, materials, aggregates, furnishings, case goods, tools and equipment is feeling the same constraints with respect to labor, and as you can surmise, the cost of new construction is up nearly nine percent year over year.

*Commentary, continued*

Supply chain demand, as measured by the purchasing manager surveys (PMI), both domestic and international continue to be above the 50.0% growth measurement. International PMI surveys had been in decline until recently; however, the Chinese central bank's easing has had the desired effect and the logistical supply demand has increased accordingly, reflected in the more positive current PMI surveys.

The yield curve has become the most watched indicator of 2019. Currently, we would describe the yield curve as flat, meaning that the yield for short term bonds is essentially the same as longer maturities (7 – 10 year). Historically, when the yield curve inverts (short term rates higher than longer maturity rates), the probability of recession increases. It is important to know that the inversion needs to be significant for that probability to increase in accuracy. Currently we have a flat yield curve. Given employment, retail sales, PMI surveys and the yield curve status, the economy continues in a modest (2.2 – 2.5%) growth range.

"Historically when the yield curve inverts (short term rates higher than longer maturity rates) the probability of recession increases."

As mentioned often during the past decade, we have recovered and experienced a very long and mature growth and expansion period. An economy growing in the two percent range is fragile and subject to geopolitical as well as domestic political impact. Brexit, and now simultaneously Venezuela, have opportunity to change the calculus. During the mass Syrian migration created by the self destruction of Syrian dictatorship, we in this country stood comfortably afar from the European Union's struggle to deal with the asylum seekers leaving war torn Syria. It has been nearly three years since the infamous Brexit vote, and as of this writing, there is no visible solution in place to Britain's exit from the European Union. In aggregate, the European Union, inclusive of Great Britain, is a huge trading partner of the United States. Any negative impact by a botched exit will translate into negative demand for goods and services globally. For the past decade, the global recession impacted many countries with small and or emerging economies. Political destabilization within many of these economies translated into dictatorships, constant erosion of political will, infrastructure deterioration, power supply interruption, education system neglect, and increases in organized crime to fill power voids. Three Central American countries, each with troubled pasts, have deteriorated into troubled third-world status. Guatemala, Honduras and Nicaragua now represent the Americas' "Syrian" refugee problem, and one we cannot view from afar. Destabilization in these countries causes people to flee the chaos just as millions fled the chaos in Syria. The European Union's failure to deal effectively with the migration flow led to significant conflict among trading partners and ultimately the Brexit vote to leave the EU. The answer in the EU was not necessarily to solve the humanitarian crisis with refugee camps, but rather to solve the humanitarian crisis in Syria itself. If we ignore the chaos in Central America, we will accelerate the problem at our border, and in doing so, increase the challenge of equitable solutions.

The president's victory lap after the release of Attorney General Barr's summary of the Mueller report didn't last very long. The President tripped over the line in the sand that Senate Majority Leader McConnell had drawn and perhaps forgot to tell him. Given the results of the mid-term elections, Senate leader McConnell had no appetite for revisiting "repeal and replace" of the Affordable Health Care Act. The president's urging of the Justice Department to pursue appellate court rulings to find the act unconstitutional gave the Democrat-controlled house the weapon they were seeking to frame themselves as the party of health care and the Republicans as the party that didn't care. The message sent to the president was that the senate had no appetite for the battle, the polling wasn't in their favor and without an alternate plan the president's position was a gift to the opposition. Surprisingly, the president accepted the somewhat blunt rebuke from the Senate leadership and retreated to the position that the Republican Party plan would be rolled out directly after the 2020 election.

The Muller report is out. Republicans want to move on and Democrats remain focused on the revelations they hope to pry out of the details. Polling suggests that the core of the base in each party wants to use the report for whatever gain they think is there and the remainder is weary of the entire focus. It seems accurate that the base of the Democratic Party is frustrated that more people aren't focused on the report, and the base of the Republican Party is frustrated that anyone would focus on it. These are polar opposites which explain the base of each party. The silly season is quickly approaching. As we get into the late summer, the substantial number of Democratic hopefuls will shrink as their ability to raise funds deteriorates. Traditional Democratic Party operatives hope that there is not an independent candidate that surfaces with enough financial backing to gather 5 – 7% of the vote. Republicans, of course, hope a third party candidate emerges. Their challenge is a president who has done everything to solidify his base and literally nothing to expand it. The president has earned the tightest band of approval ratings of any president. If you are a part of his base that loyalty is rewarding. If you want him re-elected, the lack of growth in his approval rating is a problem. Things can always play out differently, but no president with a 43% approval rating has been elected to a second term. The opening scene is set, truth will be the victim, and voters' intellect will be insulted regularly by both sides of the aisle.

"Things can always play out differently, but no President with a 43% approval rating has been elected to a second term. The opening scene is set, truth will be the victim, and voters' intellect will be insulted regularly by both sides of the aisle."

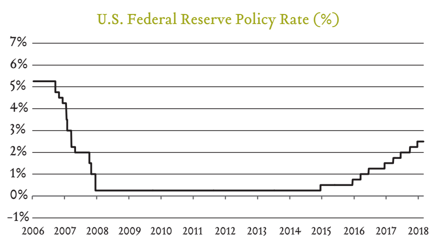
*Nicholas A. Juhle, CFA®*
*Vice President*
*Director of Research*

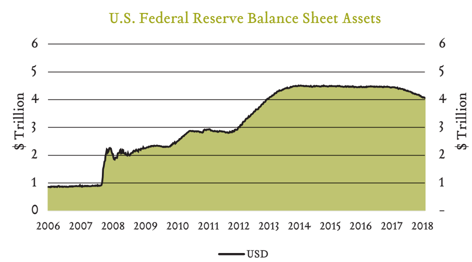
# Monetary Policy 2019 World Tour

In response to the global financial crisis, central banks took swift and aggressive action to stimulate economic growth. This extreme level of monetary accommodation was necessary to jump start the global economy. In the decade that followed, central banks have grappled with when, and if, they could navigate a path back to normalized policy. Normalizing policy could help keep inflation in check, prevent asset bubbles, and enable accommodative action in future crises. On the flip side, it would increase financing costs, potentially pressuring economic growth. Major central banks have made varying degrees of progress towards normalization, but where do we stand today? Can policymakers continue to reduce stimulus without significantly dampening demand for goods and services? In this article, we explore the unique circumstances and challenges faced by key developed market central banks today.

"Can policymakers continue to reduce stimulus without significantly dampening demand for goods and services?"

## US Federal Reserve

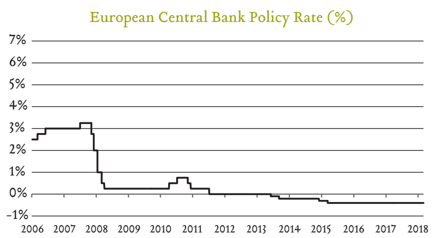


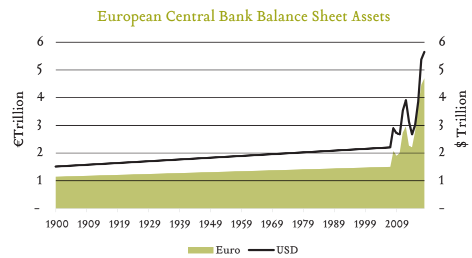




Recovery in the US outpaced other advanced economies and the Federal Reserve (Fed) has made more progress towards policy normalization. In response to the crisis, the Fed held interest rates at 0.25% for seven years and increased the size of its balance sheet from $870B to $4.5T (19.6% of GDP) over the same period. In 2015, the Fed began tightening with a single rate increase followed by another in 2016. The pace of increases accelerated (with economic growth) to three hikes in 2017 and four in 2018, bringing the target to 2.50%. As recently as December, the Fed was projecting two additional rate increases in 2019. The Fed also ceased new asset purchases in 2015 and began a balance sheet normalization program in late 2017.

At their March 2019 meeting, the Fed paused plans for additional tightening. Officials reduced projections from two rate increases in 2019 to zero, citing heightened growth concerns, and moved to slow balance sheet reductions starting in May, ending them altogether by September. This pivot demonstrates follow-through on the patient, data-dependent approach promised by officials amid decelerating economic growth and muted inflation. Time (and data) will determine the Fed's next move.

## European Central Bank (ECB)



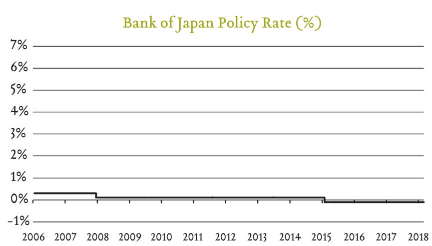



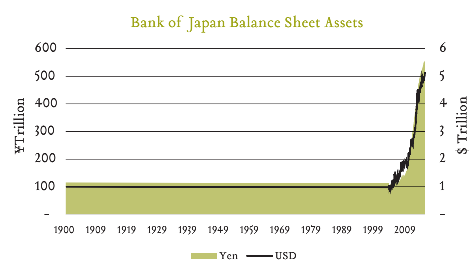

While slower to respond, the ECB took even more extreme measures to stimulate growth. European officials reduced short-term interest rates from 3.25% to 0.25% immediately following the crisis. 2011 brought a failed attempt at normalization and the sovereign debt crisis, after which rates were reduced to 0.00%, turning negative in 2014 and bottoming at -0.40% in 2016 where they remain today. The asset purchase program was also brought about in 2014, which expanded the balance sheet to €4.7T ($5.3T; 39.8% of GDP) through 2018, and introduced targeted longer-term financing operations (TLTROs) — essentially attractive loans provided to banks. Understandably, the ECB is eager to move towards normalization but has struggled to do so in light of economic and political risks.

Last year, the ECB seemed poised to begin policy normalization. Last June, officials announced intentions to cease balance sheet purchases by year end (which they did) and opened the door for a potential rate increase in 2019. More recently, the outlook and tone is decidedly different. In its March 2019 statement, the ECB announced additional stimulus in the form of a third round of TLTROs, and pushed rate-hiking plans out to at least 2020 amid weakening growth and heightened external risks. The ECB governs monetary policy for member countries with a range of economic drivers and vulnerabilities making it difficult to handicap for the most likely policy path from here.

> "Today, the BOJ is in the unfortunate position of having pulled virtually every policy lever available, while still not getting the desired result…"

## Bank of Japan (BOJ)




Country-specific economic challenges plagued Japan prior to the global financial crisis. Policy rates were already near zero entering 2008, leaving little opportunity for monetary easing through rate reductions. In the years that followed, the BOJ moved rates lower, and eventually

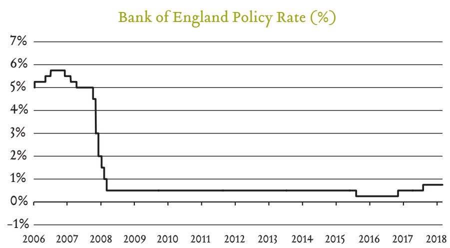
*Monetary Policy 2019, continued*

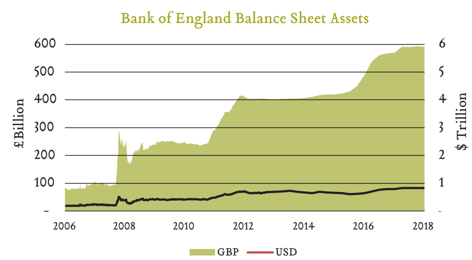
negative at -0.10% where they stand today. In early 2013, the BOJ took the accommodative step of initiating an asset purchase program, growing the balance sheet to ¥550T ($4.9T; 100.6% of GDP) over the next five years. A portion of the balance sheet expansion relates to an innovative tactic known as yield curve control, initiated in 2016. In addition to managing short-term policy rates, the BOJ is buying longer-term government bonds to manage the 10-year yield to a target of 0.00%.

Today, the BOJ is in the unfortunate position of having pulled virtually every policy lever available, while still not getting the desired result of 2% inflation. The BOJ is both exceedingly far from normalized policy and likely far from initiating steps toward normalized policy. In a March statement, the BOJ maintained short-term and 10-year target rates as part of continued efforts to reach 2% inflation. Though given modest inflationary expectations, it may be years before the BOJ is able to raise interest rates or otherwise tighten policy as risks of dampening economic growth outweigh any concern for excessive inflation today.

> "It is unlikely the BOE will cut rates or take other steps toward policy normalization without clarity on Brexit."

## Bank of England (BOE)




In response to the crisis, the BOE followed the Fed's lead by cutting interest rates to 0.50% and expanding the balance sheet with nearly £600B ($0.8T; 30.7% of GDP) in government bond purchases to stimulate the economy. In early 2016, the BOE seemed likely to once again follow suit by raising interest rates – a prospect that became increasingly uncertain after the UK voted to exit the European Union. Brexit uncertainty actually caused the BOE to cut rates to 0.25% in 2016, but an improving outlook justified increases in 2017 and 2018 to 0.75%.

Risks to growth are heightened in recent months, while Brexit uncertainty remains as prevalent as ever. The possibility of a disorderly departure presents significant risk of business and trade disruption with far-reaching implications. It is unlikely the BOE will cut rates or take other steps toward policy normalization without clarity on Brexit.

## Conclusion

Given the uneven nature of recovery, individual economies have managed varying levels of progress towards post-crisis policy normalization. Taken in aggregate, global monetary policy remains accommodative, though less accommodative than it once was. There seems to be a desire among central banks to continue normalizing, though their ability to do so is increasingly uncertain. In most cases projected "next steps" involve additional tightening, though timelines are extending amid heightened geopolitical risks and it seems increasingly likely the next wave of policy moves could favor accommodation.

If you would like to discuss these ideas and their impact on your portfolio further, please contact any member of our team. Thank you for the opportunity to serve on your behalf.

Sources:
Bloomberg
Council on Foreign Relations Global Monetary Policy Tracker: https://www.cfr.org
Yardeni Research: Global Economic Briefing: Central: Bank Balance Sheets
US Federal Reserve: https://www.federalreserve.gov
European Central Bank: https://www.ecb.europa.eu/
Bank of Japan: https://www.boj.or.jp/en/
Bank of England: https://www.bankofengland.co.uk/

# Know Your Ride Share Driver

*Dan Weston*
*Security Advisor*

Many Americans have embraced Uber, and similar services, as a means of convenient and safe transportation, especially after a night out with friends. Most people have, or will, utilize a ride hailing service. Recently 21-year-old college student Samantha Josephson got into what she believed to be the Uber she'd summoned; it was not. Fourteen hours later she was found murdered.

Ride services identify their drivers by name, a photo and license plate number delivered to the client's smart phone. This is useful but may leave room for error when the driver arrives. The pictures are small and often lack sufficient clarity to compare with and identify the driver. Many states only have plates on the rear of the vehicle, and drivers may change vehicles without updating their profile. At busy curbsides, checking license plates may be awkward, and makes and models of vehicles may be difficult to discern.

To be sure that the vehicle you are about to enter is the one you summoned, you should ask the driver two simple questions.

First, ask the driver, "What is my name?" If the driver does not answer correctly, do not get in the car. Second, ask the driver, "What is your name?" If the driver's response does not match the information provided when you booked the ride, do not get in the car.

Enhancing personal safety requires planning and practice. Planning and practice lead to habit forming behavior. If you or your children use Uber or similar ride services, these precautionary measures should be taken as a matter of habit.

# Your Most Valuable Asset — Your Personal Story

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

When I used to meet with new clients to discuss their estate planning needs, I often asked them several questions to learn about their personal history, how they acquired their wealth for which we were about to plan for its ultimate distribution, and identify some of those momentous 'crossroads' decisions that they made that had shaped their lives. While I was interested to get to know them personally, I closely listened to how they made life decisions, good and bad (if they were willing to share them), to discern how their experiences had made them and their family unique. I encouraged them to share their personal history in their own voice, in order to better identify what motivated them to create an estate plan and how they hoped their descendants would wisely use their inheritance. My goal was to draft a Will or trust that reflected these life learned values that had produced their wealth.

Occasionally I encouraged my clients to commit their personal story to writing so that it could be shared with other family members, especially the beneficiaries who were to ultimately inherit the wealth that my clients had created. That storytelling was particularly critical to those clients who were the parents of disabled or special needs children, who were concerned about the care and attention their special needs child would require long after the parents were gone, when their child was unable to communicate or look after themselves and would be under the care of a guardian. I recall on several occasions encouraging those parents to make annual videotapes to share the past year's events in their child's life, the medical care their child had received, and include topics such as the likes and dislikes of their child, and describe what worked best to daily meet that child's special needs, all part of the family's history.

"I encouraged clients to write their life legacy (others have labeled them 'ethical Wills') to share with their family members."

As time passed, I extended the invitation to tell their story to all of my estate planning clients, not just to those who were charged with the care of a special needs child. I realized that part of the exercise of writing a life history was far more than just identifying how wealth was accumulated, but to identify the values and philosophy that sustained the client in their life's journey. The effect was to provide perspective, or wisdom, gained over a long life from their unique life experiences to go along with the wealth that would be passed to the next generation. I encouraged clients to write their life legacy (others have labeled them "ethical Wills") to share with their family members. In some respect the goal, in part, was to assist the client to examine, evaluate, and make sense of their own life, and hopefully empower them to continue on in their journey of change, growth and self-discovery. More often the exercise in writing a personal history enabled a client to simply articulate how they want to be remembered by their family, more than just words found in a Will or trust instrument.

A life story, referred to as writing a life legacy, is in the Jewish tradition of leaving an ethical Will. The Old Testament is filled with examples of the Jewish custom of a parent gathering their offspring to summarize what they had learned in life, and what they wanted most for and from their children. Examples include Jacob gathering his children before he died, and David preparing his son Solomon on his deathbed.

As Charles Collier noted in his book *Wealth in Families*, the creation of a family story also provides "a view of the family's history and also sends a message to the children, in-laws, and grandchildren that they belong, and that their family is unique." Mr. Collier's point is that often with a multigenerational family, members long removed from the patriarch or matriarch who created the wealth have no direct connection with the family's financial wealth, and often they have no idea what it took to create that wealth that they will shortly inherit and be charged to steward. A personal history helps to communicate solidarity as a family, while it also empowers some family members to find the strength and a desire to pass along family values and virtues that are identified in that personal history.

A family history can also serve as a helpful guide to a trustee that is to exercise its discretion to make distributions from a trust. Most trusts are written by attorneys and it should come as no real surprise that many trusts look much like other trusts, except for a change of names. If the trust instrument does not carefully spell out the trust creator's intention or purposes for the trust, the trustee can easily be left in the dark when it comes to understanding how the trust's creator would have wanted his or her wealth distributed, and under what circumstances. A personal story, or history, can often act as a helpful guide to the trustee to better understand how the trust's creator would have handled an unusual distribution request presented by a trust beneficiary.

It is not easy to write a life legacy letter. To be effective, that exercise requires an individual to confront himself, to face the failures he encountered during his life, and to identify what really matters in a life well led. A personal story will convey the wisdom gained by a lifetime of experiences which is as valuable, if not more valuable, than the material wealth this is to be passed to the next generation under a Will or trust.

If you would like to start writing your own life history, to leave an ethical Will that will guide your heirs by sharing the wisdom that you have gained, you may want to initially review a couple of books or look at some websites before taking that first step. Some helpful publications and websites to review are shown at right.

- Zeeb, *What Matters*, Allegiance Publishing LLC, 2016
- Weiner, *Words from the HEART: A Practical Guide to Writing an Ethical Will*
- Riemer and Stamphfer, *Ethical Wills: A Modern Treasury* (Schocken Books)
- www.everplans.com
- www.personallegacyadvisors.com
- www.phil.frb.org
- www.npr.org

*Michelle M. Gray*
*Participant Services Specialist*

# Introducing Multi-Factor Authentication to Your Retirement Plan Account

If you're like most people, you've either personally been a victim of identity theft, or you know someone who has. In fact, in 2017, 16.7 million Americans were victims of identity theft and $16.8 billion dollars were stolen, which was an increase of 12% from 2016. In 2017, 14% of all fraud complaints were related to identity theft and were the third most reported complaints to the Federal Trade Commission.

When thinking about what accounts or assets might be at risk of identity theft or cybercriminal attacks, you may not immediately think of your retirement plan. Perhaps the first thing that comes to mind is your bank accounts or credit cards. Unfortunately, employer sponsored retirement plans are not exempt from cyberattacks and have experienced a substantial increase in cyberattacks over the past few years.

"… employer sponsored retirement plans are not exempt from cyberattacks and have experienced a substantial increase in cyberattacks over the past few years."

Greenleaf Trust works hard to ensure your retirement plan assets and personal information are protected. As part of this process, effective this month, we are implementing a multi-factor authentication system. While it may perhaps be a bit of an inconvenience to add an additional step to your login process, we feel that it's a vital part of keeping your information and your assets safe.

Multi-factor authentication (MFA) grants a user access only after they provide two or more pieces of evidence (factors): knowledge (something the user and only the user knows), possession (something the user and only the user has), and inherence (something the user and only the user is).

Once we implement MFA, you will need to have either an e-mail address or cell phone number in your account in order to receive a one-time PIN. When you attempt to login with your user ID and password, the system will ask you where you'd like your PIN sent. It can either be e-mailed to you or texted to you. Once the PIN is sent to you, you will have 5 minutes to enter the PIN. After 5 minutes, the PIN will expire and you will be required to request a new PIN. The PIN will contain both letters and numbers and is case sensitive, so it's very important to enter it exactly as it is sent to you. If you are logging in from a personal device (your personal computer, tablet or cell phone), you may request that the system remember the device, which means it will remember the device for 180 days. During that 180 days, you will not be required to enter a PIN during subsequent login attempts. With a remembered device, you will only need to repeat the multi-factor authentication process every 180 days (approximately 6 months).

If you attempt to log in and do not have an e-mail or cell phone number on file, you'll be instructed to call our participant call center to provide an e-mail address or cell phone number to us.

Although we realize this new process may be a slight inconvenience, we feel that it's an important part of keeping your personal information and plan assets safe. If you have any questions on multi-factor authentication, or if you need to provide us with an e-mail address or cell phone number, please call our participant call center at (866) 553-8400.

# Grief and Financial Services

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

As we get older in life and in business, the losses of friends and family begin to add up. After 25 years serving clients in the estate planning and trust administration arena, I thought I had a good understanding of grief. That changed when my son's best friend died at age 14. My husband and I were with his parents that night, and I quickly realized how little I knew about grief — my own, and how to support my son and my friends. With every advancing year, the passing of my clients and friends (most often the two are not mutually exclusive) has become a more common occurrence. As a society we talk about grief as something to work through or get over, and the sooner the better. Our personal trust team here at Greenleaf Trust knew we wanted to do a better job supporting each other and our clients, and so began our journey of learning about grief.

> "… we wanted to do a better job supporting each other and our clients, and so began our journey of learning about grief."

It may seem odd for a financial services organization to educate its professional staff about grief. Unfortunately, many of us have had the following experience when dealing with other service providers (e.g. the cable company):

CALLER: "I'm calling to close/transfer this account because the account holder is deceased."

REPRESENTATIVE: "I see, well I'm going to need to speak with the account holder. I'm not authorized to speak with you."

CALLER: "The account holder is deceased."

REPRESENTATIVE: "I understand, but I'm going to need to speak to the account holder."

Nothing could be more hurtful for clients and frustrating for a team.

Our quest for understanding started with a Greenleaf training session moderated by our friend, Caroline Meyers, of Hospice Care of Southwest Michigan. She asked us, "Why is it so hard to talk about grief?" Some of our answers were:

"It's emotional and it's inappropriate to talk about "feelings" at work."

*Grief and Financial Services, continued*

"I just don't know what to do."

"What if I say something stupid?"

Ms. Meyers helped us identify several lessons from our discussion, including that before we can provide support to others, we have to be willing to acknowledge our own grief and the losses in our lives, and that our reactions are shaped by our experiences. We were reminded that each person grieves in his or her own way, and that we can't impose our feelings about grief on others. We recognized the need to listen and follow the lead of the person who is grieving. We learned that it is important to say the name of the person who has died—their loved ones want to remember them. Finally, we acknowledged it is appropriate to accept that we are uncomfortable and don't know what to say, and sometimes all that is required is to simply be present.

Our team also read Megan Devine's excellent book *It's OK That You're Not OK*. Drawing on her training in psychology when she faced the sudden loss of her partner, she provides insight into the feelings and actions of those who are experiencing grief. She describes in detail how grief affects every aspect of life, both physical and mental. Ms. Devine states that grief is not something to recover from or move on from because it cannot be fixed, but rather something to support the natural process of and integrate into our lives. As I once heard a pastor say: "You don't get over it, you learn how to carry it in a place that allows you to go on."

"… good listening and honesty are what our friends need from us."

Ms. Devine also has excellent advice for those providing support. In her appendix entitled "How to Help a Grieving Friend," she provides some ground rules for those looking to care for the grieving. These include: 1) grief belongs to the griever, 2) stay present and state the truth, 3) do not try to fix the unfixable, 4) be willing to witness searing, unbearable pain, 5) this is not about you, and 6) love.

When those around you are suffering, it is hard not to want to fix it for them. It is difficult to watch people you love and care about be in pain. I have learned that good listening and honesty are what our friends need from us. Sharing memories of the person is healing both for us and our friends. I have also learned to accept that there will always be moments that I am sad, but that it is OK to simply live in those moments as well. In the end, all we can do is love each other.

At Greenleaf Trust, we will continue our journey to provide better support for those who are grieving, and we will seek to walk alongside our clients, our friends and our family. If we can be of any assistance to you, now or in the future, please feel free to contact any member of your client centric team.

# Triple Tax Benefit – Health Savings Accounts

*Steven J. Christensen, CFP®, CTFA*
*Senior Wealth Management Advisor*

What does a triple tax benefit look like? It is an account that is funded with pre-tax dollars, has tax-deferred investment growth and provides the opportunity for tax-free withdrawals. These generous tax features have earned the health savings account, or HSA, a reputation for being "dollar for dollar the greatest wealth building vehicle currently permitted within the tax code."

Health savings accounts first came on the scene in December of 2003 when President George W. Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act. Provisions of the act provide consumers of high deductible health insurance plans the ability to set aside pre-tax dollars to pay qualified medical expenses. The maximum annual funding amounts have grown slightly over time and are different depending upon who is insured. In 2019 a single person can contribute up to $3,500, a family can contribute $7,000 and if the insured is over the age 55, an additional $1,000 contribution is permitted.

Most HSA owners use their account to pay medical expenses at the point of service, and therefore, keep their HSA dollars invested in liquid interest bearing investments similar to a savings account or money market fund. These low risk, liquid investments are appropriate in instances when the HSA contributions are required in order to pay current medical expenses. In this scenario the HSA balance is typically small as is the applicable interest rate. The small amount of interest earned is sheltered from taxes, but the biggest benefit in this scenario is the ability to pay medical expenses with pre-tax dollars.

The HSA cash flow scenario described above is the most common reality among HSA owners, but it is not reflective of everyone's circumstances. If current medical expenses can be met using other resources, the dollars held in the HSA can remain intact and continue to grow on a tax deferred basis. Account balances will carry forward from one year to the next and increase as annual contributions are made and investment growth is achieved. Similar to an IRA, an HSA can hold several different types of investments. If the HSA dollars are part of a longer-term strategy, investment liquidity and safety can be take a back seat to investments that provide better long-term growth potential. Yes, you can invest your HSA dollars into equities, including low-cost index based vehicles.

"If current medical expenses can be met using other resources, the dollars held in the HSA can remain intact and continue to grow on a tax deferred basis."

To date, the cumulative opportunity set for early adopters of health savings accounts has been substantial. Since their advent, a single person could have contributed a total of $49,500, a family $98,850 and an additional $14,500 could have been saved if the insured was over the age of 55 when first introduced back in 2004. Remember, these are pre-tax dollars. More specifically, payroll contributions are made prior to the assessment of payroll taxes and non-payroll contributions are deductible against income when taxes are filed. Saving that occurs on a pre-tax basis is a powerful incentive. Assuming a hypothetical tax rate of 25%, a single person would need to have earned $66,000 and saved the net of tax amount to match the $49,500. A family subject to the same 25% tax rate would have to earn $131,800 to match their pre-tax savings of $98,850.

Investing HSA dollars in equity investments provides an opportunity for growth beyond that of a typical savings account or money market fund. The growth is tax deferred which only enhances the compounding power. To further demonstrate the since inception opportunity set, please reference the table below. It assumes maximum annual funding at the individual, family and single individual over age 55 levels. The rolling balances further assume the funds have been invested into a S&P500 index fund. For 2019, I only included the annual contributions.

"Investing HSA dollars in equity investments provides an opportunity for growth beyond that of a typical savings account or money market fund."

| Year | S&P 500 Return | Individual | Family | Single Over 55 |
|---|---|---|---|---|
| 2004 | 10.90% | $ 2,883 | $ 5,711 | $ 3,438 |
| 2005 | 4.90% | $ 5,805 | $ 11,498 | $ 7,016 |
| 2006 | 15.80% | $ 9,848 | $ 19,626 | $ 12,061 |
| 2007 | 5.50% | $ 13,397 | $ 26,667 | $ 16,575 |
| 2008 | -37.00% | $ 10,267 | $ 20,454 | $ 12,836 |
| 2009 | 26.46% | $ 16,777 | $ 33,390 | $ 21,291 |
| 2010 | 15.06% | $ 22,813 | $ 45,495 | $ 29,158 |
| 2011 | 2.11% | $ 26,409 | $ 52,735 | $ 33,909 |
| 2012 | 16.00% | $ 34,230 | $ 68,422 | $ 44,090 |
| 2013 | 32.39% | $ 49,620 | $ 99,124 | $ 63,997 |
| 2014 | 13.69% | $ 60,165 | $120,140 | $ 77,647 |
| 2015 | 1.38% | $ 64,392 | $128,540 | $ 83,129 |
| 2016 | 11.96% | $ 75,844 | $151,471 | $ 97,941 |
| 2017 | 21.82% | $ 96,535 | $192,745 | $ 124,672 |
| 2018 | -4.38% | $ 95,605 | $190,900 | $ 123,466 |
| 2019 | TBD | $ 99,105 | $197,900 | $ 124,466 |

The data indicate that a single person who has saved the maximum annual amount and invested their HSA dollars into a S&P500 fund would have contributed a total of $49,500 and would maintain a projected account balance of approximately $99,105. Similarly, a family would have contributed $98,850 and would maintain a projected account balance of approximately $197,900. A single person over age 55 in 2004 would could have contributed a total of $64,000 and maintain a projected account balance of approximately $124,466. All of the growth, dividends, interest and capital gains, was sheltered from taxes over the course of 15-plus years. In each of the above examples the percentage of principal vs. gain is roughly half; half funded with principal dollars that were never taxed and half investment growth that has also never been taxed.

HSA balances are always available for tax-free withdrawal when used to pay qualified medical expenses. The definition of a qualified medical expense is broad and the list of examples is long so there is no shortage of potential qualified expenses. If an HSA owner is over age 65, withdrawals for non-medical reasons are permitted on a penalty-free basis but the withdrawals are subject to income tax. This is the same tax treatment associated with an IRA withdrawal for someone who is over the age of 59 ½. If you think that future medical expenses are inevitable, I could argue the merits of funding an HSA prior to funding an IRA. The account also provides for a beneficiary designation. If a spouse inherits an HSA the account will continue as if it were their own.

The triple tax benefits of this account (pre-tax contributions, tax deferred growth, potentially tax free withdrawals) coupled with the exponential compounding power of the equity markets make it a clear winner for consumers of high deductible health insurance plans. If you would like to learn more about how an HSA account could fit into your overall wealth management plan, please contact a member of Greenleaf Trust's client centric team.

"The triple tax benefits of [an HSA] account... coupled with the exponential compounding power of the equity markets, make it a clear winner..."

## Stock Market Pulse

| Index | 3/31/19 | Total Return Since 12/31/2018 |
|---|---|---|
| S&P 1500 | 652.57 | 13.64% |
| Dow Jones Industrials | 25,928.68 | 11.81% |
| NASDAQ | 7,729.32 | 16.81% |
| S&P 500 | 2,834.40 | 13.65% |
| S&P 400 | 1,896.27 | 14.49% |
| S&P 600 | 939.30 | 11.59% |
| NYSE Composite | 12,696.88 | 12.41% |
| Dow Jones Utilities | 778.72 | 10.16% |
| Barclays Aggregate Bond | 109.07 | 2.94% |

| P/E Multiples | 3/31/19 |
|---|---|
| S&P 1500 | 18.8x |
| Dow Jones Industrials | 16.5x |
| NASDAQ | 22.4x |
| S&P 500 | 18.7x |
| S&P 400 | 18.9x |
| S&P 600 | 21.1x |

## Key Rates

| | |
|---|---|
| Fed Funds Rate | 2.25% to 2.50% |
| Tbill 90 Days | 2.37% |
| T Bond 30 Yr | 2.81% |
| Prime Rate | 5.50% |

## Current Valuations

| Index | Aggregate | P/E | Div. Yield |
|---|---|---|---|
| SS&P 1500 | 652.57 | 18.8x | 1.92% |
| S&P 500 | 2,834.40 | 18.7x | 1.94% |
| Dow Jones Industrials | 25,928.68 | 16.5x | 2.24% |
| Dow Jones Utilities | 778.72 | 20.8x | 3.14% |

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.89%

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