GREENLEAF TRUST

Perspectives

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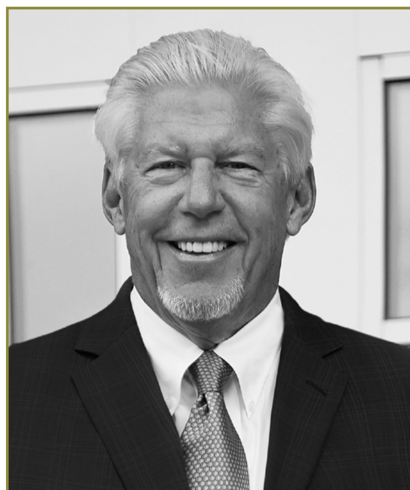

William D. Johnston
Chairman, Greenleaf Trust

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Economic Commentary

The Delta variant of COVID-19 has now been joined by Omicron, the latest variant that was first observed in South Africa in recent weeks. As with previous variants of the original virus, Omicron is thought to more easily spread particularly among the unvaccinated populations. As of this writing, the current initial as well as booster vaccines are thought to be effective against the disease, but confirming data of that assumption has not yet been released. The rippling effect of international flare ups of new variants and hot spots of infection continue to impact financial markets and rightfully so. At the outset of the pandemic, economic forecasters took the position that the pandemic would have a global impact and drastically effect global commerce. In the absence of fact and reliable data, voids are created. Eventually, the panic created by the absence of reliable data is replaced by the actual commercial and economic activity of demand, production and labor utilization. Each variant that arrives is treated similarly; and until the answers to questions of infection virulence and vaccination efficacy are answered, financial markets will assume the worst case scenario. Our recent global sell-off due to the announcement of the Omicron variant is a repeat of what occurred with the Delta variant. As facts fill the void of uninformed assumptions and fears, stability in markets will return. The volatility experienced is simply a reminder that our return to normalcy requires the ability to transact normal commerce and, therefore, the normal economic activity of consumption, production and labor. The evidence is clear that protection from current and future variants of the infection is necessary for normalcy to return. The evidence is also clear that people who are unvaccinated get the disease more easily and when they do they experience more severe illness, greater chances of hospitalization, complications and fatality rates than those that are vaccinated. If being vaccinated accelerates a return to normalcy, how successful are we at that task in the US as well as globally?

Bloomberg's report of December 1 on its COVID-19 Tracker provides a barometer that is worth noting. In what they call the biggest vaccination campaign in history, more than 8.04 billion doses have been administered across 184 countries and the current daily vaccination rate is approximately

Commentary, continued

36.2 million doses per day. In the US, 461 million doses have been given thus far, and the current daily vaccination rate is 1.12 million doses per day, that includes initial doses, second doses and booster shots for those eligible. If we assume that the daily data does not change in either direction and the bar for herd immunity is 75% of the population, we will reach global as well as national herd immunity in late February. Averages, of course, don't reflect actual experiences in all countries — just as national averages don't reflect actual experiences in all communities, cities, counties and states. What is clear is that when we reach the 75% threshold, nationally as well as globally, the pandemic will become, more than ever, the pandemic of the unvaccinated. I have the privilege and opportunity to serve as a board member of one of our community's health care systems. The facts on the ground for our health care system are nearly identical for all health care systems in the US. Anyone can be infected by the COVID-19 virus. Those who have been vaccinated and become infected overwhelmingly have mild disease symptoms, infrequently require hospitalization, and rarely end up in ICU or die of COVID-19. Additionally, over 80% of those hospitalized specifically due to COVID-19 are unvaccinated, and almost 100% of those in ICU specifically due to COVID-19 are unvaccinated. These may be unpopular facts for some, but the overwhelming evidence is once again that the pandemic is clearly becoming the pandemic of the unvaccinated. When we reach the 75 - 80% vaccination rate globally and within the US, what will be the political advantage to opposing vaccinations and impairing the return to normalcy? Let's check in on the economy.

> "... over 80% of those hospitalized specifically due to COVID-19 are unvaccinated, and almost 100% of those in ICU specifically due to COVID-19 are unvaccinated."

The Weekly Economic Indicator, which measures real time data reflective of consumption, employment and production, was measured at 7.31%, reflecting real GDP growth of 4.08% — a continued deceleration from the April 10 peak of 11.68% and 12.39% respectively, but to be expected. Recall that the value of using the Weekly Economic Indicator to access our economy during a recovery from recession is to evaluate how our economy is doing relative to the previous year (2020) when we were in the depths of the pandemic-created recession. As the recovery continues, it is logical that the year-over-year and month-over-month comparisons will normalize and shrink. What is clear by the data is that unemployment is shrinking, job growth is occurring, consumers are both spending and saving and the economy, as measured by GDP, is growing. In November, employment rose by 531,000 workers and the unemployment rate dropped to 4.6%. Average hourly earnings remained flat, as did average hours worked, and the labor participation rate grew marginally by 104,000 workers.

Inflation has received a great deal of print and air time lately as it is perceived as a political thorn in the side of whoever is in power. If inflation grows, the political opposition will want to make the case that consumers are being "taxed" by price increases and, therefore, going backwards

economically. Inflation is typically reported using the PCE (Core Personal Consumption Expenditures) and comparing the change in prices over a twelve-month period or year-over-year time frame. Data points in economics have a great deal of noise in them, and filtering the noise can sometimes be summarized with the saying, "What would you like the number to be?" Often, the number or fact we want is not the important number or accurate fact. In general, comparing prices during a period of strong recovery and consumption demand to a period of severe recession and lack of consumption and demand makes little sense, and is of little value other than political leverage for those seeking it. In the spring of 2020, when the job loss skyrocketed and consumer demand cratered, in essence the economy nationally and globally paused in a hugely significant way. Inventory adjustments across all industries, with few exceptions, resulted in significant price decreases and, thus, comparing prices today with those of a year ago are by their nature going to reflect the reality of increasing consumer demand. Compounding the complexity of the comparison is the significant interruption in the supply chain of every component of production, from raw materials to finished goods, labor and transportation. It is good to remind ourselves that this pandemic is and was global, no country or industry sector has escaped the impacts of the economic contraction that occurred, and all countries and industry sectors are equally impacted by the challenges to supplying the demand for product and services as the strong recovery from the global recession continues.

The duration of time includes opportunities for wisdom, if we seek it, and also provides the opportunity to eliminate short-term economic noise. Over the last decade PCE as well as CPI, which includes fuel and food, have both averaged slightly below 2%. If we extend the trend to 15 years, inflation was well below 2%. The Federal Reserve has a dual mandate that focuses on employment and price stability. The basic assumption is that if the economy grows at rates above inflation in a sustainable manner, employment will grow and labor will experience real (adjusted for inflation) wage growth. The FED will utilize their lending powers to either stimulate or contract the economy to maintain the economic equilibrium that their mandate requires. Fed Chair Powell (recently re-appointed by President Biden) has cautioned about focusing on short term comparisons of both CPI and PCE data. He and his fellow Federal Reserve Board Governors understand that the significant decline in economic demand in 2020, and the significant increase in demand in 2021, are two offsetting parts of a recessionary and recovery cycle, and price stabilization should occur as normal consumption, production and employment cycles resume. The passing of time, and patience to impact product pricing, is necessary for the noise to subside in the data and, therefore, political noise to decline as well.

"… all countries and industry sectors are equally impacted by the challenges to supplying the demand for product and services as the strong recovery from the global recession continues."

Michael F. Odar, CFA®
President

The Plan for 2022

I thought navigating 2021 would be a lot easier when we started. After all, what could be more difficult than 2020? I was wrong. Although we will have had our most successful year in the history of our company, it seemed like the rules and guidelines were always changing. Are we still in the pandemic, or is it over? And, the new "hybrid" work preferences versus "remote from home" required a little extra communication. We were successful because we had a plan. We have built a dynamic plan for 2022 that has just been completed and started at our Advance.

Our Advance is an annual three-day meeting in October involving our entire Executive Leadership Team. The purpose of the Advance is to share and discuss divisional strategic plans for the upcoming year. Divisional plans are scrutinized and challenged by each leader's peers, in an effort to create a cohesive organizational plan. Candor is essential. Once an organizational plan is constructed, we build our budget around it. We view strategic planning as a long-term endeavor. However, each year we want to take one step forward towards achievement of our longer-term "Top of Mind" strategic plan. Our Advance helps us do this. And, if you are wondering why we do not call it an executive retreat, it's because we are not going backwards. We call it an Advance because we are moving forward.

Our organizational plan for 2022 is focused on four key themes: Workplace Culture, One Step Forward, Four Steps Ahead, and Purposeful Growth.

"Workplace Culture continues to be one of the most important reasons teammates join Greenleaf Trust and want to spend their careers here serving clients."

Workplace Culture continues to be one of the most important reasons teammates join Greenleaf Trust and want to spend their careers here serving clients. We strive to hire talented, diverse people and provide them with a work environment that challenges, supports, equips, and multiplies their efforts through collaboration. The end result is an engaged team that is inspired to do great work for our clients. In 2022, our focus will be on staying connected while working in many different locations, teammate training and development, continuing to build a more diverse and inclusive team, being leaders in our communities, creatively on-boarding new teammates, and supporting everyone.

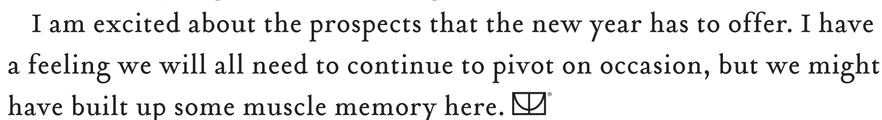
One Step Forward is about near-term investments, process scalability, internal service standards, and cyber security maturity. We will be making significant investments in new talent, major system improvements, marketing initiatives, and our clients' online experience. As I have said before, scalability is not just about getting bigger. It's about getting bigger and better. Our scalability efforts will focus on on-boarding new clients, operational efficiencies, and making sure our

existing client service standards continue to meet our clients' needs. As part of our internal service standards we continue to strive for tax processing excellence. And as I wrote about last month, cyber security is of the highest importance to us.

Four Steps Ahead is a reference to our look beyond the next four years, which would bring us to 2025 and the maturity of our Top of Mind strategic plan. We will be setting in motion actions to build on our capabilities in Socially Responsible Investing (SRI), expanding our Family Office investment platform, thought leadership, and development of our next level leaders. Over the last five years, we have built out our data warehouse and we are working hard to leverage the data within it to make better data driven decisions. Our efforts around High Touch with High Tech will be focused on how to serve clients the way they would like to be served, which may be very different in the future.

Purposeful Growth involves growing deeper and broader in our capabilities in order to serve existing and prospective clients better. If we do that successfully, we will be able to serve more clients. We opened our new office in Midland this year and we will continue to explore new markets in Michigan in 2022. Talent and disruptive opportunities will guide the way. New lines of service that our clients desire are continuing to be developed and opportunistic purchases of adjacent businesses that are culturally aligned are also being considered.

I am excited about the prospects that the new year has to offer. I have a feeling we will all need to continue to pivot on occasion, but we might have built up some muscle memory here.



"Purposeful Growth involves growing deeper and broader in our capabilities in order to serve existing and prospective clients better."

Jacob A. Barker, CFA®
Manager Selection Analyst

Capital Gains Distributions: Same Principle, Same Tax Rate?

As fall gives way to winter, families across the nation turn their attention to holiday festivities, football, and the coming of a new year. Similarly, financial advisors and tax experts at Greenleaf Trust spend this time preparing for year-end capital gains distributions. While this annual tradition may largely go unnoticed by those outside of the financial services industry, proper management of these distributions can meaningfully impact after-tax returns. Because of this, advisors begin studiously preparing for capital gain distributions well in advance with the goal of ensuring the best outcome for each of our clients. Now before delving into the mechanics of these annual distributions, let us first discuss a welcome change – or lack thereof – in policy that occurred within the last few months.

Those of you who read R. Cory Spaulding's article titled "Tax Planning in a Year of Uncertainty" published in last month's *Perspectives* will recall that the Federal Government had proposed a number of changes to the tax code that would directly impact the rate at which capital gains were to be taxed. I am delighted to share that the bill has since been modified and the proposed tax increases affecting capital gains are no longer on the table. That said, nothing has been finalized; or, as Roman emperor Marcus Aurelius wrote around 160 AD in his personal writings known today as *Meditations*, "Everything is only for a day, both that which remembers and that which is remembered." While uncertainty around the applicable tax rate looms, for the sake of time – and in hope of maintaining our sanity – we will not spend this article deliberating whether or not the bill will once again change. No matter the outcome, the principles underlying capital gains distributions and the implications these have for after-tax returns remain the same. As such, we remain steadfast in our work to create strong after-tax outcomes for our clients. Finally, and without further ado, we are pleased to once again share with you this article on capital gain distributions.

> "I am delighted to share that… the proposed tax increases affecting capital gains are no longer on the table."

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 2021). 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 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 straight forward, 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 it means Mr. Smith's share could appreciate as much as $10

"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..."

Capital Gains Distributions: Same Principle, Same Tax Rate?, continued

(from $90 back to $100) before he would realize gains on a sale.

Historically, the average distribution across our client holdings has been between three and five percent. This year, we estimate that capital gain distributions will be higher than average for growth-oriented managers as well as for funds that invest a significant portion of their assets in emerging market equities. More broadly, however, our estimates indicate that the average fund's distribution rate will be in line with historical norms.

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. In addition, we keep an eye on the net flows of each fund, as large net outflows can force a fund manager to liquidate securities to meet redemptions, resulting in higher realized gains. We also evaluate the tax characteristics of different investment vehicles for our clients. This emphasis on tax efficiency is part of what leads us to recommend index-tracking exchange-traded funds (ETFs) for a portion of many client portfolios, as they 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.

"… don't lose sight of the fact that while taxes are a certainty, they're also a certain indicator of a growing portfolio."

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.

The Greenleaf Trust Gift Guide

Mark Meyers, CFP®, CTFA, CLU®, ChFC®
Senior Trust Relationship Officer

The Infrastructure Investment and Jobs Act was passed by the House of Representatives on November 5 and signed into Law by President Biden on November 15, 2021. It's approximately 2700 pages long and includes $1.2 trillion of spending into broad infrastructure improvements. The bill has bipartisan support. In fact, it passed the Senate by a vote of 69-30 on August 10. So what is the reason it's been passed now? That's more complicated but may have something to do with the Build Back Better Act. It was widely reported that the Infrastructure bill would not be passed without assurances and progress being made on the Build Back Better Act. That bill includes roughly $2 trillion in spending, and has had many iterations of proposed changes to gift, estate, and income tax rules in place today.

Considering that it's December, and the holiday season has a lot of us in the giving mood, we thought it would be wise to look at giving from a charitable and wealth transfer perspective. The goal is that this will be a guide to help you decide whether or not you should give, as well as how to give efficiently, taking into consideration some possible changes to the tax landscape.

"The goal is that this will be a guide to help you decide whether or not you should give, as well as how to give efficiently…"

DO I HAVE ALL THAT I NEED TO GIVE WHILE STILL MAINTAINING MY FINANCIAL SECURITY?

All of the decision points for giving come after this one. If you can't give and maintain the lifestyle you want, then don't gift at that level. Analyze the gift based on the tax impact today, as well as in future years. Consider the income lost from giving away the asset, and the future appreciation from the asset. If you still have enough after giving it away, then you are in good position to move onto the next questions.

This sounds simple, and then tax law proposals and other issues muddy the waters. We wonder if the exemption amount, which is currently at $11.7M per person could decrease to $5M per person next year adjusted for inflation. If that happens, is our chance to take advantage of an increased gift and estate tax savings mechanism gone? The answer is yes, but more importantly, before asking how you can use the temporarily increased exemption and still maintain access to resources, ask yourself if you are willing to change your lifestyle if the gift doesn't work as planned.

WHY AM I GIVING?

Here is a sample of some of the best answers:

1. I'm gifting to improve the lives of others.
2. I'm creating a tool to teach finances within the family.

3. While I'm here, I want to see them enjoy the money.
4. I want to create a pot of money to preserve the family cottage.
5. This will be the safety net for my children/grandchildren to give them a "step up" in life.

All are great answers, and there are many more. The "red flag" answer is, "It is the right tax reason."

The Build Back Better Act has at times included a proposed expansion of the "Net Investment Income Tax." The 3.8% tax applies to those with modified adjusted gross income of $400,000 for single tax payers and $500,000 for those that are married and filing jointly. In the past this was imposed on passive investment income, but the proposed changes would now expose distributions from S Corps to the 3.8% tax if included in the final legislation.

"The Build Back Better Act has at times included a proposed expansion of the 'Net Investment Income Tax.'"

If the Net Investment Income Tax expansion passes, taxpayers at those income levels would be subject to a higher tax rate due to the proposed legislation. The higher the marginal tax rate, the more valuable the deduction. Does that mean people that aren't charitably inclined should give to charities to offset the impact of higher taxes? What about a person that is charitably inclined, that considers giving next year, instead of this year, because they may get a larger deduction? The bottom line is don't let the tax tail wag the dog in your decision making. The goal should be to consider the impact of taxes without having them be the primary driver of your decision.

WHAT SHOULD I GIVE?

If giving to transfer wealth is the goal, we look at the balance sheet and try to identify the asset with the greatest growth potential. As an example, if you transfer an asset with a $1M value and use $1M of your lifetime exemption, you haven't saved any money from a gift and estate tax perspective if you pass away soon after the transfer. If that same asset appreciates to a $2M value after the transfer date, and would otherwise be includable in your estate when you pass away, you have "saved" that $1M from estate taxes.

While it was not included in the most recent Build Back Better Act proposals, the elimination of valuation discounts on transfers of certain entities that hold "nonbusiness assets" has made headlines in the last few months. These "nonbusiness assets" include cash, stocks, bonds and real property not used in an active trade or business. If enacted, entities such as family limited partnerships, would be valued as if the person gifting had transferred the asset directly for full fair market value. In that case, gifting $1M of ownership in the Family Limited Partnership will use up $1M of your lifetime exemption. Is that still the right answer

if no discount is applied? That depends on what the partnership owns and how much it is expected to grow. Asking yourself these questions and giving equal weight to those answers can help a lot from a tax efficiency perspective.

Okay, this guide didn't talk about the best places to find deals for your loved ones, or how to wrap the perfect present, still we hope it gave you a valuable starting point for the gifting discussion. Whether you are thinking about giving stock to your favorite charity, or business interests to your grandchildren, there should always be time to carefully evaluate your options. After all, it's much nicer to give than to receive… as long as the gifting is done right.

Equity Compensation

Brian C. Farrell, CFP®
Senior Wealth Management Associate

With the end of 2021 around the corner, many individuals who work at both publicly traded and private companies may find themselves in a position where their employers have given them opportunity to receive equity compensation as part of their benefits package. There are two basic types of equity compensation – options and grants. Under those broad categories, there are many sub-types including restricted stock units, non-qualified stock awards or options, and incentive stock options. Typically, options and grants are subject to vesting periods, meaning a certain amount of time needs to lapse before you can actually benefit from these types of compensation. Equity compensation has been a valuable tool used by companies because it gives them an opportunity to preserve cash flow by replacing salaries or bonuses with equity and in turn can create a culture of ownership, incentivizing employees to think and act like an owner.

Equity compensation can be confusing for many though and can present complex questions such as: how do you evaluate your options, what are the grants actually worth, what could they be worth in the future, when should you exercise options, and what are the tax ramifications of receiving grants? I am not intending to answer all of those questions in this article as those are best answered in the context of your personal situation and should be examined in a comprehensive financial plan. I am hoping, however, that this article sparks discussion and serves as a starting point for equity compensation planning.

Equity Compensation, continued

STOCK OPTIONS

Stock options give employees the right (not the obligation) to buy shares of their company at a fixed price – otherwise known as the "exercise" or "grant" price. When an employee receives these options, it is generally not a taxable event because the grant price is equal to the stock price trading on the day of the award. This also means that at the date of grant, there is no discernable value to the employee. There are two primary types of options – Nonqualified stock options (NQSOs) and incentive stock options (ISOs).

For nonqualified stock options, typically there is no economic value on the date of the grant and thus no tax consequences of receiving these options. However, at the time of exercise of the option, what is known as the bargain element is considered to be W-2 compensation income. The bargain element is the difference between the grant price and the price of the stock on whatever day you decide to exercise. This bargain element is subject to payroll taxes and your holding period (short term or long term) begins at the date of exercise. NQSOs are the more common type of options granted to employees given their relative simplicity compared to their counterpart – incentive stock options.

"Stock options give employees the right (not the obligation) to buy shares of their company at a fixed price..."

Incentive stock options (ISOs) present a slightly different set of challenges for planning given their tax qualified nature and are subject to a handful of requirements under the Internal Revenue Code in order to qualify for their preferential status. These rules are often referred to as special holding period rules and in exchange for the satisfaction of said rules, there could be no regular taxable income due for individuals on the exercise of ISOs, rather there is potentially an alternative minimum tax (AMT) event where you must report the bargain element as an AMT adjustment item. At this point, if I went into AMT any more than that, you might immediately put this article down, so I will leave it there, just know there are specific holding period requirements that need to be met in order to have preferential tax treatment on the sale of ISO related stocks.

SHARE GRANTS

Share grants or stock grants are typically more straightforward than options and are more common for employees. They usually come in the form of one or both of the following: Restricted Stock Units (RSUs) and Performance Units.

Restricted stock is stock that could be forfeited by the employee if employment performance is not satisfactory or employment is terminated before the required vesting period is met. Due to this substantial risk of forfeiture, units are not taxable upon grant, rather taxed as shares vest (or become available to the employee) as W-2 compensation income and are taxed accordingly.

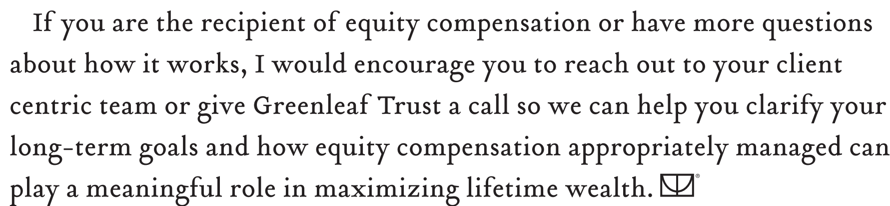
Performance units or performance stock grants often vest using company performance criteria over a certain amount of time. Like RSUs there is substantial risk of forfeiture and units are not taxable until shares vest.

PLANNING CONSIDERATIONS

We find clearly laying out what our clients have in their options and units is the first step to creating a plan of action. Helping clients understand the potential value of their equity compensation, and illustrating risks in the context of their financial plan, provides insight into how this type of compensation can be an incredibly effective wealth building tool. That said, we also attempt to mitigate the common misunderstanding regarding equity compensation that generally results from a lack of company provided education. After we have a clear understanding of what benefit package a client has, we work with them and their tax advisors to develop a long-term tax strategy model to maximize lifetime wealth. Considerations include multi-year tax planning, risk analysis for the company, optimization of holding periods based on underlying equity compensation characteristics, and many more.

> "Helping clients understand the potential value of their equity compensation… provides insight into how this type of compensation can be an incredibly effective wealth building tool."

CONCLUSIONS



If you are the recipient of equity compensation or have more questions about how it works, I would encourage you to reach out to your client centric team or give Greenleaf Trust a call so we can help you clarify your long-term goals and how equity compensation appropriately managed can play a meaningful role in maximizing lifetime wealth.

Lorey L. Matties
Participant Services Specialist

IRS Announces Retirement Plan and Other Benefit Limitations for 2022

The IRS recently announced contribution and benefit limits for qualified retirement plans effective January 1, 2022. Thanks to a higher-than-normal annual inflation rate of 5.4%, the IRS is allowing taxpayers to contribute up to $20,500 to a 401(k) or similar workplace retirement plan. This is a $1,000 boost from the $19,500 contribution limit for this year. The limit usually increases in $500 increments; however, higher inflation is making it jump up two steps in one year. The catch-up contribution limits – for employees turning 50 and older any time in 2022 – will remain at $6,500, bringing that limit to $27,000.

The contribution amount to an individual retirement account (IRA) remains unchanged at $6,000. The catch-up limit for IRAs will also stay at $1,000, meaning those age 50 and older can put away $7,000 next year.

Additionally, more Americans may now qualify for Roth IRA contributions in 2022, with the income phase outs rising to $129,000 to $144,000 for single and head of household filers (up from $125,000 to $140,000) and $204,000 to $214,000 for married couples filing jointly (up from $198,000 to $208,000).

> "The IRS recently announced contribution and benefit limits for qualified retirement plans [will increase] effective January 1, 2022."

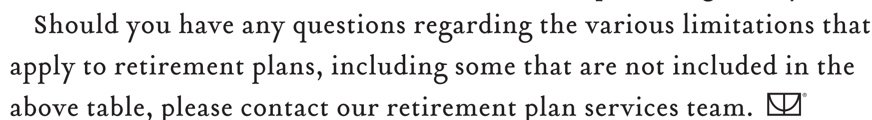
As was highlighted in last month's Perspectives, the Social Security Administration (SSA) also announced the biggest raise for retirees since 1982 at 5.9%, with a normal increase to the taxable wage base for workers. The Social Security Wage Base, which is the maximum amount of earnings subject to Social Security tax, will rise 2.9% to $147,000 up from $142,800 this year. That means the maximum Social Security tax per worker making at least $147,000 will be $18,228 – or a maximum $9,114 withheld from a highly paid employee's 2022 paycheck. Workers and their employers each pay 6.2% of the Social Security tax for a total of 12.4% of Social Security taxes paid annually; the self-employed pay both sides of the tax.

Following is a table highlighting some common retirement plan and other benefit limitations.

Retirement Plan Limitations	2022	2021
Annual deferral limit for 401(k), 403(b) and 457(b) plans	$20,500	$19,500
Catch-up contribution limit for persons age 50 and older in 401(k), 403(b) and 457(b) plans	$6,500	$6,500
Limitation on annual additions to a Defined Contribution plan – "415 limit"	$61,000	$58,000
Annual compensation for determining benefits or contributions to a Defined Contribution plan	$305,000	$290,000
Highly Compensated Employee (HCE) compensation threshold	$135,000	$130,000
Officer or Key Employee definition	$200,000	$185,000
Earnings subject to Social Security tax (wage base)	$147,000	$142,800
Annual IRA contribution limit	$6,000	$6,000
Annual IRA catch-up contribution limit for persons age 50 and older	$1,000	$1,000
Health Savings Account (HSA) individual contribution limit	$3,650	$3,600
Health Savings Account (HSA) family contribution limit	$7,300	$7,200
Health Savings Account (HSA) catch-up contribution for persons age 50 and older	$1,000	$1,000

The Saver's Tax Credit for low to moderate-income workers will reflect modest adjustments as well. The Saver's Credit is a tax break that's available to many people with modest incomes, offering a way for savers to make their money work harder for them. The credit is between 10-50% of the individual's eligible contribution up to $2,000. The annual income limit to receive the credit for 2022 is $34,000 for single filers; $51,000 for head of household; and $68,000 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.



"The Saver's Tax Credit for low to moderate-income workers will reflect modest adjustments as well."

Stock Market Pulse

Index	11/30/21	Total Return Since 12/31/2020
S&P 1500	1,040.73	22.88%
Dow Jones Industrials	34,483.72	14.61%
NASDAQ	15,537.69	21.31%
S&P 500	4,567.00	23.17%
S&P 400	2,708.65	18.71%
S&P 600	1,343.15	21.27%
NYSE Composite	16,318.97	14.60%
Dow Jones Utilities	893.56	6.72%
Barclays Aggregate Bond	2,361.18	-1.29%

P/E Multiples	11/30/21
S&P 1500	24.5x
Dow Jones Industrials	19.2x
NASDAQ	90.1x
S&P 500	25.0x
S&P 400	20.1x
S&P 600	18.6x

Key Rates

Rate	
Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.03%
T Bond 30 Yr	1.79%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,040.73	24.5x	1.33%
S&P 500	4,567.00	25.0x	1.32%
Dow Jones Industrials	34,483.72	19.2x	1.80%
Dow Jones Utilities	893.56	17.5x	3.51%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.46%

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