Perspectives

A Greenleaf Trust Newsletter

FEBRUARY 2019 VOLUME 28, ISSUE 2

William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

The Government shutdown caused the delay in several data reports normally released in the last two weeks of January. There are some important releases that were available and at least two of those releases are among the three that provide somewhat dependable forecasts of recessionary probabilities. As a reminder, those data points are employment, retail spending and the yield curve.

Employment Report

The January report revealed that non-farm payrolls increased by 304,000, which exceeded the median expectation of 165,000. So as not to get too excited about the near doubling of the forecast, you should know that the increase was nearly offset by the adjustment downward of November and December estimates. Still, the three-month average of payroll additions was 234,000, which is well ahead of the number to stabilize employment. If that is the case, then why the tick up in the unemployment rate? For the third consecutive month, the labor participation rate rose, resting at nearly 62%. As more people seek employment, the pool of labor grows, and it requires more jobs to be added to keep the unemployment rate constant. The difference between the previous unemployment rate of 3.9% and the current reported 4.0% is inconsequential. Average hourly earnings rose at a level to keep the twelve-month average above 3.1%, while the employment cost index increase was slightly lower at 2.9%. Many analysts both inside and outside of the Fed look to labor and wage reports as leading indicators of future inflation pressure. Few would say that there is much slack in labor force availability, yet the current reports fail to indicate wage pressure beyond the current GDP growth rate or inflation indicators.

Retail Sales

The commerce department was impacted by the Government shutdown, and so the latest retail sales data will be released later this month. There are few anecdotal examples of trends in growth or declines in retail sales and thus we will await the data releases to reflect further.

Commentary, continued

Yield Curve

As described in multiple previous writings, analysts view an inverted yield curve (where longer term treasury bond rates yield less than those bonds of shorter duration) as a sign of future economic trouble, mainly recession. While yield curves can flatten for multiple other reasons in the short term (mainly significant geopolitical trauma) sustained flattening of the yield curve is almost always associated with early stage recessionary cycles. As of today's writing the yields on treasuries are as follows:

5 yr. = 2.54%, 10 yr. = 2.62%, 20 yr. = 2.72%, 30 yr. = 2.89%.

Is the curve normal? Well, from a historical perspective we haven't seen a normal yield curve in ten years; however, it is definitely not inverted.

> "The Consumer Confidence Index declined for the month of January while the Consumer Sentiment Index increased slightly. Both indexes measure different components of confidence and, … sometimes do reflect different short term results."

ISM Manufacturing Index

There were many months over the past decade that we yearned to see ISM data above 50%, indicating likely growth in GDP. For the past 36 months we have grown accustomed to seeing ISM readings in the mid to upper 50s. January's index rose to 56.6% vs. December's 54.4%. Index readings above 50% reflect positive growth demand of raw materials and component parts for production of goods.

Consumer Confidence Surveys

The Consumer Confidence Index declined for the month of January while the Consumer Sentiment Index increased slightly. Both indexes measure different components of confidence and, while it doesn't occur with regularity, they sometimes do reflect different short term results. The consistency in both surveys was centered around future expectations. Given the government shutdown focus in the media, it isn't surprising to witness some deterioration in optimism. I have been asked often in the past few weeks about the economic impact of the shutdown. One way to look at it would be to reference our total GDP forecasted for 2019 to be about $20.4 trillion. The Congressional Budget Office estimated the shutdown cost at $4.0 billion. The growth rate of GDP in real dollars for 2019 is estimated to be about one trillion dollars and thus the impact cost is about 4 tenths of one percent. Most of the shutdown costs were related to payroll and the resulting consumer spending. Indications are that furloughed workers, and those who worked without pay, would receive payment by the end of February — thus the total impact is likely to be negligible. Those impacted directly would argue, as would suppliers, contractors and subcontractors whose wage and income recovery is very much doubtful. While the harm to the overall economy is quite small, the impact and stress toll on hundreds of thousands of workers is very real.

Budget / Deficit

The current fiscal year is forecasted to add $900 billion to the deficit, which is equivalent to 4.2% of GDP according to the Congressional Budget Office. That release last week by the CBO was met by "crickets" on the part of both parties which seem to have lost their appetite to discuss the issue. The "silly" season of a Presidential election will be upon us soon. Both parties, and the candidates representing each, will fill the sound bites available with promises of a better future. I wonder how many of them will have this topic in their list of brighter futures.

Federal Reserve

Optics are always difficult to craft in real time. Fed Chairman Powell got his first taste of that when the president used his bully pulpit to threaten the Fed chair's tenure if the Fed continued to raise interest rates. Those of us that study Fed policy, meetings and summary meeting notes, noticed the difference in the chair's tone in the January post-meeting notes as opposed to those after the December 17 meeting. What changed in the thirty days between meetings to cause the tone change? Markets tanked after the December summary which was interpreted as conviction to the rate hike plan in place confirmed by a 25 basis point rate hike. What were the changes in our economy that the Fed governors saw that softened their stance on future 2019 rate hikes? Our view is that it wasn't our data that caused concern but rather the inflection potential of Brexit on Europe's GDP as well as deteriorating manufacturing data from China. Having recently traveled to the UK, I can report that Brexit is as messy as ever and a reasonable solution to that crisis is multiple times more difficult than the negotiations between the president and Speaker Pelosi on "The Wall." The issues of trade and immigration impact every component of daily life in the Euro Zone. The Fed is right to be concerned because the problem will not just be "over there" but will have impacts here as well.

"I can report that Brexit is as messy as ever and a reasonable solution to that crisis is multiple times more difficult than the negotiations between the president and Speaker Pelosi..."

Lucas W. Mansberger, CFA®, CAIA®
Investment Strategist
Senior Manager Selection Analyst

Brexit: Where Are We Now?

On January 15, the UK Parliament voted overwhelmingly to reject a plan presented by Prime Minister Theresa May outlining terms of the UK's exit from the European Union. This action heightened the uncertainty of the Brexit outcomes and increased the possibility of a "hard" or un-negotiated Brexit. The rejection of May's plan had negative impacts on markets, and UK stocks and the pound Sterling continue to price in significant uncertainty for the UK.

Where does the UK Parliament's rejection of Prime Minister May's plan leave the Brexit negotiations, and what does this mean for Greenleaf Trust clients' international equity exposure? Below, we offer an overview of the current status of Brexit and how Greenleaf Trust's portfolios are managed.

> "Where does the UK Parliament's rejection of Prime Minister May's plan leave the Brexit negotiations[?]"

Brexit: Overview and Current Status

In June 2016, the United Kingdom held a referendum on whether the country should leave or remain in the EU. In a surprise outcome, the "Leave" vote defeated the "Stay" vote 52% to 48%. After a period of review and analysis of the outcome, on March 29, 2017, UK Prime Minister Teresa May triggered Article 50 of the Treaty of Lisbon. According to the Article, the UK and the EU had two years from the time the article was triggered to negotiate the terms of the UK's exit, meaning that a deal needs to be finalized by March 29, 2019.

With Prime Minister May's negotiated deal with the EU rejected by the UK Parliament, the UK approaches the March 29 Article 50 deadline with no clear direction. Broadly speaking, there are four paths that the country could take, as follows.

For additional analysis of Brexit and its implications, interested readers may refer to three articles previously published in these pages authored by John Graham, a long-time friend of Greenleaf Trust specializing in foreign economic and financial markets. John was a founding member of Rogge Global Partners headquartered in Great Britain and former head of JP Morgan's Multicurrency Asset Management Practice in London.

Brexit: Will the United Kingdom Leave Europe?
https://greenleaftrust.com/wp-content/uploads/2016/03/Perspectives-March-2016.pdf

Brexit: An Emerging Reality
https://greenleaftrust.com/wp-content/uploads/2016/07/Perspectives-July-2016.pdf

Populism in Europe – European Elections 2017
https://greenleaftrust.com/wp-content/uploads/2017/02/0217-Perspectives-February-2017.pdf

A "No deal" or "hard" exit

If the UK Parliament cannot approve any deal negotiated between May and the EU by 3/29, then the UK will simply leave the EU. Of the many abrupt changes to the relationship between the UK and the EU that would occur under this scenario, their trade relationship would revert to WTO rules, which are much less favorable. More immediately, no arrangement will exist for the movement of goods and services between the UK and the EU. This might well lead to severe disruption of trade including but not excepting shortages of certain food stuffs, transport disruption at airports and ports, and impediments to the movement of goods between the two economic blocs. This is considered to be the worst case outcome and would create significant volatility in UK and European markets.

New negotiated or "soft" exit before 3/29 deadline

Prime Minister May's government is currently working to negotiate a new deal with the EU that could be brought to the UK Parliament for approval prior to the 3/29 deadline. However, this outcome appears unlikely. Not only has the EU taken a hard line on the deal that was struck previously, but the UK Parliament has a number of competing bills related to Brexit currently under consideration, making it difficult to evaluate, reconcile, and pass the bills prior to the deadline.

Extension of the Article 50 deadline beyond 3/29

This would allow the EU and the UK to continue to work on a negotiated exit. Increasingly, this outcome appears to be viewed by market participants as the most likely outcome, with the pound strengthening against other currencies through the time of this writing (1/31). However, there is considerable disagreement on the likely terms of such an extension, including on its length.

Second referendum on Brexit

Polls today suggest that a majority of the UK citizenry would vote in favor of remaining in the EU if a new referendum were held. However, the majority Labour government has remained committed to implementing the results of the original referendum and many "Leave" proponents remain staunchly opposed to revisiting the referendum. If this were to occur, markets would likely respond favorably.

As our friend John Graham observed in his Brexit article in these pages back in July 2016 (just after the original referendum), markets dislike uncertainty and reflect high uncertainty with heightened volatility. Given the considerable uncertainty in the Brexit negotiations, it is likely that heightened volatility will continue at least

> "UK and Eurozone equity markets will continue to operate with an underlying sense of uncertainty, and will be buffeted periodically by news related to Brexit negotiations in the coming months, until a definitive outcome presents itself."

Brexit: Where Are We Now?, continued

through the March 29 Article 50 deadline, and possibly for months (or even years) afterwards should negotiations be extended that long.

UK Positioning in Greenleaf Trust Portfolios

Greenleaf Trust uses external managers to access non-US equity markets. Our current recommendation includes three funds which are diversified by investment style, investment philosophy and approaches to portfolio management and construction, specifically:

- Hartford International Opportunities Fund
- Fidelity Advisor® Diversified International Fund
- American Beacon International Equity Fund

One of the primary benefits of this multi-manager approach is that the recommendation reflects a variety of viewpoints and analyses from differing firms, helping to mitigate risk. Below, we offer a summary of the viewpoints and the portfolio positioning of the underlying managers with respect to Brexit.

"To put things in perspective, a typical Greenleaf Trust client portfolio with a 60% allocation to global equities would hold less than 2% in UK-domiciled stocks on average."

Hartford:

According to Wellington (subadvisor to Hartford), a "hard Brexit would be awful for the UK and bad for Europe. Because of that, it is in no one's interests to go that route. We expect some type of soft Brexit which would benefit UK assets." The firm notes that the pound Sterling moved higher after Parliament rejected May's deal on January 15, reflecting some increased optimism that a "no deal" scenario could be avoided.

Fidelity:

This team stated that they try to remain humble in predicting outcomes when it comes to political activity, as the failures of many pollsters and political strategists in recent years regarding Brexit show that it is very difficult to do so accurately. They believe that nobody has a very good sense for the most likely outcome, and note that the UK Parliament vote against May's deal made the potential for a disorderly exit from the EU much more real.

American Beacon:

Franklin Templeton (one of three subadvisors to this fund) argues that the "most realistic" option for the UK is to ask for an extension of Article 50, though they note that the EU has clearly indicated that they will not agree to an extension simply to allow more time for negotiations.

UK Portfolio Positioning

To put things in perspective, a typical Greenleaf Trust client portfolio with a 60% allocation to global equities would hold less than 2% in UK-domiciled stocks on average. This modest exposure is composed of dozens of companies selected for differing reasons by our developed international fund managers. All three of our currently recommended fund managers employ bottom up security selection supported by fundamental research. In other words, our managers are not betting on Brexit outcomes, but seek to own high quality companies with sustainable competitive advantages and strong management teams.

“[Greenleaf clients] can be assured that the effects of the resulting volatility will be managed and mitigated within their portfolios...”

Summary

Another trenchant observation John Graham made in his 2016 article was that negotiations over Brexit could extend well into 2019 given the history of the EU making decisions in the “25th hour.” Unfortunately, this approach to decision making means that UK and Eurozone equity markets will continue to operate with an underlying sense of uncertainty, and will be buffeted periodically by news related to Brexit negotiations in the coming months, until a definitive outcome presents itself. As for Greenleaf Trust clients, they can be assured that the effects of the resulting volatility will be managed and mitigated within their portfolios through proper allocation sizing, prudent diversification, and the dynamic positioning of their underlying managers.

George F. Bearup
Senior Trust Advisor

Is Your Durable Power of Attorney Aging with You?

A critical part of any estate plan that an individual adopts is a durable power of attorney that designates an agent to manage his/her financial affairs. The durable power of attorney is a backstop that enables others, acting as agent to manage an individual's (called the principal's) assets should they be unavailable to act, e.g. traveling out of the country, or if the individual later becomes incapacitated (when the power of attorney is *durable*, in that it will survive the principal's incapacity and acts taken will be binding on the principal or the principal's estate). In general, the durable power of attorney for financial affairs is intended to avoid the expense and publicity of having a probate court appoint a conservator to manage an unavailable or incapacitated individual's assets.

"…a durable power of attorney for financial affairs is not a one-size-fits-all type of document. Especially as we age…"

But a durable power of attorney for financial affairs is not a one-size-fits-all type of document. Especially as we age, the powers that we want our agent to possess under a durable power of attorney can be dramatically different than the durable powers of attorney that we may have adopted while in mid-life, or when we had the responsibility to raise minor children. The needs of an elder individual (or an individual with special needs) become far different as the aging process takes its toll and the implementation of an estate plan becomes critical. What is important to remember is that under Michigan's common law, and its statute, the powers that are delegated to an agent under a durable power of attorney are to be narrowly construed, so that if there is a debate over whether a power was actually given to the agent under the instrument, there is a good chance the power will be deemed to not have been given.

Most durable powers of attorney include broadly-phrased, sweeping powers to handle the principal's banking transactions, access safe deposit boxes, create and fund trusts, manage with qualified plan accounts and IRAs, and change their beneficiary designations. Also commonplace is the ability to sign contracts and file income tax returns. But there are other, more discrete, express age-related powers that an individual should consider giving to their agent under a durable power of attorney as time passes. In the absence of these express powers, a probate court conservator may still have to be appointed to handle transactions, along with the expense, publicity, and delays that the court appointment process often entails. Some express powers to consider adding to a conventional durable power of attorney to manage financial affairs of an aging principal might include the following powers.

Manage Governmental Benefits

An agent must be able to deal with the principal's governmental benefits, including Social Security, Supplemental Security Income, Medicaid, Veterans Benefits, Medicare, and the ability to identify and change the designated representative payee for such governmental benefits. If the receipt of Medicaid benefits is anticipated, the agent should also be expressly authorized to attend Medicaid fair hearings if a dispute arises over Medicaid eligibility or the amount of Medicaid benefits to be paid to the principal.

Enter Advance Funeral and Long-Term Care Contracts

An agent should be able to purchase an advance funeral contract that uses the principal's assets. A prepaid funeral contract is normally treated as an exempt resource if Medicaid benefits are applied for, the ability to dedicate assets to that funeral contract is an important planning step. Similarly, it may be appropriate under some circumstances for the agent to expressly possess the power to purchase into a long-term care insurance policy in light of the unusually large premium obligation that is associated with that type of policy.

Declare an Intent to Return Home

The principal's home equity can be treated as an exempt asset when applying for Medicaid benefits. However, Medicaid rules will presume a permanent absence from that home after the applicant has resided for six months, or longer, in a nursing home facility. In order to avoid losing the exempt asset status for the recipient's home equity, the agent must possess the ability to formally acknowledge the principal's intent to return home in a Declaration, so as to preserve the home's equity exempt status. If the home equity is treated as a countable asset, then the principal's eligibility to continue to receive Medicaid benefits might be lost for an extended period of time.

Access Safe Deposit Boxes

The agent should have the ability to access all safe deposit boxes used by the principal. To prevent the bank that sponsors the box from denying the agent access, if possible the bank where the safe deposit box is located should be expressly identified in the durable power of attorney.

"The agent should have the ability to access all safe deposit boxes used by the principal."

Durable Power of Attorney, continued

"The durable power of attorney should expressly empower the agent to enter into a 'qualified' caregiver agreement on behalf of the principal..."

Sign Caregiver Agreements

Several strategies exist in order to assist an individual who anticipates at a later date applying for Medicaid benefits if they are forced to reside in an assisted living environment. Some of those strategies include 'spending down' the applicant's assets to become Medicaid eligible. If the elder principal has to pay for a caregiver while living in their own home, Medicaid authorities will treat the compensation that is paid to caregivers as a transfer of assets that will result in the imposition of a penalty period before Medicaid benefits become available, while other caregiver contracts will not be treated as an impermissible transfer of assets. The durable power of attorney should expressly empower the agent to enter into a 'qualified' caregiver agreement on behalf of the principal (including the agent themselves if they are to provide those in-home services, i.e. self-dealing is authorized) to avoid triggering those Medicaid disqualifying penalty periods. A provision under a standard durable power of attorney to 'enter into any contracts that I could enter into' is not sufficient for Medicaid authorities when it comes to signing a Medicaid 'qualified' caregiver contract. Therefore, the express power given to the agent to enter into caregiver agreements is critical if accessing Medicaid benefits in the future is a concern.

Create and Fund Trusts

While the ability to create and fund trusts with the principal's assets is a common power delegated to an agent under a conventional durable power of attorney, usually the power is limited to create a revocable trust to avoid probate on the principal's death or a probate conservatorship if the principal is disabled. However, there are a variety of other trusts that may become relevant to an older principal, or to implement their estate plan. Some of those unique trusts that are used both for estate and Medicaid eligibility planning include: irrevocable trusts to receive lifetime gifts from the principal to take advantage of the temporary increase in the large federal transfer tax exemptions; qualified income trusts and self-funded Medicaid 'pay-back' irrevocable trusts to preserve the principal's eligibility to receive Medicaid benefits; pooled income supplemental needs trusts; and third-party special needs trusts that are established for the principal's disabled children or grandchildren.

Sign Disclaimers, Releases and Make Elections

Disclaimers are sometimes used to re-position an individual to qualify for Medicaid benefits. Or a power previously given to the principal, like a power of appointment over a trust given by a deceased spouse, may need to be released to avoid expensive federal transfer taxes. The same can be said with regard to a surviving spouse's probate court elections after the principal's spouse dies. The power given to the agent to make a disclaimer on behalf of the principal, to execute a release, to exercise a power of appointment over assets held by the principal, or to exercise the principal's elective rights against a deceased spouse's probate estate can add tremendous flexibility to the principal's Medicaid planning and help to avoid future taxes.

Elect a Personal Residence Exemption

The agent should be given the power to change the principal's ownership of real estate, including the right to change the principal's homestead property and make an election for a principal residence exemption (PRE) for Michigan real property tax classification purposes. A corollary power delegated to the agent might also be the power to challenge any real property assessments or change in property tax classification.

Make Gifts

The agent should expressly hold the ability to make gifts of the principal's assets. Michigan's durable power of attorney statute is clear that a durable power of attorney must expressly delegate to the agent the authority to make gifts using the principal's assets; restated, the power to make gifts will not be presumed under a broadly phrased durable power of attorney instrument, e.g. 'anything I can do my agent can do.' This power to make gifts is critical, not only to fund a trust, but to also take advantage of the currently large federal transfer tax exemptions. Often the ability to make gifts is limited in a durable power of attorney to the federal gift tax annual exclusion amount, presently $15,000 per donee. An agent's power to make gifts should be much broader than just the ability to make annual exclusion gifts on behalf of the principal. The ability to make gifts should be extended to make charitable gifts, to fund a charitable remainder trust to avoid incurring capital gains taxes on the sale of the principal's appreciated assets in order to improve the principal's cash-flow, or to engage in more sophisticated tax planning strategies like funding a grantor retained annuity trust (GRAT), a qualified personal residence trust (QPRTs), or a spousal lifetime access trust (SLATs), all of which are designed to shift wealth over time to others through lifetime gifts without incurring substantial federal transfer taxes.

"The agent should expressly hold the ability to make gifts of the principal's assets… An agent's power to make gifts should be much broader than just the ability to make annual exclusion gifts on behalf of the principal."

Durable Power of Attorney, continued

Manage IRAs

Since so much wealth is held in IRAs these days, the agent needs to be given clear, broad powers to manage those unique, pre-tax assets. Delegated powers to the agent might include: make IRA rollovers; change the investments held in an IRA; modify IRA beneficiary designations, e.g. to fulfill a charitable bequest on the principal's death; take the principal's required minimum distributions from an IRA (traditional and inherited); or make a qualified charitable distribution to satisfy the principal's required minimum distribution (RMD) for the calendar year, effectively a 100% charitable income tax deduction. The agent should also be given the authority to engage in a conversion of the principal's traditional IRA to a Roth IRA if the long-term planning goal is to reduce the principal's taxable income, or to provide tax-free income to the principal's beneficiaries after the principal's death.

"In conclusion, [you should] spend some time to review your existing durable power of attorney for the management of your financial affairs."

Authorize Self-Dealing

Usually a principal will name a spouse or adult child as their agent under their durable power of attorney. If the agent exercises a power that benefits himself or herself, most power of attorney statutes will either prohibit the exercise of that power or make the transactions using the durable power of attorney voidable if others protest that self-dealing. In order to achieve maximum flexibility by the agent, the durable power of attorney instrument should expressly recognize and authorize self-dealing by the agent, so long as the agent also timely accounts to others for the self-dealing actions taken under the durable power of attorney that would otherwise be treated as prohibited self-dealing.

In conclusion, spend some time to review your existing durable power of attorney for the management of your financial affairs. Do the powers delegated to your agent make sense? Do they reflect your existing assets, like a power of appointment that you might hold? Does your agent possess enough clearly delegated powers that will allow your agent to implement your existing estate plan? If not, visit your estate planning attorney to modify and expand your durable power of attorney to make sure that it ages along with you.

Digital Assets – Are You Planning for Them?

Stacy L. Beekman
Trust Relationship Officer

What happens to your email, usernames, passwords, banking information, LinkedIn, Twitter, Instagram, Facebook, and blogs when you die? It is a question most people have not considered, but should. Without proper planning and documentation, your online information may become inaccessible and may eventually cease to exist.

Almost everyone has some type of online account. You may communicate online, pay bills and do banking online, store photos/videos online, etc. You are careful to make sure that the passwords which allow you to conduct these aspects of your life are protected and that only you have access to your accounts. This is good in most instances, but accounts with private and protected passwords can create major problems when the account holder dies and no one else has access to the passwords.

You might assume it would be fairly easy for a family member or personal representative to gain access to your online accounts after your death. This is usually not the case. It depends on the service provider as to who owns the account when you die and how or if they want to release any information. Some internet service companies consider an account to be private property and will not hand over passwords or emails to the decedent's family without legal action. Other companies may require a copy of both a death certificate and estate planning documents to provide access to an account. Different service providers have different requirements for these types of situations.

> "You might assume it would be fairly easy for a family member or personal representative to gain access to your online accounts after your death. This is usually not the case."

There are ways to help prevent obstacles and frustration for your loved ones when trying to access your online accounts after you die. One solution is to have a portable flash drive containing your usernames and passwords and provide it to a family member or friend to access at your death. Another option would be to use an inexpensive password management program that serves as a vault for your passwords and account information. It's a secured way to store your information, but you want to make sure someone knows how to access it upon your passing.

Not only is it important to determine if and how you will give others access to your digital property, but to also know if you should grant access within your estate planning documents. Upon the next review of your estate planning documents, consult with your attorney to determine if it's appropriate to update the language to give lawful

Digital Assets, continued

consent for service providers to disclose the contents of your online accounts to the appropriate people.

Here are some examples of digital assets you may want others to have access to upon your passing:

- Computers
- Email accounts
- Social networking sites and blogs
- Bank and financial accounts
- Companies in which you have set up automatic bill-pay
- Cell phones, personal digital assistants, and other electronic devices
- Online services (online storage, records, pictures, etc.)
- Important contact information
- Locations and access information to safes, safe-deposit boxes, alarms, etc.

"Not only is it important to determine if and how you will give others access to your digital property, but to also know if you should grant access within your estate planning documents."

In addition to logins, passwords, access keys, PINs, etc., you should also include a description of any assets held in an account or the types of documents found in an online storage location. Be sure to periodically review and update this information as passwords may change, new accounts may be established, or older accounts may close.

If you have a website you created that you would like to continue after your death (for business purposes or if it's a part of your legacy), it's important to let someone know your intent and who the beneficiary should be. This particular individual should be a person who is willing and able to take on the task of running your site. In order for your website to be transferred to the intended beneficiary efficiently, it can be distributed through your will or trust with your other assets. If there is a copyright involved, you should discuss the transfer of ownership with your attorney as the website must be owned properly, just like any other asset you transfer through your will or your trust. There are ways to copyright your website so it can be transferred to your beneficiary as you intend, and so it cannot be used by others without your permission, including when you die. This is something your attorney will be able to provide legal guidance on.

What happens to your online identity after you die is up to you. But, just like all other aspects of your life, it needs to be planned for. Talk with your advisors to determine what steps you can take now, and regularly review your estate plan and list of digital property to ensure you have planned appropriately.

Millennials: Building Their Legacy

Corbin M. Donaldson
Wealth Management Advisor

When you finally had the courage to remove those training wheels and take the illustrious dive into riding a two-wheeled bike – how many times did you fall off before finally getting the hang of it? Being the father of four growing kids, I've seen a decent amount of spills during my time. I am amazed at their shortened memory and unwavering ability to keep practicing to improve. The same philosophy can be embraced for every generation of investor who has taken the initial plunge into planning their financial legacy, and Millennials are no exception. Individual investors are accustomed to reacting irrationally to extreme volatility or poor performance, and their emotions are often commandeered by their recent memories. Whether it's Millennials, or any other generation of investors, we must eliminate the in-the-moment emotional decision making, and remain focused on our plan to stay on track to building a legacy.

With the beginning of their careers, and the $30 trillion potentially being inherited from an aging Baby Boomer generation, Millennials are in need of resources and education to properly manage their finances. So what can be done to help this generation prepare?

Step One: Building Your Knowledge Base

First, before completing that Google search or utilizing a YouTube video to influence your decision making, consider reaching out to your family and their team of trusted advisors who have established relationships with, and understand your family values - accountant, attorney, and wealth manager. It is important to utilize the strengths of your professional advisors, whether to develop your own personal relationship, plan for retirement, or discuss the implications of transitioning wealth to future generations. Through years of having the privilege to work with excellent clients and successful families, we've learned the importance of helping to educate our clients and the next generation. This not only provides the next generation with a means of a general education, but offers insight to what the planning process looks like. It also allows the next generation to capture the importance of understanding family goals, values, and philanthropic intentions. The weight of carrying the family legacy can be heavy at times, so don't be afraid to lean on your professional advisors to help carry the load.

"First, before completing that Google search or utilizing a YouTube video to influence your decision making, consider reaching out to your family and their team of trusted advisors..."

Step Two: Defining Your Legacy

The second step in defining your legacy is developing and implementing a wealth management plan. This is an important part of planning for your financial future, as a plan allows a Millennial or any generation to visualize their goals becoming a reality. Our philosophy emphasizes the importance of

Building Their Legacy, continued

listening to our clients and their goals, and constructing a custom, diversified portfolio to meet their needs. Whether these strategies incorporate long-term planning for retirement or the development of a budget, a plan provides a roadmap on how to get there. A financial plan is also meant to be fluid and ever-changing, as this document is simply a guideline for financial success. While it's important to stay disciplined in your approach, we understand that change takes place. Our role is to listen and provide sound investment recommendations that get you back on track to building your financial legacy.

Step Three: Power Of Compounding

Millennials, right now you have one very significant advantage over those generations before you – TIME! Regardless of your income level or outstanding debts, the power of compounding cannot be overmatched. Albert Einstein once said that "compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it." Establishing healthy savings habits and remaining disciplined in your approach will prove worthwhile to growing and protecting your wealth and legacy over the long-term. For example, an individual, age 21, and retiring at age 67, with an 8% annual return, saving $1,000 monthly, would generate retirement savings of approximately $5,400,000. Assuming the same monthly contribution, but beginning at age 30, the estimated retirement savings decreases to $2,600,000. While each client's situation is unique, it's important to understand the impact of investing early, and often, and the long-term effect of accumulating wealth. Whether these savings are through an employer sponsored retirement plan or a taxable investment account, the general rule of thumb is that 15-20% of your monthly income should go to savings vehicles.

> "Millennials, right now you have one very significant advantage over those generations before you – TIME!"

Step Four: Shaping Your Investments

Socially responsible and impact investing are important conversations for some investors; however, these styles are particularly appealing to the Millennial generation. With a heightened interest from Ultra High Net Worth Millennials, a recent survey by Campden Wealth revealed that 69% are very interested in socially responsible and impact investing and are more concerned with how their investments provide meaningful and purposeful growth to impact societal change. Greenleaf Trust is able to screen appropriate companies, mutual funds, and exchange traded funds to specifically include (or exclude) investments that are important to you (or what you prefer to avoid) and your family. Listening is one of the strengths of Greenleaf Trust, so please don't hesitate to discuss your preferences with us.

Defining your legacy can be a difficult challenge, but as a client of Greenleaf Trust, we're here to help with the heavy lifting. Whether you're just beginning your journey or are well down the road on building your family legacy, we're here to help fine tune your financial plan for success.

Hardship Distributions Made Easier in 2019

Rosalice C. Hall
Relationship Service Specialist

Well over half of the corporate sponsored retirement plans administered by Greenleaf Trust include hardship withdrawal provisions for participants facing immediate and heavy financial need. While no one ever desires to be in a situation where they, or someone they know, are facing a financial challenge that necessitates a hardship withdrawal, it is important to be aware of the increased flexibility the IRS is providing for hardships processed after December 31, 2018. On February 9, 2018, the Bipartisan Budget Act of 2018 was passed into law, which ended the government shutdown by raising the debt ceiling for the next two years. However, also buried in the new law were changes to ease the rules that govern hardship distributions in qualified retirement plans [not IRAs].

We often refer to hardship distributions as the "option of last resort." This is due to the taxes and penalties that are incurred in conjunction with the withdrawal. Unlike a 401(k) loan which does not trigger immediate taxation, hardship distributions are a taxable event and cannot be repaid to the plan. To make matters worse, if you are under the age of 59½, you are also subject to a 10% early withdrawal excise tax penalty.

For background, hardship distribution provisions within retirement plans are not required by law, but such distributions are permitted as an option that is elected by the plan sponsor. The amount of the hardship is limited to the amount necessary to satisfy the financial need. Some of the key hardship distribution rule changes follow.

> "We often refer to hardship distributions as the 'option of last resort.' This is due to the taxes and penalties that are incurred in conjunction with the withdrawal."

Future Contributions Now Permitted

Previously, once a participant received a hardship distribution, he/she was prohibited from making future contributions to the qualified plan for the next six (6) months. The purpose of the 6-month wait was to deter employees from taking a hardship distribution. In addition, it was a silent way of implying that "if things are bad enough financially that you have to take a distribution from your retirement account, you probably should not be making contributions to your 401(k) plan for the next few months." The new law removes the 6-month contribution prohibition, which means the participant will lose less ground on saving for retirement and still be eligible to receive the employer's matching contributions.

No More 'Last Resort' Rule

Previously the law required that a participant take all available plan loans, prior to being eligible for a hardship distribution. But there was no

Hardship Distributions, continued

reporting mechanism to enforce this last resort rule, rendering it somewhat superfluous. Consequently, the new law eliminates this last resort rule, so where applicable, a plan loan no longer needs to be utilized before a hardship distribution. We are happy to see this requirement go away for multiple reasons. For example, if you have an employee whose primary residence is going into foreclosure, why would you make them take a loan which then requires loan payments to be made via deductions from their paycheck? It seems reasonable to assume that additional payroll deductions would actually put them in a worse financial position.

Expanded Source of Funds

Previously, participants could receive a hardship distribution of their own elective deferrals to the qualified plan, and they could not include growth or investment gains on the participant's own contributions or employer contributions. With the change in law, hardship distributions will now include earnings on participant contributions, non-elective contributions, and qualified matching contributions.

More Qualified Plans Authorized to Permit Hardship Distributions

Currently, not all qualified retirement plans can permit hardship distributions. With the recent changes, more types of plans will be authorized to permit the withdrawal type.

It is important to note that the Budget Act will impact 403(b) plans differently. The changes described above will only impact 403(b) plans using the 401(k) regulations, safe harbor hardship withdrawal requirements. Additional guidance from Treasury is expected to clarify the application of the Budget Act to 403(b) plans. None of the changes directly impact the rules for unforeseeable emergency withdrawals from 457(b) plans. Plan Sponsors with individually drafted documents will be required to update their plan document by the last day of the plan year that begins in 2019. For those companies with plan documents provided by Greenleaf Trust, our team will be working on amendments during the 2019 and 2020 plan years. However, plans sponsors should immediately implement the new hardship rules. Fear not, our Greenleaf Trust team will reiterate the changes to any participants and/or plan sponsors that request a hardship in 2019.

"…our team will be working on amendments during the 2019 and 2020 plan years. However, plans sponsors should immediately implement the new hardship rules."

Eligibility Conditions Include a New Addition

While the eligibility conditions surrounding hardship distributions have largely remained constant, it is important to be aware of one new qualifying reason. Participants with principal homes or employment locations in federally declared disaster areas can now take a hardship distribution to cover expenses incurred as a result. The requirements typically include:

- Unreimbursed medical care expenses for the employee, the employee's spouse, dependents or beneficiary.
- Costs directly related to the purchase of an employee's principal residence (excluding mortgage payments).
- Tuition, related educational fees and room and board expenses for the next 12 months of postsecondary education for the employee or the employee's spouse, children, dependents or beneficiary.
- Payments necessary to prevent the eviction of the employee from the employee's principal residence or foreclosure on the mortgage on that residence.
- Funeral expenses for the employee, the employee's spouse, children, dependents, or beneficiary.
- Certain expenses to repair damage to the employee's principal residence that would qualify for the casualty deduction under the Internal Revenue Code.
- New in 2019: Expenses (including loss of income) incurred on account of a federally declared disaster, if the participant's principal residence or place of employment is in a FEMA-designated area.

Overall, we are pleased with the increased flexibility provided for hardship withdrawals from qualified plans. The modifications will allow participants to continue saving for retirement uninterrupted and potentially prevent them from missing out on employer matching contributions. The changes also streamline some requirements that have been previously difficult for plan sponsors to administer. While the changes will operationally impact participants and plan sponsors, we at Greenleaf Trust have also been revising our internal processes and procedures. Although there are still some unanswered questions about the changes, Greenleaf Trust is confident that we will be able to help navigate the changes smoothly with our plan sponsors and over 20,000 participants.

"Overall, we are pleased with the increased flexibility provided for hardship withdrawals from qualified plans."

Stock Market Pulse

Index	1/31/19	Total Return Since 12/31/2018
S&P 1500	623.88	8.25%
Dow Jones Industrials	24,999.67	7.29%
NASDAQ	7,281.74	9.79%
S&P 500	2,704.10	8.01%
S&P 400	1,835.39	10.46%
S&P 600	934.12	10.63%
NYSE Composite	12,299.03	8.32%
Dow Jones Utilities	727.25	2.02%
Barclays Aggregate Bond	107.46	0.91%

P/E Multiples	1/31/19
S&P 1500	18.2x
Dow Jones Industrials	16.2x
NASDAQ	20.6x
S&P 500	18.1x
S&P 400	18.2x
S&P 600	21.9x

Key Rates

Fed Funds Rate	2.25% to 2.50%
Tbill 90 Days	2.36%
T Bond 30 Yr	3.00%
Prime Rate	5.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	623.88	18.2x	1.98%
S&P 500	2,704.10	18.1x	2.00%
Dow Jones Industrials	24,999.67	16.2x	2.28%
Dow Jones Utilities	727.25	19.0x	3.31%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.02%

GREENLEAF TRUST® e-mail: trust@greenleaftrust.com greenleaftrust.com

MAIN OFFICE:
211 South Rose Street
Kalamazoo, MI 49007
office: 269.388.9800
toll free: 800.416.4555

TRAVERSE CITY OFFICE:
125 Park Street, Suite 495
Traverse City, MI 49684
office: 231.922.1428

GRAND RAPIDS OFFICE:
25 Ottawa Avenue SW, Suite 110
Grand Rapids, MI 49503
office: 616.888.3210

BIRMINGHAM OFFICE:
34977 Woodward Ave., Suite 200
Birmingham, MI 48009
office: 248.530.6202

BAY HARBOR OFFICE:
4000 Main Street, Suite 150
Bay Harbor, MI 49770
office: 231.439.5016

GREENLEAF TRUST DELAWARE:
4001 Kennett Pike, Suite 226
Greenville, DE 19807
office: 302.317.2163