GREENLEAF TRUST

Perspectives

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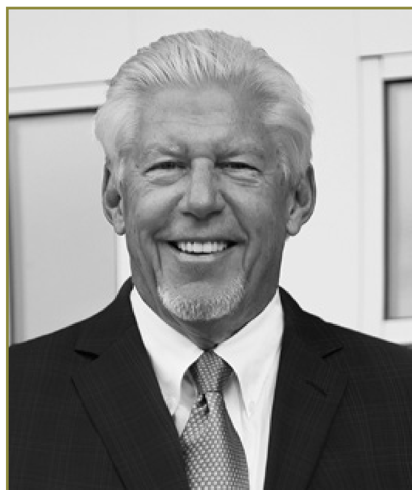

William D. Johnston
Chairman, Greenleaf Trust

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Economic Commentary

We are marching incrementally towards the benchmarks that are necessary to reach an immunity level that will restore a good deal of a “new normality” to our daily lives. I intentionally used the term “new normality” as the evidence seems clear that while we are all done with COVID-19, it is also clear that COVID-19 is not done with us. The Omicron variant has taught us the lesson that vaccines dramatically improve outcomes from COVID-19 infection, but they don’t always prevent us from contracting the virus. The new variant may also be teaching us that subsequent variants, when they occur, are likely to be as contagious but less virulent. As data becomes more longitudinal, the reality may well be that future COVID-19 infections for the vaccinated will mirror outcomes similar to mild influenza strains and include similar health outcomes.

Continued progress in total vaccination rates will also likely reduce the strain on health care systems, allowing much needed capacity relief and the return to elective procedure opportunities which both of my knees will appreciate. To date, 64.1% of the United States population is fully vaccinated and approximately 750,000 people are receiving either their first, second or booster shot per day. To increase our vaccination total to 75%, we will need to get 36 million more citizens, mostly under eighteen years of age, inoculated — which will likely be achieved by the end of March.

Our new normal, once these benchmarks are achieved, will be far fewer hospitalizations, health outcomes similar to typical influenza, fewer shutdowns of universities, colleges and school systems, the return to in-person classroom environments and more comfort with gathering indoors. The description I have offered will be similar in most other advanced and mature economies whose vaccination rates are similar to the United States. For developing economies, the journey will take a bit longer, though the global daily vaccination rate is now approximating 25 million doses per day. In March 2020, as our economy cratered in the face of what was certain to be a global pandemic, we offered that our economy could not be healed until we defeated the pandemic. Twenty-three months later, we have witnessed significant illness and death globally and

Commentary, continued

severe interruptions to the global economy. We also saw the innovative creation of effective vaccines and a global distribution plan that, while imperfect, has turned the tide against COVID-19. Along the way, new and effective medical protocols for treatment of infectious disease have been created and new ways of sharing, teaching and working have transpired. The difference between how we act and feel when we get to the 75% inoculation rate won't be significantly different than today. It will not be a V Day type of "in the street" celebration. The differences will be more subtle, and many of the cautions we have grown accustomed to will remain with us. I imagine that there will be many behavioral science studies initiated to understand the impact on the social fabric of societies as a result of this historic pandemic. What will be the ways in which work, family, gathering and social interaction change as a result of our experiences? What interesting questions will be asked and what useful learnings will result?

"Along the way, new and effective medical protocols for treatment of infectious disease have been created and new ways of sharing, teaching and working have transpired."

The New York Federal Reserve Weekly Economic Index continues to moderate, reflecting the real time economic activity relative to consumption, production and labor. The latest release on February 1 was stated at 5.53%, reflecting an economy that was growing at a real annualized GDP rate of the same level. We began following this real time index in March 2020, to have a more accurate understanding of the depth of the economic decline and also to have a real time understanding on the status of the recovery. It has been a useful tool that included severe valleys of decline and rapid rises in the summer of 2020, followed by a return to more normal expansion and contraction cycles as the pandemic continued. We would expect that the index will continue to contract to the high 4% range as 2022 progresses.

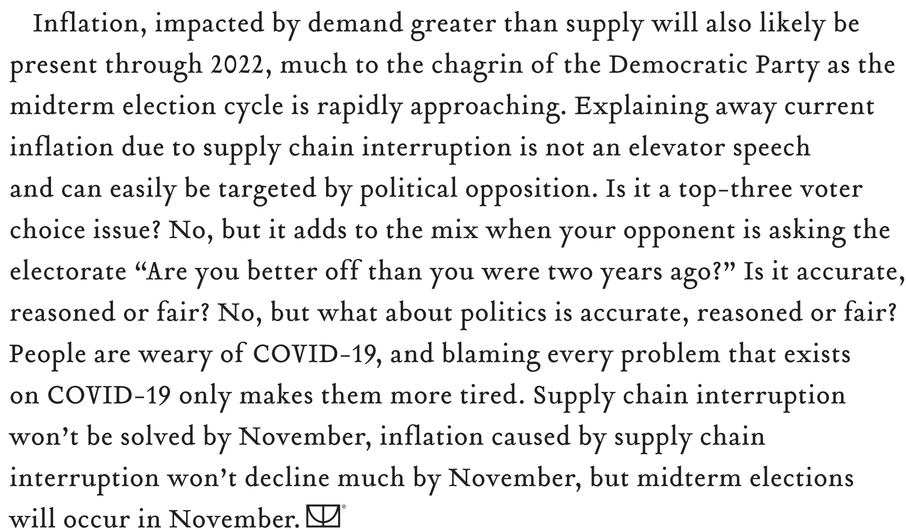
Last week, the Bureau of Labor Statistics released unemployment data for January which revealed an unemployment rate of 4.0% with 467,000 new jobs added. The labor force participation rate rose 0.3% to 62.2%, still down 1.2% from February 2020 levels. There continues to be broad hiring needs across all industry sectors.

Consumer confidence declined in both the Conference Board survey as well as the University of Michigan Consumer Confidence Index. Notes from the survey indicate a decline in sentiment, business conditions and present situation. Digging deeper into the participants' results revealed a contrast between their own circumstances and how they viewed others' circumstances. In essence, they were optimistic about their own circumstances but more sanguine about the plight of others. The Omicron variant was surging during the survey period, and daily broadcasts of inflation also bled into the survey results.

Supply chains remain constricted, but with some evidence of raw

material inventory expansion in the latest factory capacity and utilization data. The degree of supply chain interruption was very severe and, as we have written about previously, amplified by modern logistics theory of just-in-time delivery, which at its core premise reduces the need to inventory materials required for production. Software engineered over the past two decades has effectively linked the order of finished goods to the just-in-time delivery of all materials needed to produce the finished goods. The savings in materials inventory motivated mass adoption of the technology, which unfortunately was not appropriately risk-tested for massive interruptions of supply caused by a global pandemic. Chasing the most efficient and cheapest component prices has left many manufacturers hostage to single-threaded suppliers. Engineering multi-source logistics chains is not a short term process, and the demand to bring the supply chain closer to the producer of goods has never been greater. We are not likely to see auto dealers fill up their lots with unsold product soon, and most analysts that closely follow the auto industry see the constriction of supply lasting well into 2023.

> "The degree of supply chain interruption was very severe and … amplified by modern logistics theory of just-in-time delivery, which at its core premise reduces the need to inventory materials required for production."



Inflation, impacted by demand greater than supply will also likely be present through 2022, much to the chagrin of the Democratic Party as the midterm election cycle is rapidly approaching. Explaining away current inflation due to supply chain interruption is not an elevator speech and can easily be targeted by political opposition. Is it a top-three voter choice issue? No, but it adds to the mix when your opponent is asking the electorate "Are you better off than you were two years ago?" Is it accurate, reasoned or fair? No, but what about politics is accurate, reasoned or fair? People are weary of COVID-19, and blaming every problem that exists on COVID-19 only makes them more tired. Supply chain interruption won't be solved by November, inflation caused by supply chain interruption won't decline much by November, but midterm elections will occur in November.

Michael F. Odar, CFA®
President

What to Expect Your First Day at Greenleaf Trust

Remember starting your first job as an adult in the "real world?" You were excited, nervous, and wanted to make a big impression on day one. The problem was you were not exactly sure who everyone was nor what you were supposed to be doing.

Our growth and commitment to client service has required the addition of many new teammates, especially over the last five years. Over that time frame, the size of our team has grown by 64% through the addition of over 60 new teammates. Our continued growth and culture require that we are committed to supporting these new teammates from the moment they sign their Greenleaf offer letter. We refer to this as our onboarding process.

Prior to stepping in the door on their first day, our human resources team and respective managers are in regular contact with each new teammate, helping them understand our onboarding process and what to expect. Onboarding is required, purposeful, and designed to provide each new teammate with a foundation for success at Greenleaf. On their first day, they are formally welcomed by every teammate in their office before spending the majority of their day completing the necessary new hire paperwork and technology training. This is where many other onboarding processes start and stop. Ours continues for another three weeks and each day is planned out to the minute and scripted.

"[a new hire spends] the majority of their day completing the necessary new hire paperwork and technology training. This is where many other onboarding processes start and stop. Ours continues for another three weeks…"

During the rest of onboarding, new teammates will begin learning the specifics of their new role through job shadowing with peers, training, and one-on-one time with their manager. As importantly, they will spend formal one-on-one time with every division leader in the company. These meetings can involve impactful time with nearly 50 teammates over the course of the onboarding process. Through the division leader meetings, new teammates learn about everything from the history of Greenleaf to the responsibilities of each division and their role in serving our clients. My time with them is spent making sure they know they are now working for a company that has a purposeful strategic planning process and it involves them. Opportunities are also created for new teammates to spend time informally with others typically over coffee or lunch. Ideally all of this time with others is in person. When that cannot be done we simply pivot and do it virtually.

The benefits of our process are immense. New teammates feel the genuine support from their peers and leaders. They are equipped with the knowledge they need to be successful in their new role and familiar with the tools they need to serve. Important new relationships are developed. They know where to go with questions. And, they begin to really experience the culture they heard so much about during the interview process.

How Investment Paradoxes Impact Decision Making

Ali Fahs, CFA®
Vice President
Senior Equity Portfolio Manager

Active equity managers face many investment paradoxes. Markets are inherently volatile and can be irrational. Long-term consensus expectations are often misestimated, all of which should create inefficiencies in security prices. And yet, most active managers fail to outperform their respective benchmarks. As Senior Equity Portfolio Manager, I'm specifically responsible for the Intrinsic Value Strategy, an internally-managed domestic equity strategy that is often part of a broader US equity allocation in our client portfolios. I was recently asked how the Intrinsic Value Strategy can outperform one of the capital market's most competitive benchmarks. The answer lies in how we respond to the undermentioned investment paradoxes.

Countless forces influence stock prices, ranging from underlying business fundamentals to macro factors and market sentiment. Stock prices ordinarily follow unpredictable and nonlinear patterns. Even some of the best-performing stocks over the past two decades consistently displayed nonlinear stock price movements. For instance, Alphabet has performed exceedingly well since its IPO in 2004, returning 6,710% (or 27.50% annualized) through the end of 2021. To have achieved this result, an investor would've needed to endure a flat stock price for five years (from the end of 2007 to the end of 2012). From the end of 2017 to its lows in March of 2020, its share price was once again roughly flat. However, Alphabet's stock price quickly tripled in value shortly thereafter. Amazon's rise has been even wilder, as it took six years to recover its 95% decline after the dot-com bubble burst. Amazon's share price has experienced several long periods of high volatility and little price progression, not dissimilar to the past eighteen months. Still, Amazon's stock is up 222,189% (or 36.70% annualized) from its IPO in 1997 through the end of 2021. Skillful investors can uncover unique business insights, but none can pinpoint when such insights will be recognized by the market. Many active managers feverishly attempt to outperform in the short-term at the expense of the long-term; however, we believe that long-term outperformance cannot be achieved without encountering periods of underperformance.

> "Stock prices ordinarily follow unpredictable and nonlinear patterns."

Underlying business trends also display nonlinearity. Fluctuations in demand, supply-chain disruptions, and numerous other reasons can cause business fundamentals to appear uneven. Reinvestment can also lead to lumpy business results. High levels of reinvestment not only burden financial statements but also mask a company's underlying profitability. For instance, Amazon Web Services (AWS) began offering its cloud computing infrastructure to businesses in 2006, approximately six years after its founding. At the time, Amazon was diverting significant profits from its e-commerce operations as the company was building

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one of the world's most important cloud computing platforms. This undertaking depressed the profitability of its e-commerce business and artificially inflated valuation multiples, leading most to conclude that Amazon was unprofitable and traded at an egregious valuation. Today, AWS has a commanding lead in cloud computing infrastructure, with a rapidly growing revenue run-rate of $60 billion at operating margins of ~30%. In a similar vein, the creation of Amazon Logistics (AMZL) in 2015 required enormous investment. Over this short period, AMZL has built a logistics network that includes approximately 260,000 drivers, 50,000 trailers, 85 airplanes, and 800 global delivery stations. Amazon is already delivering an estimated 60% to 70% of its packages. By early 2022, Amazon will be the largest package delivery company in the US, overtaking UPS (founded in 1907) and FedEx (founded in 1971).

Amazon's historical stock price movement nicely demonstrates the paradox of value-creating reinvestment, as increased reinvestment regularly results in negative share price reactions, even though Amazon's capital allocation has created immense value. Some investors might be incapable of accepting underperformance and would rather try to "time the inflection" in Amazon's earnings. Others might be concerned that increased reinvestment reduces Amazon's profitability, which only increases its already high valuation multiples (we have learned the hard way that some of the cheapest stocks can have elevated PE multiples; some might not even have reported earnings). As long-term investors, we will gladly exchange the intermediate-term burdens of internal reinvestment, as long as we believe the business is creating economic value.

> "... if one defines risk as the probability of capital impairment (i.e. losing money), then focusing on a select number of great businesses with asymmetric risk/reward profiles is vastly superior."

Equity markets are highly competitive, so it is indeed difficult to identify mispriced qualitative insights. And since the future is undeniably uncertain and underperformance can result in adverse business consequences, active equity managers often opt to diversify across hundreds of stocks to "manage risk." This is quite sensible, as a portfolio that resembles its benchmark will naturally have a narrower range of relative outcomes. However, if one defines risk as the probability of capital impairment (i.e. losing money), then focusing on a select number of great businesses with asymmetric risk/reward profiles is vastly superior. Regardless of the size of an organization's research team, identifying 50 truly attractive stocks is challenging — let alone finding 100 or more. Incrementally adding average to below-average businesses will only increase risk, not decrease it. Paradoxically, we believe that concentration is an effective way of managing and reducing the risk of capital impairment. We recognize that the explicit costs of portfolio concentration come in the form of increased volatility and periods of underperformance. Our objective is not to reduce the Intrinsic Value Strategy's volatility or to outperform in every quarter. We have some tolerance for volatility, as volatility provides long-term investors with exploitable opportunities. Our primary objective, however, is to sustainably earn above-average returns while minimizing the risk of capital impairment.

Overall, we believe that it is possible to gain an edge over markets by maintaining a long-term orientation. Markets are certainly comprised of smart and highly incentivized participants, however, they are driven by human behavior, which can be either rational or irrational. Time horizons across equity markets have also continually compressed over the past 50 years. Today's average stock holding period is often measured in months instead of multiyear holding periods in prior decades. Consequently, fundamental expectations tend to be most efficiently priced in the short term, while the market's efficiency begins to fade beyond a year or two. Said differently, equity markets are susceptible to the extrapolation of near-term trends and miscalculation of long-term growth. Even the largest and most covered stocks (e.g. Alphabet and Amazon) can have long-term expectations that are inefficiently priced. With the fullness of time, the economic value created or destroyed by a company will be reflected in its share price. Active managers must have a well-constructed investment philosophy and repeatable research process to identify attractive equity investments; however, discipline and patience ultimately dictate whether such investments translate into outperformance.

"Active managers must have a well-constructed investment philosophy and repeatable research process..."

The Dead Hand: Can Conditional Bequests Work?

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

Bequests that are subject to a condition or contingency are often referred to as "dead hand" control. They are often used to incent beneficiaries or to change unacceptable behaviors. A bequest to a beneficiary that is subject to a condition that the beneficiary must abide by the condition or forfeit the bequest is often used in a Will or Trust. While the law generally affords great latitude to impose conditions on a bequest, some conditions may not be enforced either due to public policy concerns, or simply because the condition is so vague that the fiduciary that is directed to implement that bequest cannot ascertain if the condition has been satisfied or not.

Two Types of Conditions: There are two basic conditions that can be placed on a bequest. A condition precedent is a condition that must occur before any bequest is fulfilled. An example would be a $25,000 cash bequest to a grandchild only after that grandchild graduates from college prior to attaining the age 25 years. The beneficiary must graduate from college within a certain amount of time before that beneficiary can receive the cash set aside. A condition subsequent applies to a bequest which is initially given without a condition, but the bequest can be revoked if a specific event later occurs. An example would be that a commercial building is bequeathed to a child subject to the condition that

"Bequests that are subject to a condition or contingency are often referred to as 'dead hand' control."

The Dead Hand: Can Conditional Bequests Work?, continued

the child may never sell marijuana or any marijuana derivatives on that real property. A condition subsequent is more difficult to enforce due to the fact that it is completely open-ended, and the revocation of the bequest could arguably occur decades after the property was distributed from the trust to the beneficiary.

A common example of a conditional bequest is a direction to a trustee to withhold a distribution until a beneficiary attains a specific age before assets held in trust are distributed to the beneficiary. Similarly, a bequest to a beneficiary who has substance abuse issues may be conditioned on the beneficiary completing a course of drug rehabilitation with continued sobriety for a period after that rehabilitation before a distribution can be made from the trust.

Then there are some strange, if not silly, examples of conditional bequests that have surfaced in court proceedings over the years. Consider the husband who left his home and $30,000 to his widow on the condition that she smoke five cigarettes per day for the rest of her life to spite her for her constant nagging about his smoking during their marriage years. Or, the man who left a cash bequest of $500 'to the police officer who issues the most traffic citations to motorists who double-park their cars.'

"A common example of a conditional bequest is a direction to a trustee to withhold a distribution until a beneficiary attains a specific age before assets held in trust are distributed to the beneficiary."

Public Policy Considerations: As noted, some conditional bequests may not be enforced by a probate judge due to what are called public policy concerns. Conditions that seem to regularly be contrary to a state's public policy and thus the condition is unenforceable include:

Illegal Activity: A bequest that promotes an illegal activity by the beneficiary will, for obvious reasons, be void.

Restraint on Marriage: A condition that a beneficiary never marries or may not marry a spouse of a particular race will be void. Marriage is a constitutional right as an aspect of liberty, protected by the Constitution's Due Process Clause. However, a condition that a beneficiary must marry within a specified time to receive a bequest will be enforceable. Similarly, if the bequest is conditioned on the beneficiary marrying after a certain age with a presumed level of maturity, is valid. If a bequest is conditioned on the beneficiary obtaining the consent of parent to the beneficiary's marriage, that condition will be enforced.

Encourage Divorce: A condition that encourages the beneficiary's divorce will be invalid. However, a bequest's condition on the divorce of a beneficiary may be valid if the judge finds that the purpose of the conditional provision was to provide additional support to the beneficiary after their divorce, rather than to encourage or promote that divorce.

Religion: A condition that requires a beneficiary to practice a certain religion is void because it violates the beneficiary's Constitutional right to religious freedom. Yet some courts have permitted a condition that requires marrying a person of a specific religion in order to receive the bequest. Yet, as the pool of candidates for the beneficiary to marry shrinks, this condition poses the risk of being unreasonable and therefore invalid.

Property Destruction: A bequest that directs an asset to be destroyed by the beneficiary as a condition to the receipt of other assets is invalid, as that destruction of property lessens wealth and imposes an economic cost on society.

Impede Creditors: A condition that hinders creditors, such as a condition that directs the beneficiary to hide assets from creditors, will be not be enforced.

Practical Considerations: Even if a condition imposed on a beneficiary's bequest does not expressly violate a state's public policy, the condition may still be unenforceable, particularly if the condition is not phrased clearly or the provision fails to have a clear 'gift-over' if the condition fails or is breached.

Impossibility: Some conditions may be impossible to meet. Other conditions may be so uncertain as to be enforced. For example, if the trustee is directed to make a distribution to a beneficiary only when the beneficiary is suitably married, or the bequest is conditioned on the beneficiary taking up a profession, the condition is too uncertain or subjective in order to be effectively enforced.

No Consequence: Some conditions are valid, not against public policy and appear enforceable. However, the provisions that create the condition do not address the consequences of a failed condition. In this situation, some judges have found that the missing consequence of a failure to satisfy the condition reflects a lack of true intent for the bequest to be enforced if the condition is not met.

Cost: In some situations, the fiduciary will be required to monitor the beneficiary conduct or behavior indefinitely to confirm that the condition has not been violated, e.g. a condition subsequent, which may be an expense that was not initially envisioned to monitor and enforce the condition or there are no resources available to assure that the condition was satisfied by the beneficiary.

"In some situations, the fiduciary will be required to monitor the beneficiary conduct or behavior indefinitely to confirm that the condition has not been violated…"

Circumvent: Sometimes it is too simple for the beneficiary to circumvent the condition imposed on the bequest. Consider the case of Tommy Manville, an heir of the Johns-Manville fortune. Tommy was the beneficiary of a trust that provided that he was 'to receive $250,000 when he married'. In light of this condition, Tommy promptly married a woman and collected the $250,000 from the trustee. Soon after, Tommy divorced the woman and paid her $50,000 for her trouble. When Tommy later needed money, he would get married, receive the distribution from the trustee, and again conclude the process with another quick divorce. Tommy successfully played this 'game' with the trustee 13 times.

Closing Thoughts: If the intent is to use a condition to incentivize a beneficiary's behavior in a Will or Trust, consider the following points:

- The intent to impose the bequest's condition should be clearly expressed in the Will or Trust. Vague, non-binding language, e.g. my wish that…, should be avoided. A judge is less likely to strike a condition as being mean-spirited if the purpose for imposing the condition is readily apparent from the instrument.
- Use a condition precedent if possible. A condition precedent is more likely to be viewed by a judge as an attempt to exert continuing unreasonable influence

The Dead Hand: Can Conditional Bequests Work?, continued

on the beneficiary.

- Address the consequences if the condition is not met by the beneficiary. The Will or Trust should provide for the asset or unmet bequest to pass, i.e. a gift-over, to another beneficiary on the failure of the condition.
- Provide objective standards that the beneficiary must meet to satisfy the condition. A vague standard might be viewed by a judge as impossible to fulfill and thus the condition will be void.
- The condition should identify who has the responsibility to determine if the subjective standard or condition has been met by the beneficiary.
- Anticipate if, at a later date, the condition cannot be fulfilled due to an impossibility of performance. For example, a bequest that is conditioned on the beneficiary taking care of the decedent's pet would be valid, but the pet died before the decedent, it will be impossible for the condition to be met.

Conditions are often used in Wills and Trusts to provide incentives for accomplishments, motivation for achievements, the protection of naïve or immature beneficiaries, or to eliminate bad behaviors. While this dead hand control can be effective to achieve these goals, not all conditional bequests are enforceable. So be careful when the decision is made to impose a condition or contingency on the beneficiary's receipt of a bequest.

"Conditions are often used... to provide... motivation for achievements, the protection of naïve or immature beneficiaries, or to eliminate bad behaviors."

Restoring the Benefits of SALT:

Workaround clears the road for select Michigan business owners.

Kristin Bennett, CFP®, CPWA®
Vice President
Assistant Director, Wealth Management

During the final weeks of 2021, Michigan joined a growing number of states in adopting State And Local Tax (SALT) parity reforms. Governor Whitmer signed a bill into law December 20 that creates an election for owners of pass-through entities with Michigan-sourced income to pay state and local taxes at the entity level instead of at the individual level.

The passage of this bill is in response to the "SALT cap" imposed by the Tax Cuts and Jobs Act of 2017 (TCJA), which limited the federal deduction for payment of state and local taxes to $10,000 for individual taxpayers itemizing their deductions. Prior to TCJA, taxpayers itemizing their deductions could deduct an unlimited amount of state and local against their federally taxable income. The new election is intended to provide a workaround to restore the SALT deduction to Michigan's pass-through entities. It will remain available as long as the individual deduction is limited by a SALT cap. If no action is taken by Congress in the interim, the SALT cap will expire at the end of 2025.

The bill is designed to benefit the nearly 240,000 resident owners of

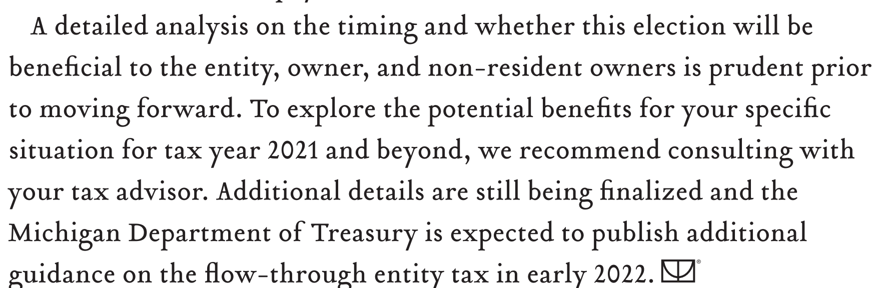
pass-through entities that have been impacted by the SALT deduction limitation. As the name implies, a pass-through (or flow-through) entity is a business entity that passes its income on to the owners or investors of the business. This would include entities such as S-corporations, partnerships, and limited liability companies. The election is not available to publicly traded partnerships, financial institutions, or disregarded entities.

Instead of the individual paying state income tax, the entity elects to pay an alternative tax called a "flow-through entity tax" at the same rate as Michigan's income tax (4.25%). Those entity taxes are deductible for federal income tax purposes without regard to the $10,000 limitation imposed on individual taxpayers. Owners will then be able to claim a tax credit in an amount equal to their allocated share of the tax paid by the pass-through entity. This chain of transactions forms the workaround to avoid the federal $10,000 limit on individual SALT deductions. This bill is expected to save Michigan pass-through entity owners roughly $200 million annually in federal taxes without reducing tax collections to the state. In that regard, it is beneficial for both Michigan and its business owners.

"… a pass-through (or flow-through) entity is a business entity that passes its income on to the owners or investors of the business. This would include entities such as S-corporations, partnerships, and limited liability companies."

The election to pay the flow-through entity tax can still be made retroactively for the 2021 tax year for certain taxpayers. Pass-through entities intending to make an election for 2021 must do so by April 15, 2022. This initial election is irrevocable for the two subsequent tax years and a separate election will need to be made for any future years. Therefore, if an election is made for tax year 2021, the election must remain in place for tax years 2022 and 2023.

For pass-through entities using a cash basis method, the ability to claim a deduction for tax year 2021 has passed as it was only available for an extremely narrow window at year-end. In order to have claimed a deduction for federal tax purposes, the 2021 payment of the flow-through entity tax needed to be received by December 31. However, for pass-through entities using an accrual basis method, there may still be an opportunity to make the election and take advantage of the deduction for the 2021 tax year. If you are considering taking advantage of this benefit for tax year 2022, timing is still critical as that election must be made by March 15, 2022 for certain taxpayers.



A detailed analysis on the timing and whether this election will be beneficial to the entity, owner, and non-resident owners is prudent prior to moving forward. To explore the potential benefits for your specific situation for tax year 2021 and beyond, we recommend consulting with your tax advisor. Additional details are still being finalized and the Michigan Department of Treasury is expected to publish additional guidance on the flow-through entity tax in early 2022.

Michelle M. Gray
Participant Services Specialist

Should Long-Term Care Insurance Be Part of Your Retirement Planning Tool Box?

In 2021, the nation's long-term care insurers paid out $12.3 billion in claims to 336,000 policyholders in which some claims totaled over $1 million. This represents a significant increase over prior years according to the Association of Long-Term Care Insurance (AALTCI). The 2021 payout was approximately $700 million more than what was paid out in 2020 and represents an increase of $2 billion over the total claim benefits paid by the industry in 2018. In 2021 there were 11,000 more policyholders paid as compared to 2020.

According to data provided by Genworth's US life insurance division, fewer than 10% of those that will likely need LTC actually have policies. Related data from Northwestern Mutual suggests 70% of people over the age of 60 will face a long-term care event.

"In 2020, the median yearly cost of nursing home care in Michigan was $107,676 for a semi-private room..."

A HealthView Services analysis reveals that an average, healthy 65-year-old male/female couple has a 75% chance of at least one spouse requiring some form of long-term care if each live to their actual life expectancies. Failure to plan for long-term care could mean substantial medical bills, which without long-term care insurance, could mean the liquidation of retirement assets.

When trying to determine whether you should purchase long-term care insurance, consider the following: if you required long-term care, do you have enough money to pay for four or more years in a nursing home, an assisted living facility or to receive in-home healthcare?

In 2020, the median yearly cost of nursing home care in Michigan was $107,676 for a semi-private room and $116,796 for a private room. In other words, four years in a nursing home would cost in excess of $430,704. Although assisted living facilities cost less, they do not provide the same level of care and, in the event you need a higher level of care, assisted living facilities may not be an option for you. In 2020, the median yearly cost of an assisted living facility was $50,400. The median cost of in-home care was $57,204.

Perhaps you have considered purchasing a long-term policy, but you are not sure at what age you should purchase it. The optimal age is in your 50s. According to Wakely Consulting Group, an actuarial firm, of applicants who applied for long-term care insurance in 2003–2004, 11% of applicants in their 50s, 19% of applicants in their 60s and 43% of applicants in their 70s were rejected. It is estimated that 15-25% of the over-65 age group are

uninsurable for long-term care.

You may be thinking you will need long-term care and therefore, long-term care insurance, but have no idea what long-term care insurance costs. According to the 2020 long-term care insurance Price Index, the average long-term care insurance rates for someone age 55 are $1,700 per year for a male, $2,675 per year for a female and $3,050 (combined) for a couple, both age 55.

Regardless of whether or not you decide to purchase long-term care insurance, it is important to plan for your long-term care expenses and discuss those plans with your family. For additional resources on long-term care, visit the American Association for Long-Term Care Insurance at www.aaltci.org.

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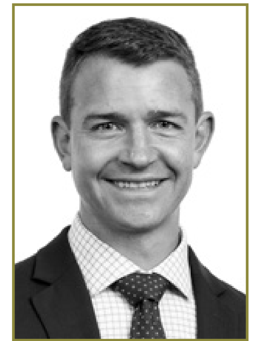
Wealth Transfer Planning for Uncertain Times



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

As of 2022, the federal lifetime gift and estate tax exemption is now $12,060,000 per person. If you are married, that means $24,120,000 can pass from you and your spouse to non-charitable beneficiaries without being subject to a 40% tax. The elevated lifetime exemption amount, combined with the recently increased annual exclusion amount of $16,000 per person, per year, brings us to a great opportunity for wealth transfer. So how do we capitalize on this opportunity, knowing that these amounts continue to be targeted in legislative proposals, and if the law isn't changed, the exemption will decrease to $5,000,000 per person adjusted for inflation on January 1, 2026?

OPTION 1: SALE TO A GRANTOR TRUST

Applicable federal rates (AFR) tell us the minimum amount of interest that one can charge for private loans without having gift tax implications. The declared rate for February 2022 is 1.40% annually for a mid-term loan of three to nine years. It's an attractive rate for a borrower, and we can leverage the low interest rate to provide flexibility in the context of wealth transfer. As an example:

1. Bob and Eleanor are married, financially secure, and want to transfer $1,000,000 for the benefit of their daughter, Samantha.
2. Instead of using $1,000,000 of lifetime exemption immediately, they conclude to sell an asset worth $1,000,000 to an existing trust for Samantha's benefit that holds other assets. The assets already in the

"As of 2022, the federal lifetime gift and estate tax exemption is now $12,060,000 per person... a great opportunity for wealth transfer."

trust are valuable, so the team involved in the transaction agree that the existing trust would be considered a qualified buyer.

3. The trust is designed so that Bob and Eleanor pay the taxes on behalf of the trust, so no taxes are paid on any gains at the time of the sale. A promissory note documenting the purchase is designed for 9 years.
4. At a 1.40% AFR, the annual interest on the loan is $14,000.
5. The following options exist within the trust:
   a) The trust can pay back the loan plus interest according to the terms of the sale. This will preserve Bob and Eleanor's gift and estate tax exemption.
   b) Bob and Eleanor can forgive all of the loan, or portions of the loan over time. If they forgive more than the annual exclusion limits, they will use some of their estate and gift tax exemption amount.
   c) Typically, Bob and Eleanor can substitute assets of equivalent value for assets in the trust. This can be very valuable if they believe an asset is likely to appreciate significantly and getting it outside of their taxable estate would be beneficial.
   d) In years where paying for all of the taxes on behalf of the trust is overly burdensome, the trustee could reimburse Bob or Eleanor for taxes paid on behalf of the trust.
   e) After the sale is complete, Bob or Eleanor (whichever one of them is the grantor) can chose to stop paying taxes on behalf of the trust. They will have to forego the ability to substitute assets of equivalent value in the future.

The example in this case is scalable, so an individual with a $5,000,000, or $20,000,000 asset to sell could use the same concepts. This strategy is more complex than a straightforward gift, so we strongly recommend engaging a qualified attorney and accountant when exploring this idea.

"Suppose that you want to set aside wealth for your heirs, but are concerned about them seeing the trust values. Consider the silent trust option..."

OPTION 2: SILENT TRUSTS

Most states have specific rules about how and when a trustee must notify beneficiaries about a trust, including Michigan, Ohio, and Florida. Suppose that you want to set aside wealth for your heirs but are concerned about them seeing the trust values. Consider the silent trust option:

1. Bob and Eleanor are married, financially secure, and believe now is the right time to transfer $1,000,000 to a trust for their daughter, Samantha.
2. Ensuring that Samantha remains motivated to accomplish her life goals, and that their wishes are followed regarding the trust assets, are key objectives. If possible, they do not want Samantha to know about this gift yet.
3. They have a person that they trust to serve as a designated

representative. This is an advocate for Samantha that is designated within the trust to receive notices and hold the trustee accountable.

4. Under the Delaware Trust Act of 2015, Delaware trusts permit the grantor to restrict or eliminate telling the beneficiary "for a reasonable period of time."
5. As a bonus, if the trust is designed to pay its own taxes, and the beneficiaries are not Delaware residents, then accumulated income within the trust will not be subject to Delaware income tax.

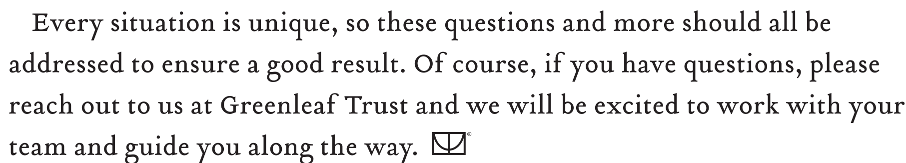
For some individuals, wealth transfer planning may be the right financial answer today, but the wrong psychological answer for the beneficiary. The silent trust option should be considered as a way to bridge the gap in these cases.

"For some individuals, wealth transfer planning may be the right financial answer today, but the wrong psychological answer for the beneficiary."

CONCLUSION

For those that are thinking of wealth transfer, consider this article as a way to spark questions and conversation. Should you gift assets to a child or grandchild outright, or should the transfer occur in trust? How about selling the assets to a trust instead of gifting them to a trust? How will the child or grandchild react when they learn about the money being transferred?

Every situation is unique, so these questions and more should all be addressed to ensure a good result. Of course, if you have questions, please reach out to us at Greenleaf Trust and we will be excited to work with your team and guide you along the way.



Stock Market Pulse

Index	1/31/22	Total Return Since 12/31/2021
S&P 1500	1,027.54	-5.34%
Dow Jones Industrials	35,131.86	-3.24%
NASDAQ	14,239.88	-8.96%
S&P 500	4,515.55	-5.17%
S&P 400	2,635.38	-7.21%
S&P 600	1,299.23	-7.27%
NYSE Composite	16,659.78	-2.83%
Dow Jones Utilities	954.18	-2.70%
Barclays Aggregate Bond	2,304.40	-2.15%

P/E Multiples	1/31/22
S&P 1500	23.5x
Dow Jones Industrials	18.9x
NASDAQ	110.7x
S&P 500	24.1x
S&P 400	18.4x
S&P 600	18.2x

Key Rates

Rate	
Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.19%
T Bond 30 Yr	2.11%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,027.54	23.5x	1.36%
S&P 500	4,515.55	24.1x	1.34%
Dow Jones Industrials	35,131.86	18.9x	1.80%
Dow Jones Utilities	954.18	18.6x	3.30%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.75%

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