GREENLEAF® TRUST

Perspectives

A Greenleaf Trust Newsletter

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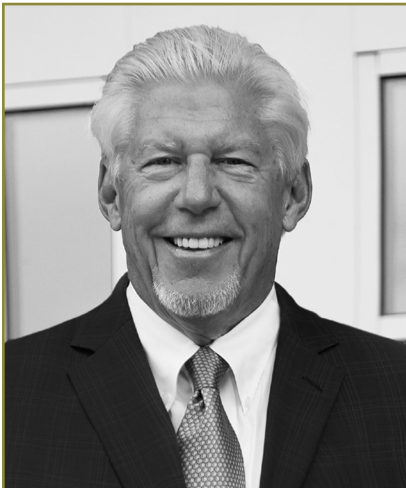

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Chairman, Greenleaf Trust

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Economic Commentary

Happy New Year to all! I hope that you were able to celebrate the new year with reflective gratitude and the grace of optimism as we look forward to the promise and challenges of 2022. This column is written and published each month just as it has been for the past thirty years. Wow, how time flies. Thanks to those who have endured my musings, opinions and occasional summaries of economic facts and data. During the past 360 articles that have included 720 pages and over 16,200 words, we have weaved our way through a litany of domestic and geopolitical events that were, at the time, declared to be crisis level in nature. Whenever we get too pessimistic about our future, it's always helpful to take a look in the rear-view mirror to examine what we have survived and perhaps even flourished through. Though not meant to be totally inclusive of all that occurred, the following list is impressive in its enormity.

1987	Black Monday, global financial markets decline in one day 29% – 44%
1991	Global recession created by the savings and loan crisis
2000	Dot-com bubble recession begins
2001	9/11 attacks on U.S. soil and resulting invasion of Iraq and Afghanistan
2005	Katrina hurricane
2007	Mortgage-backed securities crisis that created a credit implosion forcing liquidation of banks and financial institutions
2008	The Great Recession
2011	Japanese tsunami and nuclear disaster
2015	Greek and Italian debt crisis
2015	China enters the World Trade Organization as the globe's largest economy
2016	Donald Trump shocks the world by becoming the 45th President of the United States
2016	Brexit as the UK votes to recede from the European Union
2020	COVID-19 pandemic

Commentary, continued

2020 Recession begins March of 2020

2020 Joe Biden becomes the 46th President of the United States

2021 Approved COVID-19 vaccination becomes available for mass distribution January of 2021

2021 U.S. continues to struggle to achieve vaccination rates necessary to render COVID-19 virus moot

During this thirty-year span of time we have also endured many natural disasters, such as hurricanes, floods, fires and tornadoes. Through it all, the Dow Jones Industrial Average increased from 2633 in December 1990 to 36,705 on December 31, 2021, an increase of 33,705 points, with an annual average return, inclusive of dividends, of 10.78%. A dollar invested in the index in 1991 would be worth $26.44 today. For those with the capital to invest, and the intestinal fortitude to remain invested in the midst of all of the crisis events that occurred during the past thirty years, times have been very good. The tremendous growth of financial assets, though, has also contributed to the largest wealth gap in our country's history.

"For those with the capital to invest, and the intestinal fortitude to remain invested in the midst of all of the crisis events that occurred during the past thirty years, times have been very good."

To date, 204 million U.S. citizens, 62% of the population, have been fully vaccinated. Our daily vaccination rate continues at 1.35 million doses per day, suggesting that we will achieve the goal of 285 million people fully vaccinated by the end of February 2022. Two hundred and seventeen countries now have a vaccination program in existence, with 9.2 billion doses administered. Global benchmarks will be achieved in April 2022 if the current ten million doses per day continue. Accomplishment of global immunization benchmarks enhances a complete return to travel and commerce necessary for global GDP expansion and the repair of global logistic chains.

The Conference Board released their estimates for Q4 2021 GDP results at +6.5% with full year results of +5.6%. Their forecast for 2022 remains at +3.5%, which includes the assumption that the full Build Back Better legislation bill is passed. Their forecast model implies a +/- 0.4% change in either direction should the legislative action differ from their model assumptions. Unemployment, currently at 4.7%, is projected to decline to 3.8%, while inflation is estimated to decline from the current pace of 6.2% to 3.5%.

Currently, the Consumer Confidence Index strengthened to 115.8 from 111.9 while the Present Situation Index remained constant at 144.1 and the Short Term Index increased from 90.2 to 96.9. The New York Fed's Weekly Economic Index of 12-25-2021 registered 7.91, which was a slight increase from the prior week's result. The index, which accumulates current data surrounding consumption, labor and production, registered -11.32 in April 2020 and peaked at +11.87 exactly one year later in April 2021.

Media reports of inflation continue, but with a bit less vigor than last month. Fed Chair Powell thinks that the supply chain interruptions attributed to

COVID-19 will continue well into 2022, and could be negatively influenced by new variants. His perspective makes sense, and monetary policy that is restrictive may be too soon to use though the meeting notes released from the last FOMC meeting suggested strongly that the Fed would begin to reduce asset purchase volume which essentially is the beginning of tighter monetary control. The basic philosophical question among Fed governors remains, "Is the surge in demand and lagging supply of available product structural or pandemic-specific?" Closer examination of their discussion is specific to the inflation inputs of labor, commodities, manufacturing, logistics, stimulus duration effects and health care interruption impacts. What is likely to be repaired in the cycle of demand and supply and when will that be evidenced in price stability? Further, they seek to know how monetary policy can best assist in the repair process. Recall that when the pandemic exploded in early 2020, demand for most finished goods evaporated, creating excess inventories and production halts in all segments of the logistical supply chain. All mature economies chose to apply immediate business stimulus and wage protection programs, thereby stabilizing and augmenting consumer confidence and demand. Depleted inventories came under intense demand which could not be met by the interrupted, and in many cases broken, supply chain from raw materials through finished goods. Demand that exceeds supply creates inflation, and that is the condition we are in.

Traditional tools of increasing or decreasing money supply can't repair the supply chain, but raising interest rates and tightening the supply of credit can deter increased investment in supply chain repair. As Fed Chair Powell suggests, the pandemic is still with us, we don't currently know the future impact of variants and now is a good time for a little patience. An examination of the previous thirty years of geopolitical, domestic, economic implosions and natural disasters with which we started this commentary, suggests that patience may be what cures the inflation concerns present today.

"Traditional tools of increasing or decreasing money supply can't repair the supply chain, but raising interest rates and tightening the supply of credit can deter increased investment in supply chain repair."

Michael F. Odar, CFA®
President

A Little Recognition

We believe meaningful recognition should be appropriate and deserved. It should be acknowledgement for a job well done.

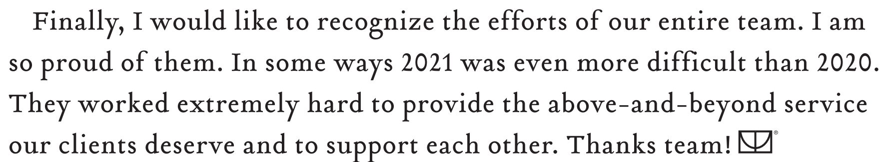
At the end of the year, we announced the following 20 promotions. These were teammates from throughout the organization who successfully executed customized purposeful growth plans with their coaches. Promotions are always based on merit at Greenleaf Trust, not time in role. Needless to say, I am extremely proud to recognize these teammates and share their new titles with you below.

"[We recognize] teammates from throughout the organization who successfully executed customized purposeful growth plans with their coaches."

Karen Baldwin	EVP, Director of Human Resources
Jacob Barker	Senior Manager Selection Analyst
Patrick Bruining	Trust Operations Analyst
Sharon Conran	VP, Senior Estate Settlement Officer – Team Lead
Steve Davis	Wealth Management Advisor
Jen Dohm	Senior Team Service Coordinator Northern Michigan Team Lead
Corbin Donaldson	Senior Wealth Management Advisor
Mandi Doster	Client Service Associate
Brian Farrell	Wealth Management Advisor
Taylor Farrell	Digital Marketing and Media Specialist
Rosie Hall	Senior Relationship Specialist
Nick Juhle	Chief Investment Officer
Chuck Knoll	Senior Office Portfolio Manager
Lisa Luebke	Senior Talent Acquisition Specialist
Mike Mikrut	Wealth Management Advisor
Rachel Mortensen	Senior Estate Settlement Associate – Team Lead
Kate Schafer	Senior Trust Relationship Associate
Andrea Stidmon	Assistant Director of Operations
Kristen Tidd	AVP, Senior Trust Relationship Officer
Garret Urman	Senior Wealth Management Associate

I am also proud to recognize this year's winner of the President's Award. Each year since 2014, I present the President's Award to the teammate that has made the greatest impact to the organization during the year. I am the only vote and the recipient receives a handcrafted glass blown trophy created by another teammate (Oliver Krings) as well as an additional monetary bonus. This year that award was given to Lisa Luebke, Senior Talent Acquisition Specialist. Lisa has been directly responsible for recruiting and hiring nearly 20% of our team over the last two years in an extremely competitive and challenging job market. In addition, most of her efforts have had to be done virtually. In 2021, through her efforts we were able to add 16 new talented teammates; one more than she did last year. Congratulations, Lisa!

Finally, I would like to recognize the efforts of our entire team. I am so proud of them. In some ways 2021 was even more difficult than 2020. They worked extremely hard to provide the above-and-beyond service our clients deserve and to support each other. Thanks team!



"… our entire team… worked extremely hard to provide the above-and-beyond service our clients deserve…"

Nicholas A. Juhle, CFA®
Chief Investment Officer

2021 Review and 2022 Outlook

Back in July, we published our 2021 mid-year market review. Having hosted a virtual year-in-review seminar in January, the article highlighted how much changed in the first six months of 2021. An increasingly vaccinated population rediscovered a sense of normalcy. The optimists in all of us were ready to declare victory and move on, but emergence of the Delta and Omicron variants in the second half of the year were a humbling indication that we were not out of the woods yet.

In spite of the virus, we exit 2021 with a healthy, growing economy and equity markets hovering near all-time highs. We are optimistic for continued economic growth in 2022 and while the market experience is much less predictable in the short-term, we believe our disciplined approach to investment decision-making will serve our clients well in the year ahead.

"In spite of the virus, we exit 2021 with a healthy, growing economy and equity markets hovering near all-time highs."

DID HE SAY THE ECONOMY IS HEALTHY?

While not impervious to risks including new and existing COVID-19 variants, geopolitical uncertainties and monetary and fiscal policy moves, to name a few, the U.S. economy is on solid footing. Interest rates are low, demand for labor is high, and consumers are spending at record levels. The U.S. economy likely expanded 5.6% last year after adjusting for higher-than-expected inflation and economists expect real GDP growth of approximately 4% in 2022.

Unprecedented monetary and fiscal policy actions in response to the pandemic enabled rapid economic recovery following the shortest recession on record. Now, nearly two years into the current expansion, fiscal policy is transitioning from emergency COVID relief to longer-term spending plans while full employment and elevated inflation are accelerating the path to tighter monetary policy.

FULL EMPLOYMENT AMID LABOR MARKET IMBALANCE

At the time of this writing, the U.S. unemployment rate stands at 4.2%, down from 6.7% in January and 14.8% in April 2020. We have to acknowledge and appreciate the unprecedented pace of the labor market recovery. Using historical average recovery rates, unemployment would still be 11.0% today and would not reach 4.2% until March 2028.

The economy has regained more than 18 million of the 22 million jobs lost in 2020. That means there are still about 4 million fewer employed people in the U.S. Meanwhile, there are about 4 million more

job openings than there were prior to the pandemic. Lower labor force participation driven largely by retirements and childcare uncertainties help to explain the nearly 8 million unfilled jobs, which results in continued strong demand for labor and upward pressure on wages.

CONSUMERS SPENDING DESPITE DENTED SENTIMENT

The value of retail sales rose sharply in 2021, supported by government stimulus, elevated savings, and economic reopening enabled by the ongoing vaccine campaign. For perspective, the total value of retail sales in November was $639B. This represents an all-time high in absolute terms and is 21% higher than the $526B reported in February 2020 (pre-pandemic) and 18% higher than the $541B reported in November 2020 (11.1% higher after inflation).

Overall, consumer sentiment has not recovered from depressed 2020 levels as higher inflation and the potential economic impact of variants weigh on consumers. Interestingly, consumer behavior has actually contributed to inflationary pressure, as strong demand for goods is further taxing an already disrupted supply chain. COVID-willing, we would expect demand for goods to normalize somewhat in 2022 as consumer spending on services (i.e. leisure and hospitality) increases.

> "In spite of the virus, we exit 2021 with a healthy, growing economy and equity markets hovering near all-time highs."

ELEVATED INFLATION DECELERATING IN 2022

Inflation has been higher and more persistent than economists and market participants expected in 2021. The rapid labor market recovery and accommodative monetary and fiscal policy actions created a demand shock. This occurred concurrently with a variety of negative supply shocks as COVID-19 persisted. Looking at the specific drivers of inflation, we note that energy and transportation expenses have contributed significantly to the overall increase in consumer prices with energy costs up 34% and used cars and trucks up 31% year-over-year as of November. Importantly, prices in these categories tend to be more volatile and less sticky, while price increases in categories like wages and rents tend to have staying power. Wages have been moving higher, particularly among the lowest-earning quartile of workers, but overall wage growth has not departed from historical trends and, so far, increases in shelter costs have not either.

We believe the fourth quarter of 2021 may mark the peak inflation levels for this cycle and would anticipate lower, albeit still elevated, price increases in 2022. Our expectations consider historically tough comps from 2021, normalization of demand for consumer goods, ongoing improvements in supply chains and tighter monetary policies expected for 2022.

2021 Review and 2022 Outlook, continued

MONETARY POLICY – TIGHTENING IN 2022

After doubling the size of its balance sheet to nearly $9 trillion, the Fed began tapering asset purchases in November and moved to accelerate tapering in December with plans to conclude quantitative easing altogether in March or April. Starting the year, policymakers did not anticipate any interest rate increases until 2024. Now, Fed projections now call for three 0.25% increases in 2022 in response to higher than expected inflation and rapid improvement in the labor market.

Fed missteps, in policy or communication, are an inherent risk to financial markets. As it stands, Fed policy projections align closely investors' expectations. While the narrative will likely evolve throughout the year, we believe the current trajectory of monetary policy will gradually rein in inflation without significant disruption to continued labor market recovery and economic growth.

"We believe the fourth quarter of 2021 may mark the peak inflation levels for this cycle and would anticipate lower, albeit still elevated, price increases in 2022."

FISCAL POLICY – BUILD BACK LATER?

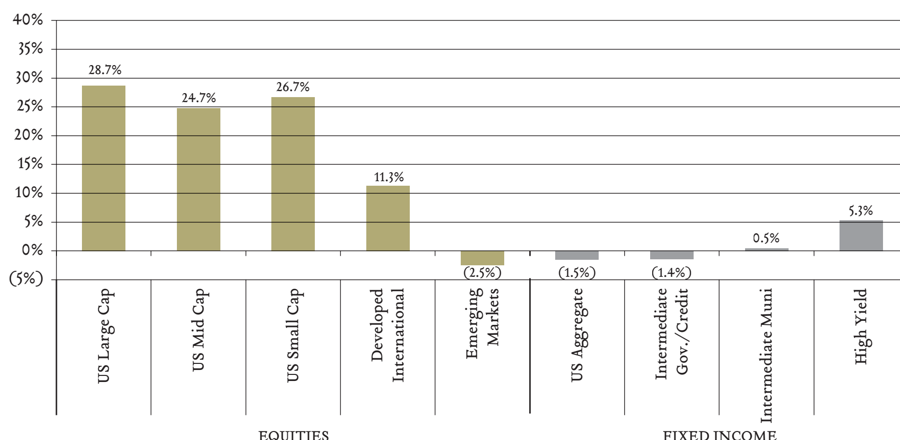
During 2021, fiscal policy focus transitioned from emergency COVID relief to longer-term spending plans and multi-year infrastructure initiatives. A $1 trillion ($550B in new spending over eight years) hard infrastructure bill passed in November. However, lawmakers have yet to reach agreement on a second piece of legislation, Biden's Build Back Better proposal. The bill, which includes a variety of hotly debated soft infrastructure spending provisions and corresponding tax policy implications, passed the House in November, but Democrats' hopes for a Senate vote before year-end did not materialize. Party leaders continued to discuss possible routes to revising the legislation and potentially bringing it back for a vote in January.

Speaking of votes, a total of 469 seats in the U.S. Congress (34 Senate seats and all 435 House seats) are up for election in November. Historically speaking, the party in the White House typically loses seats in midterm elections. Observers on both sides of the aisle expect the House to flip to a Republican majority given Democrats' thin five-seat majority there. As for the Senate, six states (AZ, GA, NV, NC, PA, WI) are considered toss-ups, 3 currently held by Democrats and 3 currently held by Republicans, so control of the Senate is less certain. Either way, the outcome of 2022 midterm elections will have policy implications throughout the second half of the term for the Biden administration.

2021 – MARKET EXPERIENCE

Returns in 2021 followed the path of the strong economic recovery. US stocks performed well, consistent with a remarkable earnings recovery

resulting in 45-50% EPS growth for the S&P 500. Higher inflation and accelerated monetary tightening put a damper on fixed income returns, but they continued to play their role as diversifying assets.



Looking Forward - Capital Market Assumptions

As for the market experience going forward, we share our updated capital market assumptions below. These forecasts represent our expectations for average annualized returns for each asset class over the next ten years. Over the next decade, there will be years where returns exceed our expectations and years where returns trail our expectations. We believe short-term market-timing strategies are unlikely to improve long-term outcomes.

> "Returns in 2021 followed the path of the strong economic recovery."

ASSET CLASS	Historical Return (12.31.1993 – 12.31.2021)	10Year Expected Return (June 2021)	10 Year Expected Risk (Standard Deviation)
US Large Cap	10.8%	4.8%	14.0%
US Mid Cap	12.0%	7.0%	16.0%
US Small Cap	11.1%	7.3%	19.0%
Developed International Equities	6.0%	6.5%	17.0%
Emerging International Equities	5.4%	8.0%	22.0%
Core Fixed Income	4.6%	2.2%	4.5%
Non-Core Fixed Income	7.7%	4.0%	10.0%
Diversified Alternatives	5.0%	3.5%	7.5%
Cash	2.3%	1.6%	0.5%

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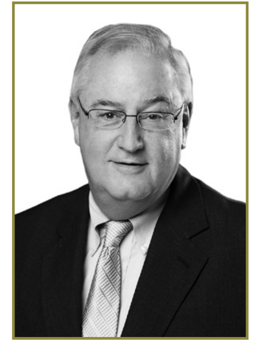
2021 Review and 2022 Outlook, continued

"Despite an ever-changing landscape, our disciplined approach and long-term orientation serve us well..."

We continue to recommend most of our clients hold a full weight to global equities in accordance with their individualized risk profile, and we remain marginally more constructive on international equities. Concurrently, we are less constructive on the outlook in fixed income markets and believe an underweight position in favor of an allocation to diversifying strategies (alternative assets) remains prudent.

Despite an ever-changing landscape, our disciplined approach and long-term orientation serve us well as we endeavor to create comprehensive investment solutions that help our clients reach their financial goals. Investment decisions are made in alignment with our documented investment philosophy and always with the intention of serving our clients' best interests. Happy New Year and thank you from everyone on the investment research team for allowing us to serve on your behalf.

The Dreaded Death Tax – On Its Own Deathbed?



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

For much of 2021, there was plenty of angst expressed in the news with regard to the potential reduction of an individual's federal unified gift and estate tax exemption amount. That exemption, $11.7 million per individual in 2021, was regularly threatened by several bills filed in Congress to reduce the exemption to a much lower amount. In one bill the drop was to $5.0 million; in another bill, the proposed reduction was down to $3.5 million per individual.

When the dust finally settled in 2021 with the Build Back Better Act, no changes were made to the federal gift and estate tax laws, either in the transfer tax rates imposed (40%), or the amount of the transfer tax exemption amount. In fact, in 2022 an individual's federal unified gift and estate exemption amount increases to $12.06 million (or $24.12 million for a married couple.)

A recent release of data from the Internal Revenue Service shows just how much the revenues generated by the federal estate tax have dropped since the 2017 Tax Act, when the exemption amount was doubled. Some interesting numbers culled from filed federal estate tax returns include:

- In 2018, there were 5,500 federal estate tax returns filed, which generated $20 billion in tax revenues;
- In 2019, there were 2,570 federal estate tax returns files, which generated $13.2 billion in tax revenues; and
- In 2020, there were 1,275 federal estate tax returns filed which generated $9.3 billion in tax revenues; another 2,166 federal estate tax returns were filed, but none generated any tax revenues.

Other interesting information gleaned by the IRS from filed estate tax returns in 2020 included the following:

- Publicly traded stock ($31.9 billion) was held the most wealth for estates;
- Closely held stock ($14.6 billion) was next in line for estates that filed returns;
- Bequests to surviving spouses totaled $39.7 billion, of which $4.6 billion was taxable;
- Surviving spouses added $15.6 billion to their exemption amounts through an election to claim portability of their deceased spouse's unused transfer tax exemption amount; the returns filed to elect portability were 195 for gross decedent's estates that ranged from $10 million to $20,000;
- Personal Representatives charged decedent's estates $2.6 million in fiduciary fees;
- Attorneys charged decedent's estates $2.4 million in fiduciary fees; and

"[The unified gift and estate tax exemption amount] was regularly threatened by several bills filed in Congress to reduce the exemption..."

The Dreaded Death Tax – On Its Own Deathbed?, continued

- Charitable bequest estate tax deductions totaled $27.4 billion, which was an increase over 2019 when decedent's estates claimed $21.9 in charitable gifts. [For comparison purposes, in 2020 charitable donations for federal income tax deduction purposes were a record $471 billion!]

Before the death of the dreaded death tax is pronounced, it is important to remember that the 2017 Tax Act doubled an individual's federal unified gift and estate tax exemption only through 2025. If Congress does not act to change that sunset date, an individual's exemption will drop come 2026 to somewhere around $6.0 million (as the exemption is adjusted annually for cost-of-living.) If the lower exemption amount appears in 2026, the federal estate tax revenues will likely start to dramatically increase again. Congressional Budget Office projections estimate that after the sunset, estate tax revenues will climb to $55 billion by 2031.

"With the sunset scheduled to arrive in another four calendar years, it still makes sense to make large lifetime gifts using the available exemption amount."

With the sunset scheduled to arrive in another four calendar years, it still makes sense to make large lifetime gifts using the available exemption amount. Additionally, individuals can continue to take advantage of several estate planning techniques to either shift wealth to younger individuals or to freeze asset values in an individual's estate through grantor retained annuity trusts (GRATs), qualified personal residence trusts (QPRTs), sales to intentionally defective grantor trusts (IDGTs), and through low interest loans to family members.

Survey Says…

Dan J. Rinzema, CFA®, CFP®, CTFA
Chief Client Officer

Continuous improvement is one of Greenleaf Trust's core values - it is a pillar of our culture and has become part of our DNA. Every tangible improvement we have made on behalf of our clients stems from a disciplined review of our practices. As we look for opportunities to serve our clients better, we begin by listening to those that matter most - our clients.

Our annual personal trust and wealth management client satisfaction survey is designed to gauge Greenleaf Trust's collective efforts from our clients' perspective. We not only want to know if we are delivering on our promises, but we also crave candid feedback on ways in which we can better serve our clients. Analyzing the results helps us more closely align the voice of our client with our daily impact and better understand how our clients feel about Greenleaf Trust's personalized service and customized solutions. The aim is to listen to client comments and suggestions so that we can enhance the services provided on their behalf. Simply put: when our clients speak, we listen.

As an example, looking back at recent years' survey results, it was revealed a few years back that the format of our investment performance reporting could be improved to better meet the individual needs of our clients as only 84% of respondents found the report meaningful. Given this feedback, we made it our goal to provide more customized, relevant and meaningful performance reporting. We heard what our clients wanted and responded with updated performance reports tailored to their specific needs. As a result, satisfaction with our quarterly investment performance report format jumped to 97% the following year and sits at almost 99% as of 2021's survey. Similarly, it was revealed that many clients wanted consolidation of monthly statement packaging several years ago. We listened and responded quickly by consolidating statement packaging starting the following January and the corresponding statement satisfaction score registered at 98%. Similarly, themes from write-in comments five years ago centered around our investment platform and online client portal. We took these comments to heart and not only enhanced our investment offering with over 99% of clients now reporting that we are successful in meeting their investment needs, but we also rolled out our revolutionary online portal called MyWealth by Greenleaf Trust, which allows our clients to view their holistic wealth through a safe and secure personal financial website bringing their entire financial picture together in one place like never before. The last two years of surveys revealed a desire for an increased frequency of economic and financial market updates from our in-house research team. We recognized this as a shortcoming and put a plan

"We not only want to know if we are delivering on our promises, but we also crave candid feedback on ways in which we can better serve our clients."

Survey Says…, continued

in place to improve. This included additional investment seminars and the introduction of a weekly "Market Snapshot" intended to provide a weekly recap of market movements as well as provide an overview of events to pay attention to in the week ahead.

When sending the 2021 survey, we again asked for candid responses. Our clients answered in kind with survey participation more than three times the industry average. Thank you to those that took the time to respond - we truly value your feedback. The following is a summary of what we heard you, our clients, say.

"… thank you to all of our clients that took the time to respond to our recent client satisfaction survey."

2021 CLIENT SATISFACTION SURVEY RESULTS PERSONAL TRUST & WEALTH MANAGEMENT

99.3% find their Client Centric Team members to be easily accessible

99.3% feel their questions and concerns are answered in a prompt and satisfactory manner

99.3% are satisfied with the frequency of contact

99.7% feel as though they are treated as a very important client

100% believe we listen to and understand their unique goals and objectives

100% believe their accounts are tailored to meet their unique financial goals and objectives

99% believe we are successful in meeting their investment needs

Satisfaction scores with our account statements, performance reports, and newsletters uniformly exceeded 98%.

While we are pleased with the generally high marks received, we recognize there is always room for improvement. So, in order to enhance the value of our relationship with our clients and to achieve our standing goal of 100% client satisfaction on all fronts, we will intently focus on the specific suggestions and comments received. Two initiatives already under way as a result of the recent survey include a plan to expedite tax reporting and provide additional insights from our in-house research team via enhancements to our weekly market snapshot.

Again, thank you to all of our clients that took the time to respond to our recent client satisfaction survey. The overall response rate was gratifyingly high and the comments overwhelmingly positive. My colleagues and I are always receptive to your suggestions, and we hope you will never hesitate to share your candid opinions with us - when you speak, we listen. Thank you for allowing Greenleaf Trust the continued privilege of serving on your behalf.

Encourage Participation in your Retirement Plan through an Automatic Contribution Arrangement

Christie Dando
Client Service Specialist - Conversion

Increasingly popular methods to raise employee participation in defined contribution retirement plans are various "automatic" features. These include auto-enrollment, auto-escalation, and automatically diversified qualified default investment alternatives (QDIAs). Let's explore the opportunities auto-enrollment, in particular, affords plan sponsors.

There are three forms of auto-enrollment, or automatic contribution arrangements (ACAs).

- Basic Auto Enrollment (ACA)
  - ◊ Participants are auto-enrolled unless they elect otherwise
  - ◊ The plan document specifies the percentage of wages that will be deducted each payroll
  - ◊ The participant can elect not to contribute or to contribute a different amount
- Eligible Automatic Contribution Arrangement (EACA)
  - ◊ Uniformly applies default deferral percentage to all employees after giving them the required notice
  - ◊ May allow employees to withdraw automatic contributions within 90 days of the first automatic contribution
- Qualified Automatic Contribution Arrangement (QACA)
  - ◊ Uniformly applies default percentage to all employees after giving them the required notice
  - ◊ Meets additional Safe Harbor provisions that exempt the plan from the annual actual deferral percentage (ADP) and annual actual contribution percentage (ACP) non-discrimination testing
  - ◊ The default percentage starts at 3% and gradually increases to 6% each year the employee participates, not to exceed 10%
  - ◊ Requires that employees are 100% vested in the match or non-elective contribution after no more than 2 years of service
  - ◊ Does not allow distribution of employer contributions due to financial hardship

Some statistics about ACAs are helpful to review before exploring the advantages and implementation considerations.

Ninety-four percent of plans with the basic ACA offer it to new hires, while 25.4% auto-enroll existing employees either as a one-time sweep or periodic sweep. Ninety percent of auto-enrolled participants increase

"Let's explore the opportunities auto-enrollment… affords plan sponsors."

Encourage Participation in your Retirement Plan through an Automatic Contribution Arrangement, continued

their contributions, either through auto-escalation or on their own. Ninety-one percent of participants who are auto-enrolled stay in the plan compared with 28% of new hires who must choose to enroll. Of auto-enrolled participants, more than three-quarters remain invested in the QDIA. Particularly in younger participants, auto-enrollment is beneficial because they tend to forego enrolling themselves. Under age 25, 90% who were auto-enrolled stayed in the plan, while less than 2% voluntarily enrolled. Eighty-four percent of workers say that auto-enrollment was key to saving earlier for retirement.

Noneconomic factors can have a major impact on straightforward financial decisions, according to behavioral finance theorists. It specifically affects decisions participants need to make to maximize a successful retirement. Participants see default decisions as informed suggestions and often defer to those default decisions. If auto-enrollment is implemented in an appropriate way, employee participation can increase by 15%-30%. "Auto" features are the "nudge" some participants need-they are not mandatory and they represent the plan architect's preferences which holds weight with the average participant.

"If auto-enrollment is implemented in an appropriate way, employee participation can increase by 15%-30%."

In recent years the initial ACA deferral rate has grown from roughly 3% to 6%. Reports show whether the initial deferral rate is 2%-6%, the participation rate among earners in the $15,000 to $299,000 range remains steady at 85%.

What these statistics tell us, in general, today's employees are looking to employers to assist in setting them up for retirement success.

Objections from plan sponsors fall into three categories: fear of "telling employees what to do," thinking employees cannot afford to contribute, and the worry of a line of angry employees who want out of the plan. By utilizing an ACA, employers are not "telling employees what to do." Entry is not forced as a 30-day notification period is required so employees can opt out. Employers make assumptions about what employees can afford based on requests for raises, stories about hardship, etc. This is a poor assumption for employers to make, as they should let the employee determine whether they want to stay in the plan or not. Implementing an ACA can be set up to capture new hires, avoiding the existing participant base. Plan sponsors should be clear at orientation about the ACA to insure new participants are not surprised.

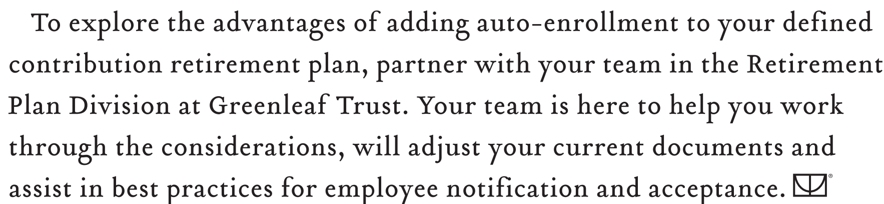
Advantages to implementing an ACA, for the employer and participant, include several items of note. A retirement plan, with an ACA, can help attract and keep talented workers because it sends the message the employer cares about the employee and is proactive about retirement savings. ACAs increase plan participation among

rank-and-file as well as owners and managers. There are significant tax advantages for the employer and participant, including deduction of employer contributions and deferred tax on contributions and earnings until distribution.

If this information leads you to consider implementing an ACA for your plan, here are some things you should consider.

- Choose the correct deferral level
  - ◊ Consider 6%, or at least up to your current match
  - ◊ Choosing too low may drive participants who considered contributing higher to go with the "auto-pilot" lower deferral rate
- If you are implementing an EACA or QACA, plan for the required match prior to implementation
- Look at your eligibility period
  - ◊ Shorter eligibility periods work better with auto-enrollment
  - ◊ Longer eligibility periods dramatically decrease acceptance
- Consider your employee base
  - ◊ High-turnover or larger numbers of lower paid employees with inconsistent hours may lead to being more of a burden than a benefit to the plan and its administration

To explore the advantages of adding auto-enrollment to your defined contribution retirement plan, partner with your team in the Retirement Plan Division at Greenleaf Trust. Your team is here to help you work through the considerations, will adjust your current documents and assist in best practices for employee notification and acceptance.



"Automatic Contribution Arrangements increase plan participation among rank-and-file as well as owners and managers."

Karen A. Bouche, CTFA
Executive Vice President
Family Office Advisor

Trust-Based Philanthropy

I'm encouraged by a conversation topic that seems to be coming up more and more regarding philanthropy, trust-based philanthropy. It's not a new topic, but one that has and will take time to become the norm. As with most changes, it is understood and adopted at varying rates and levels of engagement. For the sake of our communities, I hope we hurry!

A strong nonprofit sector is critical to the success of any community. Yet, there is an inherent power dynamic that exists between funders and the nonprofits potentially receiving funds. If not acknowledged and addressed openly, it can hinder the development of open and trusting relationships, which is the ultimate goal of trust-based philanthropy. To truly provide impactful support to our community, funders must recognize this dynamic and work toward building authentic relationships with open and honest dialogue.

"…there is an inherent power dynamic that exists between funders and the nonprofits potentially receiving funds."

How do you work toward this authentic relationship? First, recognize that both funders and nonprofits are needed in reaching their shared goals. The individuals or organizations with wealth are looking to fund programs and organizations who are working to directly address the needs that both parties see as important to their mission. The nonprofits are transparent about their missions, goals and who they seek to help. When the two parties' missions and desired impact goals align, it should be a beautiful partnership. It sounds simple, but conflict can occur unintentionally. To help overcome this, it requires intentional focus on seeking understanding, not evaluating or judging, during conversations. No one is served well if the nonprofit fears saying the "wrong" thing and being denied funding. Discussing only the nonprofit's successes and programs that went well are certainly more comfortable to talk about; however, when a funder seeks true understanding of the work and allows the nonprofit to share its struggles and failures, they are able to reshape and continuously improve their programs which should lead to better results in the long run.

It is also important to be mindful of the position of the nonprofit. They are running a business. They have clients with needs, staff that require support (especially right now), and funders that are willing to partner, but many times with varying, and even contradictory, requirements. The nonprofit business may have very few reliable sources of revenue. Federal and state funding can disappear or change drastically year to year. Grants from foundations are often made for a one-year period of time and must be applied for again, sometimes with onerous reporting requirements to prove historical success in their work. Donations from individuals and others can change with little warning as well.

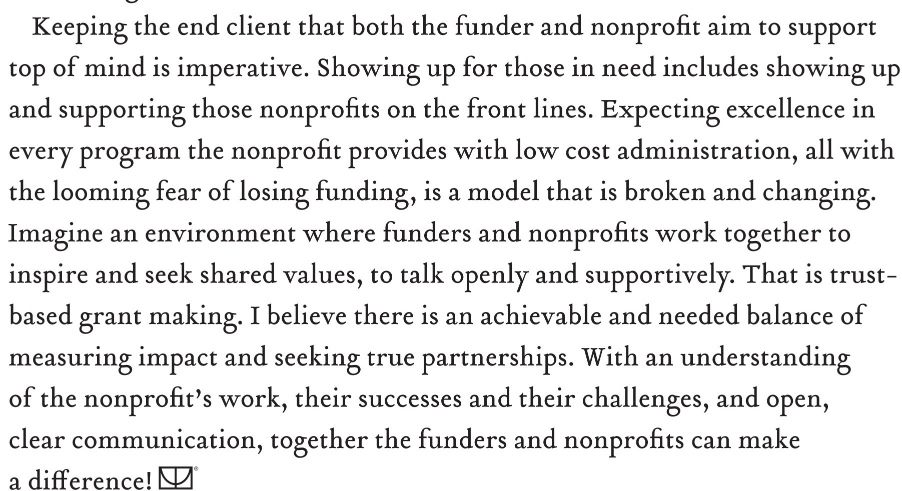
On the expense side of the nonprofit business, there are often more

requests for support than the organization has funds for. As any business would do, they work to control expenses, improve efficiency and increase income. This can lead to hiring part-time staff in lieu of full-time, difficulty in offering competitive wages and benefits to employees, settling for donated or low-cost office space, using older computer and security equipment, reducing programs offered or the number of people it is offered to, and an overall environment of doing as much as possible with the limited resources they do have.

Trust-based philanthropy encourages funders to honestly review their process. Ask yourselves questions such as: Have I visited the nonprofit's website to get a better understanding of their work? Have I reached out to the nonprofit leadership to set up time to hear their story first hand? Have I asked the nonprofit which practices or requests of funders cause them the most conflict or stress? If I am comfortable with a nonprofit organization, should I give them a multi-year gift to allow them more time to work before needing to fundraise again? Am I understanding and supportive when there are typos in an application, or tough lessons learned from programming, or other issues that the nonprofit team faces?

"Showing up for those in need includes showing up and supporting those nonprofits on the front lines."

The collective nonprofit workforce has incredible potential to make a positive impact within our communities. They are doing so in an environment of unpredictable income, rapidly growing needs, and a desire to provide greater support to their staff, particularly now in a pandemic-stressed world and intense labor shortage. When funders find an organization that shares their mission and impact goals, and they have sought true understanding of the nonprofit's work and their plan for impact, it then turns to trust in the leadership and ability to implement their plan of action. So the relationship continues post-funding, allowing the nonprofit leader to share, openly without fear, the parts of their programming that didn't go perfectly or failed. True partnerships will allow for adjustments as they learn and grow.



Keeping the end client that both the funder and nonprofit aim to support top of mind is imperative. Showing up for those in need includes showing up and supporting those nonprofits on the front lines. Expecting excellence in every program the nonprofit provides with low cost administration, all with the looming fear of losing funding, is a model that is broken and changing. Imagine an environment where funders and nonprofits work together to inspire and seek shared values, to talk openly and supportively. That is trust-based grant making. I believe there is an achievable and needed balance of measuring impact and seeking true partnerships. With an understanding of the nonprofit's work, their successes and their challenges, and open, clear communication, together the funders and nonprofits can make a difference!

Stock Market Pulse

Index	12/31/2021	Total Return Since 12/31/2020
S&P 1500	1,086.45	28.42%
Dow Jones Industrials	36,338.30	20.95%
NASDAQ	15,644.97	22.21%
S&P 500	4,766.18	28.68%
S&P 400	2,842.00	24.73%
S&P 600	1,401.71	26.74%
NYSE Composite	17,164.13	20.82%
Dow Jones Utilities	980.78	17.46%
Barclays Aggregate Bond	2,355.14	-1.54%

P/E Multiples	12/31/2021
S&P 1500	25.6x
Dow Jones Industrials	20.3x
NASDAQ	130.2x
S&P 500	26.2x
S&P 400	20.4x
S&P 600	19.7x

Key Rates

Rate	
Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.04%
T Bond 30 Yr	1.90%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,086.45	25.6x	1.28%
S&P 500	4,766.18	26.2x	1.27%
Dow Jones Industrials	36,338.30	20.3x	1.73%
Dow Jones Utilities	980.78	19.2x	3.21%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.62%

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