GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Coming Back to the Office 4

Cycles and Rotations – Are We Talking Spin Studios or Financial Markets? 5

Key to a Successful Family Loan — Document, Document, Document 8

SECURE Act 2.0: Retirement Security is Again on the Congressional Agenda 10

Your Next Financial Milestone 13

Economic Commentary

Progress has slowed in our country's COVID-19 vaccination rate as of late. Data through June 1st reveals that our seven-day average vaccination rate has slipped to 1.6 million, a decline of more than 50% from our previous high of 4.2 million. Unlike early in the vaccination roll-out, the struggle to get our population vaccinated is now more about desire than access. All ages above twelve are now eligible, and in most communities appointments are not necessary. Some states and communities have reported unused supplies and the US is now exporting to other countries previously allocated vaccine lots from manufacturers. Currently, 40% (or 132 million Americans) have been fully vaccinated, and at least 62% have had the equivalent of one vaccination dose. Under our current seven-day moving average of vaccinations, our country's goal of 75% Americans vaccinated will not occur until September rather than July. The combination of vaccinated and previously infected Americans should approach 263 million, or 80% of the population, by the beginning of September well in advance of the winter season.

While herd immunity resulting from vaccination and developed antibodies from infection is not likely until September, most Americans are moving on from COVID-19 restrictions. Many states have relaxed all restrictions, and those that haven't now have targeted restriction reductions based upon vaccination/infection and hospitalization data within their states. The reduction in hot spots and daily infection/hospitalization and deaths data suggests strongly that COVID-19 is fading. It is reasonable to expect all restrictions being eliminated by September. We have always maintained that the economy would not fully recover until COVID-19 was defeated, and we are now seeing evidence of both the fading of COVID-19 and the continued incremental economic recovery. There is, of course, work that remains to be accomplished in both areas, but the trends in place are positive.

The Weekly Economic Indicator (WEI), published weekly by the New York Federal Reserve Bank, has been a useful tool in understanding the real time condition of our economy during the COVID-19 pandemic. The May 27 WEI revealed a very strong reading of +11.37%. As a reminder, the WEI is the compilation of other indicators measuring consumption, employment and production which are critical in understanding whether we are in expansion

Commentary, continued

or contraction. The measure released each week is an indication of where we are currently in relationship to where we were one year ago on the same date. That measure can be misleading, because the comparison period could be unusually low or high. The May 27th release was comparing the same period in 2021 (incremental consistent recovery) to May of 2020 (significant consistent decline). What is relevant, however, is that the 13-week moving average of the WEI is +6.75%, providing a more consistent window into the direction of the trend in place. What is clear is that the WEI bottomed June 27, 2020 at -9.30% and has been steadily improving through the May 27, 2021 release.

Unemployment has fallen to 6.1% and hasn't budged in three months, and though more people are working, the average work week has expanded by two hours and average wage has increased by $0.21. Payrolls increased by 226,000 and reflected a slight increase in the labor participation rate, which caused the unemployment rate to remain steady even in the face of improving labor statistics. The duration of unemployment remains at 26 weeks and, as we have often said, the reduction of unemployment rates below 6% will be incremental and occur over a prolonged period of time.

"The stimulus packages administered during the pandemic and resulting recession are great examples of government standing in the place of private employment."

During significant economic hardship such as deep recessions, government spending takes the place of private sector employment. The stimulus packages administered during the pandemic and resulting recession are great examples of government standing in the place of private employment. The impact of the stimulus assistance is to keep consumption humming and consequently to create demand and growth of goods and services, which theoretically leads to increased employment. The transition from government assistance to private employer payroll increases is always more complicated than the issuance of stimulus assistance. We are seeing the complexity of this transition in the public dialogues and legislative debates surrounding unemployment and wage rates. Industry sectors that previously paid workers less than $15.00 per hour are finding it hard to fill the labor demand necessary to meet consumers' demand for goods and services. Hospitality, food and beverage, healthcare support, warehousing and cleaning services are sectors with millions of job openings that are currently unfilled. Lobbyists for those respective industries are hammering legislators both at the Federal and State level to eliminate federal unemployment assistance so that jobs offering $12.00 to $15.00 per hour will become more attractive and thus fill the current labor shortage in those sectors. The base of their argument is that the combination of Federal and State unemployment provides the equivalent of $15.00 per hour and diminishes labor supply below and up to that rate of compensation. The more important question might not be if their assumptions are factually correct, but rather should those industries be attempting to legislatively control the labor supply through unemployment decreases and, more fundamentally, is their continued expectation to pay wage rates below $15.00 per hour realistic?

Prior to the pandemic and resulting recession, 28% of the labor force earned wages below $15.00 per hour. Sixty percent of the 42 million workers being paid below $15.00 per hour were women and 31 million workers were Black or Hispanic. In 2014, 61 million workers were paid less than $15.00 per hour. Nearly 50 million labor positions saw compensation increase to $15.00 per hour during the five year period between 2015 and 2019. During that same time span, unemployment declined from 6.2% to 3.4%. More people were working and more workers were earning higher wages.

Arguments about raising minimum wage rates have remained consistent for the past five decades. Increasing minimum wages will cause inflation and those wage increases will spill over to the next wage bracket, causing wage creep and greater inflation. The argument, while consistent, lacks supporting evidence. Through 2019 only two percent of wage earners were paid at the minimum wage rate and 80% of those earners were students and retired workers supplementing their earnings. It is hard to imagine that two percent of the workforce would create inflation if their wage rate was doubled from $7.25 to $15.00 per hour; however, their lives would be substantially better. It is also hard to imagine that increasing wage rates from $12.00 per hour to $15.00 per hour would create inflation for the balance of the 70 percent of workers already earning above that wage rate. (Through 2019 the average wage rate in the US was $22.00 per hour.)

There are very few substantive studies that prove that increasing wage rates at the lowest brackets cause inflation, reduction in employment or creates competitive disadvantages for businesses, and the reality is that most industry sectors pay wage rates in excess of $15.00 per hour. Studies that include cities such as Seattle and Portland that have $15.00 per hour minimums are short in duration, but have seen evidence of higher employee retention and better quality of performance.

What does seem to be evident is that many workers are demonstrating through their actions that while they can earn $15.00 per hour to support themselves and their families they will, even if that decision requires that they stay home. Federal unemployment assistance will terminate at the end of July, as will mortgage foreclosure prohibitions applied during the pandemic. Employers may see a greater thirst for jobs available, but those wanting the best workforce to drive success may need to rethink the real wage necessary to attract and retain the best possible team rather than holding dear to wage rates insufficient to fill their labor needs.

"Employers… wanting the best workforce to drive success may need to rethink the real wage necessary to attract and retain the best possible team rather than holding dear to wage rates insufficient to fill their labor needs."

Michael F. Odar, CFA®
President

Coming Back to the Office

It seemed appropriate that on my drive into the office this morning I heard the song "Human Touch" by Bruce Springsteen. The song's lyrics took on a broader meaning for me as I reflected on the last 14 months. During that time, Greenleaf Trust team members have been working remotely. That has meant long hours in front of a screen in physical isolation from each other. I recognize we have all had to personally deal with the pandemic in one way or another, but for a culture that thrives on teamwork, collaboration, communication, and social interaction it has been tough.

That is why we are extremely excited to announce that on May 24, Greenleaf Trust re-opened our offices to all team members who would like to return, per guidance from the Centers for Disease Control and Prevention (CDC), the Michigan Department of Health and Human Services (MDHHS), the governor of Michigan, and most recently the Michigan Occupational Safety and Health Administration (MIOSHA). We are equally excited to also be welcoming clients back to our offices by appointment at first.

We take the health and safety of our team members and clients seriously and are following all public health orders and rules as we start the first of our phased approach to in-person office work. Our phase one is probably best described as similar to a soft opening at a restaurant. In-office operations are ramping back up with a limited number of team members and invitees at first. Phase two (date to be determined) will be more like a grand opening with our doors fully open to the public and clients while following any appropriate guidelines. Finally, phase three (date to be determined) will be back to business as usual.

"We… are following all public health orders and rules as we start the first of our phased approach to in-person office work."

A lot has been written about what the new workplace will look like longer-term post-pandemic. Chances are it will look different than it did before everyone started working remotely. Despite the unknown and the reality that we are still in a pandemic, many companies have already announced how their workplaces will look and behave in their new normal. Seems premature.

Things can and will change. The evolution of our working environment at Greenleaf will be an opportunity for us over the next several months. I think it is ok not to have all of the answers right now or announce some corporate wide one size fits all plan considering the situation is still very fluid. At Greenleaf, we are working together to thoughtfully craft our plan that will balance safety, flexibility, productivity, teamwork, and culture. Needless to say, it will have a little of that human touch as well.

We all came together to support each other over the last 14 months and we will continue to do so as we begin phasing back to the office in person. We look forward to seeing everyone again in person and are eager to show you some of our new spaces we created over the last year.

Cycles and Rotations – Are We Talking Spin Studios or Financial Markets?

Ali Fahs, CFA®
Vice President
Senior Equity Portfolio Manager

Optimism abounds as we approach the summer months, with a return to pre-pandemic life appearing closer than ever. Economic optimism has also returned as businesses have reopened their doors and individuals have reentered the labor force. Consumer confidence is near all-time highs with the US personal saving rate remaining well above pre-pandemic levels. Not long ago, market pundits were debating what letter best describes the shape of an economic recovery. It is no longer debatable; the recovery unambiguously resembles the letter "V". Unprecedented monetary and fiscal policy coupled with the global rollout of highly efficacious vaccines have resulted in a swift and sharp economic recovery. Naturally, optimism around the economic recovery has fueled a powerful rally in the most economically sensitive sectors (e.g. Energy, Financials, Industrials and Materials sectors). Moreover, the lowest quality sub-industries and companies (i.e. commoditized business models, debt-laden balance sheets, low ROICs, etc.) within these sectors have performed even better. This is partly due to fiscal and monetary accommodation that provided much needed support to the most challenged industries and companies. With that said, it's not atypical for highly cyclical industries and/or low-quality companies to outperform when the market anticipates an improvement in the economic backdrop. Early in an economic cycle, market participants with short-term time horizons gravitate to stocks with the highest beta, operating leverage, and financial leverage. If markets are pricing in terrible results, the lowest-quality spectrum of securities can produce outsized returns if one accurately anticipates economic conditions improving from bad to less bad. During the early phase of an economic cycle, these same market participants aren't interested in securities that offer consistency, resiliency, and profitability. "Risk off" attributes often become more relevant in the later phases of an economic cycle. But, with economic momentum building and pent-up demand across many consumer activities, why even hold late cycle industries and/or the anointed "COVID winners" in an equity portfolio? And why isn't the rotation into highly cyclical industries (aka the reopening trade) a sound investment strategy?

> "Naturally, optimism around the economic recovery has fueled a powerful rally in the most economically sensitive sectors..."

While it's true that stocks with the greatest sensitivity to the reopening of the economy have performed best lately, it is important to keep in mind that the stock market is a discounting mechanism. In other words, markets are always forward looking and constantly calibrating expectations 6 months to 1 year into the future. For example, the cruise line industry has been deeply impacted by travel restrictions, and yet the enterprise value of Carnival Corporation

Cycles and Rotations – Are We Talking Spin Studios or Financial Markets?, continued

is approximately 20% higher than pre-pandemic levels. Carnival's revenue, however, isn't expected to fully recover until the end of 2023, while a full earnings recovery is estimated to occur no sooner than 2026. Carnival's revaluation isn't unique; many companies (American Airlines, Macy's, and AMC Entertainment, just to name a few) have significantly recovered well ahead of any meaningful fundamental improvement. Therefore, the "reopening trade" is likely priced-in to some extent, and an optimistic view on "reopening stocks" must be based on an economic outlook that extends beyond 2022.

The prospects for strong economic growth are certainly encouraging over the next several quarters; however, accurately predicting how the economy and markets perform over the medium term is not possible on a repeatable basis. When faced with complex investment questions and puzzles, I regularly turn to Warren Buffett's teachings for guidance. When making investment decisions, Mr. Buffett espouses the need to concentrate on what's important and what's knowable. There's no doubt that interest rates, inflation rates, currencies and many other economic factors are important, but the long-term direction of these factors is often unknowable. In some instances, even if one can predict an economic event, the second order effects are still unknowable. For example, one would naturally surmise that lower corporate taxes would not only be good for corporate profits, but also for stock prices. However, the Tax Cuts and Jobs Act of 2017 illustrated that even the implications of lower corporate taxes are unknowable. The Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017, reduced the federal corporate statutory tax rate from 35% to 21%. And while corporate profits did in fact substantially increase in 2018, the S&P 500's PE multiple meaningfully de-rated, more than offsetting the increase in corporate earnings. In fact, the S&P 500 was down 4% in 2018, registering its first annual decline since the financial crisis. In the coming years, tax rates will likely need to be increased; however, it is not a foregone conclusion that higher corporate taxes translate into lower stock prices.

> "Currently, inflationary pressures appear to be transitory…"

Similarly, investors might be concerned about the recent increases in inflation rates. Some might be tempted to sell high-quality businesses that have been unresponsive to current market conditions and buy inferior businesses purely as an inflation hedge. Currently, inflationary pressures appear to be transitory, as COVID-19 related supply chain disruptions and elevated consumer demand from high personal savings and stimulus checks are the likely culprits. That being said, long-term inflation rates squarely fall in the highly important but unknowable category. We do know, however, if inflationary pressures persist, then the ownership of high-quality businesses that can mitigate input cost inflation will be critically important. Only the strongest companies will have sufficient pricing power to absorb and pass on higher input costs, without diminishing volumes and operating margins.

Within our Intrinsic Value Strategy*, we own several global consumer franchises (e.g. Nike, Nestle, Mondelez, and Starbucks) that have long histories of exhibiting nominal and/or real pricing power. Also, portfolio companies like PayPal, Visa, and S&P Global earn revenue often by taking a fixed transaction rate on nominal values, be it from facilitating payments at the grocery store or from providing credit ratings on corporate bond issuances. Additionally, these companies generate high operating margins and even higher incremental margins. Lately, many of our large capitalization technology companies have been inversely correlated with interest rates. However, if rising bond yields portend higher inflation, then we believe many of our technology companies are actually well positioned to navigate an inflationary environment. Businesses that generate high returns on capital are better insulated against inflationary pressures, as they inherently require less incremental capital to support higher levels of revenue. Moreover, many of our technology stocks are not only capital efficient, but also their business models aren't overly dependent on traditional input costs such as lumber, copper, or corn. In some cases, our tech companies have business units that generate gross margins in excess of 80% and have marginal costs that are close to zero.

Instead of trying to outguess market participants on economic trends, our Intrinsic Value Strategy investment philosophy is based on the long-term ownership of competitively advantaged companies that possess unique positions within their respective industries. We accept our inability at market-timing, and therefore we make no attempt at playing an economic cycle or sector rotation. Our goal is to preserve and adequately compound our clients' assets over the long-term. We seek not to generate the highest total return for a given unit of risk. Our aim is to earn above average returns over long periods of time, while minimizing the fundamental risks that we underwrite. We attempt to achieve this goal by concentrating our efforts on a select group of exceptional and attractively-valued businesses, with a keen focus on what's important and what's knowable. Importantly, many of our portfolio companies are well positioned to participate in the current economic recovery; however, even our most cyclical businesses are durable enough to withstand and potentially benefit from an unforeseen economic disturbance. Ultimately, we know that the economic value created by our businesses will drive their share prices over the long-term. Conversely, we also know that commoditized businesses earn unattractive returns on invested capital and that shareholders' returns will be highly dependent on the accurate timing of such investments, and not the time in the investments. Finally, we know that the attainment of investment objectives requires patience, discipline, and a long-term orientation, all of which are of the utmost importance.

"We seek not to generate the highest total return for a given unit of risk. Our aim is to earn above average returns over long periods of time..."

*Greenleaf Trust offers a US equity strategy for clients through an internally-managed stock portfolio – the Intrinsic Value Strategy. The strategy focuses on companies with durable competitive advantages that trade below their intrinsic value.

Regina Jaeger, CTFA
Vice President
Senior Trust Relationship Officer

Key to a Successful Family Loan — Document, Document, Document

With interest rates so low, intra-family loans (also referred to as family loans), using current low interest rates, have garnered significant interest for the purpose of wealth transfer to complement a holistic estate plan. While the majority of the conversation in recent years has focused on wealth transfer as the purpose of a family loan, perhaps a more common purpose is to simply help out a family member who is in financial need. When making a loan to a son, daughter, grandchild, or other potential heir, there is no step of greater importance than adequately documenting the transaction from beginning to end to ensure the loan has the intended impact in the context of your overall estate plan and goals.

There have been many cases where the US Tax Court has ruled on whether a loan is actually a gift. The IRS defines a loan as the transfer of property or money to someone else with the expectation that the transfer of property or money will be paid back in some fashion in the future. Consequently, the first document to build upon is the execution of a loan agreement (many times in the form of a promissory note) to memorialize the arrangement, regardless of how short term the loan is expected to last before the money is paid back. The loan agreement should include the loan terms like interest rate, maturity date, interest calculation method, payment structure, default language, etc. The loan agreement is the basic starting point for your family loan documentation file.

"Once the loan document is in place, it is equally important to maintain adequate records of payments made, or not made, toward payback of the loan."

Once the loan document is in place, it is equally important to maintain adequate records of payments made, or not made, toward payback of the loan. Unfortunately, there have been far too many instances where a parent has loaned a child money, a promissory note is signed, but adequate repayment records are not maintained, leaving the personal representative or successor trustee of the parents' estate with possibly conflicting accountings of the outstanding balance of the loan, ultimately causing conflict among heirs. To ensure outstanding family loans are properly handled at the lender's death, it is essential to maintain detailed payment records. If payments are not made according to the payment scheduled identified in the loan agreement, record of those missed payments are equally important in helping to determine the outstanding loan balance.

In addition to the loan agreement and record of payments made, it is equally important to review how the family loan interplays with your estate planning documents. Meaning, are you as an individual the lender, or are you as the trustee of your revocable living trust the lender? Does your trust document address how the trustee should handle outstanding family loans upon your death? Is the unpaid loan balance treated as an "advancement" of a bequest? Should other beneficiaries be equalized in an amount equal to the outstanding loan balance? Many clients forget to address these questions, which can result in unintended disposition of assets at death and strain on family relationships. For example, assume that you as trustee of your revocable living trust loan your grandson $50,000 toward the purchase of a home. Your intention is that if the loan is not paid in full prior to your death, the outstanding loan balance should be considered as a bequest to your grandson. As of the date of your death, your grandson has made $20,000 in principal payments, as evidenced by the payment records you diligently maintained. The successor trustee turns to your trust document for direction of how the family loan should be treated and finds that your trust does not contain a provision that the outstanding balance should be treated as a bequest to your grandson. As a result, the trustee is required to collect on the loan and it is immediately payable in full. Alternatively, perhaps your trust does contain a provision that the outstanding balance is a bequest to your grandson, but there is no provision contained in your trust that addresses your other grandchildren, which if left silent leads to unintentionally treating your grandchildren unequally. To safeguard against unintended estate distribution results, your estate plan documents should be reviewed, and amended if needed, to assure that outstanding family loans at the time of death will be handled in a manner that is consistent with your intended estate distribution goals.

In most cases, our clients share with us when they have made a loan, or plan to make a loan, to a family member. We then help them through the documentation and estate plan review process. However, unfortunately there have been too many occasions where family loans for a purpose other than wealth transfer have been "discovered" too late, causing problems among family members, distribution of assets contrary to estate plans, and avoidable administrative complexity. To avoid unintended consequences of family loans when helping a son, daughter, grandchild or other heir in need, maintaining adequate documentation of the transaction from beginning to end, and confirming its treatment in the context of your overall estate plan is vital to ensure your intentions are executed efficiently and with desired results.

"In most cases, our clients share with us when they have made a loan, or plan to make a loan, to a family member. We then help them through the documentation and estate plan review process."

Lorey L. Matties
Participant Services Specialist

SECURE Act 2.0: Retirement Security is Again on the Congressional Agenda

Americans saw a number of changes to their retirement savings plans when the Setting Every Community Up for Retirement Enhancement Act, or the SECURE Act, was passed two years ago. Get ready for more.

The House Ways and Means Committee recently voted unanimously to advance a second bill, the Securing a Strong Retirement Act of 2021, that would continue to enhance the rules for contributing to and withdrawing from retirement savings vehicles, while providing tax incentives for small business owners.

Nicknamed the SECURE Act 2.0, the legislation was introduced by Reps. Richard Neal, D-Mass, and Kevin Brady, R-Texas, and aims to encourage Americans to save more for retirement, in part by making that process easier, while keeping burdensome reporting requirements off plan sponsors. It's widely expected the bill will pass in Congress either later this year or in 2022, given its strong bipartisan support and the nearly unanimous backing of the original SECURE Act.

Key provisions of the SECURE Act 2.0 include the following:

> "Nicknamed the SECURE Act 2.0, the legislation... aims to encourage Americans to save more for retirement..."

Increase the Required Minimum Distribution Age... again

The original SECURE Act raised the age at which you must start taking required minimum distributions (RMDs) from traditional IRAs, 401(k)s and 403(b) plans from age 70½ to 72. The proposed legislation would again raise the age to begin taking RMDs, this time to age 75 over a decade. That means you could have more time for your money to grow tax free, but if you delay RMDs, your withdrawals may need to be larger.

In the new bill, the age for RMDs would initially increase to 73 starting in 2022, then to age 74 in 2029 and age 75 in 2032.

Expanding Automatic Enrollment/Escalation for New Plans

The legislation would require defined contribution plans established after 2021 to automatically enroll eligible workers at a pre-tax savings rate of 3% of pay — although workers always have the option to opt out or opt to save less or even more, up to annual contribution limits. Auto-enrolled employees' contribution rates would automatically increase each year by 1% up to at least 10% (but no more than 15%). There are exceptions for small businesses with 10 or fewer employees, businesses which opened fewer than three years ago and retirement plans for churches and government agencies.

Raise and "Roth-ify" Catch-Up Contribution Limits

Under current law, employees age 50 and older can make extra catch-up contributions to a 401(k) or similar plan. This limit on catch-up contributions for 2021 is $6,500, indexed annually for inflation. The proposed provisions would keep the catch-up age at 50 but increase the limit by an additional $10,000 per year for employees at ages 62, 63 and 64 beginning in 2023.

Under current law, catch-up contributions can be made on a pre-tax or Roth basis. SECURE Act 2.0 provides that effective in Jan. 1, 2022, all catch-up contributions to qualified retirement plans must be made on an after-tax, Roth basis.

Currently, the catch-up limit for IRAs is $1,000 (not indexed) for individuals who have reached age 50. SECURE Act 2.0 indexes this limit for inflation starting in 2023.

Roth-ification of Employer Matching Contributions

Plan sponsors may, but are not required, to permit employees to elect that some or all of their matching contributions be treated as Roth contributions. Employer matching contributions designated as Roth contributions would not be excludable from employees' gross income.

Student Loan Matching

Traditionally, employers match participants' contributions to their retirement accounts, but some workers may be unable to fund their retirement account as they prioritize paying down student loans. The proposed legislation would allow, but not require, employers to make matching contributions to employee retirement accounts based on the employee's own student loan payments. This would apply to 401(k) plans, 403(b) plans, SIMPLE IRAs and 457(b) plans.

> "The proposed legislation would allow, but not require, employers to make matching contributions to employee retirement accounts based on the employee's own student loan payments."

Expedited Eligibility for Part-Time Workers

Under the first SECURE Act, companies that offer a 401(k) plan are now required to allow long-term, part-time employees who work at least 500 hours a year for three consecutive years to contribute to a retirement account. This proposal would reduce the three-year rule to two. If passed, the first group of affected workers would become eligible in 2023.

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Easier to Find Old Retirement Accounts

It can be challenging for employers to locate former workers, who have changed their name or address, to pay out benefits from a retirement plan. It can also be difficult for workers to locate a former employer if that company has merged or rebranded with another firm. To make this easier, the legislation would create a national online lost-and-found database for retirement plans.

> "It's important to note that while the changes above are perhaps some of the most significant, there are many other provisions..."

Incentive for Small Businesses to Give Workers Access to a Retirement Plan

Within the new bill, there are several tax credits that small businesses could claim for providing greater access to retirement plans for workers. Employers with up to 50 workers would be able to offset start-up costs from 50% to 100%.

What's Next?

It's important to note that while the changes above are perhaps some of the most significant, there are many other provisions in SECURE Act 2.0. These provisions are subject to change as they are almost always modified as they move through the legislative process. At Greenleaf Trust, we are committed to planning for change and keeping our plan sponsors and participants informed and compliant with any legislative updates.

Your Next Financial Milestone

Jeff T. Pauza, CFA®, CFP®
Senior Wealth Management Advisor

There are few thrills in life that can compare with turning 16 and getting your driver's license. It's often the first true sense of independence and freedom that many experience. For me, cruising down the road, windows rolled down, parentless, in a 1992 Pontiac Grand Am was truly unforgettable.

Before I could even figure out how to afford the gas, however, I was rounding my 18th birthday. The excitement of being an adult was quickly replaced with the stress of actually being one.

I may not remember it as vividly, but I think 21 was an important milestone too. And then like a teenager's gas tank, fun birthdays dry up. Lost somewhere in the middle of a career, marriage, buying a home, raising children, saving for the future or enjoying retirement, you may also be wondering what happened to all those thrilling birthdays? What else is there to look forward to? Well fear not, it is our privilege to share an exhaustive list of enduring financial milestones.

25: Generally once you turn 25, auto insurance rates drop substantially. Most insurance agents now consider you a more mature and safe driver – ha!

26: Don't spend those car insurance savings just yet – you are about to be vacated from your parent's health insurance. Make sure to double-check the plan's fine print. Some states and plans have different rules. For instance, if you are on a marketplace plan, you can remain covered through December 31st of the year you turn 26.

35: Unfortunately, there are not many financial milestone birthdays between 26 and 50. Turning 35 and finally being eligible to run for President of the United States is worth mentioning in an otherwise bland decade.

50: Time to catch-up! Individuals who are 50 and older can contribute an extra $6,500 to their employer sponsored retirement plan each year. Workers can also contribute an extra $1,000 to an IRA or a Roth IRA. While some studies may reveal happiness bottoms at 50, nothing like more savings opportunities to flip that frown into a smile!

55: For individuals who are covered by a high-deductible healthcare plan (HDHP), you are able to contribute an extra $1,000 per year to your Health Savings Account. An under-utilized advantage exists if both spouses are covered by an HDHP. Each spouse can make separate $1,000 catch-up contributions beginning at 55. This means a total family contribution of $9,200 in 2021 for a married couple over the age of 55 to this triple tax advantaged savings vehicle.

Turning 55 certainly has its financial advantages. Typically, individuals would have to pay a 10% federal penalty, along with income taxes, when they withdraw money from a retirement plan before 59½. This penalty

"… it is our privilege to share an exhaustive list of enduring financial milestones."

Your Next Financial Milestone, continued

disappears for 401(k) and 403(b) withdrawals on your 55th birthday as long as you have been "terminated" from service (quit, retired, or fired).

59½: This is absolutely one of the most under-celebrated milestones. At 59½, anyone can take distributions from an employer sponsored retirement plan or IRA without incurring a 10% penalty. Your valuable savings are finally available penalty-free. Fortunate workers will also be allowed to pursue an "in-service" rollover if their retirement plans allow. This enables employees to move money into an IRA while still working and contributing to a 401(k).

60: If you are a widow or widower of a person who worked long enough to earn social security, you may be eligible to begin receiving a social security survivor benefit when you turn 60. If you qualify for social security benefits on your own record, you can switch to your benefit in future years.

62: This is the earliest age you can receive your own social security retirement benefit. Fair warning: on claiming before full retirement age (typically ages 66-67), your benefit will be permanently reduced and you will only receive about 70% of your lifetime entitlement.

"At 59½ , anyone can take distributions from an employer sponsored retirement plan or IRA without incurring a 10% penalty."

65: A birthday that you will likely celebrate while waiting in line at the Social Security office. At 65, most Americans are eligible for Medicare benefits. You will typically want to begin this process at least three months before your birthday and no later than three months after. Delaying past that point can cause you to pay permanently higher premiums.

After your 65th birthday, your Health Savings Account effectively functions like an IRA. There is no longer a penalty for non-healthcare related expenses after your 65th birthday. You now have access to these funds to use as you wish, but you will still owe income taxes on any non-healthcare related expenses.

66: This is full retirement age for those lucky enough to be born between 1943 and 1954. Waiting to begin your social security distributions until at least this birthday means you are not leaving anything on the table. Full retirement age ensures you will receive 100% of your social security benefit.

67: If you were born in 1960 or later, this is your full retirement age. You are now able to receive 100% of your social security benefit and will not be penalized for claiming early.

70: The presents only get sweeter at 70! Those with the fortitude and capacity to delay receiving social security until their 70th birthday are rewarded with an 8% annual increase. Start cashing those checks immediately at 70, there is no benefit to delay further.

70½: Another significant half birthday to celebrate. The IRS requires retirees to take required minimum distributions (RMDs) each year from their retirement accounts. Unfortunately, this means a retiree will have to start paying income taxes on their distributions. A qualified charitable distribution (QCD) is a method that can help lower income taxes while also benefiting charities. A QCD is a direct transfer from an IRA to a qualified charity. A QCD will count toward your current year RMD, effectively reducing your taxable distribution. A lower RMD means reduced income which will ultimately lead to a lower tax bill. Perhaps a tax policy quirk, but you can now begin to take QCDs at 70½, before your RMDs begin at 72.

72: After decades of postponing taxes, the government finally demands its cut. You are required to start required minimum distributions from most retirement plans beginning the year you turn 72. This is one party you will not want to miss – the penalty for forgetting a required minimum distribution can be as high as 50%!

There are many significant and special birthdays after 72. On behalf of the entire team at Greenleaf Trust, we encourage you to enjoy each and every one of them. For anyone seeking help through these financial milestones, our team is standing by and waiting to celebrate with you.

"72: After decades of postponing taxes, the government finally demands its cut. You are required to start required minimum distributions from most retirement plans..."

Stock Market Pulse

Index	5/31/21	Total Return Since 12/31/2020
S&P 1500	965.65	13.25%
Dow Jones Industrials	34,529.45	13.76%
NASDAQ	13,748.74	6.98%
S&P 500	4,204.11	12.61%
S&P 400	2,727.44	18.81%
S&P 600	1,371.94	23.14%
NYSE Composite	16,555.66	15.00%
Dow Jones Utilities	897.35	5.31%
Barclays Aggregate Bond	2,337.22	-2.29%

P/E Multiples	5/31/21
S&P 1500	29.7x
Dow Jones Industrials	26.1x
NASDAQ	89.9x
S&P 500	29.8x
S&P 400	28.6x
S&P 600	29.3x

Key Rates

Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.43%
T Bond 30 Yr	2.28%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	965.65	29.7x	1.36%
S&P 500	4,204.11	29.8x	1.37%
Dow Jones Industrials	34,529.45	26.1x	1.74%
Dow Jones Utilities	897.35	19.0x	3.47%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.92%

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