GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

OCTOBER 2021 VOLUME 30, ISSUE 10

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Economic Commentary

The news has been dominated lately with the topic of raising the United States' debt ceiling. It is hard to call the process of doing so, new. In fact, 90 different times in our country's history Congress has agreed to raise the debt ceiling, which Congress previously established so that the United States doesn't default on its outstanding debt obligations. From 1962 through 2011, Congress has authorized higher debt limits 74 times and from 2011 through 2019 four more increases were agreed upon. The obligation of the party in power is to get the debt ceiling raised to avoid defaults and the resulting dire economic consequences of not doing so. Conversely, it remains the obligation of the opposition party to exact some political benefit of agreeing to facilitate the increase in debt limit. This time around is no different. It is easy to see the process as hypocritical. In 2017 and 2019, then majority leader McConnell stated that Congress had a moral obligation to raise the debt ceiling, and that it was unconscionable to even think that the US would default. Flash forward to October of 2021 and the very same Senator, now the minority leader of the Senate, is blocking the debt ceiling increase by insisting that the Democrats "go it alone" without any support from Republicans. Don't think for a moment that this seemingly political hypocrisy lies in bed with only one political party. In 2003, 2004 and 2006, President Biden, then Senator Biden, did not join Republicans in voting to increase the debt limit. Each politician will provide sound bites as to why this time is different, but the evidence is clear. Debt ceiling increases are essential to the continuation of uninterrupted economic activity cycles, and each time legislative action is required to raise the ceiling whichever party that is not in power will exact whatever leverage they have, right up until the deadline, to extract whatever political capital they can in the process. Senate majority leader Schumer and minority leader McConnell agreed to move legislation forward to raise the ceiling by $480 billion, which will be enough to avoid a default and allow government obligations to be paid until December 3 of this year, and thus the default is temporarily avoided but the focus on future defaults remains intact.

The letter written by Treasury Secretary Yellen to Congress on the

Commentary, continued

critical importance of raising the debt ceiling is no different in tone or verbiage than Secretary Mnuchin's letters to Congress in 2017 and 2019 during the Trump administration. To be certain, there have been 49 Republican Treasury Secretaries and 25 Democratic Treasury Secretaries authoring precisely the same letters to Congress during the last 74 debt increases that have occurred. While it is easy to observe that the process is political and that both parties engage equally in the political theatre, it is also debilitating and takes energy away from addressing the real issue of national debt growth now totaling $28.4 trillion, which is an increase of $6.2 trillion since 2017.

As we have written previously, at current budget levels we are adding $2.0 trillion to the deficit annually, which is the natural result of spending more than we produce in revenue. Without question, the expenditures necessary to combat the COVID-19 pandemic and maintain our economy, while supporting wage earners and private enterprise, have increased debt levels beyond forecasted levels. The economic and financial price paid to endure and then defeat the current pandemic is simply more evidence why we need to be better prepared to combat and prepare for future pandemics. It is not a matter of if they will occur, but rather a matter of when and how better prepared we are as a nation to minimize both the human and economic cost that results from them.

"...the political theatre... is also debilitating and takes energy away from addressing the real issue of national debt growth now totaling $28.4 trillion, which is an increase of $6.2 trillion since 2017."

The fractious political divide in our country and the willingness of our political parties' leadership to use that divide for political capital gain seems without bounds. We have successfully politicized science, vaccines, booster shots, quarantines, masks and established public health protocols and so it isn't easy to assume that we will make substantial progress in investing against future pandemics, but yet we can keep hope alive. The dichotomy of making phenomenal scientific and technological progress, while simultaneously increasing rigidity against using it through political division is stunning as well as foolish.

As has been the case in previous years our current President is finding that governing with a majority, albeit very slim majority is not easy. Nearly ten months into his term, President Biden, though having a House and Senate majority, has not enacted his keystone policy platform legislation and his roadblock is as much from his own political party as it is the entrenched opposition. We must get used to the notion that there are no longer political cycles that surround Congressional, Senate and Presidential elections. It has now evolved into one continuous cycle that impact all that is done in the body politic. Legislative content and public policy is not looked at in terms of what is best for our country, but rather what is best for a political party. The divide is deep, and controlled by the extreme ends of political thought, and thus the lens used to assess the

value of policies proposed is by necessity viewed as a zero sum game. If it is proposed by one party then as a member of the other party I must oppose it and bipartisanship is a rapidly fading political art form.

The Delta variant of COVID-19 seems by the data to have peaked and begun an incremental fade. Booster vaccines have been introduced and vaccines for those twelve and under are close to being approved. Vaccination rates above 50 years of age are very high and among working age adults (ages 18 – 64) are now approaching 67%. New vaccination progress has been most noted in Hispanic and people of color adult populations and the previous gap in vaccination rates that had been observed has dramatically narrowed. The majority of deaths and prolonged hospitalizations continues to be for those not vaccinated. At current inoculation rates it seems unlikely that we will achieve the targeted 80% vaccination rate of our population that public health experts held out as the target necessary to eradicate the COVID-19 virus. The largest hurdle to be achieved that will positively change our pandemic condition seems to be vaccination adoption in K-12 education and particularly K-8 education. This interruption in vaccination progress is heavily integrated with limited child care availability and with employment opportunities yet unfilled in the $15 – $20 per hour range. Unemployment stands at 4.8% as of September and will fall grudgingly from there as opportunities for employment are among demographics most impacted by limited child care both before and after school, which represents the largest segment of unvaccinated children and registers the highest concerns/reasons for not returning to work in employment surveys.

The New York Fed Weekly Economic Index that measures real time economic activity around consumption, production and labor continues to show robust economic activity with the October 7 reading at 7.78, which is a reduction from the previous weeks reading of 8.03. This reduction is not unexpected, as our economy adjusts to more normal levels of consumption and lower levels of pent-up demand for goods and services. Logistics interruptions continue, though pace of recovery among commodities has improved as evidenced by lower commodity prices. Automotive production continues below the demand pace due to microchip production delays with little line of sight for improvement through December of this year.

"The majority of [COVID-19] deaths and prolonged hospitalizations continues to be for those not vaccinated."

Michael F. Odar, CFA®
President

An Update on Our Diversity, Equity, and Inclusion Journey

Greenleaf Trust is taking great strides to examine diversity, equity, and inclusion — both within the organization itself and the communities we serve. We are always looking for ways to give back, change our actions to be better and more inclusive and to provide opportunities for our team members to uphold the same expectations.

We utilize a targeted diversity recruiting strategy that upholds our values through partnerships, social media groups, and a scholarship and internship program which provides minority mentoring as well. To achieve racial diversity both within our company and in the field of finance, the Greenleaf Trust Scholarship was established at Western Michigan University in 1999. Over the past 22 years there have been 83 students awarded the scholarship and over $1.7 million dollars distributed. Currently, we have 13 scholars, 5 interns, and 8 current employees who are former scholars.

This fall, we also launched the Greenleaf Wealth Development Club for Student Investors. The program is designed for students of color from Kalamazoo Public Schools (KPS) high schools interested in learning more about finance. Once a month, club members meet with Greenleaf Trust professionals and dedicated KPS teachers/advisors to learn more about investing, financial career path options, and other financial concepts. At the end of the nine-month program, each club member will be awarded access to their own live trading account app with $500 to invest as they choose.

> "Our core values are the heart of our company and several of them point to diversity… things we live, teach, and mentor on each day:"

Our core values are the heart of our company and several of them point to diversity. These values are things we live, teach, and mentor on each day:

- Diversity is good, it makes us better decision makers
- Professionalism, respect, and dignity are fundamental principles by which we treat all others
- We support the maintenance of balance between family, work, and community service

To embody our values, we formed an internal Diversity, Equity, and Inclusion (DEI) Team with the vision of educating team members on actively working to become an anti-racist organization that fully supports diversity, equity, and inclusivity at all levels.

Lastly, we are really proud that we were recently recognized for our diversity initiatives as a Diversity Focused Company by Corp! Magazine. The award recognizes our success in defining and monitoring diversity; demonstrating how diversity adds value; committing to diversity among its workforce and suppliers; fostering an inclusive workplace; making accommodations for minority and disabled employees; fostering career development of women,

minority, and disabled employees; supporting community outreach programs that encourage diversity and advancement of women; and creating initiatives to meet the challenges and opportunities created by diversity.

We recognize that we are only at the beginning of our journey but definitely feel up to the challenges ahead.

By the Time You Read This, Everything Will Have Changed

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

It's highly likely that by the time you're reading this, the US Congress will have spent the final week of September 2021 debating two momentous spending bills: the Infrastructure Investment and Jobs Act, a budget reconciliation bill (what is being called the "Build Back Better Act"), not to mention a $1.6 trillion continuing resolution to fund the US government that includes an increase in the federal debt ceiling. It's not often that in one week we would see Congress tackling a "once-in-a-generation investment in our infrastructure" along with "the most consequential piece of legislation passed since the Great Depression," all while negotiating to stop a government shutdown!

From where we sit here on September 27, the full scope and scale of the Build Back Better Act is yet to be determined, and there is no telling of the varied political shenanigans that undoubtedly will have occurred during negotiation. However, there are some things that we do know about the bills and their economic impact. In the following paragraphs, we summarize the things that we know – as well as the things that we believe will remain unclear, even after this week.

> "[The IIJA] passed the Senate on August 10 by a wide margin of 69-30, with 19 Republican senators joining all 50 of the Senate Democrats to vote in favor."

THE INFRASTRUCTURE INVESTMENT AND JOBS ACT (IIJA)

What we know:

This Act passed the Senate on August 10 by a wide margin of 69-30, with 19 Republican senators joining all 50 of the Senate Democrats to vote in favor. This Act, which approved total spending of $1.2 trillion, including new spending of $550 billion, is focused on a wide array of physical infrastructure needs.

Below are the areas in which funding was approved as well as the amount:

- Transportation: $284 billion
- Water: $55 billion
- Broadband: $65 billion
- Energy & Power: $73 billion

By the Time You Read This, Everything Will Have Changed, continued

- Environmental remediation: $21 billion
- Western water infrastructure: $8.3 billion
- Resiliency: $46 billion

There is general agreement around which sectors stand to see the biggest impact from spending authorized by the IIJA. The analysis below of total economic impacts by consulting firm IMPLAN is representative of the consensus:.

- Maintenance and repair construction of highways, streets, bridges and tunnels
- Electric power transmission and distribution
- Internet publishing and broadcasting/web search portals
- Rail transportation

There is also general consensus around the timing of the economic impact of this bill. In "hard" infrastructure, expected economic impacts are expected to be relatively modest in the short-term but to improve long-term economic growth. This is due in part to the timing and nature of the initial investment, as there is not a huge number of "shovel-ready" projects and the authorized funds will be spent over the next several years.

What will remain unclear:

Ultimately, large infrastructure spending leads to the concern of potentially "crowding out" private investment, which could lead to negative impacts on growth over the long term. There are also some concerns that infrastructure investment at this magnitude may lead to inflationary pressure in certain sectors over the nearer term, though any pressure will not be seen immediately.

> "There is also general consensus around the timing of the economic impact of this bill. In "hard" infrastructure, expected economic impacts are expected to be relatively modest in the short-term but to improve long-term economic growth."

THE RECONCILIATION BILL, OR THE "BUILD BACK BETTER ACT"

What we know:

On August 10, 2021, the Senate passed a budget resolution in the amount of $3.5 trillion that was intended to allow the Senate to pass a reconciliation bill along party lines. This budget resolution is primarily focused on new social spending that has been termed "soft" or "human" infrastructure, though it includes significant additional funding for hard infrastructure projects as well. The amount of spending ultimately approved is expected to shrink due primarily to the now well-known reservations of Senators Joe Manchin and Kyrsten Sinema about the size of the bill.

Many of the reconciliation bill's specific proposals have been intensely debated, largely behind closed doors, for the past several weeks and will continue to evolve up until passage. However, below are the primary focus areas of the reconciliation bill and the "Build Back Better" agenda, including several of the most meaningful proposals being debated.

- Healthcare: Adds vision, dental, and hearing benefit to Medicare; reduces prescription drug costs; creates a federal health program for those in the

"Medicaid gap"; extends expansion of Affordable Care Act
- Families: Establishes universal pre-K and new childcare benefit; funds two years of community college
- Jobs and Infrastructure: public housing and green/sustainable housing, establishes Civilian Climate Corps, provides green cards to large number of immigrants
- Environment and Climate: Establishes the Clean Electricity Payment Program, introduces new polluter fees, creates new tax incentives and grants regarding clean energy and manufacturing, electrifies the federal government (fleet and buildings)

What will remain unclear:

The reconciliation bill is significantly more resistant to general economic analysis than the IIJA. One obvious reason for this is that most aspects of the bill have been changing and up for negotiation since passage of the budget resolution, including the scale and scope of the new policies and spending. However, if the Act passes it will remain difficult to analyze its probable economic impacts due to the Act's sheer expected size, the large number of differing policies it contains, and the varied timing impacts of the spending that will be authorized. It will take some time before the policies are widely analyzed and understood.

It is also important to note that some of the most potentially impactful areas of spending represent new policies and spending for which there are few (if any) historical precedents. For example, some of the most significant expected costs in the bill include the provision of two years of universal preschool and a sliding scale limit on child care costs. These new benefits will affect millions of families with the impact being determined by numerous factors, including speed of the uptake of preschool, the capacity of our childcare system to absorb new children, and whether parents will participate more fully in the job market.

"It is also important to note that some of the most potentially impactful areas of spending represent new policies and spending for which there are few (if any) historical precedents."

Additionally, what remains to be fully explicated is the wide variety of tax changes that will be made to help pay for this bill, including a likely increase in corporate tax rates, an increase in taxes for high individual earners, and changes to estate tax rules. Not only are the final changes yet to be determined, but their economic impacts will not be known for some time.

SUMMING UP THE UNSUMMABLE

Many of us will have been breathlessly following the twists and turns of the legislative process the historic week of September 27. And while we don't know now how things ultimately will shape up this week, we DO know what our clients should do after such a breathless week. Our recommendation is simple: take that breath you've been putting off, go top off your morning coffee - and then check in with your trusted advisors and let them guide you through the new landscape.

Melinda P. Shull, CTFA
Senior Trust Relationship Officer

Proposed Tax Reform and Philanthropy

If you're like most people, you give to charity because you want to make an impact on the world or support a cause you care about. But how much and when you give is typically a financial decision. Tax incentives may help you to give more than you could otherwise and provide even more resources to causes you care about.

With much of the tax reform being talked about, little has been said about the possible impact of some of the tax proposals on philanthropy. Some planning options may be curtailed, yet others will continue to exist, and may even present better tax-saving opportunities if income tax rates increase in future years.

"… little has been said about the possible impact of some of the tax proposals on philanthropy."

CHARITABLE PLANNING TECHNIQUES THAT WOULD NOT CHANGE

Of course, there are still many unknowns with any tax or economic reforms. Yet there are some of the existing charitable giving techniques that apparently would not be threatened with the proposed tax law changes.

1. Gift of Appreciated Assets: The gift of appreciated securities or other assets held long-term are still tax deductible at their fair market value, no matter how low their cost basis. Such lifetime gifts are deductible up to 30% of the donor's adjusted gross income (AGI)[1], with any unused portion of the charitable deduction carried forward for up to 5 subsequent tax years. These lifetime gifts of appreciated assets may become more important if there is a deemed disposition at the owner's death, where the inherent capital gain would become [along with their IRA] income in respect of a decedent [IRD].
   FOR EXAMPLE: John will have an adjusted gross income (AGI) of $100,000 on his 2021 tax return. John can deduct up to $30,000 of charitable gifts with appreciated stock on his 2021 tax return. John holds Facebook stock (FB) that he purchased in December, 2018 at $125/share. With a current trading price around $375, John could gift 80 shares or approx. $30,000 to a favorite charity. This would be a deduction on John's tax return and John would not be subject to the capital gains tax on the appreciated stock. The charity would then sell the stock and not pay taxes.
2. Charitable Step-Up Strategy: If there is to be a deemed disposition on the owner's death of his or her appreciated assets, the donor might consider gifting the appreciated securities to charities now, and using the cash that would otherwise have been donated to charity on death to

repurchase the securities. Those steps would result in a higher income tax cost basis for the securities for capital gains recognition purposes on the owner's death.

FOR EXAMPLE: Instead of making a cash donation $300, John gifts 1 share of Facebook stock to the charity with the low cost basis. Then John purchased the 1 share of Facebook back into the account at a current market price. The result is the same, but now John will have a higher cost basis and pay less in capital gains taxes in the future.

3. Charitable Gifts of Cash: Lost among all the legislative initiatives that are attracting so much publicity is the fact that for 2021 only, immediate gifts of cash to charities qualify as charitable income tax deductions up to 100% of the donor's AGI. Excluded from this cash-opportunity are cash gifts to private foundations, donor-advised funds, and charitable remainder trusts. This gifting opportunity is best for those individuals who hold a lot of cash, who have a relatively low AGI for 2021, and who hold significant other assets. Thus, a large cash gift to a charity in 2021, up to the donor's AGI, could completely eliminate any federal income tax liability for the donor for 2021.

   FOR EXAMPLE: Mary gives annually to charities and has an AGI of $100,000. For 2021 only, Mary is able to make a charitable contribution of $100,000 cash to eliminate any taxes due. Mary will only benefit from this strategy if Mary can itemize. Keep in mind it must be cash gifts – gifts of appreciated stock do not qualify and gifts to private foundations or donor advised funds do not qualify.

4. Qualified Charitable Distributions: The opportunity of those individuals 70½ or older to give up to $100,000 from their traditional IRA as a qualified charitable distribution (QCD) still exists. Not receiving taxable income as a required minimum distribution (RMD) is the same thing as receiving the income and then gifting the income to charity. Restated, the QCD is the equivalent to an above-the-line charitable income tax deduction that is not reported as part of the donor's AGI. Using a QCD also keeps the donor's AGI lower which can impact the donor's ability to claim other tax deductions that are tied to the donor's AGI.

   FOR EXAMPLE: Jane turned 70½ on September 12, 2021 and is now eligible to make qualified charitable distributions from an IRA. Jane is not yet 72 and subject to IRA required minimum distributions. However, Jane can gift to charity directly from the IRA account and be able to report the amount as non-taxable income on the Form 1040. It is important to note that the payment should be made directly to the charity from the IRA and not a personal checking account.

5. Split-Interest Charitable Gifts: Split-interest gifts to charity for life, or

"… for 2021 only, immediate gifts of cash to charities qualify as charitable income tax deductions up to 100% of the donor's AGI."

Proposed Tax Reform and Philanthropy, continued

"The unlimited federal estate tax charitable deduction still exists. This… could become important (again) if an individual's applicable exemption amount drops… to a lower amount"

for other periods of time, using cash or assets that have not appreciated in value, or when appreciation falls within current exemption amounts, is still a viable planning tax strategy. Currently there are no proposals outstanding that would diminish the longstanding value of a split-interest gift to charity. President Biden's 2022 budget proposal would not tax gains on gifts of appreciated assets to fund a charitable remainder trust (CRT) by the donor, if the gift to the CRT by the donor is completed before the end of 2021.
FOR EXAMPLE: Acting now to fund split-interest charitable trusts (CRTs) would avoid the deemed disposition rule on funding the CRT, and it would also remove the value of the transferred assets from the donor's taxable estate should applicable exemption amounts drop, or federal estate tax rates increase. It's something to think about for individuals who are charitably inclined.

6. Testamentary Gifts to Charity: The unlimited federal estate tax charitable deduction still exists. This charitable estate tax deduction could become important (again) if an individual's applicable exemption amount drops from the current $11.7 million to a lower amount, like $5.0 million, or possibly even lower, such as the $3.5 million exemption Bernie Sanders has proposed.
FOR EXAMPLE: Charitable bequests in wills and trusts still have validity even if the applicable exemption amount is reduced in future years, there is the probable increase in federal income tax rates.

Regardless of what the future holds, donors should review their current tax strategy to make sure they take advantage of existing planning opportunities. Consider meeting with your client centric team and CPA to discuss how charitable giving can take your holistic financial plan to the next level.

1Adjusted Gross Income (AGI) is defined as gross income minus adjustments to income. Gross income includes your wages, dividends, capital gains, business income, retirement distributions as well as other income. Adjustments to Income include such items as Educator expenses, Student loan interest, Alimony payments or contributions to a retirement account. Your AGI will never be more than your Gross Total Income on you return and, in some cases, may be lower. (IRS Definition of Adjusted Gross Income)

Planning for an Uncertain Future in a World of Tax Reform

Corbin M. Donaldson, CFP®
Wealth Management Advisor

"Anything is possible," were the iconic words spoken by former Boston Celtic, Kevin Garnett, upon clinching Game 6 of the 2008 NBA Finals against the Los Angeles Lakers. At Greenleaf Trust, we would love to be able to peer into a crystal ball and tell you exactly how things will turn out, but we simply cannot. Market downturns and new legislation are bound to happen — we cannot control circumstances, but we can control our preparedness. Within this article, we will evaluate at a high-level several of the much-anticipated tax proposals from the House's Way and Means Committee. We will explore several planning strategies that could be effective approaches for certain clients, dependent on what legislative proposals are passed. While Garnett was referencing his historic run to the title, it similarly appears that "anything is possible" as we explore what tax proposals could become law.

One of the first proposals, and one that should come as no surprise, revolves around an increase to the capital gain tax rates. The Biden Administration's original proposal suggested doubling the long-term capital gain rate, and qualified dividends, from 20% to 39.6%. However, the Committee's most recent recommendations reflect a more modest increase from 20% to 25% for individual filers earning more than $445,850, and married couples filing joint earning more than $501,600 (2021 brackets). Added to an existing 3.8% surtax on net investment income and the total tax bite would be 28.8% if the proposal becomes law. Worse yet, the proposed increase would apply to gains realized after September 13.

"One of the first proposals... revolves around an increase to the capital gain tax rates."

Potential Planning Strategies

1. Gain Harvesting – If debate in Congress pushes the effective date forward to 2022, you should consider selling your appreciated assets earmarked for sale sooner rather than later. If you were contemplating a liquidity event regardless, selling appreciated assets prior to year-end would lower your ultimate capital gains tax bill should the effective date be pushed out.
2. Installment Sale – Alternatively, utilizing an installment sale would defer the recognition of capital gains; but if not retroactive to the date the bill was enacted, then the seller can opt-out of the installment sale contract and take the capital gains in 2021 to avoid future tax adjustments.

Second, the American Families Plan, along with the proposed Budget and Green Book, would look to restore the top tax rate of 39.6% for individuals earning more than $400,000 or $450,000 for married couples filing joint. The top ordinary income bracket was reduced to 37% in 2018 with the enactment of the Tax Cuts and Jobs Act. There is also speculation surrounding a limitation

Planning for an Uncertain Future in a World of Tax Reform, continued

on income tax deductions with gifting to charities or contributing to tax-deferred retirement accounts, with both being restrictive based upon their respective tax bracket. If implemented, the changes are anticipated to be effective for the 2022 tax year.

“There is also speculation surrounding a limitation on income tax deductions with gifting to charities or contributing to tax-deferred retirement accounts…”

Potential Planning Strategies:

1. Tax-Advantaged Accounts – Maximize contributions to your tax-deferred retirement accounts, including your 401(k) and IRAs. Evaluate whether it make sense to fund a Roth 401(k) or Roth IRA (if eligible), or consider completing a Roth IRA conversion or funding a Back-Door Roth. Completing a conversion at a lower rate today will allow for tax-free growth and income for future distributions, or passing of assets tax-free to beneficiaries in your estate plan.
2. Asset Location – Implement and utilize an asset location strategy. Asset location strategies have been shown to increase the after-tax returns of consolidated portfolios without increasing the overall risk profile. This strategy holds tax-inefficient assets (e.g. taxable fixed income) within accounts that receive preferential treatment (traditional 401(k)'s and IRAs), while tax-efficient assets (e.g. equity) are held within taxable accounts. The overall asset allocation is maintained; however, each account has different targeted allocations to generate tax alpha in a portfolio.
3. Tax Alpha – Incorporate a tax optimization strategy that focuses on a providing customized, tax-efficient, and low-cost direct indexing with a quantitative tax loss harvesting approach. This strategy is utilized to maximize the after-tax return of your portfolio, while closely replicating benchmark-like performance. The tax benefit is generated through selling an investment trading at a loss, reducing your taxable gain, and reinvesting the proceeds into a similar investment to maintain your asset allocation and diversification in your portfolio. The difference between your portfolio's pre-tax return and after-tax return is known as tax alpha.

Lastly, the Tax Cut and Jobs Act expanded the estate and gift tax exemptions in 2017, with a scheduled “sunset” at the end of 2025. The latest version of the House's Way and Means Committee proposal would reduce and revert thresholds back to 2010 levels, from $11,700,000 currently, to $5,000,000 and indexed for inflation (closer to $6,000,000). If introduced and passed, we anticipate the exemptions to be effective as of January 1, 2022.

Potential Planning strategies:

1. Annual Exclusion Gifting – Individuals may gift up to $15,000 per recipient in 2021, without having any impact on their lifetime exemption amount.
2. Roth Conversion – Consider completing a Roth conversion to reduce the amount of assets in your taxable estate. For clients with a disproportionate

amount of wealth in pre-tax retirement accounts, Roth conversions shift the tax burden from a future date into the current tax year. This improves the tax efficiency of the beneficiary's future inheritance through providing tax-free distributions, while reducing in-estate assets by being utilized to pay for the conversion tax.

3. Estate Plan Check-up – Review and evaluate your estate planning strategy with your Trust Relationship Officer, Wealth Management Advisor, CPA, and Attorney to determine what wealth transfer techniques should be implemented. While there are several different approaches that can be taken, your team at Greenleaf Trust can knowledgably provide recommendations that align with your personal and financial goals.

The tax proposals by Congress are slowly progressing, but seemingly changing daily, so it is yet to be determined whether we will see a law passed later this year (or not at all). Regardless, its these types of impactful events, along with several others, that should cause you to pause and evaluate your holistic financial picture. While we don't recommend focusing on taxes as a driver of investment strategy, we can explore and implement several tax-efficient strategies to help manage, defer, or possibly even reduce the potential tax impact of the proposed legislation. In conjunction, coupling these investment decisions with customizable estate planning techniques will further help to solidify your long-term planning decisions, while maintaining the goals and legacy you have established for your family, friends, and charities. Rest assured that Greenleaf Trust is committed to being proactive with each and every client, whether its tax law change now or in the future, we will be here for you and your family for generations to come.

"While we don't recommend focusing on taxes as a driver of investment strategy, we can explore and implement several tax-efficient strategies..."

HSAs, an Attractive Complement to Traditional Retirement Plans

Rosalice C. Hall, CRPS®
Relationship Service Specialist

Business owners and highly-compensated executives often want to know how they can get more money into their company-sponsored retirement plan. It is common for plans to be designed to assist the high earners of companies with achieving their ultimate goal of ensuring they have a large nest egg of qualified tax dollars at their retirement. However, we frequently observe situations where high earners fail to also maximize the benefits of their own personal Health Savings Accounts (HSAs). Many don't realize that HSAs can be a valuable and flexible supplement to standard retirement savings.

While 401(k)s are often considered the pinnacle of retirement accounts, HSAs can also be a beneficial savings option. HSAs work in conjunction with a

HSAs, an Attractive Complement to Traditional Retirement Plans, continued

High-Deductible Health Plan (HDHP) to allow employees to cover qualified medical expenses. While individual tax situations vary, the HSAs generally provide a triple tax benefit as contributions are pre-tax, grow free of income and capital gains taxes, and are tax-free when withdrawn for qualified medical expenses. Additionally, unlike health Flexible Spending Accounts (FSAs), HSAs are not subject to the "use it or lose it" rule. Funds remain in your account from year to year, and any unused funds may be used to pay for future qualified medical expenses, allowing you the ability to build a large tax-free savings account over the years. So, if you have the cash available to pay your medical costs out of pocket, you can let your entire HSA grow tax-free for future qualified medical, dental and vision expenses.

HSAs offer additional flexibility compared to an IRA, 401(k) or FSA. Unlike an IRA or 401(k), you can access the funds in your HSA at any time and there are no forced distributions based on age. HSAs take on some characteristics of an IRA, since the funds can be pulled out at any time (like an IRA) but if used for broadly defined medical expenses, the distributions are tax-free, like a Roth IRA. On the downside, the annual contributions to HSAs are far less than 401(k) plans and many defined contribution plan options. For comparison, the 2021 IRS contribution limits for HSAs are $3,600 for individual coverage and $7,200 for family coverage, with an additional $1,000 per year catch-up contribution available for those age 55 or older (limit of 1 individual's catch-up per account). Said another way, families can contribute over $9,000 per year between 2 tax-advantaged HSAs. The 2021 IRS individual employee deferral limits for 401(k)s, 403(b)s, and 457(b)s are a combined $19,500, with an additional $6,500 per year catch-up contribution for those age 50 or older.

> "…if you have the cash available to pay your medical costs out of pocket, you can let your entire HSA grow tax-free for future qualified medical, dental and vision expenses."

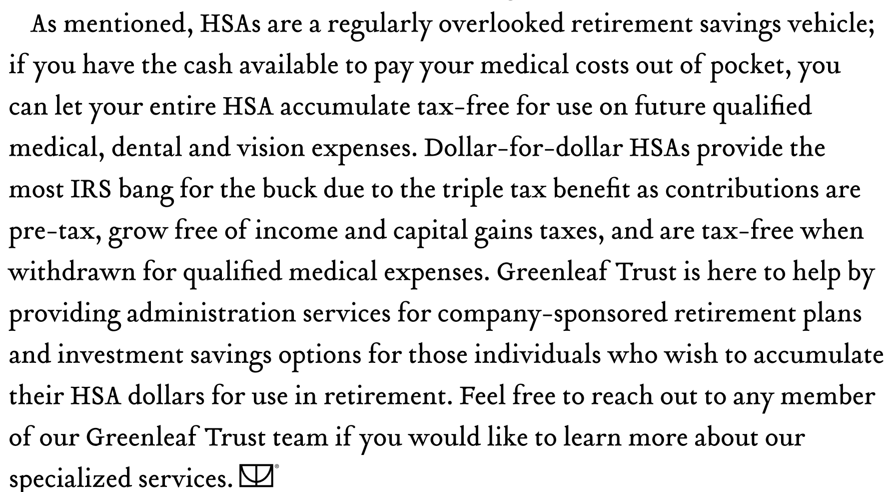
It is common to see Roth 401(k) and Roth IRA dollars being used as a strategy to provide income tax diversification in later years. Essentially, having Roth dollars available in retirement allows an individual to control their effective tax bracket by coordinating the amount of dollars drawn from both the pre-tax and Roth buckets each year. A well-funded HSA can quickly become a third bucket in an income tax diversification strategy because the money used to pay qualified medical expenses is not subject to Federal income taxes. According to Fidelity Investments, in retirement, the average couple spends over $220,000 on health-related expenses. It is worth noting that even the payment of insurance premiums is considered a qualified medical expense. Additionally, after the HSA owner reaches age 65, the HSA operates like an IRA and funds can be withdrawn penalty free for payment of non-healthcare related expenses. However, any non-healthcare related expenses are subject to income tax requirements, regardless of the owner's age, similar to an IRA.

As long as your qualified healthcare expenses occurred after your HSA was established, your withdrawal will be tax-free if the funds pay for a current health related expense or reimburse a prior year's expense (even from many

years earlier). This allowance from the IRS has created a unique emergency savings feature through health savings accounts. Qualified reimbursement can be pursued many years after the expense occurred. When a non-medical emergency arises and you need access to funds, you can seek reimbursement for past healthcare expenses sufficient to cover the current emergency. An HSA allows access to pre-tax funds equal to qualified healthcare expenses that you've already paid. In other words, savings to an HSA can be invested, grown tax-free for decades, and finally distributed after many years of compounded, tax-free growth to pay for current expenses. However, it is crucial to have proper documentation to justify the reimbursement.

"This allowance from the IRS has created a unique emergency savings feature through health savings accounts. Qualified reimbursement can be pursued many years after the expense occurred."

HSAs are employee-owned, portable investment or banking accounts that remain with you through job transitions. While not widely advertised, many employers will direct your HSA payroll deductions to the custodian of your choice. In recent years, Greenleaf Trust has seen a growth in the number of HSAs we manage, as clients have begun to embrace the strategy of capturing the tax-free investment earnings and accumulating the dollars for use in future years. Additionally, there has been a growth in the number of third-party vendors offering inexpensive administration services, coupled with brokerage accounts that allow individuals the option to select their own investment allocation based upon their long-term savings goals. Empowering employees to save money for future healthcare needs is one way that employers can leverage benefits to help employees plan ahead. Employers can help employees understand the value of a HSA by comparing it to a 401(k), but for healthcare.



As mentioned, HSAs are a regularly overlooked retirement savings vehicle; if you have the cash available to pay your medical costs out of pocket, you can let your entire HSA accumulate tax-free for use on future qualified medical, dental and vision expenses. Dollar-for-dollar HSAs provide the most IRS bang for the buck due to the triple tax benefit as contributions are pre-tax, grow free of income and capital gains taxes, and are tax-free when withdrawn for qualified medical expenses. Greenleaf Trust is here to help by providing administration services for company-sponsored retirement plans and investment savings options for those individuals who wish to accumulate their HSA dollars for use in retirement. Feel free to reach out to any member of our Greenleaf Trust team if you would like to learn more about our specialized services.

Stock Market Pulse

Index	9/30/21	Total Return Since 12/31/2020
S&P 1500	984.70	16.01%
Dow Jones Industrials	33,843.92	12.12%
NASDAQ	14,448.58	12.67%
S&P 500	4,307.54	15.91%
S&P 400	2,640.54	15.52%
S&P 600	1,331.69	20.03%
NYSE Composite	16,144.92	13.00%
Dow Jones Utilities	874.63	3.85%
Barclays Aggregate Bond	2,354.86	-1.55%

P/E Multiples	9/30/21
S&P 1500	25.4x
Dow Jones Industrials	20.4x
NASDAQ	122.6x
S&P 500	25.8x
S&P 400	21.7x
S&P 600	20.7x

Key Rates

Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.02%
T Bond 30 Yr	2.04%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	984.70	25.4x	1.38%
S&P 500	4,307.54	25.8x	1.38%
Dow Jones Industrials	33,843.92	20.4x	1.82%
Dow Jones Utilities	874.63	17.1x	3.56%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.66%

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