GREENLEAF TRUST

# Perspectives

*A Greenleaf Trust Newsletter*

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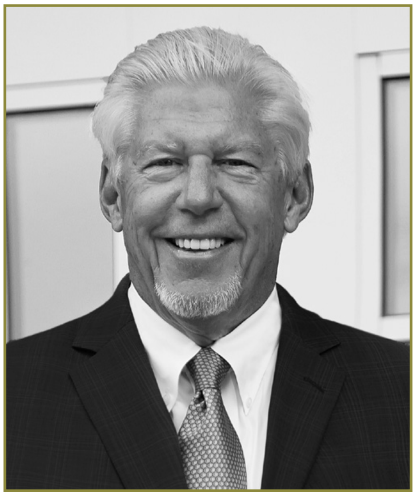

*William D. Johnston*
*Chairman, Greenleaf Trust*

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## Economic Commentary

As we have done for the past seven months, we will begin by checking in with the New York Federal Reserve Weekly Economic Indicator (WEI) index that attempts to measure data focused on labor, production and consumption. As much as is humanly possible, the data is real time and designed to measure GDP relative to other dates or moments in time. It is a useful tool in that it provides us a snapshot of the trend in GDP change and an opportunity to assess that change year over year, month over month and week over week. The latest release provided through the Fed's interactive site registers a WEI of -4.81 and a thirteen weekly moving average of -5.97. For perspective, the WEI bottomed at -11.45 on April 25 of this year. In layman's terms, what does this data tell us? Simply put, our economy plummeted to depression-like activity during the first thirty days of the United States COVID-19 pandemic crisis with economic activity relative to labor (employment), production and consumption functioning at a negative 11.45% level. We can contrast that level of activity to any period of time we want. As an example, in February the WEI finished at +1.58% and finished the full year of 2019 at +2.34%. The drop in employment, consumption and production was precipitous and dramatic. Progress in the WEI index has been incremental but steady. A recovery from -11.45 to the current -4.81 is not inconsequential and the trend remains in the right direction. We can see the specific details of the WEI index in unemployment at 8.41% with continuing claims for benefits registering 11.2 million workers while those requesting new or initial claims rose 837 thousand (down from the previous weeks recording of 870 thousand). We can expect these numbers to turn more negative as the PPP (payroll protection plan) ceases and large furlough announcements work though the system such as those announced by three major airlines this morning. Prior to those announcements, consumer confidence rose to 101.8 as announced by the conference board, which is a significant jump from the previous reading of 86.3. In fact, the 15.5 level increase marks the single largest increase since 2003. Business private investment remains weak at $2.4 billion which is essentially at the same level as 2015. Demand for goods and services will need to increase consistently for business investment (software, tooling, fixed equipment, etc.) to pick up, but will certainly help with growth sustainability when it does move in the

*Commentary, continued*

right direction.

Housing data was very strong as the National Realtor Association revealed existing home sales grew by 2.4% followed by U.S Census Bureau release of new home sales at 1,011,000. This is up 4.8% from July's 883,000 units and a whopping 43% increase year over year. All of these strong results were reflected in the Case-Shiller housing index (HPI) of 221.63. We always caution that dramatic increases in individual economic data releases need time to " settle" to understand if the increase or decrease reported is a significant trend in place; however, by any reasonable analysis the housing sector is strong with inventory in both new and existing units at very low levels.

The economic trends are in the right direction and we should continue to see incremental reductions in unemployment as new and existing claims show similar incremental reductions each reporting period. Understandably, for the nearly twelve million still unemployed and those who recently have lost jobs as the PPP plan expires, incremental growth is a very tough landscape as rent, mortgage and groceries are not incremental or discretionary expenses.

"The economic trends are in the right direction and we should continue to see incremental reductions in unemployment..."

At this writing the House Democrats and Republicans remain about one trillion dollars apart on the next round of stimulus as the Democrats plan seeks $2.1 trillion and the Republicans seem augured in at $1.0 trillion. The big dollar items are keeping them from passing the bill to the Senate. The single largest hang up seems to be the proposal by the Democrats to provide $500 billion in aid to state and local governments, which the Republicans oppose. Republicans have offered about the same in education funding, but provide 2/3rds benefit to schools that have opened for in-class instruction and also want the school district funding to be shared with private schools. Of the two largest differences, aid to state and local funding will get support from congresspersons who are receiving local at-home pressure to rescue state and municipal budget needs while the education issues seem tougher to solve because they are more embedded in ideology. In the end, a stimulus package of somewhere between $1.5 to $1.75 trillion seems likely to pass as it gets both parties to Election Day, allowing both to avoid any negative data points between now and then.

Ideology seems a perfect term to take us to our remaining topics of COVID-19 and the Presidential Election. There will be less than 30 days between the time that you receive this newsletter and the federal election. There are not likely to be any significant things learned about either between now and then. The trends in place with respect to COVID-19 are likely to remain in place and most but a very few have chosen who they want to be elected to the Office of President of our country.

For most of my financial career I have studied data. It has always helped me understand things that are both relevant and interesting to me. To some, it is boring, but to me it has always been a pursuit that is exciting and engaging. It isn't lost on me that the political and economic worlds are intertwined and that two individuals can and often do observe the same set of data points and come to completely different conclusions. Often times it is helpful to set the expectations for why you are searching data sets, why are they important to your question?

The United States is viewed by most with envy with respect to standard of living, economic opportunity, advancements in education, technology, healthcare and, of course, our individual rights and liberties. It would I think be logical to compare our COVID-19 pandemic "performance" with similar comparables. There are 36 members of the Organization for Economic Cooperation and Development (OECD) which was established in 1961 by the largest and most developed countries in the world. China was not included and is not in the OECD today either. My question is: how have we performed? How do we stack up with the other largest and most advanced economies of the world? The comparison should, of course, be per capita, as we are much larger with respect to population than any of the other members except India. I've included some data from Nick Juhle's (our Director of Research) most recent COVID-19 update.

| World Wide Cases | Recovered | Active | Deaths |
|---|---|---|---|
| 33.0 million | 23.0 million | 9.0 million | 1.0 million |
| United States Cases | Recovered | Active | Deaths |
| 7.0 million | 2.7 million | 4.1 million | 200 thousand |

On a relative performance basis how have we performed?

- Total virus cases in the U.S are 2/3rds higher per capita than the average of OECD countries
- Deaths per capital are currently 50% higher than the average of OECD countries
- New case rate per capita is 3 x's the average of OECD countries.
- Current deaths per million is twice as high as OECD countries.
- On a relative country by country basis only Singapore and the Czech Republic have larger cases per capita than the US, only six have larger death rates per capita than our country and only Sweden and the UK have higher new deaths per capita rates than we do.

Lastly, our unemployment rate from March through August was 10% higher than the average of the OECD sample set. As I look at the data set, my sense is that we should, could and can do better. We continue to see where large group settings become super spreader centers. Routinely the analysis reveals that lack of mask usage, lack of social distancing and contact discipline were the cause of replicated infections. Time can be an advantage if we allow it to be. Wishful optimism causes us to look for "silver bullets" like a vaccine by December or

"As I look at the data set, my sense is that we should, could and can do better."

*Commentary, continued*

herd immunity, neither of which is reality based. Is there a commonality among those in the OECD that allow them to outperform the United States with respect to the pandemic? At the core, it would be their lack of politicizing policy to slow, treat and eradicate the disease.

The election is nearly 30 days from when you will be reading this commentary. I encourage all to vote. Common among almost everyone is that this election is really important. We should expect higher voter turnout as a result. The lens that I look through is mine and will be either similar or different than yours. The potential beauty of our democracy is that every four years we get to elect the next President of the United States of America and it is the collective wisdom of the ballot box that reveals who our President will be. Elections have consequences and impact public policy. Nick Juhle and Dan Rinzema of Greenleaf Trust conducted a fabulous webinar viewed by hundreds regarding the history of Presidential elections and the economy as well as financial markets. Their rightful conclusion was to vote with your ballot and not your wallet because over the entire history of our country there has been precious little difference in the economy and markets no matter which party held the presidency.

> "Common among almost everyone is that this election is really important."

The lens I look through is mine and includes the following (it is perfectly fine if you don't read on):

- I believe civility is powerful and a beautiful teacher.
- I believe that civil rights do not end at the border of any state. The civil rights I was born with are the same as any US Citizen either born or naturalized.
- I believe America is among the greatest nations in the world and I want America to be great but I also want it to be great for everyone.
- I believe that with respect to education and health care and human as well as civil rights it should not matter what zip code you were born into and until it doesn't we must work to fix that.
- I believe in freedom of and from religion. Everyone is free to believe and practice their faith and everyone is also free not to. Political leaders' faith should make them better people, not despots forcing ideology on others.
- I believe in the beautiful right to protest that is wonderfully witnessed in our country's history. Protesting is a fundamental right of citizenship. Violence against property and persons are crimes and should be prosecuted. Vilification of protestors, campaigns against free press credibility and purposeful erosion of faith in the ballot box are all consistent tactics utilized by authoritarian dictators throughout the history of the world in their attempts to retain power.
- I believe in and love our mixed capitalistic democratic system. It is neither pure capitalism or pure socialism but rather a blend that allows the appropriate regulation for critically important protections while

also rewarding true entrepreneurial spirit and capital risk taking so important for our growth in GDP and the advancement of our society and standard of living.
- I believe that we must invest in our education, infrastructure and health systems.
- I believe that global warming is real and impacted by the tremendous growth in the globe's population. Smart policy should reward global sustainability and the required transformation of jobs to support that sustainability.
- I believe in the concept of a "More Perfect Union" and believe that to accomplish that goal we must eliminate racism and that to do so is both patriotic and essential to achieving "A More Perfect Union."

To those who continued to read, remember it is my lens and clearly personal to me and not disrespectful to yours. Please vote.

# Investing in Our Communities

*Michael F. Odar, CFA®*
*President*

*Perry Wolfe*
*Senior Vice President*
*Executive Director of Development*

I am happy to provide just a brief introduction to this article from our Executive Director of Development, Perry Wolfe, on investing in our communities. Rather than hear it from me, though, I wanted you to hear how important it is to Greenleaf Trust directly from him as he helps lead one of our community investment initiatives:

We at Greenleaf Trust are proud to be a Michigan company. We love this beautiful state and the communities that make it such a great place to live, work and play. I learned years ago that my role in this world went far beyond my own selfish endeavors, and that meant I had a responsibility to "leave this place better than I found it."

The culture of community development and investment has long been a focus and priority at Greenleaf Trust and is a big reason why I chose to align myself with an organization that sees such value in the communities that make up this great state.

Community development at its core is only effective and impactful if the grassroots efforts of small non-profits are supported in such a way that they thrive and are successful in achieving their individual missions by helping those people, neighborhoods and communities that need it most. It does in fact take a village.

Greenleaf Trust has historically invested time and money in the communities that we serve. Most employees have taken on leadership roles with non-profits within their communities, giving time and their

*Investing in Our Communities, continued*

own money to help support even the smallest non-profits. Each year in February, Greenleaf Trust participates in a "Day of Caring" where all offices close and virtually all employees volunteer their time helping various non-profits. However, this was not enough. Late in 2019, Greenleaf Trust made the conscious decision to become a grant maker in an up and coming national organization known as Catchafire (www.catchafire.org).

"Greenleaf Trust has historically invested time and money in the communities that we serve."

Catchafire is a social enterprise that Michigan organizations partner with to strengthen non-profits access to professional talent by using technology to make this talent accessible to all Michigan non-profits, large and small.

In collaboration with Michigan Health Endowment Fund, the Ann Arbor Area Community Foundation and Washtenaw Coordinated Funders, a statewide platform was launched late in 2019 called "One Michigan" aimed at enabling all Michigan non-profits access to "on-demand" talent and capacity building support, especially those that may be understaffed and under resourced.

This initiative has grown to include 14 Michigan grant makers from across the state, who have in total enabled 1,200+ Michigan non-profits access to the "One Michigan" online platform and capacity building infrastructure which helps them connect with virtual skills-based volunteers to seek help with marketing, program delivery, fundraising, technology, financial management, HR, operations, board and leadership needs.

There is no question, investing in our Michigan communities is important. Involvement at this level allows Greenleaf Trust the forum to walk side by side with others making everyone care and help more with greater purpose.

# 2020 Election Update

*Nicholas A. Juhle, CFA®*
*Senior Vice President*
*Director of Research*

As the 2020 presidential and congressional elections come squarely into view, we offer our perspective on how best to navigate a likely period of intense news flow, market volatility, and at least some degree of uncertainty in the investment landscape. In this article, I will cover the state of the race – what we might glean from the polls and other sources and also discuss potential policy implications in the event of a change in leadership.

## Polls Favor Biden

As it stands, Joe Biden is leading in national polls. There are actually several national polls conducted by different organizations. We detail individual polls and an average compiled by Real Clear Politics in the table below. As of this writing, Joe Biden is leading in the national polls by an average of seven points ranging from +1 on the low end to +10 on the high end in individual polls. Biden's lead may appear significant, but polls don't always tell the whole story.

| Poll | Biden | Trump | Spread |
|---|---|---|---|
| Quinnipiac | 52 | 42 | Biden +10 |
| CNBC/Change Research (D)* | 51 | 42 | Biden +9 |
| USC Dornsife | 51 | 42 | Biden +9 |
| NBC News/Wall St. Jrnl | 51 | 43 | Biden +8 |
| Economist/YouGov | 49 | 42 | Biden +7 |
| RCP Average | 50.3 | 43.3 | Biden +7.0 |
| JTN/RMG Research* | 50 | 44 | Biden +6 |
| IBD/TIPP | 50 | 44 | Biden +6 |
| Rasmussen Reports | 48 | 47 | Biden +1 |

Source: Real Clear Politics

"Biden's lead may appear significant, but polls don't always tell the whole story."

Four years ago, national polls favored Hillary Clinton over Donald Trump, yet she failed to win the election. She led national polls by an average of four points and won the popular vote by more than two points, but couldn't come up with the electoral votes she needed to win. In June 2016, the infamous Brexit vote surprised pollsters as well. In spite of the fact that 67% of polls predicted a "stay" vote, citizens voted 52/48 to "leave."

## Electoral College Dynamics Favor Trump

While Joe Biden leads the polls, state-by-state dynamics of the Electoral College favor Donald Trump for the win. Biden is leading in national polls, which means he is predicted to win the national popular vote, but it gets a little more complicated when we consider the Electoral College. In the

*2020 Election Update, continued*

United States, each state runs its own popular vote and throws all of a predetermined number of electoral votes to the winning candidate.

Looking at state-by-state polling, some states lean pretty firmly in one direction or the other. Some states are a foregone conclusion for Joe Biden or Donald Trump and some can be considered a likely win, or at least leaning in one direction or the other. As it stands, Biden has more electoral votes "secured" or highly likely to fall his way, but a number of states are too close to call and there are more than enough electoral votes up for grabs for either candidate to win.

| 270 Needed to Win | | |
|---|---|---|
| BIDEN | TOSS-UP | TRUMP |
| 222 | 191 | 125 |

Source: Real Clear Politics

We say Electoral College dynamics favor Trump because when you do the math, you identify Biden's challenge. He has to win the national popular vote to win the election and could win by as much as 4% and still lose. If you're watching coverage on the evening of November 3, you'll want to pay close attention to Florida and Pennsylvania in particular – the candidate who takes these two swing states probably comes out ahead.

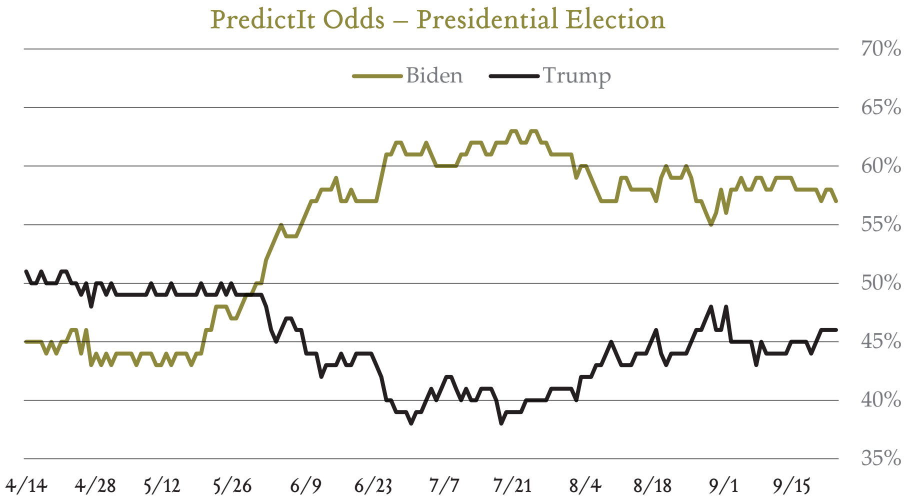
"[Biden] has to win the national popular vote to win the election and could win by as much as 4% and still lose."

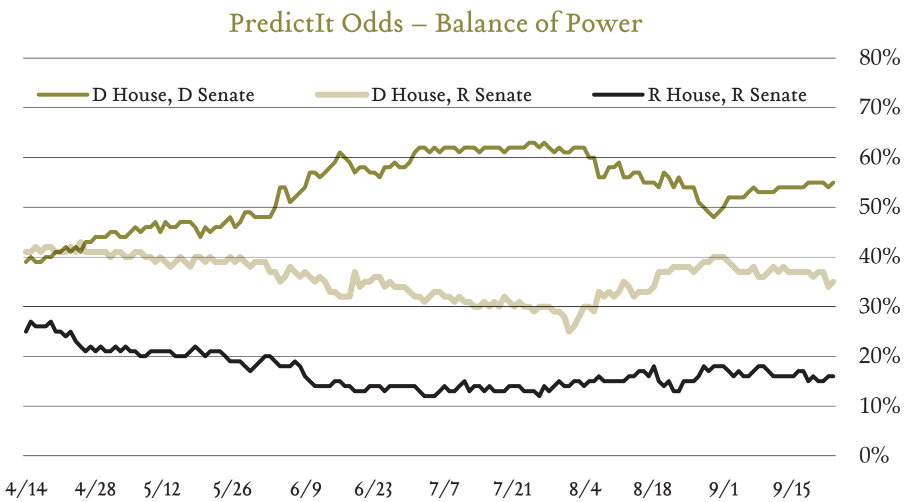
| Biden's Challenge | |
|---|---|
| Wins Popular Vote By: | Odds of Winning Election |
| <0 points | 0% |
| 0-1 points | 6% |
| 1-2 points | 22% |
| 2-3 points | 46% |
| 3-4 points | 74% |
| 4-5 points | 89% |
| 5-6 points | 98% |

Source: Real Clear Politics

### Odds Makers Predict Biden Victory and a Dem Sweep

Betting lines also provide some insight into the race. There are odds making platform that facilitate wagering on political outcomes and the payoffs reflect bettor's collective expectations. There really shouldn't be any bias in this information which reflects the opinions of individuals trying to choose the right answer given the prospect for financial gain. Right now, the odds makers align with the polls favoring Biden and also predict a unified democratic government meaning not just a Biden presidency, but also democratic majorities in the House and Senate.




> "At the end of the day the stakes are high… we think this race is simply too close to call."

At the end of the day the stakes are high and given the number of wildcards possible between now and November 3, we think this race is simply too close to call.

## If We Knew, What Would We Do?

Conventional wisdom suggests Republicans are better for business and better for the markets, but to the to the degree that history matters, it tells us that we probably shouldn't put too much stock in political outcomes as a market driver. Over the years, we have seen healthy market results under both parties and stronger results with a unified government favoring either party than with a blended government.

*2020 Election Update, continued*

| S&P 500 Total Return (1945-2019) | | | | | |
|---|---|---|---|---|---|
| All Years | Sample Size n=75 | Frequency of Occurrence | Average Return 12.8% | Frequency of Gain 79% | Frequency of Loss 21% |
| Presidency | | | | | |
| Democrat | n=36 | 48% | 15.2% | 84% | 16% |
| Republican | n=39 | 52% | 10.5% | 72% | 28% |
| Balance of Power | | | | | |
| Blue Wave | n=22 | 29% | 14.8% | 82% | 18% |
| Red Wave | n=8 | 11% | 16.1% | 75% | 25% |
| Blended Gov't | n=45 | 60% | 11.2% | 78% | 22% |

Source: Bloomberg and Greenleaf Trust Calculations

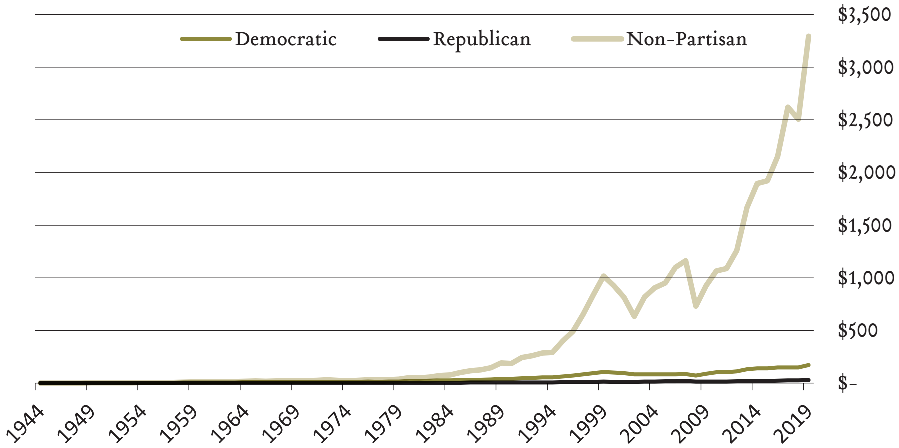
"... selling stocks when either President Obama or President Trump was elected because of political concerns would have been a big mistake..."

In recent months, we've had clients voice concerns over a Biden presidency and more importantly the implications of a democratic sweep – they want to abandon discipline, get conservative or "go to cash" and presumably reinvest when their preferred party regains control. We ran three hypothetical portfolios to evaluate this concept. We created the Democratic portfolio – fully invested during a Democratic sweep, uninvested during a Republican sweep and 50% invested when government is blended. We created the inverse for Republicans and we also created a non-partisan portfolio that practices discipline and stays invested.

Over 75 years, $1 invested in the Democratic portfolio grows to $170 and $1 invested in the Republican portfolio grows to $28, while the same dollar grows to more than $3,000 in the non-partisan portfolio.

Even recently, selling stocks when either President Obama or President Trump was elected because of political concerns would have been a big mistake in hindsight. This is why we advise our clients to vote with their ballots and not with their portfolios.

Political Portfolios: Growth of $1



### A Challenging Landscape for Either Candidate

Either candidate will face a challenging set of circumstances as president of the United States. We're in the middle of a global pandemic, a public health crisis that has cost hundreds of thousands of lives, and there's a lack of consensus on how to deal with that. We have made significant economic sacrifices in our attempts to manage the virus – unemployment is excessive and the economy is trying to recover. Lastly, the government has spent trillions of dollars on relief driving the budget deficit and our national debt to record highs. As the incumbent, and in light of these circumstances, Donald Trump is a bit of a known quantity, so we offer our thoughts on potential policy implications in the event of a change in leadership.

### Potential Biden Policy Implications

Our discussion will focus on policies that are more likely to impact the economy and the markets, steering clear of social issues. Beginning with some of the tax code changes proposed by Joe Biden, on the corporate side, he's proposing an increase to 28% from 21%. If that seems like a big jump, remember that the 2017 Tax Cuts and Jobs act reduced the corporate rate from 35% to 21%, so while corporate tax rates could go up under Biden's proposal, they would still be lower than they were just three years ago. On the individual side, most of Biden's tax proposals affect the highest earners – if you earn less than $400K per year, you shouldn't be affected, but he is looking to restore the top bracket rate on individual income to 39.6% from 37.0% currently, which means slightly higher taxes on income up and above $622,500 for households. He also proposes raising the maximum long-term gains rate for those with more than $1 million in income and elimination of basis step up for inherited assets.

Importantly, we think it will be difficult for either candidate to avoid raising taxes somewhere considering where things stand from a deficit and national debt perspective. In fact, 70% of fortune 500 executives are planning on higher taxes following the 2020 election regardless of which candidate wins.

> "Importantly, we think it will be difficult for either candidate to avoid raising taxes somewhere considering where things stand from a deficit and national debt perspective."

Biden's proposal for $1.3 trillion in infrastructure spending over the next ten years should create fiscal tailwinds for the economy, but will need to be funded. Regarding trade policy, we believe management teams and the markets might prefer a more predictable approach under Biden who advocates for lower tariffs with major trading partners outside of China and a more diplomatic approach to our trade relations with China.

We take policy proposals touted along the campaign trail with a grain of salt as many get pretty watered down by the time they actually get implemented. And that said, neither candidate's policies or proposed policies tilt to such an extreme one way or the other that we would lose

*2020 Election Update, continued*

sleep over them from a market or economic perspective. There is one thing that concerns us though…

### The Biggest Risk

We believe the biggest near-term risk with the 2020 election is not one outcome or the other, but no outcome at all. The stakes are high and election logistics are complicated by COVID-19, mail-in ballots and state-specific regulations. Markets don't like uncertainty and the election itself represents an uncertainty. Knowing the outcome would be a positive, while not-knowing would mean more uncertainty.

To the extent the election is close, the country could be in for an extended period of contentious debate and litigation. We got a taste of this 20 years ago when a close race in Florida left the election undecided for over a month. If markets don't like uncertainty, they do like stable political institutions supporting reliable legal frameworks that lend confidence in investment and ownership. Hopefully this is a non-issue, but in the event of a Biden victory, an orderly transition of power will be critical and in the event of a Trump victory, legitimizing the outcome via democratic concession will be equally critical.

> "Unfortunately, strong political views have the potential to interfere with sound investment decisions."

### Conclusion

The rest of 2020 could get pretty interesting. The next four years could get pretty interesting, but your investment objectives have a longer life than politicians and election cycles. Politics make us passionate and that's a good thing—it keeps us engaged in the national conversation and that's what makes a democracy work. Unfortunately, strong political views have the potential to interfere with sound investment decisions. We focus on maximizing after-tax, after-fee returns for a given level of risk. In spite of a changing landscape, we believe clients will continue to benefit from globally diversified equity strategies and look to our active managers to make thoughtful security-specific decisions in light of policy changes. We expect interest rates to remain lower for longer, which informs our allocation decisions at the portfolio level and within our fixed income strategies. Any adjustments we happen to make in the coming months will be consistent with our longer-term outlook and documented investment philosophy. The short-term market experience is always unpredictable, but we build portfolios for the long-term.

# Show you Care by Acting on the CARES Act

*Melinda P. Shull, CTFA*
*Senior Trust Relationship Officer*

Given the growing needs of charitable organizations during this global health crisis, 2020 may present compelling planning opportunities to make immediate gifts of cash at a time when they are sorely needed.

With the recently-enacted CARES Act, individuals may receive increased income tax benefits while helping charitable organizations. The CARES Act allows individuals who itemize their deductions to deduct cash gifts made to public charitable organizations in 2020 up to 100% of their federal adjusted gross income (AGI). The higher deduction limit applies to gifts for any charitable purpose, not just gifts related to the COVID-19 crisis. It covers gifts made directly to almost all public charities. However, gifts to donor-advised funds, supporting organizations, and private non-operating foundations do not qualify for the enhanced deduction limit under the CARES Act. The intent of the law is to get cash to public charities that they can use right away.

Here are some examples of how changes under the new law may be applied in 2020 to make high-impact, tax-efficient gifts:

“The CARES Act allows individuals… to deduct cash gifts made to public charitable organizations in 2020 up to 100% of their federal adjusted gross income (AGI).”

## Cash Gift

Those who typically satisfy their annual gifts at annual fundraising events may provide much-needed support by making cash contributions in an amount equal to what they would have spent on tickets, auctions, or other fundraising opportunities since many of these events have already been cancelled for 2020.

Example: Susan donates a $300 check to a public charity on December 1, 2020. She does not itemize her deductions and she takes a standard deduction. Under the CARES Act, Susan can deduct up to $300 paid to public charities in 2020 in addition to the standard deduction. Without the special rule for 2020, there would be no deduction for an individual who takes a standard deduction and does not itemize.

## Cash Gift Using Tax-Deferred Ira Dollars

Individuals who are between the ages of 59½ and 70 ½ years old and have an IRA that they intend to bequest to a charitable beneficiary can generate valuable tax and charitable benefits. Sort of a younger-person’s Qualified Charitable Distribution (QCD) for this year only, but at a time when non-profits need it the most. Individuals withdraw an amount equal to all or a portion of the anticipated bequest and contribute the proceeds to the charitable beneficiary in 2020. If you’re planning a

*Acting on the CARES Act, continued*

large donation in 2020, this may be a smart strategy as long as you are between the ages of 59½ and 70½ and are not dependent on existing retirement funds.

Example: Jack, who is 60 years old, distributes $100,000 from his IRA on October 1, 2020, and writes a $100,000 check to a public charity on Dec. 1, 2020. His 2020 AGI is $400,000. Because the AGI limit for charitable gifts of cash is 100% in 2020, Jack deducts $100,000 from his $400,000 AGI at tax time. The fact that the cash gift is not a QCD made directly to the charity from his IRA, as well as that he is younger than 70½, does not disqualify him from effectively deducting a large gift indirectly made with IRA dollars. He will reduce future required minimum distributions from the IRA and, therefore, future tax liability.

Despite the waiver of required minimum distributions in 2020, an individual age 70½ and above can still make qualified charitable distributions up to $100,000 from their IRA. However, the cash contribution must be made directly from your IRA to the charitable organization.

"Individuals who most benefit from the CARES Act rules for 2020 make large cash gifts while having little taxable income."

## Endowment Cash

To ensure sustainability, a number of non-profit organizations have established an endowment fund, which will provide support for resources, cover shortfalls and emergency provisions to better support our community needs.

Example: Karen donates $100,000 cash to a public charity on November 1, 2020, for a permanent endowment fund. She has 2020 AGI of $100,000 and can deduct the full $100,000 on her 2020 Form 1040. The fact that the gift is designated for a permanent endowment doesn't change the tax result. Without the special CARES Act rules raising the limit for deducting cash gifts made to charities in 2020 to 100% of AGI, Karen would be restricted to 60% of her $100,000 AGI in 2020 or a deduction of $60,000.

Individuals who most benefit from the CARES Act rules for 2020 make large cash gifts while having little taxable income.

## Charitable Gift Annuity

Individuals may consider starting a charitable gift annuity which is owned by the community foundation or charitable organization but pays a fixed income to the donor for life.

Example: John makes a $100,000 gift to a public charity on October 1, 2020, in exchange for a lifetime annuity worth $60,000 according to IRS valuation guidelines. John deducts $40,000 on his 2020 Form 1040. John's AGI is $50,000. Without the rule change allowing the special election to increase the cash gift deduction to 100% of AGI, he would otherwise be limited to a deduction of 60% of his AGI, or $30,000.

### Appreciated Stock Gift

While gifts of non-cash assets do not qualify for the enhanced deduction limit under the CARES Act, 2020 remains an opportune time for gifts of appreciated assets. A well-timed gift of such securities can provide much needed help to charity while offering an individual two valuable tax benefits – the avoidance of capital gains tax on the assets' appreciation and a charitable income-tax deduction.

Example: Grant donates 100 shares of Apple (AAPL) on September 1, 2020 to a public charity. He receives the charitable income tax deduction of $13,200 based on the stock's average price value on the date of the gift. Grant paid $5,000 for the stock and has avoided capital gains tax of 20% on the appreciation of the stock or $1,640.

As is the case in 2020, when rule changes are effective just for the remainder of a calendar year, there is often little procedural guidance from the IRS. So, we would always recommend reviewing tax and charitable giving strategies with your client centric team at Greenleaf Trust, including your CPA and attorney.

All disclosures aside, many families may have a unique and perhaps brief occasion in 2020 to meet important giving and wealth planning goals while at the same time helping community organizations that are in need of critical resources to fulfill their missions.

Disclosure: The information contained in this article is not intended as tax advice, and it is not a substitute for tax advice.

"… many families may have a unique and perhaps brief occasion in 2020 to meet important giving and wealth planning goals…"

*Rosalice C. Hall, CRPS®*
*Relationship Service Specialist*

# Inspiring Confidence in Retirement

"2020 marks the 100th anniversary of women's right to vote in the U.S.," says Catherine Collinson, president and CEO of the Transamerica Institute and the Transamerica Center for Retirement Studies. "Since then, women have made great strides in educational achievement and career opportunities. Despite this progress, they continue to be at greater risk than men of not achieving a financially secure retirement." Furthermore, in retirement, women have longer life expectancies and often are younger than their spouses, potentially leaving them with more years in retirement.

Unfortunately, only 17% of women say they are very confident they will be able to retire comfortably, according to the Transamerica Center for Retirement Studies. The study goes on to estimate that nearly 25% of women who are working or who have recently lost their job say their confidence in their ability to retire comfortably has declined amid the pandemic. Given that women have a low average savings rate and that some women report not even knowing how much they should strive to save, it's not surprising confidence is so low.

"… only 17% of women say they are very confident they will be able to retire comfortably…"

While a majority of working women report that they are saving for retirement, they also report having several financial priorities that compete with one another. These include paying off debt, building emergency savings, covering basic living expenses, and saving for retirement. Many businesses are also projecting that cost containment will be a major concern as we enter 2021. As a result, employees will shoulder more risk as health insurance deductibles and out-of-pocket limits increase (and networks narrow).

Despite their concerns about retirement, women are generally trying to stay resilient and keep a positive outlook. "During the pandemic, women are being stretched to their limits, in some instances balancing their job responsibilities with home schooling children and, possibly, caregiving for an aging parent or loved one," Collinson says. "Right now, it is especially important for women to take care of themselves and their own well-being."

According to the Transamerica study, 54% of women expect to work past 65 or never retire, and 56% plan to work at least part time in retirement. As such, women are encouraged to be proactive about remaining employable past 65 or in retirement. This involves taking steps to safeguard their health through eating healthy foods, seeking medical attention as needed, exercising regularly, and getting plenty of rest.

It has been said, 'opportunity arises out of the chaos.' Clearly, 2020 has been an exhausting whirlwind of changes, yet for many of us there are still major considerations and actions to take before the year draws to a close. Many goals and plans were derailed by COVID-19, virtual learning, and the chaos of the last 7 months, but there are still 3 months left to build a plan of action and capitalize on 2020. Focus on the potential for, and the positives of, a well-planned-for-retirement, rather than dwelling on the opportunities lost. Take the time to re-prioritize, reassess your risk tolerance, and consider how your financial picture has been impacted and changed.

It is not lost on me that the vast majority of readership of this publication is not composed of females lacking confidence in their financial futures. However, I do believe that as leaders in our workplaces and communities we should personally emphasize the importance of saving for retirement, setting the expectation that a secure retirement is achievable for those who save. At times, providing positive support and encouragement can be as simple as starting a discussion and bringing an awareness to the multitudes of financial calculators and budgeting tools that are available for use online. Resources like retirement income estimators and savings calculators can assist women, and all savers, in understanding how their saving rate will translate into income in retirement — and help them visualize how saving even slightly more now can have a big impact on their future.

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We have the opportunity to help women, and all Americans, become more confident about their future retirement. If you find yourself in the role of 'employer' during these uncertain times, now is a critical time to center on bettering retirement outcomes for plan participants. Specifically, well-built retirement plans are known to be quality tools for attracting new hires, retaining the best talent, and boosting productivity. In recent months, employers' focus and resources have been largely diverted toward helping employees work through the employment uncertainty and personal anxiety caused by the pandemic and social justice concerns. As we approach year end, a key challenge will be engaging employees in a way that they are able to obtain the right balance of awareness and education across benefit offerings. Flexibility and creativity are key to creating awareness and empowering employees to make informed decisions.

In some ways, HR professionals' roles have evolved through COVID-19, as they work to implement initiatives that are more inclusive, deliberate and engaging than ever before. Employees who previously valued choice may now see it as a bit of a burden, so we should aim to provide solutions that are easy to explain. Improving benefit use, of course, requires education. When employees know what it will take to safeguard their future, they will be more inclined to proactively participate.

As retirement professionals and employers, we need to be mindful as we interact with our employees on making sound financial decisions. Thoughtful analysis of their needs today with the balance of their financial needs in retirement should be considered. As an employee, do your best to remain open

*Inspiring Confidence in Retirement, continued*

to possibilities, ask questions, and be realistic about the execution timelines of your overall financial strategy. The lack of confidence in retirement, and specifically the disconnect between men and women, doesn't have to exist. We should strive to help each other tackle what they don't understand, thorough education and robust financial wellness tools.

"The lack of confidence in retirement, and specifically the disconnect between men and women, doesn't have to exist."

The year 2020 has brought some surreal challenges, which in turn have significantly expanded the need to focus on mental health, mindfulness, healthy living, and reducing stress. With only three months left in the year, now is the time to ensure you are safeguarding your financial future by crafting a practical budget, prioritizing expenses, setting both short- and long-term goals and developing a retirement strategy. While it can be intimidating or overwhelming, there is remarkable power that comes from constructing a plan of action to reach your goals. As individuals, regardless of gender, we need to renew our focus and attempt to increase our confidence in the future by taking steps now to set ourselves up for the best possible 2021 and beyond. In closing, here's to strong women, may we know them, may we be them, and may we raise them.

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# Is Our Security Secure?

President Trump and Vice President Biden have provided some direction on what changes they would like to see in the funding of Social Security, but they have largely avoided any substantive proposals. Regardless of which one is president come November, funding of the social program will need to be addressed. The issues surrounding Social Security, like many things, have been exacerbated by the coronavirus pandemic, and proposals for solutions will be needed sooner than later. While both candidates have touched on the subject to varying degrees, no meaningful dialogue has occurred to address the heart of the issue. Joe Biden has proposed an increase to the payroll tax and, for some, an increases to benefits. Donald Trump, by executive order, has implemented a payroll tax holiday. In a previous article in this newsletter, focusing more broadly on the 2020 election, Nicholas Juhle discusses potential Biden policy implications and outlines some of Biden's proposals, including changes to the tax code. My article takes a deeper dive into the proposed changes to Social Security and its implications to benefits.

Biden would like to increase the payroll tax for individuals earning \$400,000 and above. This year, wages of up to \$137,700 are taxed at 6.2%, for both the employer and employee. With Biden's plan, the 6.2% payroll tax would begin again on wages over $400,000. This effectively creates a "donut hole," where wages between $137,700 and $400,000 are not taxed. Biden would then like to increase benefits for the lowest income individuals by increasing the special minimum benefit (meant to increase the adequacy of benefits for regular long-term, low earning covered workers and their dependents or survivors) to an amount equal to 125% of the federal poverty line (i.e. $1,329 per month or $15,948 per year in 2020). Also, the plan would implement a 5% increase in benefits (based on the average wage index of $52,146 in 2020) for those that have longevity. While this plan is designed to benefit lower income more than high income individuals, it increases benefits for all who live a longer life. The 5% would be spread evenly over years 16 through 20, of the individual claiming benefits. A Social Security planning tool, MaxiFi Planner, can help illustrate the impact that a 5% increase would have on individuals at different income levels. This analysis calculates how much one can spend at full retirement age, based on the proposed increase. For individuals earning the average wage of $52,146, the five year increase in benefit equates to an annual increase in spending of 2.93%. For individuals earning half of the average wage ($26,073), the increase in spending is 5.34%, a greater increase since the 5% increase is based on the average wage index. For incomes above the average wage, the additional spending diminishes because of the tax imposed on Social Security benefits for higher income individuals. Biden would also like to increase survivor benefits for widows and widowers by 20%, as well as a few other less wide sweeping adjustments to Social Security.

Trump has not yet released his plans for Social Security funding. In his book from 2011, *Time To Get Tough*, Trump supported gradually raising the full retirement age to 70. He has also looked for faster economic growth to help with the Social Security funding deficit. Hopefully, we will hear more on his plan in the near future. In regards to Social Security, what he has done recently is put a payroll tax holiday in place through an executive order. Its intent is to help financially distressed Americans and to help the struggling economy, since Congress is deadlocked on any further coronavirus relief. During the Great Recession, President Obama implemented a 2% payroll tax reduction to help workers as the economy recovered, but Trump's plan has not gotten the bipartisan support Obama's plan received. Some say it is because he hasn't come out with a plan, and this tax holiday could signal additional cuts to the payroll tax in the future. Trump's order defers payroll taxes from September 1st through December 31st, if an employer agrees to it, but many have hesitated to do so. The deferral is, however, mandatory for federal employees and military service members. The tax holiday applies to individuals who make less than $4,000 bi-weekly ($104,000 per year). Workers are supposed to repay the deferred tax from January 1st through April 30th of next year, but Trump

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*Is Our Security Secure?, continued*

has said he would like to forgive or terminate the deferral if he gets a second term. This termination of payroll taxes would take Congressional action, so it is uncertain if they could be avoided. Suspending the payroll tax is potentially the fastest way for the federal government to get needed monies to low income individuals, but it does come with some caveats which could be expensive to the employer. Also, if the intent of the tax holiday was to help those that are financially distressed, the deferral doesn't really help to alleviate the pain endured by laid-off workers.

> "When the [Social Security] funds run out, Congress will have to raise the payroll tax or tap into the general fund."

More needs to be done. Even before the pandemic, it was estimated that Social Security benefits would draw down the Federal Old-Age and Survivors Insurance Trust Fund starting next year, since payroll taxes will not keep pace with benefits being paid out. Taking into account the recession brought on by the pandemic, the Congressional Budget Office (CBO) has estimated that the program's fund will be exhausted in 2031, one year earlier than previously projected, and reserves for disability benefits will likely run out in 2026, instead of lasting though the end of the decade. The CBO goes on to say that annual benefits, once funds are exhausted, would be reduced by about 25% in 2032 and by 31% in 2050. Since the funds would be depleted, the benefits would equal the proceeds from the payroll tax. Social Security Chief Actuary, Stephen Goss, estimates that a permanent payroll tax elimination could deplete the program's funds in 2023, and reserves for disability benefits could run out as soon as the middle of 2021. When the funds run out, Congress will have to raise the payroll tax or tap into the general fund. The Social Security Administration's trustees have said that the payroll tax would need to be increased by 3.14% to 15.54%, to restore solvency. Looking to the general fund is a possibility but not palatable given the current debt levels. Income taxes could be raised, and the revenues could be used to pay for Social Security, but utilizing the general fund instead of a payroll tax would delink employer contributions from the future benefits received. The President of Social Security Works, Nancy Altman, says "Breaking the link between contributions and, with it, the self-help, earned-benefit nature of Social Security would end the program as we know it." It will take either additional taxes, whether payroll tax, income tax, or increased tax on Social Security itself, or a reduction in benefits, or raising the age of full retirement. Maybe it will take a combination of approaches. Whatever it is, our leaders need to seriously address this issue and find a resolution sooner than later. There will need to be give and take, and it's likely no one will be happy with the solution. Ahh… politics.

# The Coevolution of Greenleaf and Our Clients

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Throughout Greenleaf Trust's history, we have been privileged to serve clients who not only have high standards for financial and investment advice, but that also have strong personal commitments to their values and their communities. Historically, many of our clients did not view their purchasing and investing decisions as a primary means of expressing their values or achieving a positive social or environmental impact. However, in recent years, we have seen clients increasingly seek to integrate their values and desire for positive impact into more aspects of their lives, including into the management of their investment assets.

In the following article, we explore three related market trends that we believe are driving these changes and affecting what our clients seek from their investment advisor: an interest in greater social and environmental awareness and transparency from the companies with which they partner, the desire for values alignment in the products they employ, and a desire to achieve greater social and environmental impact through their purchasing decisions. We also share some of the ways in which Greenleaf Trust has been evolving to meet our clients' changing needs.

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## Social and Environmental Issue Awareness and Transparency

In recent years, consumers have come to expect that their companies will be aware of and responsive to broader social concerns. A recent survey from Markstein and Certus showed that 70% of consumers want to know about what their companies are doing to address social and environmental issues, with 46% paying close attention to a company's efforts to be socially responsible when making purchasing decisions.[1]

It appears that younger consumers skew even more heavily towards such concerns. According to a survey from the marketing firm Clutch, while 44% of Generation Z respondents say that price or value offered is among the three most important attributes of a company, environmentally-friendly business practices (71%), social responsibility (68%), and giving back to the local community (68%) all ranked significantly higher.[2]

## Values Alignment in Products Employed

The surveys above indicate not only that consumers increasingly want to know about the social and environmental characteristics of the companies they work with, but that they do so because they desire their purchasing decisions to be in alignment with their personal values.

"… nearly a third of all individual investors would be willing to give up some return in their portfolio in exchange for expressing their values or for achieving a positive environmental or social impact."

Within financial services, the desire for values alignment is best evidenced by growth in the field of sustainable and socially responsible investing (SRI), often also referred to as environmental, social and governance (ESG) investing. In SRI and ESG investing, assets are managed with a specific focus on the ESG characteristics of underlying holdings, and holdings are often included or excluded from purchase on the basis of a given investor's values. In a 2020 survey, the CFA Institute and Greenwich Associates found widespread interest in this type of investing, with 76% of institutional and 69% of individual investors expressing an interest.[3]

That interest is translating into significant investor action as evidenced by the acceleration of the flow of investment dollars into dedicated SRI and ESG funds. Morningstar reports that asset flows into US SRI/ESG funds totaled $20.9 billion in the first half of 2020, which is just below the previous full-year record of $21.4 billion which was set in 2019.[4] Today, assets in dedicated SRI/ESG funds globally exceed $1 trillion.

### Greater Social and Environmental Impact

It might be expected that an increased interest in values alignment in one's portfolio would be accompanied by an increased interest in having greater social and environmental impact as well. Indeed, investors appear to be highly motivated to achieve both in their portfolios. The CFA Institute survey above indicates that nearly a third of all individual investors would be willing to give up some return in their portfolio in exchange for expressing their values or for achieving a positive environmental or social impact.

As with values alignment, the interest in integrating impact into product purchasing decisions, while fairly widespread, appears to be more pronounced among younger generations than older generations. In particular, Millennials are described by the Millennial Impact Project as "everyday changemakers" who "believe in the power of activism" and attempt to integrate their support for causes across all aspects of their lives.[5] 70% of Millennials reporting that they have changed their habits in an attempt to support their chosen causes.

### Greenleaf Trusts's Evolution to Meet Client Needs

As Greenleaf Trust has identified the growing interest from our clients in integrating their values and positive impact in their financial lives, we have innovated and evolved alongside them. In recent years, we have expanded our roster of sustainable and ESG-focused investment options for clients to include both a suite of sustainable and socially responsible mutual funds as well as screened separately-managed account options. The flexibility of our offerings has allowed us to meet the varying needs of a quickly growing number of clients interested in investing with an SRI or ESG focus.

We have also deepened our efforts to help interested clients achieve high levels of social and environmental impact in their portfolios. We have facilitated client impact investments in a variety of forms over the past several years, including investments made through mutual funds and private funds or by investing directly in securities such as green bonds. Recently, we have assisted several clients as they have evaluated locally-focused impact investing opportunities. One of these projects is "The Creamery," a mixed-use affordable housing development located in the Edison neighborhood in Kalamazoo that is slated to open in January 2021. In addition to offering 48 apartments at rents affordable to people earning near or below the area median income, the Creamery will house a 24-hour daycare operated by the YWCA. It is also being built to achieve LEED Platinum Certification, the highest level of sustainable construction recognized by the US Green Building Council.

Greenleaf Trust's efforts to maximize our own firm's impact have led us to seek out new ways to creatively address the needs of the communities we serve. As part of this effort, Greenleaf Trust has joined the Great Lakes Bay Region philanthropic partnership to fund the use of a program called Catchafire for up to 200 Midland-area nonprofits. Catchafire is a virtual platform that strengthens the social good sector by matching professionals who want to donate their time with nonprofits that need their skills. Catchafire allows nonprofits to obtain assistance for a wide variety of essential needs, such as marketing, translation services, policy reviews, and more. We are especially excited by the broad-based impact of Catchafire and the grassroots way in which nonprofits of any size and type in a given community can take advantage of the platform.

> "… efforts to maximize our own firm's impact have led us to seek out new ways to creatively address the needs of the communities we serve."

Greenleaf Trust strives to be a client-centric organization and has a culture of putting clients and their goals at the center of everything we do. As our clients' needs have evolved to include the greater integration of values and impact into their financial lives, we too have evolved and grown. We look forward to continuing to serve you and grow with you from generation to generation.

1. Markstein and Certus, "Consumers Expect the Brands They Support to be Socially Responsible," 2019.

2. Clutch, "How Corporate Social Responsibility Influences Buying Decisions," 2020.

3. CFA Institute and Greenwich Associates, "Earning Investors' Trust: How the Desire for Information, Innovation and Influence is Shaping Client Relationships," 2020.

4. Morningstar, "Global Sustainable Fund Flows Q2 2020," 2020.

5. The Millennial Impact Project, "The Millennial Impact Report: 10 Years Looking Back," 2018.

## Stock Market Pulse

| Index | 9/30/20 | Total Return Since 12/31/2019 |
|---|---|---|
| S&P 1500 | 760.59 | 4.13% |
| Dow Jones Industrials | 27,781.70 | -0.91% |
| NASDAQ | 11,167.51 | 25.40% |
| S&P 500 | 3,363.00 | 5.57% |
| S&P 400 | 1,861.29 | -8.62% |
| S&P 600 | 855.27 | -15.26% |
| NYSE Composite | 12,701.88 | -6.89% |
| Dow Jones Utilities | 814.70 | -5.05% |
| Barclays Aggregate Bond | 2,376.13 | 6.79% |

| P/E Multiples | 9/30/20 |
|---|---|
| S&P 1500 | 26.4x |
| Dow Jones Industrials | 23.9x |
| NASDAQ | 65.6x |
| S&P 500 | 26.1x |
| S&P 400 | 24.3x |
| S&P 600 | 88.8x |

## Key Rates

| | |
|---|---|
| Fed Funds Rate | 0.00% to 0.25% |
| Tbill 90 Days | 0.08% |
| T Bond 30 Yr | 1.46% |
| Prime Rate | 3.25% |

## Current Valuations

| Index | Aggregate | P/E | Div. Yield |
|---|---|---|---|
| S&P 1500 | 760.59 | 26.4x | 1.80% |
| S&P 500 | 3,363.00 | 26.1x | 1.79% |
| Dow Jones Industrials | 27,781.70 | 23.9x | 2.27% |
| Dow Jones Utilities | 814.70 | 22.2x | 3.24% |

Spread Between 30 Year Government Yields and Market Dividend Yields: -0.34%

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