GREENLEAF TRUST

Perspectives

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

When the financial crisis and resulting severe recession took place in 2008, we offered that the recovery would be long in duration and reflected in incremental progress along the way. The essential reason for that observation was the knowledge that the recession of 2008 was not a typical business cycle recession, but rather one that was caused by a collapse of the banking system and a freeze of liquidity. The economic cycle that we currently find ourselves in is somewhat of a hybrid cycle in nature. We experienced 122 months of uninterrupted growth before experiencing a pandemic that created a two month period of extreme deceleration of economic activity followed by twenty-eight months of sustained growth in GDP. The economic indicators in the last twenty-eight months did not move incrementally, but rather with unusual velocity. All of the normal leading and trailing indicators that we regularly use to evaluate the state of the economy moved rapidly, including those indicators that measure inflation. The majority of economists, including those at the Federal Reserve, reasoned that the inflationary pressures we were detecting were caused by the interruption of the global supply chain caused by the pandemic, as well as the velocity of consumer demand created in part by the direct aid to consumers during the pandemic in most of the G7 economies. Russia's invasion of Ukraine accelerated the rise in energy prices and added to global inflation rates. Over longer periods of time, market forces can solve equilibrium issues in supply and demand and ultimately reduce demand and lower prices, but that process if not assisted by government intervention is long in duration and painful to the consumer. Perhaps late to the inflation battle, the US Federal Reserve began their intervention in the inflation cycle by raising the cost of debt through the process of both reducing liquidity in the system and increasing the rate charged to banks to borrow money at the Fed window, often referred to as Fed Funds rate. The strategy of increasing the cost of debt is to impact decisions that consumers and businesses make on the buy side of the equation. It is a strategy to increase the velocity of normal market force equilibrium in the supply and demand

Economic Commentary, continued

cycle. Fed Funds rates have increased from 0.5% to the current 3.75% in the last seven months. Direct impacts on consumers can be seen in equivalent rate increases in mortgages, car loans and credit card interest rates. Businesses experience equivalent rate increases in lines of credit for working capital and inventory loan financing. The assumed logic in the intervention strategy is that consumption would be reduced by both individuals and businesses, and therefore demand for goods would slow, resulting in increases in prices that would first slow and then retreat. Inflation is generally unpopular, and rapid inflation even more so. Consumers vote with their pocketbook in both purchases and the voting booth, so the war against inflation is fought with a good deal of politicking as well. The incumbents feel pressure to lower inflation while the opposition attacks those in power for causing it.

"… the war against inflation is fought with a good deal of politicking as well. The incumbents feel pressure to lower inflation while the opposition attacks those in power for causing it."

The impact of intervention strategies in the early stages is more incremental than large in nature, and almost always characterized by an initial slowing of the rate of change in inflation followed by incremental reductions in inflation, as observed in declining prices. Attempts to see trends in the success of inflation-reducing intervention strategies can be seen best in several months of economic data releases. Now, seven months into the intervention strategy, it seems that we are beginning the phase of incremental declines in prices and have seemingly passed through the phase of slowing the rate of growth in inflation. Let's look at the indicators we normally observe to see what trends are beginning to form.

The Federal Reserve's Weekly Economic Index (WEI) was last reported at 2.68%, which is a slight improvement over the previous week. Specific areas cited in the release were improvements in retail sales, tax withholding receipts, consumer confidence surveys, electricity output, fuel sales which more than offset declines in rail traffic and steel production.

Job gains released today reveal that employers added 263,000 jobs in September, which was slightly higher than expected, but was the smallest monthly advance since April of 2021. This advance represents a deceleration from average monthly job gains in 2022 of 420,000 per month. US unemployment improved to 3.5% from the previous monthly report of 3.7%, while labor participation remained steady at 62.3%. Average hourly wages increased at a rate of 0.3% for the month, which is a reduction in the annualized year over year wage growth of 5.0%. Overall, the report showed a very strong labor market though job growth appears to be declining and wage growth decelerating. On the inflationary side of the ledger, the competition for workers is very hot and the consumer appears to be fully employed.

The September Purchasing Manager's Index (PMI) surveys reveal areas of incremental decline as well as incremental increases. The manufacturing PMI survey fell below the expansion threshold of 50% by registering 49.8%. The service sector, whose twelve month average is 59.2%, declined to 56.7% which correlates to a 2.4% annualized increase in GDP, somewhat in line with the New York Federal Reserve Weekly Index of 2.68%, which suggests a declining rate of growth from the June and July results. Areas under pressure in the PMI report were business activity, new orders, inventories and prices while increases were tallied in backlog orders, export orders, imports and employment.

Recent action by the Saudis to reduce oil production was not welcomed by others, including the Biden administration, who signaled that the US strategic oil reserves may well be tapped again. Prices at the pump as well as natural gas and heating oil had been trending in the right direction. This week's national average for regular gas per gallon inched slightly higher to $3.83 per gallon from last week's $3.72 and last month's high of $3.77. The next release on inflation will come on October 13 and most analysts are expecting an annualized rate of slightly higher than 8.0%, which would be a decline of 0.3% continuing the third incremental monthly decrease in a row.

"On the inflationary side of the ledger, the competition for workers is very hot and the consumer appears to be fully employed."

Nicholas A. Juhle, CFA®
Chief Investment Officer

S&P 500 Earnings Update

2022 has been a difficult year for investors offering limited opportunities for positive returns. After rising nearly 27% in 2021, the S&P 500 index has retreated 24% year-to-date. Uncertainties abound as persistent inflation is met with increasingly restrictive monetary and fiscal policy and geopolitical risks loom large.

US corporate earnings, however, have proven resilient thus far. With second quarter results officially on the books, we are preparing for the start of third quarter earnings season as management teams begin reporting financial results later this month. In this article, we will share data and our observations around (1) sector-specific earnings growth trends, (2) earnings surprises in the most recent quarter, and (3) forward earnings growth expectations.

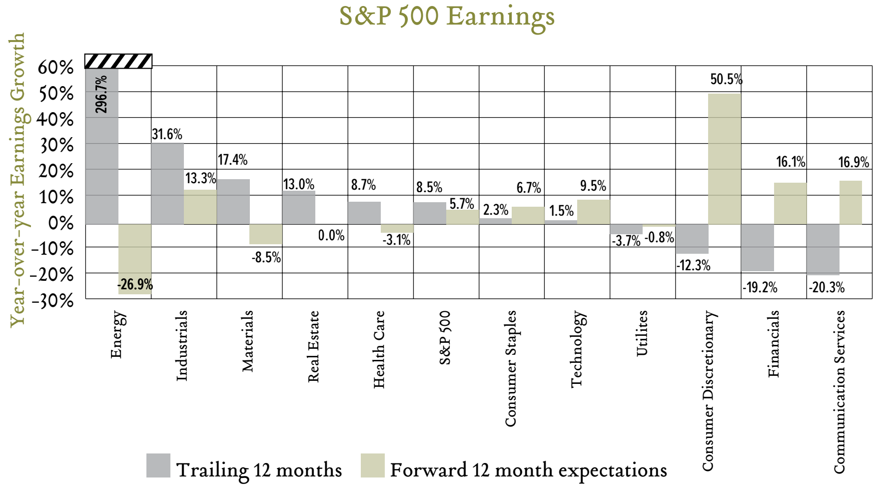
Earnings Growth by Sector

In the 12 months ended June 30, 2022, S&P 500 earnings grew 8.5% compared to the 12 months ended June 30, 2021. Earnings growth levels were widely dispersed across sectors over the last year, ranging from declines of 20% for communication services and financial companies to growth of nearly 300% for energy companies. Excluding energy, earnings contracted 2.5% over the last 12 months despite growth reported in seven of eleven sectors.

> "Over the next 12 months, aggregate earnings growth is expected to slow marginally to around 6%."

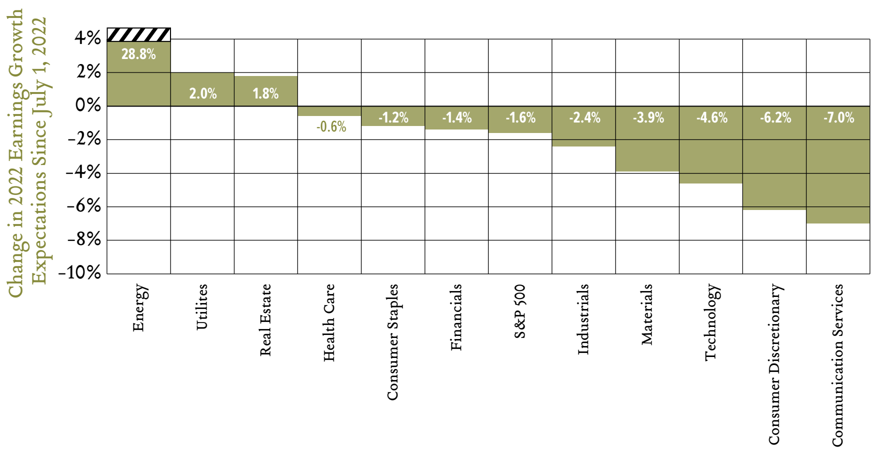
Over the next 12 months, aggregate earnings growth is expected to slow marginally to around 6%. Analyst forecasts call for several sectors to reverse trend from the prior year. In particular, energy companies, which have benefitted from higher prices and a rebound in demand, are anticipated to experience earnings declines of nearly 30% in the year ahead – weighing heavily on the overall growth prospects of the index. Excluding the energy sector, earnings are projected to grow more than 10% over the next 12 months.

S&P 500 Earnings



Looking at calendar year 2022, which consists of actual reported results for the first half of the year and estimates for the second half of the year, growth expectations have diminished somewhat since the start of the third quarter. At 8.3%, earnings growth in 2022 is tracking 1.6% lower than it was three months ago, pulled down by communication services, consumer discretionary, and technology companies, but buoyed by stronger expectations for energy. This ties closely to realized sector returns in the second half of 2022, with communication services stocks lagging (-5.9%) and energy stocks among the leaders (+8.9%) as of this writing.

S&P 500 Earnings Growth Changes



Earnings Surprises

As of this writing, 498 S&P 500 constituents have reported earnings for the second quarter of 2022. Of these companies, 77.5% reported earnings above analyst expectations and 17.9% reported earnings below analyst expectations. In a typical quarter (since 1994), 66% of companies beat estimates and 20% miss estimates. Over the past four quarters, 81% of companies beat estimates and 16% missed. In aggregate, companies are reporting earnings that are 5.5% above estimates, which compares favorably to a long-term (since 1994) average surprise factor of 4.1%. The average surprise factor over the prior four quarters was 9.5%.

This year has been marked by a collapse of confidence among investors, consumers, and business leaders. In light of relatively high "beat rates" we have to wonder if negative sentiment isn't weighing more heavily than it should on forward guidance and earnings expectations.

> "Looking at calendar year 2022… growth expectations have diminished somewhat since the start of the third quarter."

S&P 500 Earnings Update, continued

S&P 500: 2Q 2022 Earnings vs. Expectations

Sector	% of Companies BEAT	MEET	MISS	Surprise Factor %	Reported Total #	Index Total #
Consumer Discretionary	74.1%	-	25.9%	6.3%	58	58
Consumer Staples	72.7%	12.1%	15.2%	5.7%	33	33
Energy	85.7%	4.8%	9.5%	11.4%	21	21
Financials	70.8%	-	29.2%	6.7%	65	66
Health Care	74.6%	4.8%	20.6%	7.7%	63	64
Industrials	83.1%	5.6%	11.3%	3.9%	71	71
Materials	75.0%	3.6%	21.4%	3.4%	28	28
Real Estate	87.1%	9.7%	3.2%	8.8%	31	31
Information Technology	85.5%	3.9%	10.5%	-0.3%	76	76
Communication Services	65.2%	-	34.8%	4.9%	23	23
Utilities	72.4%	13.8%	13.8%	7.8%	29	29
S&P 500 Index	77.5%	4.6%	17.9%	5.5%	498	500

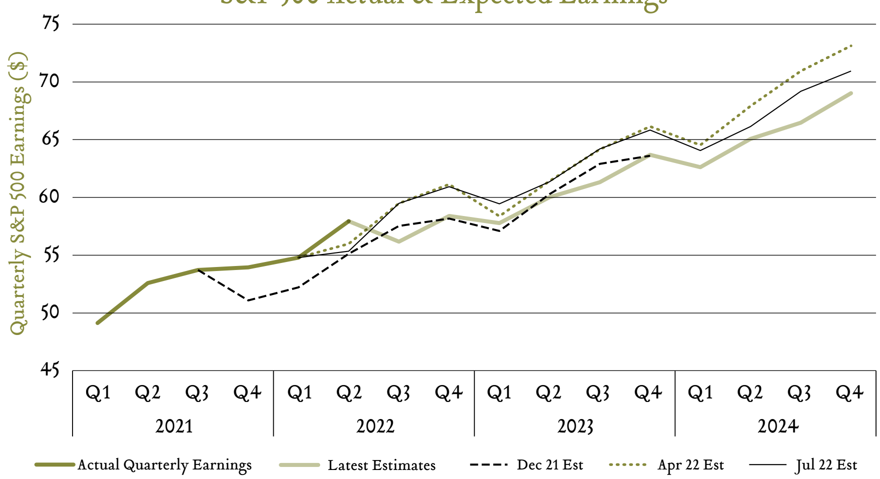
Source: I/B/E/S data from Refinitiv

Forward Expectations

In light of the year-to-date equity selloff and rapid decline in sentiment, one might assume that earnings expectations for the coming years would be bleak. While risks have arguably risen and forward estimates have declined marginally, consensus forecasts have actually proven fairly resilient so far. As of this writing, S&P 500 earnings are projected to grow 8.3% in 2022, 8.0% in 2023, and 8.1% in 2024. Holding valuation multiples constant, this would imply equity returns of approximately 10% over the next few years after incorporating dividend income. Of course, forward estimates are revised frequently and are only a guess at what will actually happen.

> "As of this writing, S&P 500 earnings are projected to grow 8.3% in 2022, 8.0% in 2023, and 8.1% in 2024."

S&P 500 Actual & Expected Earnings



Looking at valuation multiples, the S&P 500 index is currently trading at 16.7x next 12 months earnings. This is below the five-year average of 18.6x and also below the ten-year average of 17.0x, but above the 15.8x recorded at the end of the second quarter.

S&P 500: Valuation

Period	Price	EPS	P/E Ratio
CY2022	3,891.35	225.33	17.3
Forward 4 Quarter	3,891.35	232.35	16.7
CY2023	3,891.35	243.46	16.0

Source: I/B/E/S data from Refinitiv

Conclusion

Despite myriad risks that have dealt a blow to sentiment and pressured equity markets, corporate earnings estimates for the coming years have remained solid. Directionally, one might argue that 2022's selloff has come in anticipation of downward earnings revisions that might accompany a recession. Conversely, if a recession is avoided or is relatively mild, today's forward earnings expectations may provide a tailwind for stocks to move higher.

As always, the investment solutions we build for clients are constructed with business cycles, recessions, geopolitical conflict and even black swan events in mind. It is our fundamental belief that maintaining discipline during periods of uncertainty is the most reliable course for growing and preserving wealth. Thank you for your continued support of Greenleaf Trust and for the opportunity to serve on your behalf.

Source: I/B/E/S data from Refinitiv

"It is our fundamental belief that maintaining discipline during periods of uncertainty is the most reliable course for growing and preserving wealth."

Corbin M. Donaldson, CFP®, CPWA®
Senior Wealth Management Advisor

Sequence of Return Risk

Participating in an Ironman race requires months, if not years, of rigorous training, discipline and mental dexterity. Preparation is not limited to purely triathlon training, but crosses over into the efficiency of navigating the transition zones (from swimming to biking, and from biking to running). Successful triathlon participants train their bodies to perform these transition activities efficiently, despite being under significant pressure. The same can be said for an individual who worked tirelessly in reaching their retirement goals, as they transition from receiving a consistent paycheck to the reliance on portfolio withdrawals to support income needs. This article will evaluate how "sequence of return risk" can impact retirement income while also exploring potential withdrawal strategies to mitigate this risk and sustain long-term success.

Retirement Headwinds

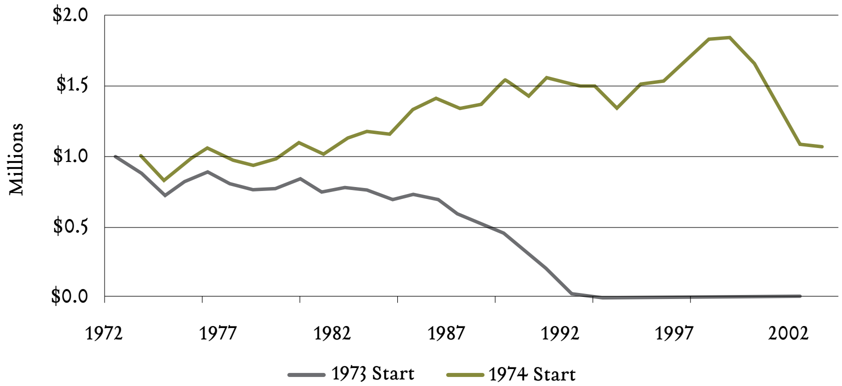
Retirement provides new and sudden headwinds not previously experienced, shifting from a paycheck to relying on the investment portfolio and alternative income sources to support your standard of living. The portfolio is now burdened with the full steam of retirement spending, resulting in retirees often experiencing a measurable shift pertaining to their risk tolerance and behavioral mindset. However, retirement planning should not begin the day of retirement, but similarly to Ironman athletes, well in advance of the event. The goal is to orchestrate a financial plan to control as many elements in the process as possible, but as we all know, the market often throws curveballs – one being the sequence of return risk. While often slicing like a double-edged sword, sequence of return risk evaluates the timing impact positive or negative returns have on the long-term growth and sustainability of portfolio assets. In the next section, we will discuss how differentiating retirement years could impact portfolio sustainability.

"Retirement provides new and sudden headwinds not previously experienced, shifting from a paycheck to relying on the investment portfolio and alternative income sources to support your standard of living."

The next chart illustrates two identical investors with a portfolio asset allocation of 60% equities and 40% fixed income, retiring 12 months apart (1973 vs. 1974), and spending $50,000 annually (adjusted for inflation) for 30 years. As a result of the sequence of market returns with a 1973 start, this retiree faces a more challenging retirement journey due to starting out in a negative market cycle. Based upon the assumptions, the 1973 retiree will exhaust their portfolio assets in approximately 20 years. The impact of depreciation in the portfolio through withdrawals for income replacement, coupled with a sequence of unfavorable returns, negatively impacts the sustainability.

A Year Can Make All the Difference

60/40 Asset Allocation, $50,000 Real Spend, 1972-2003

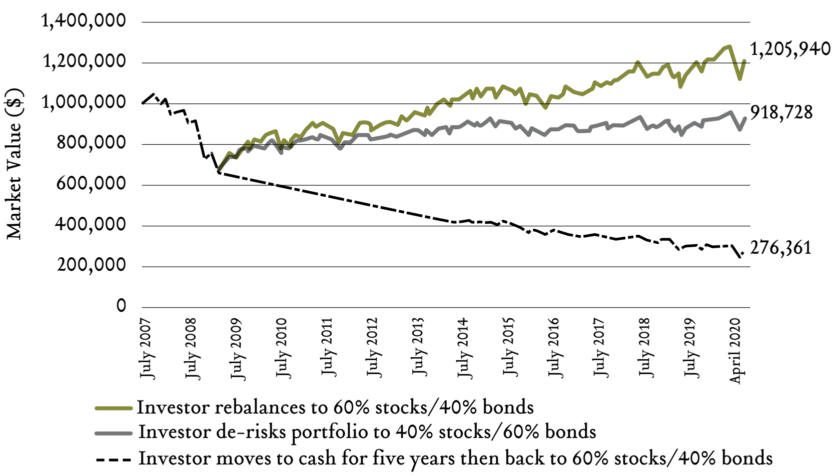


Source: Bloomberg, Global Financial Data and PIMCO. Note: Starting wealth of $1 million, allocated 60 percent to the S&P 500 an percent to US Treasuries (50 percent to 10-year maturities and 50 percent to T-bills), rebalanced annually. Withdrawals are taken pro- from the total portfolio at a rate of $50,000 increased annually with inflation over 30 years. Hypothetical example for illustrative purposes

With the second retiree entering retirement just one year later (1974), the portfolio is still negatively impacted, but sustains a higher portfolio balance that further supports long-term sustainability. We also recognize that an unfavorable sequence of return risk runs beyond simply a dollar and cents point of view, as arguably, an equal risk associated with an early downturn in retirement is the behavioral impact to our 1973 retiree. Our reactionary human nature triggers a form of hyper risk aversion, extrapolating focus to the potential of losses (10x in certain studies) comparatively to that of gains. However, the time to remain disciplined is now and making an errant move to cash could potentially hinder the success of the retirement journey altogether.

> "... the time to remain disciplined is now and making an errant move to cash could potentially hinder the success of the retirement journey altogether."

Running for the Exits May Backfire



As of April 2020. Stocks are represented by the total returnof the S&P 500 Index; bonds are represented by the total return of the Barclays US Aggregate Index; cas is represented by the total return of the ICE BofA ML 3M T bills, with allocations rebalanced annually. All portfolios incur monthly withdrawals that correspond to an annual amount of $50,000. In scenarios where investors de-risked their portfolio, we assumed they did so near the trough of the US Equity market (February 2009). Performance does not reflect the deduction of fees and the cost of an investment product. If these fees and charges were reflected performance would be lower. Figure is provided for for illustrative purposes only and is not indicative of future performance.

Sequence of Return Risk, continued

The previous chart illustrates how a major market downturn can undermine long-term portfolio growth and, additionally, how our behavioral pitfalls could accelerate the dramatics of the situation. The stock market declined approximately 51% from October 2007 to March 2009 and in the above three scenarios, each portfolio had a different outcome based upon the retiree's portfolio response. The gold line reflects a move to cash following the negative market performance, only to reinvest in the market after five years of sitting on the sidelines – Greenleaf Trust would not recommend this strategy. The red line embraces a more de-risking type of strategy, shifting the asset allocation to emphasize fixed income (60 percent) compared to stocks (40 percent). While this strategy could be effective, the asset allocation of the portfolio should not change based upon short-term market or economic events, but only as a result of financial goals changing amidst your wealth management plan. Lastly, we arrive at the blue line, a portfolio that was rebalanced throughout the negative market cycle, but remained invested throughout. The ending result is a portfolio that would have recovered fully by 2013.

"… a major market downturn can undermine long-term portfolio growth and, additionally, how our behavioral pitfalls could accelerate the dramatics of the situation."

Remaining Disciplined with Defined Spending Strategies

A negative sequence of return risk provides an opportunity to re-evaluate your original financial planning framework, focusing beyond the aspects of short-term market or economic negativity and reflecting on your broader goals-based strategy. While a negative sequence of return risk certainly poses a threat, the means of portfolio diversification, proper estate planning, and a disciplined spending approach help to mitigate the potentially negative impact. We know that controlling the market is unattainable; however, we do have the ability to dictate our portfolio withdrawal requirements.

Two dynamically adjusting spending strategies often utilized over the course of several market cycles are implementing a ratcheting rule or a guardrail approach. The ratcheting rule is straightforward — spending is higher when favorable sequence of returns occurs in the market and are reduced during a negative sequence of returns. For example, a retiree might implement a 4% withdrawal rate initially, but may increase spending by 8% once the portfolio achieves a certain performance threshold. During unfavorable sequences, the spending rate is low enough to sustain within the portfolio, but with positive sequences, the spending increase will help to consume excess retirement assets.

The guardrail approach is structurally similar and analogically, is best described with picturing a bowling alley. No need to admit if you still utilize bumpers today or when only bowling with the grandkids, but these guardrails are designed to keep your ball rolling down the middle of the lane as best as possible. The guardrail approach is the same, utilizing a floor and ceiling to more efficiently control spending thresholds during positive or negative market environments with the focus being long-term sustainability. The spending approach dynamically adjusts accordingly to portfolio performance with the intent to maintain a straightened path within the designed thresholds. With any sustainable withdrawal strategy, revisiting your withdrawal rate regularly and adjusting as appropriate is imperative to long-term success.

Over the past 150 years we have been through wars, pandemics, recessions, depressions, natural disasters, political upheaval, etc. What happened with each? The market met its floor and recovered. The sequence of returns risk is an extension of these potential portfolio impactors, posing challenges to a retiree during a bad sequence, but alternatively, providing an opportunity with compounding portfolio growth with positive sequences. As evidenced by recent markets, the short-term can be exceedingly unpredictable. Over the long-term, however, we know your wealth management plan was created and customized with very specific goals and objectives and maintaining discipline, has proven to be the best approach for creating and sustaining wealth. We at Greenleaf Trust look forward to continuing to work with you and your family for many generations to come.

“With any sustainable withdrawal strategy, revisiting your withdrawal rate regularly and adjusting as appropriate is imperative to long-term success.”

Sources:

Harry S. Margolis, J. (2020). The Three Biggest Risks to Retirement Planning and How to Avoid Them. Investments and Wealth Monitor, 12-21.

Natasha L. Tamminga
Participant Services Administrator

Electronic Notice Delivery for Retirement Plan Participants

The Department of Labor's Electronic Disclosure Rule has simplified the delivery of retirement plan information to participants. This rule allows retirement plan administrators to satisfy their information disclosure requirements under ERISA (The Employee Retirement Income Security Act of 1974) by making required notices and disclosures available to employees electronically under a "notice-and-access" method.

The new DOL regulations established a safe harbor that permits sponsors of retirement plans to use electronic methods as the default means of distributing most notices and disclosures required under Title I of ERISA, provided certain requirements are met. Some examples of ERISA Title I retirement plan disclosures include:

- Annual pension benefit statements
- Annual fee disclosure notices
- Automatic enrollment notices
- Blackout notices
- Qualified default investment notices
- Safe harbor notices
- Summary annual reports
- Summary plan descriptions

"The new DOL regulations... permit sponsors of retirement plans to use electronic methods as the default means of distributing most notices and disclosures..."

The rule allows plans to deliver these notices electronically in two ways:

1) Via an Internet Website. The E-Delivery Rule allows plans to provide important notices and disclosures electronically by making the documents available on an internet website. When using this method, the plan must distribute a NOIA (notice of internet availability) to the email address, smartphone number or mailing address provided by the participant or assigned to the participant by the employer. The NOIA informs a participant that a retirement plan document has been made available online. The notice will lead a participant directly to the document or to a login page that enables access to the document when a participant logs in.
2) Via E-Mail. Alternatively, the E-Delivery Rule allows plans to email important notices and disclosures directly to participants. When using this method, the plan will send an email to the participant's email address as provided by the participant or the employer, and include the document either in the body of the email or as an attachment.

Electronic delivery is expected to be a win-win for both plan sponsors and plan participants.

Paper delivery of retirement plan documents via traditional postal mailing does not coincide with the way most people take in information in our technology-driven world and is a costly endeavor. Electronic delivery can improve the usefulness of participant notices and disclosures, while lowering the costs associated with retirement plan administration.

A few additional benefits that are anticipated with the new e-delivery method include providing a better guarantee of receipt of information by the participant, allowing participants to respond quickly to plan information received electronically, and ensuring plan information remains up-to-date and is accessible to participants in "real time."

Greenleaf Trust publishes all required notices to our retirement plan website, and due to the new regulations will no longer send required notices via standard mail. Retirement plan participants will receive a NOIA and always have the right to request a free paper copy from us at Greenleaf Trust or any retirement plan provider.

"Greenleaf Trust publishes all required notices to our retirement plan website, and due to the new regulations will no longer send required notices via standard mail."

Melinda P. Shull, CTFA
Senior Trust Relationship Officer

No Loose Ends

It's almost Halloween, and there are spooky things everywhere you look. Though this time of year is often intentionally scary, don't let fear control you, especially when it comes to your finances. Sometimes fear of what's waiting around the corner, or the big scary unknown, can stop us dead in our tracks and keep us from pursuing our goals and habits that we know are good for us.

Before the holiday season is in full swing, here is a list of moves you may want to make so you can fully relax and enjoy the festivities:

"Before the holiday season is in full swing, here is a list of moves you may want to make so you can fully relax and enjoy the festivities."

1) Health Savings Accounts: Check the balance of your health savings account

   If you're on a high-deductible health plan and not enrolled in Medicare, you may qualify to make tax-free contributions to a health savings account to pay for medical expenses and lower your taxable income. Maximum contribution amounts for 2022 are $3,650 for self-only and $7,300 for families. The annual "catch-up" contribution amount for individuals age 55 or older will remain $1,000. The money in the account can be invested tax-free, and if you use it for qualified medical expenses you won't owe any taxes.

2) IRA or Retirement Plan: Max out your retirement contributions

   In 2022, you can contribute $20,500 in your 401(k) or other employer-sponsored retirement plan, plus an extra $6,500 in "catch-up" contributions if you'll be at least age 50 this year, bringing your total 401(k) contributions for 2022 to $27,000.

   If you don't have a workplace plan, you may still be able to tuck away up to $6,000 ($7,000 if you're 50+) in a traditional IRA—and so can your spouse if they're not employed.

   If you are self-employed, your limits are even higher — up to $61,000 or 25% of your qualifying income, whichever is less, if you have a Simplified Employee Pension (SEP) plan IRA. If you don't, there's still time to set one up to take advantage of the tax benefits.

   Finally, consider contributing to a Roth IRA, if you are eligible, up to $6,000 ($7,000 if you're age 50 or older).

3) IRA Requirement Minimum Distributions: Retirees, be sure to take your IRA Required Minimum Distributions

   If you were born in or before 1950, you may have an annual Required Minimum Distribution (RMD) from your IRA. This is the time to check to make sure you have completed the IRA RMD or have a plan in place before the end of the year. The IRS will impose a 50% tax on any remaining required minimum distribution amount not distributed by December 31.

4) Charitable Contributions (or QCDs): Calculate how much you give in year-end donations to your favorite charity for the greatest benefit
Think about it. Donate to an organization that's close to your heart. The benefits are two-fold. You will reduce your taxable income and feel good about giving some of your hard-earned dollars to a good cause. It's a win-win. If you are over the age of 70½, consider making a QCD from your IRA.
5) Plan ahead for education expenses: 529 Plan
With a state-based 529 college savings plan, anyone can give up to $16,000 per year, tax free, to help fund a child's college or some K-12 expenses. Investments in 529s grow tax deferred, and withdrawals are federal tax-free when used toward qualified education costs. These can include textbooks, tuition and fees, some room and board, and student loans (up to a lifetime maximum). Many states offer residents tax breaks on 529 contributions or withdrawals too.
6) Get ahead of next year's tax return: Revisit your tax withholding
Changes in dependents, income, and marital status can all affect your tax bill. Use the IRS's tax withholding calculator or contact your CPA to decide how much you want to be withheld from your take-home pay moving forward.
7) Make sure you're adequately insured: Review life insurance policies
Has your family grown this year? Bought a house? Started a business? The insurance coverage you had at the start of the year may not be enough for your needs in the new year.
Check to see if your life insurance policy protects your spouse and children, and that you have enough liability coverage on your home and car. Depending on your assets, you may need an umbrella liability policy. You may also need extra coverage if you use your home or car for business.
8) Get a free copy of your credit report
You're entitled to one free copy of your credit report every year. The Federal Trade Commission (FTC) website explains your right to a credit report and provides contact information for their authorized vendor. AnnualCreditReport.com is the only FTC approved site and has provided the ability to pull credit histories to consumers for no cost. Once you've got your report in hand, carefully review it and correct any errors.
9) Think about legacy goals – estate planning
There are things you can do at every stage of life to make sure your family's hopes and dreams are realized. When you apply for a life insurance policy, 401(k), IRA, and even some non-retirement accounts, you will be asked to name one or more beneficiaries. A

"Check to see if your life insurance policy protects your spouse and children, and that you have enough liability coverage on your home and car."

beneficiary is the legal name of the person or persons you want to inherit the proceeds from your accounts or policies after you die. This can make a huge difference to your estate planning because many people don't realize that a will does not control who receives all of their assets when they pass away. So not naming beneficiaries when asked to could mean your money gets tied up in probate for months or years.

Consider reviewing or naming a health care proxy to make medical decisions on your behalf if you aren't able to make them for yourself.

Check or review who is named as your financial power of attorney — the authority to make financial decisions for you if you're unable to do so. Are there any changes that should be made?

"What are your financial goals?... Maybe you'd like to get some retirement planning advice."

10) Make a financial New Year's resolution

Every new year presents a fresh, new beginning. What are your financial goals? Will you finally pay off your mortgage? How much would you like to see in your emergency fund in 6 or 12 months from today? Maybe you'd like to get some retirement planning advice. Whatever your financial goals, write them down, create some milestones, and share them with your client centric team at Greenleaf Trust.

When it comes to money, we know it literally pays to attend to even the smallest of details — but sometimes finding the time to do everything can feel overwhelming. From this list, break down your to-do list into manageable steps. We can guide you through this process and help keep you on track.

Is Private Placement Life Insurance Right for You?

Michal Mikrut, CFP®
Wealth Management Advisor

With market volatility persisting throughout the year, investors have become more interested in alternative investments. Some of these investments, such as hedge funds, private equity, Real Estate Investment Trusts (REITs) and others incur large income distributions. For those in the top tax bracket that can mean income taxes near 45%, whether or not that income is received.

Private Placement Life Insurance (PPLI) is a unique vehicle for clients who find themselves at the top of the income tax ladder and have a desire to invest in the alternative space. PPLI allows individuals or trusts to take advantage of the tax benefits of life insurance while maintaining desired investment allocations. By transferring or purchasing these tax-inefficient assets within a PPLI policy, which can also be held in an Irrevocable Life Insurance Trust, high earning individuals can shelter the income produced by the assets and defer the tax on growth of the assets.

To qualify for this type of policy investors must meet the SEC standard for an accredited investor. Accredited investors are individuals with gross income of $200,000 in each of the two most recent years, or married couples with income of $300,000 in that same time period. Alternatively, individuals or couples with net worth, excluding their primary residence, greater than $1,000,000 also qualify. Typically, policies will require a minimum $1 million investment, but higher figures are generally recommended to maximize cost effectiveness.

"Similar to other life insurance policies, the owner of the policy has access to the cash value of the policy through withdrawals or loans."

PPLI is structured similarly to Variable Universal Life (VUL) policies: there is a minimum death benefit component and a cash value component. The death benefit is generally kept as small as legally possible in order to minimize costs on the policy. Unlike other cash value policies with limited investment options, PPLI policies permit a wide variety of investments. However, these investments need to meet minimum diversification standards in order to qualify as life insurance. While some carriers permit separately managed accounts (SMA), allowing the owner the ability to name individual managers, many carriers utilize Insurance Dedicated Funds (IDF) to ensure the diversification requirements are met. Many hedge funds tailor their product offerings to qualify as IDFs. Though a client can choose an IDF for investment, they may not control the investments within the IDF or direct a manager within a SMA.

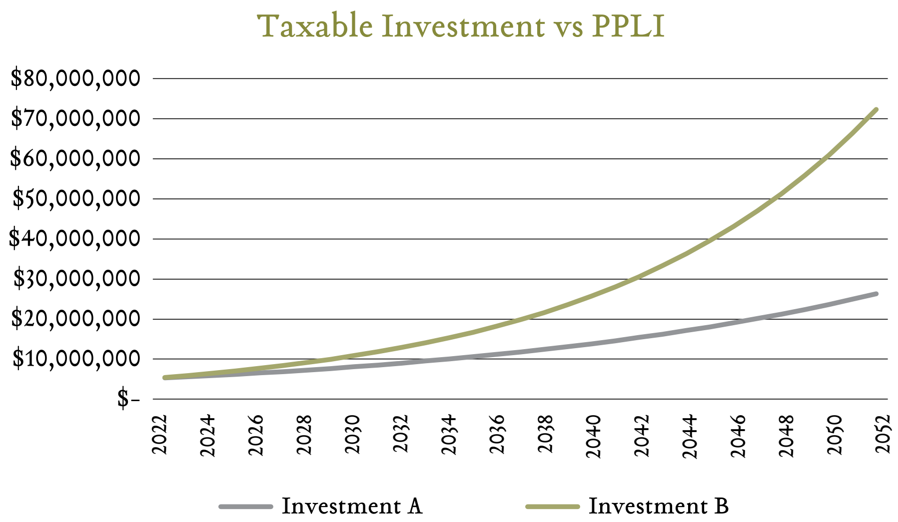
Similar to other life insurance policies, the owner of the policy has access to the cash value of the policy through withdrawals or loans. These distributions are treated on a first in first out basis, meaning premiums

Is Private Placement Life Insurance Right for You?, continued

paid are returned first and will not be taxed so long as the policy passes the "seven-pay" test. The test looks at the required cumulative premiums to fully fund the policy over a seven-year period. Meaning if the policy were to require $300,000 in premiums to fully fund, the premium cannot exceed approximately $43,000 annually for the first seven years, or the seven years after a substantial change to the policy. Such a change would effectively restart the testing period. This test was established to assist the IRS in determining whether a policy is overfunded. Should the policy fail the "seven-pay" test, it becomes a Modified Endowment Contract and loses many of the tax benefits associated with life insurance. Careful planning is required! Compared with other life insurance products, fees are deemed reasonable when scaled, with policies generally put in place with fees between 1-2%. Additionally, K-1s are no longer assigned to the policyholder but to the insurance company, eliminating the need to file extensions for some clients.

"While the difference isn't substantial in early years, we see that by year 10… nearly $4 million in additional wealth has been accumulated."

So what effect may a PPLI policy have on the growth of your portfolio? The below chart takes a look at two similar investments grossing 10% income annually for 30 years. Investment A is located in a standard taxable account, being taxed at 45%, and disregarding fees for the purposes of this analysis. Investment B is located in a PPLI policy charging a 1% fee. No taxation occurs within the PPLI policy until the potential withdrawal of gains.



While the difference isn't substantial in early years, we see that by year 10 we are creating a significant spread between investments. Nearly $4 million in additional wealth has been accumulated. By year 30 that figure grows significantly.

To summarize the benefits of PPLI:

- Opportunity to shelter income and defer growth for tax-inefficient investments
- Ability to invest in wider variety of investments while maintaining life insurance benefits
- In Michigan, and most other states, life insurance offers protection from creditors
- Ability for ownership by Irrevocable Trust, hence moving assets out of the estate
- No age restrictions for access to funds (no penalty)
- Minimize costs by minimizing death benefit (benefit can still be significant in larger policies)
- Elimination of K-1s for personal taxes
- Death benefit available to beneficiary

How about some disadvantages:

- Not everyone qualifies for PPLI, must meet the accredited investor standard
- Policies require large cash flows for several years to fund
- The investor loses control of the investment decisions
- Added cost of death benefit to investment
- Complex with strict compliance standards
- Diversification requirements

PPLI is a sophisticated planning strategy that may not be for everyone. However, for those that it does fit, now may be a good time to start investigating. As estate law changes loom, with lifetime exclusion amounts set to sunset in 2026, the opportunity to move assets out of your estate is closing. These higher growth assets are particularly well suited for PPLI and, if the policy is structured properly, can create immense savings for your family down the road. The ability to take back control of your reported income is appealing to most, the added benefits mentioned above may be enough to factor PPLI into your wealth management plan.

If you would like to learn more about PPLI and how it may benefit your situation, please reach out to a member of your client centric team.

"As estate law changes loom, with lifetime exclusion amounts set to sunset in 2026, the opportunity to move assets out of your estate is closing."

Stock Market Pulse

Index	9/30/2022	Total Return Since 12/31/2021
S&P 1500	818.93	-23.73%
Dow Jones Industrials	28,725.51	-19.72%
NASDAQ	10,575.62	-31.99%
S&P 500	3,585.62	-23.88%
S&P 400	2,203.53	-21.54%
S&P 600	1,064.95	-23.19%
NYSE Composite	13,472.18	-19.96%
Dow Jones Utilities	888.47	-7.12%
Barclays Aggregate Bond	2,011.06	-14.61%

P/E Multiples	9/30/2022
S&P 1500	17.1x
Dow Jones Industrials	15.8x
NASDAQ	34.0x
S&P 500	17.6x
S&P 400	13.3x
S&P 600	13.0x

Key Rates

Fed Funds Rate	3.00% to 3.25%
T Bill 90 Days	3.20%
T Bond 30 Yr	3.78%
Prime Rate	6.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	818.93	17.1x	1.86%
S&P 500	3,585.62	17.6x	1.85%
Dow Jones Industrials	28,725.51	15.8x	2.35%
Dow Jones Utilities	888.47	16.6x	3.69%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.92%

GREENLEAF TRUST® e-mail: trust@greenleaftrust.com greenleaftrust.com

KALAMAZOO OFFICE:
211 South Rose Street
Kalamazoo, MI 49007
office: 269.388.9800
toll free: 800.416.4555

GRAND RAPIDS OFFICE:
25 Ottawa Avenue SW, Ste 110
Grand Rapids, MI 49503
office: 616.888.3210

BAY HARBOR OFFICE:
4000 Main Street, Ste 150
Bay Harbor, MI 49770
office: 231.439.5016

GREENLEAF TRUST DELAWARE:
4001 Kennett Pike, Ste 226
Greenville, DE 19807
office: 302.317.2163

TRAVERSE CITY OFFICE:
160 E State St., Suite 200
Traverse City, MI 49684
office: 231.922.1428

BIRMINGHAM OFFICE:
34977 Woodward Ave., Ste 200
Birmingham, MI 48009
office: 248.530.6202

MIDLAND OFFICE:
117 East Main Street
Midland, Michigan 48640
office: 989.495.2033

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