GREENLEAF® TRUST

Perspectives

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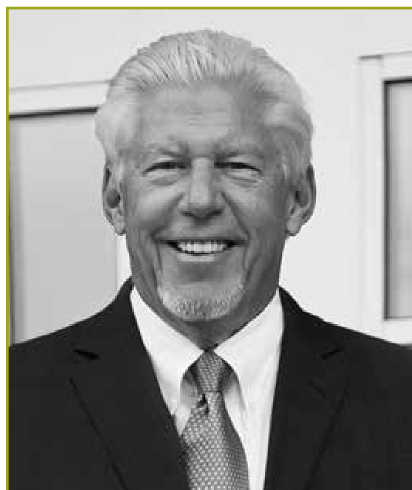

William D. Johnston
Chairman, Greenleaf Trust

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Economic Commentary

The connection between "Wall Street" and "Main Street" is always up for debate, as is the seemingly different focus between those inside the beltway and those who reside, live and work outside of the beltway. Media is driven by advertising revenue, which is highly correlated to viewership and subscription, whether that media be electronic, digital, or print. Those that follow media revenue trends tell us that presidential election cycles are good for media revenue results; thus, media is always hyper-focused on whatever is happening inside the beltway, especially during presidential election cycles.

Recently, I have had several clients ask if GDP and financial markets suffer during impeachment procedures. Our country has endured, through this writing, three impeachment proceedings: one of which resulted in a president being removed from office, and one resulted in a presidential resignation, and thus, the data sample is small. The impact of the economy and financial markets cannot be assessed by focusing only in the context of impeachment. As the Nixon impeachment process progressed, it became clear that the Nixon administration would not survive. The market began its descent in November after the infamous "Saturday Night Massacre," and continued through the August 9, 1974 resignation. Some of the 48% decline in the S&P 500 was due to the impeachment process and resulting resignation; however, the single largest contributor was the oil embargo by OPEC countries that contributed to the CPI index rising to 11.4% in 1974, which essentially stalled the postwar economic expansion in the US.

The impeachment of President Clinton saw remarkably different results. First, and perhaps most important from an economic standpoint, was that the dot-com economy was exploding in the summer of 1998 and roaring in January of 1999. In February of 1999, the Senate voted not to remove President Clinton from office, which was the second most important difference of that impeachment history. In both cases, the equity markets suffered initially. In Nixon's case, the declines continued, not due to impeachment, but rather recession and hyperinflation. In Clinton's case, the markets stumbled and then soared. The growth in markets in 1998 and through 2000 was not due to President Clinton prevailing, but instead due to the explosion of the dot-com economic expansion.

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Commentary, continued

The current impeachment that consumes the media and most of the oxygen within the beltway is not yet a process, but, is at this writing, moving towards one. Some reminders might be helpful as we examine the implications for the economy and financial markets. Impeachment is by its very nature a political, rather than a judicial process. There is not a judge that is present in a courtroom, but rather a committee chair and committee of congressional office holders in the House, and a similar structure in the Senate. The House begins the process with a motion to begin the impeachment process and ultimately, after many months of hearings and testimonies from those subpoenaed, is responsible for voting up or down to remove the president from office and forwarding that vote result to the Senate which is then responsible to affirm the House's vote or acquit the president, thereby nullifying the vote of the House.

Andrew Johnson was impeached for attempting as President to vacate the results of the Civil War and protect and preserve slavery after the emancipation and freedom of those held in slavery. President Nixon's downfall was his overt cover up of criminal actions of his administration and witness tampering that was revealed through the infamous Watergate tapes.

"President Nixon's downfall was his overt cover up of criminal actions of his administration, and witness tampering that was revealed through the infamous Watergate tapes."

President Clinton's near brush with office removal was simply that he lied to Congress about his affair with a White House intern while serving as president. Public opinion, which is very important to legislators, was hugely important in both of the most recent cases. Nixon's party support began to erode as the infamous tapes surfaced. Clinton survived in large part due to a backlash of opinion by democrats as well as enough republicans who felt the affair, while appalling, was not in itself enough to terminate his presidency. This was a great disappointment to Newt Gingrich who led the Clinton impeachment fight, but in the end, he could count votes as well as anyone and knew that the Senate would vote to acquit. There remain many political observers today who feel that Newt Gingrich should never have let the matter come to a vote as doing so revealed many in his own party were not in lockstep with him.

Our current political theatre is different in so many ways, and yet very familiar in the political sense. "High Crimes and Misdemeanors," as described by the founders of our constitution, is purposefully vague as a standard of impeachment and therefore political in its very nature.

If President Trump is not your "guy" so to speak, then calling a leader of a foreign country and asking that leader to investigate a political opponent of yours sounds, feels and acts like a crime as described by the Federal Election Commission. If the President *is* your "guy" then you simply don't care, or feel that the potential collusion was limited and not worthy of impeachment. In both cases, the lens is political and not factual, and truth will be the victim on both sides of the argument.

Expectations during the next year should be tamped down in many areas. History demonstrates that most of the oxygen in the political room will be

devoted to prosecution and defense of the impeached. Trade negotiations, geopolitical tensions, legislation, tax, health care and immigration all will take a back seat to the political matters at hand. Within six months, the presidential election of 2020 will be in full swing. The Democrats will have landed on a front-runner by that time, and President Trump is in campaign mode constantly.

The real question with respect to financial markets and the economy is not the impeachment nor political process. As we described in the Nixon and Clinton impeachment proceedings, economic forces drove financial markets and recession results. It is very likely that the results will be very much the same this time around. We are long in the tooth with respect to our current economic expansion. Our manufacturing sectors are in recession, and consumer confidence is eroding. Employment remains strong as does wage growth, and inflation is muted. Consumers continue to shoulder our 2% rate of GDP growth, and our public policy of tariffs and trade war retaliation has bashed our manufacturing sectors. Supply chains are being interrupted, costs have escalated and forecasting suffers, thereby slowing and impeding business investment.

Solid employment data and consistent consumer spending indicate we are not yet in recession. We have often cautioned, however, that slow growth economies are vulnerable to geopolitical and domestic political actions. It is my sense that our vulnerability has been enhanced in recent weeks.

"History demonstrates that most of the oxygen in the political room will be devoted to prosecution and defense of the impeached."

Greenleaf Trust Scholarship Turns 20

We could not be more proud that the Greenleaf Trust Scholarship at the Haworth College of Business envisioned by our founder and Chairman, William D. Johnston, is turning twenty years old. We are so excited that we celebrated with cake at our annual reception honoring current and past scholarship recipients.

The Greenleaf Trust Scholarship awards ten scholarships annually to business students studying finance or personal financial planning at Western Michigan University. Students receiving the scholarship must maintain a certain GPA and in doing so receive $12,400 annually for tuition until they graduate, or for up to four years. The scholarship is open to all students in both majors; however, it is focused on increasing diversity in these areas of higher education study as well as in the professional field of finance.

When Bill started Greenleaf Trust in 1998, he wanted to build a diverse workforce but was discouraged to find out there was a lack of representation from minority students graduating from Western Michigan University with a degree in finance. So, he changed the situation for the better. Since the scholarship's start in 1999, 71 students have received the scholarship resulting in over $1.3 million of paid tuition.

Michael F. Odar, CFA®
President

Greenleaf Trust Scholarship, continued

> "Through the scholarship, Greenleaf Trust also provides opportunities for up to three students to complete an internship at our company."

Through the scholarship, Greenleaf Trust also provides opportunities for up to three students to complete an internship at our company. Scholars who are offered the internship have the opportunity to rotate through four divisions of Greenleaf Trust: personal trust/wealth management, operations, research and retirement planning. During their internship, they are also provided a mentor who they meet with regularly to receive feedback and coaching. We have been lucky enough to be a part of the growth of 23 interns over the last 20 years and have been honored to have several of those interns start their careers with us.

Every teammate at Greenleaf Trust takes this responsibility seriously. We want the interns to learn and gain meaningful experience by doing "real life" work in their field of study in a professional environment. The hands-on experience involves such things as helping construct wealth management plans, completing an in-house program on fiduciary responsibilities and presenting an investment thesis to our research team, and, of course, we also immerse them in our culture.

I personally am lucky enough to have met and worked alongside the Greenleaf Trust scholars and interns since the beginning. Immediately upon meeting the scholars, I am impressed with their maturity, focus and poise (I do not recall the college version of myself at their same level of these traits). After working with the interns, I am even more impressed with their accountability for projects assigned to them, positive attitude, discipline and thirst for knowledge.

Happy birthday Greenleaf Trust Scholarship. Cheers to another 20 years!

Christopher D. Burns, CFA®, CPA®
Investment Strategist
Senior Fixed Income Analyst

Easy For You To Say

Imagine you're offered an investment. A prospective borrower explains the deal.

- You will loan them $101.00.
- In twenty years, the borrower promises to pay you back, but only $100.00.
- The borrower will not pay you any interest over the twenty years.

Do you make the loan?

I know what you're thinking. "Of course not! If I make that loan, I am guaranteed to lose money."

Well, that's easy for you to say.

Today, all around the world, people are making that deal.

The world of negative interest rates

In July, 2019, the Swiss Confederation borrowed roughly $410 million Swiss Francs (CHF) with a promise to repay just $406 million CHF in 2039 with zero coupon payments. The yield at new issue was -0.05%.

Again, I know what you're thinking! "What a terrible investment!" Well, today that investment doesn't trade at the issue price of $101. No, today those bonds trade at $109. That is a tidy 8% return in just two months. Eventually, at maturity, the holders will receive only $100, but so far the price is up.

You're thinking, "I would never accept a negative interest rate. I would just keep my money under my mattress."

Money under your mattress

Keeping money under your mattress may work for small sums. For many years, economists believed that interest rates could not fall below 0%. After all, holding physical currency promises a 0% interest rate. Indeed, retail deposit rates across the world have mostly avoided negative territory.

However, in Switzerland, the Swiss National Bank (SNB) has set their Policy Rate at -0.75%. That means large Swiss banks who keep deposits at the SNB are charged on the money. So, when those 20-year Swiss Government bonds were issued in July offering -0.05%, that might have looked pretty attractive compared with deposit rates that were even more negative. But imagine you are the CEO of UBS. You would need a pretty large mattress to handle their roughly $420 billion in deposits. In a world with a lot of currency, most of which is held digitally, negative interest rates clearly can and do prevail.

"…in general, monetary policymakers view negative interest rates as stimulative."

Central banks go negative

The Swiss National Bank is not the only central bank to move policy rates negative. Weak growth and muted inflation in the decade since the financial crisis have central bankers around the world pushing the limits of monetary policy accommodation. Today, five central banks have negative deposit rates and most others are much lower than their historical averages.

Region	Bank Name	Rate	Description
Switzerland	Swiss National Bank	-0.75%	Policy Rate
Denmark	Denmark Central Bank	-0.75%	Deposit Rate
Euro zone	European Central Bank	-0.50%	Deposit Facility
Sweden	Riksbank	-0.25%	Repo Rate
Japan	Bank of Japan	-0.10%	Policy Balance Rate
U.K.	Bank of England	0.75%	BOE Rate
Australia	Reserve Bank of Australia	0.75%	Cash Target Rate
South Korea	Bank of Korea	1.50%	Base Rate
Canada	Bank of Canada	1.75%	Overnight Rate Target
US	Federal Reserve	2.00%	Fed Funds Upper Bound

Source: Bloomberg, dated 9/30/19

This past month has resulted in additional policy accommodation across the globe.

- September 13th, Denmark reduced rates from -0.65% to -0.75%,
- September 12th, European Central Bank drops rates from -0.40% to -0.50%,

Easy For You To Say, continued

- October 1st, the Reserve Bank of Australia drops rates from 1.00% to 0.75%.
- September 18th, US Federal Reserve drops rates from 2.25% to 2.00%.

The theory behind negative interest rates

Central bankers around the globe have differing mandates and policies. However, in general, monetary policymakers view negative interest rates as stimulative. The theory states that if the cost of borrowing money is low, there is incentive to borrow and invest in new projects. That spending should lead to economic growth and inflation that eventually allows for higher interest rates.

The criticism of negative interest rates

Critics of negative interest rates cite the transmission mechanism through the banking system as a weakness. If large commercial banks are unable to pass negative deposit rates on to their customers, who prefer the mattress option, those banks' net interest margins become compressed. If the banks become less profitable, negative interest rates can actually create the opposite of their intended effect: harming, not helping, credit creation.

"… the Swiss Confederation borrowed roughly $410 million Swiss Francs (CHF) with a promise to repay just $406 million CHF…"

Another criticism is that regulations on financial services companies prevent them from making the type of riskier loans that may create faster economic growth. Reserve requirements that make banks and insurance companies safer, by forcing them to hold low-yielding government securities, also restrict their ability to finance new projects.

Who issues negative-yielding debt, and who owns it?

Market Value of Negative Yielding Debt

Source: Bloomberg, dated 9/30/19

Today there is over $14 trillion of debt that trades at negative interest rates. The vast majority are securities issued by governments in Japan and Europe, but some is even issued by corporate borrowers.

The owners of these securities are largely central banks, pension funds, insurance companies and other investment pools like mutual funds.

Could negative rates come to America?

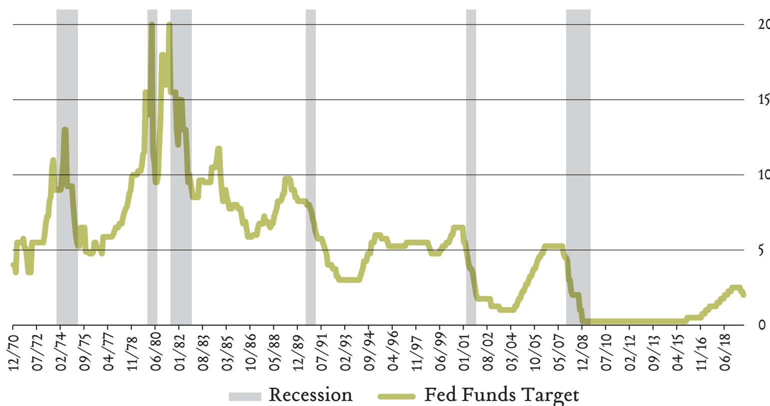
I know what you're thinking. "Sure, there is $14 trillion of negative yielding debt, but that's Japan's problem, that's Europe's problem. We won't have

negative interest rates in the United States."

You might be right. Even in the depths of the financial crisis, the Federal Reserve did not turn to negative interest rates to stimulate the economy. However, no less a public figure than former Fed Chairman Alan Greenspan disagrees. In an interview last month, he said it was "only a matter of time"[1] before negative rates spread to the US.

Here's his logic:

US Monetary Policy and Recessions



Source: Bloomberg, NBER, dated 9/30/19

The US is experiencing the longest economic expansion in recorded history, now over 10 years in duration. At some point, the business cycle will turn and we will have a recession. During recessions that coincided with inflationary periods in 1970s and 1980s, the Fed dropped the Federal Funds rate an average of around 10% to stimulate growth. In the last three recessions, the Fed cut rates by 5.5% on average. Today, after two cuts in 2019 totaling 0.5%, the Fed Funds rate target stands at 2.0%.

Mr. Greenspan believes that the next recession will require more than an additional 2.0% cut to recover. The question to us is whether alternative monetary policy actions, such as quantitative easing, will be sufficient to avoid negative rates in the future. Several members of the Federal Reserve have voiced their dislike for negative rates, including Fed Governor Lael Brainard and Fed Chairman Jerome Powell.[2] We hope, for the sake of our investors, that the US economy stays strong and we can avoid that path.

Options for investors

When faced with low expected returns investors have four options:

1. Take more risk: Take more risk in an attempt to generate returns similar to what you may have earned in the past (in this case, owning fewer safe bonds and more high yield and equities).
2. Market timing: Wait. Attempt to "time the market" and hope a day comes when expected returns are higher (in this case, higher interest rates).
3. Stay the course: Continue to invest as you have historically and adjust your

> "Today there is over $14 trillion of debt that trades at negative interest rates. The vast majority are securities issued by governments in Japan and Europe, but some is even issued by corporate borrowers."

Easy For You To Say, continued

spending/budget projections to reflect lower expected returns.

4. Alternative investments: Attempt to find investment strategies that are less dependent on the level of market returns in the future.

Unfortunately, that is it. We dislike Option #1, as our clients rely on us to prudently manage their investment risks. We view the probability of success with #2, market timing, as extremely low. For now, we are mainly relying on investor education and our team members in the client centric team to help our clients navigate the planning implications of lower interest rates (Option #3). We are also utilizing Option #4, with allocations to alternative investment strategies with track records of uncorrelated investment performance.

"At some point, the business cycle will turn and we will have a recession."

Conclusion

I wish I could say with certainty that we will never own negative-yielding bonds here at Greenleaf Trust. We believe the odds are low, but we also believe that it is possible negative yields may come to the United States. It is distinctly not easy for us to say. If they ever do, you can rest assured that the team at Greenleaf Trust will be here to help you navigate the planning and investment implications to help you reach your financial goals.

Sources:

1. https://www.cnbc.com/2019/09/04/alan-greenspan-says-its-only-a-matter-of-time-before-negative-rates-spread-to-the-us.html
2. https://www.bloomberg.com/news/articles/2019-09-11/fed-loath-to-follow-ecb-on-negative-rates-despite-trump-s-demand

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

Dealing with Sudden Wealth

It is your wealth and you should be able to leave it to whomever you want on your death and in whatever fashion you consider appropriate. Most individuals intend that the purpose of their wealth, often transmitted by a trust, is to enhance the lives of their trust's beneficiaries. Estate planning, however, focuses on when and how that wealth is transferred to beneficiaries. Far less time is devoted to the probable impact of that transmitted wealth on beneficiaries. More time needs to be spent to assess how that wealth will actually be used to make a beneficiary's life better: which entails some reflection on the beneficiary as an individual, not just a 'wealth recipient.'

Frequently there lingers the anxiety that leaving too much wealth to beneficiaries outright may have the complete opposite effect to diminish the lives of those beneficiaries. Often expressed is the worry that the beneficiaries of that wealth will lead dissolute lives. If a trust holds and

transfers an inheritance, the concern is that the beneficiaries will become 'remittance addicted' to monthly trust distributions that will either create, or perpetuate, a dysfunctional life. Leaving large amounts of wealth will deprive those beneficiaries of the creativity and the excitement, or empowerment to create something on their own, and the self-respect gained through their own efforts. The presence of that sudden wealth can act as an impediment to the beneficiary's own sense of self-worth. Thus, the concern that the magnitude of that wealth, and the annual income that it generates, will actually hinder the beneficiary's own development and impede their sense of freedom to make their own life choices.

Thought needs to go into evaluating the impact of this sudden wealth on the lives of intended beneficiaries. Trust beneficiaries are individuals, not just role-players, in an estate plan. The relationship between a trustee and trust beneficiary, which abruptly appears on the death of the wealth accumulator, is often not considered in estate planning. Realistically, a trust is often much like a 'shot-gun wedding', where neither the trustee nor the trust beneficiary picked the other, and truth be told, neither would consciously choose the other if they had a choice in establishing a relationship.

Since a trust is an actual relationship, both the trustee and the trust beneficiary carry some responsibility to assure its success. A beneficiary has no actual training for how to perform in that relationship, and often needs a mentor. While the trustee may understand its fiduciary duties, it is equally obligated to treat trust beneficiaries as individuals, more than just a fungible role-player in their trust relationship, for however long that relationship lasts. Accordingly, a critical part of the trustee's role is to strive to serve the growth and development of the trust beneficiary as a human being with a capacity for personal growth and accomplishment.

Some steps can be taken while the wealth accumulator is alive to ensure that the trust that they intend to use to dispense their wealth will enhance, and not hinder, the lives of their selected beneficiaries.

EXPLAIN YOUR OBJECTIVES: A trust prescribes the manner in which financial wealth will be managed and distributed to beneficiaries by codifying the wealth creator's intent. There exists a delicate balance with any trust between carrying out the trust creator's intent and meeting the unique needs and abilities of the trust's beneficiaries. Reading the trust instrument alone does not fully explain what the trust creator hoped to accomplish with their trust. Michigan's trust laws often refer to a trust's material purposes, but seldom does a trust instrument explicitly state the creator's purpose when the trust is established. It is helpful, from both trustee and trust beneficiaries' perspectives, for the trust creator to include in the trust instrument either a Statement of Intent, or a developed material

"… seldom does a trust instrument explicitly state the creator's purpose when the trust is established."

Sudden Wealth, continued

purposes provision. This provision should address why family wealth is to be held in trust, articulate core family values and express the trust creator's hope for the beneficiaries. Explaining the purpose behind a trust will help to reduce any resentment the trust beneficiary may feel when they find that their inheritance is 'tied up' in a trust.

DELAY DECISIONS OR CHOICES: Some trust instruments require a trust beneficiary to make choices or decisions shortly after the trust creator's death, e.g. pick an asset or take cash now, or instead, receive trust distributions over time. Requiring a trust beneficiary to make sudden difficult, long-term, decisions required by the trust instrument while the beneficiary emotionally deals with the loss of a family member can start the trustee-beneficiary relationship off on a bad foot. Not requiring decisions or choices for several months after the trust becomes irrevocable enables the beneficiary to grieve, and over time, become more accustomed to the trust and learn how the trust is supposed to function for that beneficiary's benefit.

"...time needs to be spent to assess how that wealth will actually be used to make a beneficiary's life better, which entails some reflection on the beneficiary as an individual..."

USE OBJECTIVE CRITERIA: If the trust creator wishes to use their wealth to incent a change in the trust beneficiary's behavior, objective criteria should always be used so that both the trustee and beneficiary know and accept the standard by which the beneficiary's change in behavior will be measured. All-or-nothing incentive provisions usually feel punitive and breed resentment. In some trusts, the trustee and trust beneficiary are directed by the creator to establish the behavioral standards as opposed to simply imposing them on that relationship.

REMAIN POSITIVE AND OPTIMISTIC: The words used in a trust instrument can often send the wrong message to the trust beneficiary. Language that rewards a beneficiary's behavior, not inflicts punishment or embarrassment, is far more effective to engage the beneficiary in the trust's administration and to achieve its intended purpose, which is presumably to enhance the beneficiary's life.

TREAT LEGACY ASSETS AS FAMILY ASSETS: If all of the trust beneficiaries, such as closely held business interests or the family cottage, must share some assets held in trust the entire family should be engaged in discussion ahead of time about the future mutual use of those legacy assets. While these treasured assets are owned by the trust creator, they still require the input and 'buy-in' from all of the family members in order to avoid controversy or litigation after the owner's death. Legacy assets entail continuing lifetime discussions with regard to wishes and desires of all family members so that the 'wrong' beneficiary does not end up owning, or monopolizing the legacy asset. In addition, the family needs to confront the unfortunate realization that some family members are simply incapable of sharing the use of the legacy asset with others.

UNDERSTAND (OR TRY TO) THE GENERATIONAL TRAITS OF BENEFICIARIES: With prior generations, there was often no discussion about family wealth, but there were always expectations and reactions to it. This reflected an 'it's my wealth, you will take it as I give it to you' type of paternalism. Generation X and Millennials are much more skeptical and far less willing to accept that type of 'it's my wealth' approach to estate planning than prior generations. Consequently, beneficiaries are less apt to blindly accept the paternalistic 'shot-gun wedding' approach to the transmission of wealth on a family member's death with the use of a trust. Wealth creators need to engage younger family members in their decision-making, especially when there exists step-parents and step-children as the beneficiaries of the same 'family trust', each with their own set of expectations and generational attitudes towards wealth and how that wealth is to be invested, preserved and used.

PLAN AHEAD FOR EMOTIONAL DECISIONS: Flash points that often prompt family dissention, which can easily spill over into trust administration delays and litigious beneficiaries, need to be addressed. End-of-life decisions must be prepared for and decision-makers clearly identified in durable powers of attorney for health care and as funeral representatives, as these decisions often polarize a family. The more you decide ahead of time, the less your survivors have to quarrel about.

CONSTANTLY COMMUNICATE: Finally, trust beneficiaries must be prepared for the responsibilities that go along with managing wealth and the family values that enabled the accumulation of that wealth over the decades. Several conversations among the family in a non-threatening environment, like sitting around the kitchen table, will provide a beneficiary's greater understanding of, and engagement with regard to, the disposition of the family's wealth. Most effective to communicate those values is to tell stories of family history that enable younger family members to understand where the family has come from, who they are, and what the family most values. That understanding will help future trust beneficiaries to become responsible trust beneficiaries, good stewards of the family wealth they will ultimately enjoy, and thus better able to use that sudden wealth to enhance their lives.

A trust is a tool that can preserve both a family's heritage and its legacy. To address the common concern of inherited wealth leading to dissolute lives, the trust beneficiary as an individual must become the focus of estate planning if the goal is to enhance the beneficiary's life. In sum, we need to give as much attention to preparing the beneficiaries for their inheritance as there is to the preparation of the trust that will transfer that wealth.

"...trust beneficiaries must be prepared for the responsibilities that go along with managing wealth and the family values that enabled the accumulation of that wealth over the decades."

Melinda P. Shull, CTFA
Trust Relationship Officer

Philanthropy After the 2017 Tax Act

The long-term impact on philanthropy of the Tax Cuts and Jobs Act of 2017 remains unclear. While lower income taxes and eased income tax administration would seem to be desirable ends, one area that has raised concern is the effect these changes have on charitable giving, and the services that charities will be able to provide to their communities as a result.

The good news is that there is a significant disconnect between income tax laws and actual behavior. In other words, although individuals want tax efficiency, they are not primarily motivated to give to charity for tax or financial reasons.

The following is an overview perspective on the most effective ways to give to charities going forward.

Practical Implications Arising from the 2017 Tax Act — "Bunching, Boosting, and Bypassing"

For those who will be affected by the higher standard deduction, and who still want to make tax-efficient donations to their favorite charities, they should consider the technique of "bunching" deductions. For example, making three years of charitable giving every third year, itemizing tax deductions in that year and then using the standard deduction in the non-itemizing calendar years. This strategy could be accomplished by giving directly to charities, or through a gift to a donor-advised fund.

A similar strategy is to "boost" gifts by fulfilling larger gift commitments to a single charity in a single year, rather than over an extended pledge-payment period. A variation is to accelerate charitable bequests into lifetime charitable gifts, since there will probably be no estate tax concerns due to the higher federal estate tax exemption.

> "...there will be no penalty for not itemizing deductions and still making charitable contributions using a qualified charitable distribution."

Donors can enjoy a "deduction equivalent" by making gifts that "bypass" their income stream. A technique that has gained popularity is the use of qualified charitable distributions (QCD). An individual over age 70 1/2 can direct up to $100,000 a year directly from their IRA to one or more qualifying charities, or to a designated fund (a QCD cannot be made to a donor-advised fund). A QCD does not result in a federal income tax charitable deduction, but the distributed amount does not have to be reported as income in the same manner as a regular IRA distribution. Thus it is equivalent to a 100% income tax deduction. The distribution will also count against the required minimum distribution. This strategy may keep the individual out of higher marginal tax brackets and away from the 3.8% Medicare surtax. In short, there will be no penalty for not itemizing deductions and still making charitable contributions using a qualified charitable distribution.

Giving Opportunities that Continue to Exist After the Tax Act

GIFT APPRECIATED ASSETS: Congress did not change the rules with regard

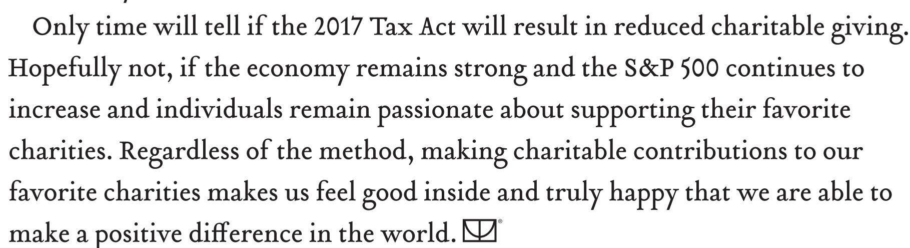
to the gift of appreciated assets to charities. An individual still can receive substantial income tax benefits from donating stock and other appreciated assets that have grown sharply in value to a charity. The individual will avoid the capital gains tax that would have been incurred had he/she sold the appreciated asset while the gain in the asset's value is fully tax deductible.

Donor advised funds: Donor advised funds could be used to receive a large, deductible gift in one calendar year (bunching), yet the funds can be distributed to charities over the next several years (albeit with no income tax deduction in those future years). That large charitable gift can result in itemizing income tax deductions for the year of the gift to the donor advised fund.

Gift of remainder interests in homes and farms: An individual can gift the remainder interest in their principal residence or a farm to a charity and receive a large current income tax charitable deduction (bunching) for the value of that gifted remainder interest. This is a way to bunch a large charitable gift into a single calendar year, permitting itemization of that large charitable gift while allowing the individual's use of the home until the individual's death. Practically speaking, the charitable gift actually takes place on the individual's death, but the individual claims a current income tax charitable deduction.

Charitable gift annuities: Charitable gift annuities are still viable and often used when the individual wants to help a charity but is still fearful of outliving his/her money. The charitable gift annuity avoids paying capital gains taxes on the sale of an appreciated asset like securities.

Charitable remainder trusts: Charitable remainder trusts (annuity or unitrust versions) will continue to be useful. A charitable remainder trust avoids paying any capital gains taxes when an appreciated asset transferred to the trust is sold by the trust, assures a lifetime income stream to the beneficiary to address longevity concerns, protects the trust's assets from the beneficiary's creditors, creates a large current charitable income tax deduction (bunching) equal to the value of the charitable remainder interest in the trust, and assures the charity that it will receive the balance of the assets in the trust on the beneficiary's death.



Only time will tell if the 2017 Tax Act will result in reduced charitable giving. Hopefully not, if the economy remains strong and the S&P 500 continues to increase and individuals remain passionate about supporting their favorite charities. Regardless of the method, making charitable contributions to our favorite charities makes us feel good inside and truly happy that we are able to make a positive difference in the world.

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

> "Only time will tell if the 2017 Tax Act will result in reduced charitable giving."

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

Super-Size Your Roth IRA

Comprehensive and insightful retirement planning advice will typically encourage you to fund an emergency savings account, maximize your annual contribution to your workplace 401(k), collect your employer's match, contribute to a health savings account and fund a Roth IRA if you're eligible. Once you've maximized your allowable contributions to these accounts, saving in an after-tax investment account is the logical next step. We often hear from families that have dutifully saved in each of these structures that they desire to contribute even more to their Roth IRA. For the committed saver, there's an often-missed approach to boost Roth IRA balances that has been hiding in your workplace 401(k) plan all along.

Few investors are aware that the total 401(k) contribution limit for 2019 is $56,000 ($62,000 if you've reached age 50). There are three methods to contribute funds into a 401(k):

1. The employee's own pre-tax or Roth deferrals (the popular $19,000/$25,000 "maximum"),
2. Employer contributions (commonly referred to as the "match"), and
3. After-tax contributions.

Before we explore how anyone (regardless of income level) can accelerate their Roth IRA savings, it is essential to distinguish the three types of retirement plan contributions:

"Contributing enough to receive your full employer match ensures you won't leave free money on the table."

Pre-tax or Roth Deferrals

Many workplace 401(k) plans allow employees to decide how they would like to contribute their annual $19,000 deferral ($25,000 if age 50+). If an employee elects to make pre-tax deferrals, dollars will go into their 401(k) without the employee paying taxes on them. While the funds remain inside the 401(k), the employee won't owe any taxes on investment earnings, but will owe taxes once funds are withdrawn in retirement. Roth 401(k) contributions experience the opposite tax treatment. An employee would elect to defer dollars that they've already paid income taxes on in order to avoid taxes when the funds and earnings are withdrawn in retirement.

Employer Contributions

Employers will typically add a certain amount to your retirement savings based on your own annual deferral. No matter what election an employee makes with their deferral, employer contributions are always provided on a pre-tax basis. Contributing enough to receive your full employer match ensures you won't leave free money on the table.

After-Tax Contributions

After-tax contributions can be added to their 401(k) after the deferral amount has been maximized. For example, a 60 year-old employee defers $25,000 into their 401(k) and their employer kicks in another $9,000 for a total

contribution of $34,000. This leaves $28,000 that the employee can contribute for the year with after-tax dollars. Unfortunately, not all workplace retirement plans allow after-tax contributions. Your plan administrator will be able to determine if your plan allows for this type of contribution.

After-tax contributions may sound like Roth 401(k) contributions but there is a significant distinction: Roth 401(k) contributions begin compounding earnings tax-free as soon as the money is added to the account. After-tax contributions compound earnings on a tax-deferred basis when they're added to a 401(k) plan. While after-tax contributions have been funded with the same type of dollars as Roth 401(k) contributions, they're not under the protective tax-exempt shield offered by a Roth structure.

When you leave a company, after-tax 401(k) earnings can be rolled into a traditional IRA. This would effectively enhance retirement savings but would still require employees to pay taxes upon withdrawal. Increased retirement savings is generally a productive goal. How can we improve upon this strategy, reduce income taxes, and enhance Roth IRA balances?

Under current tax policy, there are income boundaries that restrict Roth IRA contributions, but not conversions. If your retirement plan allows frequent in-service withdrawals of after-tax contributions, you can directly convert your after-tax contributions to your Roth IRA on a regular basis. If your plan doesn't allow in-service withdrawals, you may still be able to facilitate an in-plan conversion which enables a saver to convert their after-tax contributions into a Roth 401(k). Under either approach, it's advantageous to convert after-tax contributions to a Roth structure as quickly and frequently as possible. Facilitating this conversion on a timely basis will allow savers to accumulate tax-free earnings sooner.

"Under current tax policy, there are income boundaries that restrict Roth IRA contributions, but not conversions"

This generates an attractive savings strategy that's often overlooked: your after-tax 401(k) contributions can be rolled into a Roth IRA where future growth will be exempt from taxes. Many investors can dramatically increase their Roth savings by utilizing the after-tax contribution feature of their workplace 401(k).

Resuming our example from earlier, our 60 year-old saver (assuming their workplace 401(k) plan allows frequent in-service rollovers) could decide to rollover their $28,000 after-tax contribution every year into a Roth IRA. This would allow our saver to contribute four times the annual maximum for a Roth IRA ($7,000).

Unfortunately, not all retirement plans offer conversion options for after-tax contributions. To determine if you're eligible to save after-tax contributions in your 401(k) plan, facilitate in-service withdrawals, or conduct in-plan conversions we recommend contacting your plan administrator. We encourage Greenleaf Trust clients to reach out to a member of their Client Centric Team to decide if after-tax retirement contributions are appropriate for them.

Stock Market Pulse

Index	9/30/19	Total Return Since 12/31/2018
S&P 1500	683.36	20.18%
Dow Jones Industrials	26,916.83	17.51%
NASDAQ	7,999.34	21.56%
S&P 500	2,976.74	20.55%
S&P 400	1,935.48	17.86%
S&P 600	947.72	13.44%
NYSE Composite	13,004.74	16.75%
Dow Jones Utilities	878.66	26.26%
Barclays Aggregate Bond	113.17	8.32%

P/E Multiples	9/30/19
S&P 1500	19.7x
Dow Jones Industrials	18.0x
NASDAQ	31.4x
S&P 500	19.6x
S&P 400	19.8x
S&P 600	22.9x

Key Rates

Rate	Value
Fed Funds Rate	1.75% to 2.00%
Tbill 90 Days	1.75%
T Bond 30 Yr	2.11%
Prime Rate	5.00%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	683.36	19.7x	1.91%
S&P 500	2,976.74	19.6x	1.92%
Dow Jones Industrials	26,916.83	18.0x	2.28%
Dow Jones Utilities	878.66	23.1x	2.87%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.20%

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