GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

DECEMBER 2022 VOLUME 31, ISSUE 12

William D. Johnston
Chairman, Greenleaf Trust

Memory Lane

It was May 1985 when I began to write a monthly newsletter to my clients about the economy, financial markets and geopolitical as well as domestic political happenings that had impact on both. Thirty-seven and a half years have flown by (and by some miracle, I didn't get any older and some would say wiser) and this month's column is number 450, comprising 1400 pages and over 625,000 words. What started out as an attempt to inform approximately 50 clients now reaches 1200 client relationships, hundreds of estate planning attorneys and CPAs as well as thousands of visitors to our website each month. It has truly been a joyful part of my career and has allowed me to grapple with the content that stirs my soul, excites and interests me. The engagement that I have with readers who either agree or disagree with my musings has been truly wonderful. The title "Memory Lane" of this month's article is intentional, as I have decided to exit page one and turn over the monthly economic commentary responsibilities to our very capable Greenleaf Trust research team led by our Chief Investment Officer, Nick Juhle. Michael Odar, our President and CEO, will assume my page one location. From time to time this old man will resurface as a guest columnist primarily focusing on the geopolitical and domestic political events of our times.

Speaking of which, our midterm elections are now over even though some, but relatively few, candidates continue to litigate and protest the results. In last month's article I confessed to being less than sanguine about the midterm elections. I sensed that the angst in voters was greater than ever before and the threats to democracy through the peaceful and legitimate transfer of power expressed through the electoral process that has been a differentiating cornerstone of our country was never more obvious. In my view, democracy won on November 8. Historic numbers of citizens voted in the midterm elections and did so as a reaffirmation that they valued the responsibility and the opportunity that a participatory representative democracy offers. Regardless of the results or how you view the outcome through the eyes of your preferred party or candidate, the election appeared to have a calming impact on the electorate in general and also gave us a fourteen-month reprieve from the omnipresent

Economic Commentary, continued

onslaught of political advertisements.

Over the past thirty seven and a half years there have been no less than twenty-three major geopolitical and domestic political, as well as purely economic, events that severely impacted financial stability. In almost every event the downdraft in financial markets was severe and many times dramatic. It is also important that, while each event impacted markets in the near term, full recovery and then advancement followed. In fact, from the 1987 "Black Monday" drop of 508 points or 22.7% in one day from its prior Friday, October 16 close of 2,246, today's Dow Jones stands at 33,708, a gain of over 15-fold from that day.

The 1990s saw an increase in Middle East tensions and the resulting geopolitical threats that occasionally increased angst and caused market sell-offs of varying degrees. January 1991, fresh off of a recession, saw the initiation of the Gulf War following Iraq's invasion of Kuwait. The war was short, but helped to amplify the schism between the Sunni and Shiite sects of Islam that would cause significant attacks on western developed countries in the next few years.

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Terrorism was acted out in increasingly greater scale as evidenced in the early 1990s bombings of the World Trade Center in New York, the Oklahoma Civic Center in 1995, the US Embassy bombing in Africa and the USS Cole bombing in October of 2000 all of which were the precursor to the historical disaster of 9/11 attacks on the World Trade Center and Pentagon. ISIS was growing and active and our over twenty year military engagement in Iraq and Afghanistan began shortly thereafter in 2003.

Geopolitical instability was elevated and coalitions of mostly western developed nations were formed at various levels of solidarity to push back on ideological inspired terrorism. Simultaneously, the dot-com bubble burst in 2000 and a recession immediately followed. The Federal Reserve did what most people expected and increased liquidity while lowering the cost of debt, and the recession was short lived. Equity markets had a long and almost uninterrupted run from 2002 through the third quarter of 2007. As we know the housing boom of the mid to late 2000s was not built on demand, but rather on a thirst for syndicated mortgage-backed bonds. The perfect storm of investor and syndicator greed came together to create the financial crisis of early 2008, plummeting both stocks and bonds and creating a liquidity crisis that caused the failure of many banks globally. We stated then that the recovery from this deep recession would be prolonged and incremental in nature, and would not be the typical recovery of a cyclical business recession. Incremental it was, with GDP slowly growing at 2% per year. It took the consistent compounded slow growth nine years to gradually reduce unemployment to 4.5% and bring full recovery to pension and retirement plan accounts. Slowly and incrementally, housing markets were restored, automobile companies were restructured and business investment in productivity resumed, fueling further growth, and by 2016 GDP growth was approaching 3.3%.

The year 2010 witnessed mass migration in Europe as the Syrian civil war and Bashar al-Assad's dictatorial persecution of protests created millions of refugees migrating to Western Europe. The seeds of the European Union's implosion were being sown as Germany, France, Italy and the UK all struggled with assimilating the refugees into weak economies and fearful populations. Extremist attacks in France and London further fueled the appetite among some politicians in the UK to suggest that open borders in the European Union were a threat to the UK. And Boris Johnson became a populist figure cut of similar cloth to Donald Trump as both rose to power during the same year as Brexit came to life.

In early January of 2020 we began to hear the term coronavirus, which was quickly defined as COVID-19. Within a few weeks the term "pandemic" entered mainstream vocabularies as the global freedom of an as yet unrestricted traveling public quickly spread the infection to nearly every country in all hemispheres. Playbooks for combating global pandemics are in fact written, but few people outside of public health leaders read those playbooks. Politicians love to take credit, but are loathe to accept responsibility or blame. In fact, they love to find others to blame, and thus most countries wasted precious time in preparing for and battling the now raging disease spread by focusing on who was to blame. By early March 2020, the United States and every other country were racing to control and treat the disease, as healthcare organizations were overrun and the death toll rose. The global economy screeched to a halt and massive recessions began. Our robust economy plummeted, and unemployment grew to double digits. Governments throughout the world searched for answers to the health aspects of the pandemic as well as the economic tragedies that were evolving. Most developed countries chose direct-to-consumer stimulus programs which allowed people to stay in homes and eat while waiting for the disease to run its course. The impact of the increased stimulus globally was to maintain demand in consumption, but the pandemic impact was to shut down the supply chain of production. The result of this dichotomy was to create the thirst for goods and services in diminishing supply of product, creating massive increases in inflation which we continue to struggle through today. Sensing a weakness in resolve within NATO, and the United States' fatigue with a twenty-year war in Afghanistan, Putin began his plans to invade and take the south eastern region of Ukraine much as he did in 2014 with Crimea. The interruption of energy supplies to Europe has tested but not broken the resolve of NATO, and the will of the Ukrainian

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Economic Commentary, continued

population for independence has surprised and damaged the assumptions Putin began with.

It has been simultaneously a sobering and encouraging walk through the past thirty-seven years of geopolitical events that have impacted financial markets. Sobering because of the repetition of man's inhumanity to fellow man, but encouraging in the affirmation of resilience and fortitude to not only survive the condition that we find ourselves in, but find ways to thrive while doing so. For those that read this column monthly, thank you for your interest. It truly has been a joyful part of my life. If my opinions have sometimes or even often offended, I offer my regrets. If you have found yourself more in agreement with me than not, then you have been affirmed. In either case, I ask that you continue to seek opinions from a variety of sources and in particular opinions from those that you disagree with. Part of our hope for the future is that we learn the grievances and lived experiences of others and don't just accept the notions that we are most comfortable with. Especially during this holiday season I wish you and your family the very best. Over and out, end of shift.

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The Plan for 2023

Michael F. Odar, CFA®
President and
Chief Executive Officer

We have built a dynamic plan for 2023 that is again focused first and foremost on our clients and a part of our longer-term strategic goal to be Top of Mind.

Our Advance is an annual three-day meeting in October involving our entire Executive Leadership Team. The purpose of the Advance is to share and discuss divisional strategic plans for the upcoming year. Divisional plans are scrutinized and challenged by each leader's peers in an effort to create a cohesive organizational plan. Candor is essential. Once an organizational plan is constructed, we build our budget around it. We view strategic planning as a long-term endeavor. However, each year we want to take one step forward towards achievement of our longer-term Top of Mind strategic plan. Our Advance helps us do this. And, if you are wondering why we do not call it an executive retreat it's because we are not going backwards. We call it an Advance because we are moving forward.

Our organizational plan for 2023 is focused on four key themes: Workplace Culture, Service Evolution, Platform Evolution, and Purposeful Growth.

Workplace Culture continues to be one of the most important reasons teammates join Greenleaf Trust and want to spend their careers here serving clients. We strive to hire talented diverse people and provide them with a work environment that challenges, supports, equips, and multiplies their efforts through collaboration. The end result is an engaged team that is inspired to do great work for our clients. In 2023, our focus will be on new talent acquisition and integration, inclusivity, succession planning, and emerging leader development.

Growth is not always about getting bigger in size. It's also about continuous improvement and evolution. We want the way we serve clients and the tools we use to serve them to continue to evolve and improve. We appreciate that what got us to where we are today may not necessarily get us to where we want to be in the future.

In 2023, our Service Evolution efforts will include creating more tools and communication enhancements for participants in our Retirement Plan division, expediting the prospect to client lifecycle, developing efficiencies in how we deliver fiduciary excellence, and designing new ways to serve the next generation more effectively.

From a Platform Evolution perspective, scalable technology solutions that improve our client experience will continue to be a theme. Our clients through their survey responses said loud and clear that they want a single access point for automated statement, tax document, and performance delivery. We heard them and have already begun working on this initiative. In addition to a more robust private alternatives investment platform, we are also expanding our performance reporting capabilities, further integrating payroll communication with our retirement plan offerings, and elevating trading capabilities.

In order to serve from generation to generation, it's important that we continue to grow purposefully in size. There are risks to growing too quickly, and risks to growing too slowly. Purposeful Growth involves growing deeper and broader in our capabilities at a designed pace in order to serve existing and prospective clients better. That's our goal. In 2023, expanding our digital media footprint, a more targeted social media presence, and selective advertising will help us expand brand awareness to be Top of Mind. Longer term, our growth will continue to come from satisfied clients, deliberate geographic expansion, and potential adjacent business acquisitions.

I appreciate the opportunity to share our 2023 plan with you and hope that the holidays find you well.

"In order to serve from generation to generation, it's important that we continue to grow purposefully… in order to serve existing and prospective clients better."

Jacob A. Barker, CFA®, CFP®
Senior Manager Selection Analyst

The Inevitability of Capital Gain Distributions

Many of you are familiar with the renowned French philosopher René Descartes' first principle, "I think, therefore I am." Far fewer people, however, are familiar with what the tax collector standing next to Descartes said in response, "You are; therefore, you pay taxes!" While my children would define this bit of witticism as a dad joke, it does serve the purpose of setting the stage for what we will be covering in this article — capital gain distributions and their accompanying taxes. Capital gain taxes, as the name implies, are taxes collected on the gains realized from the sale of an investment. In a year of volatile and downward-trending markets, some may assume that no capital gains could have been realized over the course of the year and thus there will be little to no capital gain distributions. This assumption, while understandable, is incorrect. Because the capital gain tax is assessed on the total appreciation of an investment from the time of purchase to the time of sale, many investments that were purchased in years past still contain embedded gains, despite markets being down this year. While this realization may be unsettling, Greenleaf Trust clients can rest assured that their advisor has been studiously preparing for these distributions with the goal of ensuring the best after-tax outcome for each of our clients. With this in mind, let us now turn our attention to the mechanics of these annual distributions.

> "In a year of volatile and downward-trending markets, some may assume that no capital gains could have been realized over the course of the year... This assumption, while understandable, is incorrect."

Most investors are familiar with basic tax principles for individual shares of stock. Mr. Smith buys shares of ABC Company for $100 and sells them for $110 realizing a $10 profit, or gain, on which he is expected to pay taxes. If Mr. Smith holds the shares for more than one year, the gains are considered long-term and subject to a federal tax rate of up to 23.8% (in 2022). If Mr. Smith holds the shares less than a year, the gains are short-term and taxed as ordinary income. The key here though, is that Mr. Smith has to sell the shares to realize the gains. He controls the timing, and has the ability to delay realization of gains and the resulting tax liability for as long as he holds the shares. The same concept is only partially true when it comes to mutual funds.

A share in a mutual fund represents a share in a portfolio of stocks (or other investments), and the price of that share (the net asset value or NAV) fluctuates with the prices of the underlying securities. The mechanics here are really no different than in the individual stock example above. Mr. Smith buys shares of the ABC Fund for $100, the underlying securities in that fund collectively appreciate by 10%, and Mr. Smith sells them for $110, realizing a $10 gain and the associated tax liability. Pretty straight-forward right? Here's where it gets a little more complicated...

If a mutual fund sells a holding in which it has a gain, it has to distribute that gain to the fund's shareholders in the year it was realized. If the mutual fund buys shares of ABC Company for $100 and sells them for $110, it has to distribute the $10 gain (short or long-term) to shareholders who are responsible for the tax liability. Instead of distributing gains after every transaction, funds typically make a single distribution at year-end which incorporates all gains netted against any offsetting losses or applicable loss carry forwards.

So there are two ways a fund investor can realize gains: 1) by receiving a capital gain distribution from the fund; and 2) by selling a fund share for more than the purchase price. Mechanically, capital gains distributions are processed similarly to dividends. There is a record date (holders of record on this date will receive the distribution), and an ex-date (the first day you can buy the fund without receiving the distribution). This means that a fund could set a record date of December 15 and if our friend Mr. Smith bought shares on December 14, he would receive the distribution and a tax bill. Likewise, Mr. Smith could have bought shares earlier in the year and sold them on December 14th and he would avoid the distribution altogether.

Perhaps this seems unfair. The fund accumulates gains all year and then distributes them to whoever happens to be holding the shares on the record date. Fortunately, there is a mechanism in place that prevents fund investors from being taxed twice – specifically, the distribution results in a corresponding reduction to the NAV or price of the fund share, which effectively reduces any gain in the shares themselves.

To illustrate, let's say Mr. Smith buys one share of ABC fund for $100 on December 14 and the fund distributes $10 in capital gains on December 15. Mr. Smith receives the $10 and will pay taxes on that amount (clearly unpleasant), and his share immediately re-prices to $90. Sounds like a lose-lose, but it means Mr. Smith's share could appreciate as much as $10 (from $90 back to $100) before he would realize gains on a sale.

Historically, the average distribution across our client holdings has been between three and five percent. This year, we estimate that capital gain distributions will be on the higher end of historical norms, averaging around five percent. Domestic small- and mid-cap equities, along with emerging market equities, are poised to distribute the largest gains this year.

Fortunately, our hands are not completely tied when it comes to taxes. In fact, several steps in our process are inherently geared toward managing tax liabilities generally and specifically as they apply to

"This year... our estimates indicate that the average fund's distribution rate will be in line with historical norms."

The Inevitability of Capital Gain Distributions, continued

externally-managed funds. First of all, this discussion does not apply to 401(k)s, IRAs, or other qualified accounts and we ensure clients are maximizing these vehicles in the context of a broader wealth management plan. For non-qualified accounts, our portfolio construction and fund selection processes carefully consider the assumed tax impacts of the strategy or fashion in which our clients are investing. We carefully consider turnover rates, as it is usually the case that higher turnover (more trading) means more realized gains while lower turnover means the opposite. In addition, we keep an eye on the net flows of each fund, as large net outflows can force a fund manager to liquidate securities to meet redemptions, resulting in higher realized gains. We also evaluate the tax characteristics of different investment vehicles for our clients. This emphasis on tax efficiency is part of what leads us to recommend index-tracking exchange-traded funds (ETFs) for a portion of many client portfolios, as they usually experience less turnover and are generally more tax efficient than the average actively-managed mutual fund. We also monitor funds closely for manager or prospectus changes which may drive higher turnover if the portfolio is repositioned. Additionally, we analyze capital gains estimates to inform decision-making around year end – under unique circumstances, there may be benefits to strategic repositioning during the distribution season based on a host of account-specific factors. You can rest assured that we are thoroughly examining every account for opportunities.

> "This emphasis on tax efficiency… leads us to recommend index-tracking exchange-traded funds (ETFs)… as they… are generally more tax efficient than the average actively-managed mutual fund."

Lastly, perhaps a little perspective is in order. Nobody looks forward to paying taxes and rational investors will make every effort to avoid, minimize, or delay them. Greenleaf Trust is in your corner working diligently to ensure that we're sheltering, minimizing, and delaying every chance we get. But at the end of the day, taxable gains are, well… gains. So, don't lose sight of the fact that while taxes are a certainty, they're also a certain indicator of a growing portfolio.

In Pursuit of Your Money

Oliver E. Krings, CISSP, ABCP
Chief Information Officer

In their ongoing pursuit of your money and identity, criminals are constantly coming up with new cons. When shopping online during the holiday season – or any other time of the year — there are plenty of opportunities for bad actors to take advantage of busy and distracted online shoppers.

Here are a couple of recent examples of scams that are widely exploited and how you can protect yourself:

FAKE CHARITIES THAT STEAL YOUR MONEY

Charity fraud scams can come to you in many forms: emails, social media posts, crowdfunding platforms, cold calls, etc. Always use caution and do your research when you're looking to donate to charitable causes. A good source to conduct your research is the Federal Trade Commission (https://consumer.ftc.gov/features/how-donate-wisely-and-avoid-charity-scams)

LOOKALIKE ONLINE STORES

While most retailers provide safe and convenient systems for making purchases online, it is important to look out for potential scams. Scammers often take advantage of people's desire to get bargains and send out phishing e-mails that contain links to perceived trusted sites from reputable retailers.

If you receive such e-mails, a safe practice is not to click on the link but rather go directly to the retailer's website and find the bargain there. This way you avoid lookalike web pages setup by the bad actor.

"Charity fraud scams can come to you in many forms: emails, social media posts, crowdfunding platforms, cold calls, etc."

GIFT CARD SCAMS

Scammers love gift cards because they're almost impossible to trace. For example, cybercriminals may create fake stores or Craigslist listings for discounted gift cards. But if you send them money, you'll receive an empty gift card in return.

- If you buy gift cards in a store, make sure that they haven't been tampered with. Check the back and look to see if the PIN has been exposed. Get a receipt so that you can verify the purchase if your card is lost or stolen.
- Only purchase gift cards from reputable retailers. If you're buying online, check the store's link to see if it's secure.
- Whenever possible, buy gift cards from the actual retailer or company.
- Never pay an "activation fee" for a gift card. Some unscrupulous retailers charge massive fees just to activate your card.

In Pursuit of Your Money, continued

"Scammers also use social media to list fake holiday giveaways or surveys that offer gifts and 'free cash' in exchange for your personal information."

MISSED DELIVERY NOTIFICATION SCAM TEXTS

We have been seeing an influx of scams conducted via SMS text messages by notifying you that a delivery is pending on an action from you. And unfortunately, this is where the scam starts.

If you click on such a link, one of three things can happen:

- You'll be taken to a phishing website designed to steal your sensitive information. In most cases, scammers will create a fake UPS or FedEx website that asks you to "verify" your information before proceeding. They'll ask for your name, phone number, address, and sometimes even your Social Security number (SSN) along with credit card numbers. But any information you provide will go straight to the scammer.
- You'll be asked to pay a fee to release your shipment. Scammers may also claim that your package requires a customs fee or other payment before it can be delivered. They'll ask for your credit card information or demand that you pay via gift cards, wire transfers, or cryptocurrency.
- You'll accidentally infect your mobile device with malware. In other cases, hackers will use these links to download malicious software onto your device. Once installed, malware can scan your device for sensitive information (like your bank account or credit card numbers), spy on you, or encrypt your device and demand payment to unlock it (this is called ransomware).

Never respond to those messages nor should you click on the associated link. If there is no tracking number or carrier information provided, it is most likely a fake notification and if there is a tracking number provided, the safest way to verify the information is going directly to the carrier website and enter the tracking number.

FAKE ONLINE GIVEAWAYS AND SURVEYS

Scammers also use social media to list fake holiday giveaways or surveys that offer gifts and "free cash" in exchange for your personal information. Some fraudsters may even use bot accounts to "like" giveaways, which makes the scam look like the real deal.

Warning signs of a fake online giveaway or survey:

- You're asked to provide sensitive information in return for a free gift. Be especially cautious if you're asked for financial information (such as your credit card number) or details about your workplace.
- You're told you've won a prize but need to pay a small fee to receive it.

How to stay safe

Ignore surveys on social media and don't trust anyone who offers you free money or gifts — especially if you never entered the giveaway. If you're asked to pay or provide sensitive information in exchange for a prize, it's a scam.

MISSED PACKAGE SCAMS

Who doesn't hate missing a package delivery?

Cybercriminals know this. So, they've created a ruse that involves leaving a note on your door claiming to have a package for you that couldn't be delivered. The note contains a phone number to call to reschedule the delivery. If you call the number, you'll be greeted with questions related to your personal identity that can later be used to commit fraud.

If you receive a missed delivery note, look at it closely for any mistakes or other signs that it could be fraudulent. (It's also a good idea to check your recent orders to see if a delivery was scheduled for that date.) Even if the notice looks legitimate, don't call the number listed on the note. Instead, visit the company's website to find the official customer service number.

Estate Settlement Readiness, Your Non-Financial Legacy

Alexandria Solis-Mullen, J.D.
Estate Settlement Officer

A phone call came in recently informing us of the passing of a gentleman who had named Greenleaf Trust to administer his estate. As he was not a client of Greenleaf Trust during his lifetime, we had little to no information about him, about his life, his family, his assets, or his preferences. In short, we had to work from scratch to gather all the information we could to fulfill his legacy. But many of our questions went unanswered. Was it by design that his daughter's share was larger than his wife's, or was that solely a result of his reduced estate size? What were his concerns in writing restrictions on distributions? Did he still trust the opinion of the Trust Protector he had named but had not been in contact with for a decade?

At many times and for many estates, we regret that we were never afforded the opportunity to connect during the person's lifetime and never learned in their own words what they planned for their legacy.

But what does it mean to plan for your legacy? Is it a matter of money and property? Usually, conversations about legacy include tax strategy, how to reduce expenses, probate avoidance, division of assets and protection of beneficiaries, and rightly so. But legacy can also include the gift of a simple, efficient administration, free of unnecessary stress, conflict and waiting. Because when you are gone, as we all will be some day, your estate plan will determine not only how your assets are divided, but also things like whether family members are put in a position to oppose one another, whether beneficiaries have to wait months and

> "… the Estate Settlement Team can give you a picture of [how] estate settlement… will affect the day-to-day life of your family and other beneficiaries."

Estate Settlement Readiness, Your Non-Financial Legacy, continued

months for access to funds, and whether your administrator has the benefit of your personal knowledge about your family and your wishes.

For clients at Greenleaf Trust, you are equipped with the diligence and service of your client centric team, which is responsible for regularly reviewing your estate plan to ensure it will avoid probate and maintain privacy, divides assets according to your preferences, and is up to date with tax and other legal changes. Our estate settlement team partners with the client centric team at the death of a client to ensure they are equipped with everything needed to either work with an outside administrator, or in the instances where Greenleaf Trust is named as such administrator, to smoothly and efficiently settle the estate.

Oftentimes up until their passing, a client's estate is viewed from a lifetime perspective, not an estate settlement perspective. With a thorough review, the estate settlement team can give you a picture of what estate settlement will logistically look like and how it will affect the day-to-day life of your family and other beneficiaries. We consider, for example, "day one" planning for after death — planning for pets that will need immediate care, what account access a spouse or other beneficiary will need immediately, which assets should be immediately secured, and more. To facilitate this type of review for living clients, the estate settlement team has now introduced the process of estate settlement readiness reviews (more on this below) to provide a distinctly estate settlement review in the hope of getting answered now the questions we will later wish we'd asked.

"To facilitate this type of review for living clients, the estate settlement team has now introduced the process of estate settlement readiness reviews…"

Estate Settlement Readiness Reviews have recently led to the following specific successes for various clients:

- We found and corrected an improperly titled account held outside of Greenleaf Trust.
- An unrevoked written gift had later been included in the trust terms; had we not taken steps to revoke the prior gift document, the same gift could have been made twice upon the client's passing.
- We provided sufficient information to a client about the practical hurdles of having 10+ beneficiaries in one distribution group, allowing the client to weigh the pros and cons and make an informed decision.
- We learned that while some clients did not need updates to their estate plan, they preferred at their passing for us to work with a different law firm than the one that drafted their documents.
- We discovered that unbeknownst to our client, his son was experiencing immense stress over the financial burden he may be taking on with some of the assets he would inherit. With the client's privacy preferences as our guide, we were able to clarify

how the plan would affect the son's day-to-day life and the timeline for access to needed funds.

While the successes of each review vary greatly, the goals are always the same. In each review, we hope to:

- Remove the mystery and confusion around estate settlement,
- Resolve issues that only the grantor of the trust can remedy,
- Consider "day one" needs and make sure the plan adequately provides for them,
- Examine how the plan will affect the day-to-day life of beneficiaries when the estate is administered, and
- Provide Q&A and discussion time for the client (and family too, if the client prefers) with the very team who will be administering the client's estate when the client is gone.

To accomplish these important goals, we have structured the estate settlement readiness review in five steps. A review can include some or all of the following steps, based on identified needs and client preferences:

1) Internal Review

Once the client centric team has confirmed a client's desire to do an estate settlement readiness review, we perform a complete review of the client's estate planning documents, an updated list of assets, the titling of assets and liabilities, and any ancillary documents, such as business succession documents, always with the aim to view how these will fit together during estate settlement.

2) Meeting

We meet directly with the client, and we recommend clients (if they are comfortable) include, at least, their primary beneficiaries. Some clients may want to share every detail with their family, while others may choose to keep the conversation at a very high level; your team works with you ahead of time to establish the boundaries of this meeting, but in general, this meeting includes the following:

- Explanation of the estate settlement process and the timelines associated with settling an estate. The several phases of estate administration to review include:
  - ◊ Opening and evaluating the estate
  - ◊ Collecting and assessing assets, debts, and expenses
  - ◊ Sales and distributions
  - ◊ Tax filings
  - ◊ Final distributions and estate closing
- Review our client's desires/understanding.

"While we don't draft documents internally, we assist clients in identifying… areas of concern, so they are comfortable and prepared for meeting with their attorney or CPA."

Estate Settlement Readiness,
Your Non-Financial Legacy, continued

- Comparison of what our client wants to what our client's estate plan says.
- Address client and beneficiary concerns.
- Next steps.

3) Planning
Often issues and concerns are raised in the review process that require some planning or updating to documents or accounts. While we don't draft documents internally, we assist clients in identifying those areas of concern, so they are comfortable and prepared for meeting with their attorney or CPA. Often, our team will meet directly with the attorney or CPA to provide a synopsis of what was discussed with the client to facilitate a more efficient review and update process.

4) Follow-Up Meeting
Your client centric team sometimes also hosts an additional follow-up meeting with you without additional family members present. This provides an opportunity to review the planned changes in detail prior to signing and for you to ask any questions that weren't asked in the first meeting with family present.

5) Updates
If estate planning updates are needed, the new documents can be signed directly with the attorney, or your team can assist with getting any amendments/updates signed at our offices.

The conversation is sometimes difficult to have, but dealing with estate settlement issues now means not having to deal with them during times of grief and loss. By working together, the review can provide you and your family a fuller understanding of your plan and allow the team who will be assisting in your estate settlement the opportunity to get to know you and what you envision for your legacy. If you are interested in a thorough Estate Settlement Readiness Review, please contact any member of your dedicated three member client centric team.

"The conversation is sometimes difficult to have, but dealing with estate settlement issues now means not having to deal with them during times of grief and loss."

You Can Save More to Your Retirement Plan and IRA in 2023

Lorey L. Matties
Participant Services Specialist

The Internal Revenue Service (IRS) recently announced the increase to the maximum retirement plan benefit and contribution limits for 2023. Employee contributions to 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan will rise to $22,500 – a $2,000 increase from the $20,500 cap for 2022. Plan participants age 50 and older in 2023 can contribute an additional $7,500 for a maximum of $30,000, up $1,000 from this year.

Inflation is at its highest level since qualified retirement plan indexing began, causing 7% to 11% increases for most 2023 contribution limits. The annual employee contribution limit typically goes up by $500 increments; however, higher inflation is making it jump up four steps in one year.

For the first time since 2019, the individual retirement account (IRA) contribution amount will go to $6,500 – a $500 bump from the $6,000 cap for 2022. The catch-up limit for IRAs will remain at $1,000, meaning those age 50 and older can put away $7,500 in 2023.

Additionally, more Americans may now qualify for Roth IRA contributions in 2023, with the income phase outs rising to between $138,000 and $153,000 for single and head of household filers (up from $129,000 and $144,000) and between $218,000 and $228,000 for married couples filing jointly (up from $204,000 and $214,000).

In an attempt to keep up with the ongoing impact of inflation on seniors, the Social Security Administration (SSA) announced that benefits are set to rise by 8.7% in 2023. This will increase the "average" monthly benefit amount to $1,827, up $146 from the $1,681 this year.

The Social Security taxable wage base jumps nearly 9% for 2023 to $160,200, up from $147,000 this year. The Social Security tax functions very much like a flat tax. The taxable wage base caps the amount of employee compensation subject to the 6.20% Social Security tax rate imposed on both employers and employees. In 2023, employers must withhold Social Security tax on each employee's first $160,200 of compensation. This means that the employer and employee must each pay $9,932 (the self-employed pay both sides of the tax). Compensation above the $160,200 is not subject to Social Security taxes.

On the following page is a table highlighting some common retirement plan and other benefit limitations.

"For the first time since 2019, the individual retirement account (IRA) contribution amount will go to $6,500 – a $500 bump..."

You Can Save More to Your Retirement Plan and IRA in 2023, continued

“The Saver’s Tax Credit for low- to moderate-income workers will reflect adjustments as well.”

Retirement Plan Limitations	2023	2022
Annual deferral limit for 401(k), 403(b) and 457(b) plans	$22,500	$20,500
Catch-up contribution limit for persons age 50 and older in 401(k), 403(b) and 457(b) plans	$7,500	$6,500
Limitation on annual additions to a Defined Contribution plan – “415 limit”	$66,000	$61,000
Annual compensation for determining benefits or contributions to a Defined Contribution plan	$330,000	$305,000
Highly Compensated Employee (HCE) compensation threshold	$150,000	$135,000
Officer or Key Employee definition	$215,000	$200,000
Earnings subject to Social Security tax (wage base)	$160,200	$147,000
Annual IRA contribution limit	$6,500	$6,000
Annual IRA catch-up contribution limit for persons age 50 and older	$1,000	$1,000
Health Savings Account (HSA) individual contribution limit	$3,850	$3,650
Health Savings Account (HSA) family contribution limit	$7,750	$7,300
Health Savings Account (HSA) catch-up contribution for persons age 50 and older	$1,000	$1,000

The Saver’s Tax Credit for low- to moderate-income workers will reflect adjustments as well. The Saver’s Credit is a tax break that is available to many people with modest incomes, offering a way for savers to make their money work harder for them. The credit is between 10-50% of the individual’s eligible contribution up to $2,000. The annual income limit to receive the credit for 2023 is $36,500 for single filers; $54,750 for head of household; and $73,000 for married couples filing jointly.

Should you have any questions regarding the various limitations that apply to retirement plans, including some that are not included in the above table, please contact our retirement plan services team.

Revisiting Monte Carlo Analysis after a Challenging Year

Steve Davis, CFP®
Wealth Management Advisor

Following extremely robust market returns in 2021, and new all-time highs the first week of this year, 2022 has proven to be a challenging year for investors to date. While up from its mid-October lows, the S&P 500 index registered an intra-year drawdown of approximately 25%, while the aggregate bond market didn't fare much better registering its own 18% intra-year drawdown. This means that a traditional 60/40 portfolio without alternative assets would have been down about 22% during the depths of the declines in mid-October. Confounding the poor returns is the highest levels of inflation since the 1980's, with price increases in energy and food leading the way. Many people have been left wondering about the best way to do a financial wellbeing check-up.

A powerful planning tool we utilize at Greenleaf Trust is Monte Carlo analysis. The analysis is highly customized to each client's financial life, incorporating their income, spending, financial accounts, asset allocation, and portfolio contributions. As a holistic wealth management firm, the more details that our clients share with us, the better we can plan and the more informed we can make our recommendations. The analysis employs Monte Carlo simulations, which enable us to more clearly understand the potential outcomes associated with a client's plan. Monte Carlo simulations use a randomized selection of historical returns to test the projected cash flows and return a probability of meeting goals. Monte Carlo simulations employ thousands of potential future return paths to allow us to answer several popular questions that investors are having today: 1) how can we plan for higher inflation in the future, 2) how will changing my asset allocation impact my portfolio, and 3) am I still on track to reach my long-term financial goals.

> "A powerful planning tool we utilize at Greenleaf Trust is Monte Carlo analysis… highly customized to each client's financial life…"

HOW CAN WE PLAN FOR HIGHER INFLATION IN THE FUTURE?

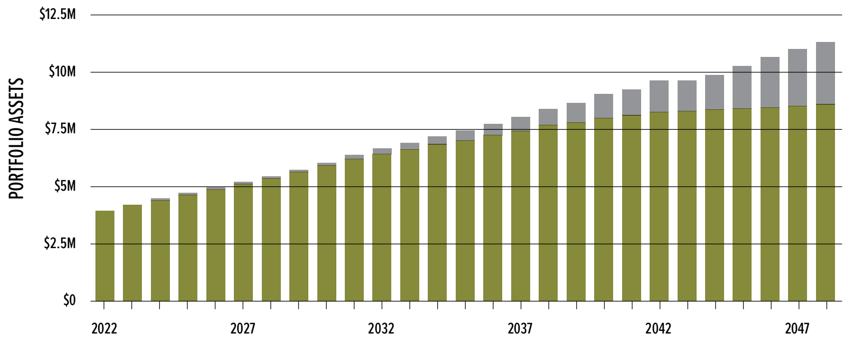
Year-over-year consumer price index (CPI) numbers, which are a measure of inflation, were reported as high as 9.1% earlier this year. Higher costs have forced people to make adjustments in their budgets and how they choose to allocate funds. One way to demonstrate the impact that higher costs of living have on a portfolio is through adjusting the annual growth rate for a client's living expenses in our planning tool. The default option is to use a long-term CPI figure of 2.44% annually. This means that if a client's living expenses are $100,000 in 2022, it will jump to $102,440 in 2023, followed by $104,940 in 2024. We have the ability to change the living expense growth rate to an exact inflation number that a

Revisiting Monte Carlo Analysis after a Challenging Year, continued

client would like to see. If a client wants to know if they can sustain a 5% annual cost of living increase over their lifetime, we can run that exact scenario and discuss the impact that it has on the portfolio. As shown below in this hypothetical scenario, we can demonstrate the total value lost from increasing living expenses to 5% annually, rather than 2.44%, over the next 26 years.

Value Lost by Increasing Annual Living Expenses from 2.44% to 5%

Before $11,150,384 After $8,337,107 Net ↓$2,813,277



Assets Last Until	Funding Gained	Value Lost
Age 95	0 Years	↓$2,813,277

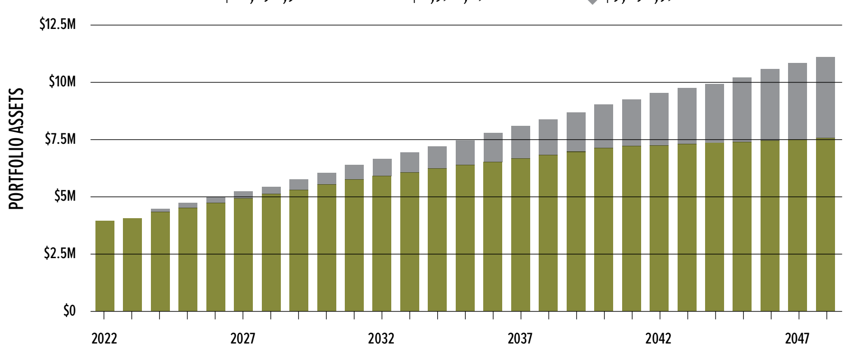
> "While we usually disagree with making emotionally reactive asset allocation changes, we have the data to back up our rationale."

HOW WILL CHANGING MY ASSET ALLOCATION IMPACT MY PORTFOLIO?

With such a volatile year, many clients have considered reducing their equity allocation and allocating more funds to cash to reduce volatility. While we usually disagree with making emotionally reactive asset allocation changes, we have the data to back up our rationale. We have the ability to change asset allocation within the analysis and show the long-term implications of the decision. As seen below, in the hypothetical scenario, we can demonstrate the total value lost over their lifetime by reducing a client's equity allocation from 80% to 60%.

Value Lost by Reducing Equity Allocation From 80% to 60%

Before $11,150,384 After $7,397,792 Net ↓$3,752,592

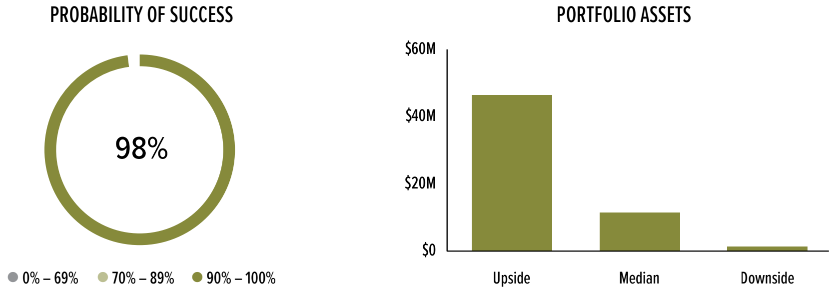


Assets Last Until	Funding Gained	Value Lost
Age 95	0 Years	↓$3,752,592

AM I STILL ON TRACK TO REACH MY LONG-TERM FINANCIAL GOALS?

Many of our clients invest with a purpose and with goals in mind. These goals help shape our decision making on asset allocation and investment management. Goals can be as broad as having enough money to enjoy a comfortable retirement, or as specific as funding a grandchild's education at Western Michigan University beginning in 2028. Whatever the goal is in mind, the Monte Carlo analysis incorporates volatility into investment returns and shows a range of possible outcomes. The analysis typically runs thousands of trials and gives a variety of forward looking outcomes, ranging from the upside (one of the best market outcomes), median (middle-of-the-road market outcome), or downside (one of the worst market outcomes). It also shows the probability of success, which represents how likely your plan is to succeed. We aim for at least a 90% probability of success, due to the uncertainty of future market outcomes.

Am I Still On Track?
Monte Carlo Summary



"Whatever the goal is in mind, the Monte Carlo analysis incorporates volatility into investment returns and shows a range of possible outcomes."

SUMMARY

These are just a few scenarios to demonstrate the capabilities of the Monte Carlo analysis. There are dozens of "what-if" scenarios that we run for our clients every day. As the needs of our clients continue to evolve, we invest in the proper tools to ensure we can make educated and informed recommendations that are aligned with our clients' long-term goals.

Stock Market Pulse

Index	11/30/2022	Total Return Since 12/31/2021
S&P 1500	933.97	-12.76%
Dow Jones Industrials	34,589.77	-2.89%
NASDAQ	11,468.00	-26.12%
S&P 500	4,080.11	-13.12%
S&P 400	2,577.78	-8.00%
S&P 600	1,243.42	-10.11%
NYSE Composite	15,780.02	-5.86%
Dow Jones Utilities	981.30	3.21%
Barclays Aggregate Bond	2,058.01	-12.62%

P/E Multiples	11/30/2022
S&P 1500	18.8x
Dow Jones Industrials	19.3x
NASDAQ	29.5x
S&P 500	19.2x
S&P 400	14.9x
S&P 600	14.7x

Key Rates

Fed Funds Rate	3.75% to 4.00%
T Bill 90 Days	4.14%
T Bond 30 Yr	3.74%
Prime Rate	7.00%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	933.97	18.8x	1.65%
S&P 500	4,080.11	19.2x	1.64%
Dow Jones Industrials	34,589.77	19.3x	1.98%
Dow Jones Utilities	981.30	20.5x	3.36%

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.09%

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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