GREENLEAF TRUST

# Perspectives

*A Greenleaf Trust Newsletter*

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


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## Page One

In February, I will have been with Greenleaf Trust and its predecessor Greenleaf Asset Management for 24 years. I have been writing a monthly article for the newsletter for 19 of those 24 years. It is both an honor and privilege to now take over page one responsibilities. While the focus of my articles may be different than the previous owner of page one, our Chairman William D. Johnston, my hope is that you find them informative and enjoyable to read. My idea since I became President of Greenleaf Trust in 2013 is to write articles about what is happening at our company. I believe we have something unique at Greenleaf Trust and I want to share that with the reader.

One of the things that makes us unique is our talented team. They are deeply committed to the work they do for our clients and deserve meaningful recognition for their achievements. At the end of the year, we announced the following 29 promotions. These were teammates from throughout the organization that successfully executed customized purposeful growth plans with their coaches. Promotions are always based on merit and impact at Greenleaf Trust, not time in role. Needless to say, I am extremely proud to recognize these teammates and share their new titles with you.

| | |
|---|---|
| Vasantha Arunachalam | Senior Estate Settlement Associate |
| Allison Birmingham | Assistant Vice President, Senior Wealth Management Advisor |
| Anne Bohl | Senior Wealth Management Coordinator |
| Patrick Bruining | Senior Trust Operations Analyst |
| Chris Burns | Vice President, Assistant Director of Research |
| Gabi Contesti | Senior Project Manager |
| Wendy Cox | Director of Personal Trust, Chief Fiduciary Officer |
| Jan Crossman | Trust Service Coordinator II |
| Kim Dudley | Senior Human Resources Specialist, Senior Team Lead |
| Mollie Felt | Trader |

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| | |
|---|---|
| Autumn Fromm | Senior Team Service Coordinator, Team Lead |
| Chelsea Holmes | Senior Team Service Coordinator |
| Sarah Johansson | Executive Vice President, Director of Marketing |
| Jermaine Johnson | Senior Applications Systems Analyst, Team Lead |
| Erin Kiessling | Trust Operations Analyst |
| Seth Kritzman | Senior Fixed Income Analyst |
| Danielle Kubasiak | Trust Operations Analyst |
| Kimberly Lloyd | Trust Relationship Officer |
| Cathie Magill | Senior Team Service Coordinator, Training Coordinator |
| Lorey Matties | Senior Participant Services Specialist |
| Quinn McCormick | Compliance Specialist II |
| Dawn Moore | Vice President, Senior Trust Officer |
| Ebenezer Musookho | Research Associate |
| Brian Schafer | Senior Wealth Management Associate |
| Sharon Sleeper | Senior Team Service Coordinator |
| Hayley Smith-Bailey | Senior Trust Operations Analyst, Team Lead |
| Alex Solis-Mullen | Senior Estate Settlement Officer |
| Garrett Urman | Wealth Management Advisor |
| Alexa Willner | Team Service Coordinator II |

"One of the things that makes us unique is our talented team. They are deeply committed to the work they do for our clients and deserve meaningful recognition for their achievements."

I am also proud to recognize this year's winner of the President's Award. Each year since 2014, I present the President's Award to the teammate that has made the greatest impact to the organization during the year. I am the only vote and the recipient receives a handcrafted glass blown trophy created by another teammate (Oliver Krings) as well as an additional monetary bonus. This year that award was given to Kelly Jorgensen, senior family office coordinator. Kelly consistently drives impact that is tangibly felt by teammates and frequently commented upon. She is respectfully known as the "go to" in our Grand Rapids office. This year she trained and mentored several new teammates, created new process improvements, onboarded new clients, processed thousands of non-traditional asset transactions, and also found time to pursue her Certified Trust and Fiduciary Advisor (CTFA) designation. Congratulations, Kelly!

In closing, I hope your holiday season is filled with merriment and joy. Take time to enjoy all the season has to offer.

# 2022 Review and 2023 Outlook

*Nicholas A. Juhle, CFA®*
*Chief Investment Officer*

Happy New Year! As we enter 2023, we celebrate our 25th year sitting on the same side of the desk as our clients. Our first quarter century has included bull markets and bear markets, a global pandemic, geopolitical conflicts, contested elections, asset bubbles and just about every type of challenge that might arise for investors.

Arguably, 2022 was one of the more challenging of the past 25 years. We experienced high inflation that extended throughout the economy and induced monetary policy surprises as central banks tightened in response. Russia's invasion of Ukraine shocked commodity prices exacerbating inflationary pressures and accelerating monetary policy changes. As the year progressed, tighter policy caused activity in the housing market to slow dramatically and the combination of these factors significantly increased the likelihood of a recession. Relative to when the year began, all of these developments came as surprises.

## INFLATION

Entering 2022, market participants were pricing in CPI (consumer price index) inflation expectations of about 3.5–4.0%. CPI inflation swaps were priced at 3.7% while TIPS (Treasury Inflation Protected Securities) break-evens were priced at 3.5%. Economists at the Federal Reserve were projecting Core PCE (Personal Consumption Expenditures) inflation of 2.5–3.0% and the median economist on Bloomberg projected core PCE of 3.3% for 2022. Even though we experienced elevated inflation in 2021 market participants were projecting a relatively quick reversal, with the economy reverting to Fed targets in 2023.

So, what did everyone miss? One of the big inflationary surprises came in February, when Russia invaded Ukraine sparking turmoil in global commodity markets. Hindsight is 20/20, so if you are in the camp that says, "It was obvious Russia was going to invade and I knew inflation would be a continuing problem," I would push back on the assertion. Markets were clearly not anticipating an invasion, and in order to trade around the event you would have needed to: 1) Forecast, out-of-consensus, that Russia would undertake the first armed invasion of a sovereign nation in Europe since WWII; 2) Ignore the emerging consensus expectation that Russia would be satisfied reclaiming limited territory in Eastern Ukraine, with intelligence reports suggesting the conflict would be over in May with a negotiated cease fire; and 3) Foresee European and US sanction responses, and the foreign divestment that would cause a decline in Russian GDP of roughly 3%.

Looking to 2023, the TIPS market is currently pricing in a one-year

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*2022 Review and 2023 Outlook, continued*

expectation of just 1.9% for headline CPI. Meanwhile, inflation swaps are priced a little higher at 2.4%, and the median Bloomberg economist is forecasting 4.3%. If those numbers sound low, consider that many of the drivers of inflation seem to have reversed, in some cases into outright deflation. Commodity prices are down significantly from peak levels, with energy commodities around 35% lower than their mid-year highs and ex-energy commodities around 15% lower. The Supply Chain Pressure Index is still disrupted, but has normalized significantly throughout the year. The Mannheim used vehicle index is down 16% from its peak. The Case-Shiller Home Price Index is down 2% from highs. And, the Money Supply is no longer growing. In fact, 2022 saw the slowest money supply growth since we've been keeping M2 records beginning in 1959.

There are clearly a lot of disinflationary, or even deflationary dynamics rippling through the economy and while we expect inflation to slow significantly in 2023, we acknowledge that there may still be upside surprises to market expectations. China's pivot from a zero-COVID policy could lead to greater inflation through increased demand for commodities, while a surge in cases could disrupt production. In addition, there remains a large imbalance in the US labor market, where significant demand relative to the supply of available workers is fueling wage growth, which in turn supports consumer demand. This imbalance is one of the key reasons the Federal Reserve has continued on a monetary policy tightening agenda at a pace that far exceeded expectations starting the year.

"For the markets, there is no question that tighter monetary policy did the most damage in 2022."

## MONETARY POLICY

For the markets, there is no question that tighter monetary policy did the most damage in 2022. Over the course of the year policymakers increased the Federal Funds rate, from a range of 0.00%-0.25% starting the year to a range of 4.25%-4.50% today. If we go back and read Chair Powell's December 2021 commentary, he was concerned about the potential impact of rising COVID-19 case counts as Omicron had just been named a variant of concern on November 26. The December 2021 Fed projections showed a median projection of 0.75%-1.00%, implying we would get a total of 75 basis points of Fed tightening in 2022. Of course, what actually transpired was 75 basis points of tightening at multiple meetings this past year!

The impact to the bond markets was direct and significant. Yields rose significantly on every sector of the fixed income markets, with many sectors now yielding more than 4% more than when we started the year. Longer-duration bonds experienced record drawdowns, with investors in 30 year treasuries experiencing a drawdown of 50%. The volatility of interest rates and of interest rate options remains extremely high and creates opportunities in fixed income markets, especially in mortgages and municipal bonds where spreads on callable bonds are quite elevated relative to history.

Of course higher rates do not just impact the bond markets. Equity valuations are based, to a significant extent, on the rates earned by safer assets like bonds and cash. As bonds and cash offer higher returns, equity valuations fall to reflect that higher hurdle rate. In 2022 that meant, despite growing earnings, stocks fell significantly as the forward P/E ratio on US stocks went from 21.7x to 17.0x, a 22% reduction. Looking ahead, equity valuations could stabilize as it appears the Fed may be closer to the end of its hiking path than the beginning.

Looking to 2023, investors are pricing in an expectation that the Fed will hike rates 50 basis points, to 4.75%-5.00% before cutting. Meanwhile, the Fed has communicated an expectation that it will hike 75 basis points to 5.00-5.25% by year-end. That means the bond market is pricing roughly 25 basis points lower than the Fed. We think it is clear that this pricing reflects investors' belief that there is an elevated probability of recession in 2023, and that the Fed would respond to a recession by cutting rates.

## HOUSING

The pandemic caused a meaningful increase in demand for housing as Americans migrated away from large city centers and household formation spiked higher as adult children moved out and more renters left roommates behind. These dynamics, coupled with decades-low mortgage rates, caused house prices to rise more than 15% in the first half of the year. Rate increases from the Fed quickly drove 30-year mortgage rates from around 3% starting the year to a peak of more than 7% in November – a level not seen in over 20 years. Using round numbers, a would-be home buyer shopping for a $500K home, based on what her budget allowed for the monthly mortgage payment, very quickly found herself shopping for a $250K home at the same monthly cost.

The financing price shock brought a very active market to a screeching halt as sentiment among both buyers and sellers plummeted deep into pessimistic territory. Existing home sales fell from a pace of nearly 6.5M per month in January to approximately 4.0M per month in November, and median home prices declined more than 8% from peak levels.

Importantly, the housing market has tentacles with wide-reaching implications for the broader economy. New housing starts have fallen by more than 20% from peak levels in early 2022 and Fannie Mae forecasts further declines in 2023. In terms of the economy, this means significant layoffs among home builders, home sellers, and mortgage lenders are

"Rate increases from the Fed quickly drove 30-year mortgage rates from around 3% starting the year to a peak of more than 7% in November – a level not seen in over 20 years."

a certainty, while suppliers of building and construction materials and connected retailers are at risk as well.

### ANTICIPATING THE NEXT RECESSION

Entering the year, consensus expectations were for no recession in 2022, which appears to have been the case. Over the course of the year, however, forecasters dramatically ratcheted up their expectations for a recession in 2023. If we do experience a recession this year, it would represent a significantly shorter business cycle than the post-WWII average of 5 years, 4 months, but the recovery has also occurred at a significantly faster pace.

Usually recessions come as surprises, but today everyone seems to agree that we are poised to have one in 2023. We have to wonder how damaging a recession might be if it is well-anticipated. In particular, when global equities are already discounted by nearly 20% and the Fed is able, if not willing, to offer relief by loosening policy from current levels.

> "Historically speaking, even when recessions catch investors off guard, investment outcomes have probably been better than you might imagine."

Historically speaking, even when recessions catch investors off guard, investment outcomes have probably been better than you might imagine. We studied the 15 recessions that occurred over the last 100 years. On average, disciplined investors would have captured 8.5% annualized returns from stocks in the typical three-year period beginning 12 months prior to recession and ended 12 months after a recession. Further, the usual recessionary playbook of underweighting stocks, overweighting long duration bonds, and staying out of commodities may not work, given the unusual dynamics at play in this cycle. We think the more reliable course for generating investment returns is not to try to time recessions and make dramatic changes that are out-of-line with your long-term investment goals, but rather to focus on the longer-term.

### LOOKING FORWARD – CAPITAL MARKET ASSUMPTIONS

In the longer-term, the outlook for investment returns has improved significantly. We share our updated capital market assumptions below. These forecasts represent the midpoint of our expectations for average annualized returns for each asset class over the next ten years. Over the next decade, there will be years where returns exceed our expectations and years where returns trail our expectations. We believe short-term market-timing strategies are unlikely to improve long-term outcomes.

When it comes to equities, one of the most important determinants of future returns is starting valuations. Higher starting valuations predict lower forward returns and lower starting valuations predict higher forward returns. Consistent with the re-basing of valuations in 2022, our long-term forecast for US large cap equities stands at 7.0% per year, up from 4.75% at the end of 2021 and 4.0% at the end of 2020. So while short-term risks might be elevated, longer-term, we are finally back to more normal levels of prospective returns. That's true also with bonds.

With bonds, starting yields have historically been a good predictor of future returns. Low starting yields predict low returns and higher starting yields predict higher returns. Consistent with the substantial rise in yields experienced in 2022, our long-term forecast for core bonds stands at 4.3% per year, up from 2.2% at the end of 2021 and 1.0% at the end of 2020.

Across the board, the ability to generate return looks much better today than it has in many years. Even a balanced portfolio constructed with 60% global equities and 40% fixed income is now poised to return 6.2% annually over the next ten years, up from expectations of 4.2% in 2021 and just 3.2% at the end of 2020.

| Asset Class | Historical Return (Dec 1993-Dec 2022) | 10 Year Expected Return (Dec 2022) | 10 Year Expected Risk (Standard Deviation) |
|---|---|---|---|
| US Large Cap | 9.6% | 7.0% | 16.0% |
| US Mid Cap | 11.0% | 8.5% | 18.0% |
| US Small Cap | 10.0% | 9.0% | 20.0% |
| Developed International Equities | 5.3% | 7.8% | 17.5% |
| Emerging International Equities | 4.5% | 9.5% | 21.0% |
| Core Fixed Income | 4.1% | 4.3% | 5.0% |
| Non-Core Fixed Income | 6.9% | 7.3% | 11.0% |
| Diversified Alternatives | 4.7% | 5.3% | 8.0% |
| Cash | 2.3% | 3.9% | 0.5% |

"Across the board, the ability to generate return looks much better today than it has in many years."

Despite an ever-changing landscape, our disciplined approach and long-term orientation serve us well as we endeavor to create comprehensive investment solutions that help our clients reach their financial goals. Investment decisions are made in alignment with our documented investment philosophy and always with the intention of serving our clients' best interests. Happy New Year and thank you from everyone on the investment research team for allowing us to serve on your behalf.

*Dan J. Rinzema, CFA®, CFP®, CTFA*
*Chief Client Officer*

# Survey Says…

Continuous improvement is one of Greenleaf Trust's core values - it is a pillar of our culture and has become part of our DNA. Every tangible improvement we have made on behalf of our clients stems from a disciplined review of our practices. As we look for opportunities to serve our clients better, we begin by listening to those that matter most - our clients.

Our annual personal trust and wealth management client satisfaction survey is designed to gauge Greenleaf Trust's collective efforts from our clients' perspective. We not only want to know if we are delivering on our promises, but we also crave candid feedback on ways in which we can better serve our clients. Analyzing the results helps us more closely align the voice of our client with our daily impact and better understand how our clients feel about Greenleaf Trust's personalized service and customized solutions. The aim is to listen to client comments and suggestions so that we can enhance the services provided on their behalf. Simply put: when our clients speak, we listen.

"… we also crave candid feedback on ways in which we can better serve our clients."

As an example, looking back at recent years' survey results, it was revealed a few years back that the format of our investment performance reporting could be improved to better meet the individual needs of our clients, as only 84% of respondents found the report meaningful. Given this feedback, we made it our goal to provide more customized, relevant and meaningful performance reporting. We heard what our clients wanted and responded with updated performance reports tailored to their specific needs. As a result, satisfaction with our quarterly investment performance report format jumped to 97% the following year and sits at almost 99% as of 2022's survey. Similarly, it was revealed that many clients wanted consolidation of monthly statement packaging several years ago. We listened and responded quickly by consolidating statement packaging starting the following January and the corresponding statement satisfaction score registered at 98%. Similarly, themes from write-in comments five years ago centered around our investment platform and online client portal. We took these comments to heart and not only enhanced our investment offering with close to 99% of clients now reporting that we are successful in meeting their investment needs, but we also rolled out our revolutionary online portal called MyWealth by Greenleaf Trust, which allows our clients to view their holistic wealth through a safe and secure personal financial website bringing their entire financial picture together in one place like never before. The last two years of surveys revealed a desire for an increased frequency of economic and financial market updates from our in-house research team. We recognized this as a shortcoming and put a plan in place to improve. This included additional investment seminars and the introduction of a weekly "Market Snapshot" intended to provide a weekly recap of market movements as well as provide an overview of events to pay attention to in the week ahead.

When sending the 2022 survey, we again asked for candid responses. Our clients answered in kind with survey participation more than three times the industry average. Thank you to those that took the time to respond – we truly value your feedback. The following is a summary of what we heard you, our clients, say:

### 2022 CLIENT SATISFACTION SURVEY RESULTS: PERSONAL TRUST & WEALTH MANAGEMENT

**99% find their Client Centric Team members to be easily accessible**

**99% feel their questions and concerns are answered in a prompt and satisfactory manner**

**97% are satisfied with the frequency of contact**

**99% feel as though they are treated as a very important client**

**99% believe we listen to and understand their unique goals and objectives**

**100% believe their accounts are tailored to meet their unique financial goals and objectives**

**99% believe we are successful in meeting their investment needs**

**Satisfaction scores with our account statements, performance reports, and newsletters uniformly exceeded 98%.**

While we are pleased with the generally high marks received, we recognize there is always room for improvement. So in order to enhance the value of our relationship with our clients and to achieve our standing goal of 100% client satisfaction on all fronts, we will intently focus on the specific suggestions and comments received. An initiative already under way as a result of the recent survey includes a plan to enhance the client vault within our MyWealth by Greenleaf Trust online client portal to automatically upload and store monthly statements, quarterly performance reports and digital copies of annual tax documents.

Again, thank you to all of our clients that took the time to respond to our recent client satisfaction survey. The overall response rate was gratifyingly high and the comments overwhelmingly positive. My colleagues and I are always receptive to your suggestions, and we hope you will never hesitate to share your candid opinions with us - when you speak, we listen. Thank you for allowing Greenleaf Trust the continued privilege of serving on your behalf.

> "… we recognize there is always room for improvement [and] we will intently focus on the specific suggestions and comments received."

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

# Michigan's Updated POLST Form

Many individuals have durable powers of attorney for health care, or advance directives, as part of their estate plan. These documents appoint a surrogate, or patient advocate, to make health care decisions for them when they are unable to do so in a hospital setting. An advance directive is effective only after two physicians have certified as part of the patient's medical record that the patient is unable to participate in their own health care decision-making. As such, there are conditions to when an advance directive becomes effective. Nor is a durable power of attorney for health care in the form of a medical or physician's order.

One additional document that some individuals who are in poor health or in a frail condition should consider executing is a portable medical order called a Portable Order for Life Sustaining Treatment, or POLST. Although the POLST may appear to be just another advance directive, Michigan's version of the POLST, called MI-POST (Michigan Physician Orders for Scope of Treatment) takes immediate effect. Moreover, unlike a Do Not Resuscitate (DNR) order that generally only provides instructions with regard to CPR, the MI-POST covers a variety of end-of-life treatments. Accordingly, with an executed MI-POST, the individual communicates if they want, or do not want CPR, along with other treatment options, such as a Do Not Intubate (DNI) Order.

"[There is an] additional document that some individuals who are in poor health or in a frail condition should consider executing..."

Technically, a MI-POST is a physician's order that communicates specific medical orders for treatment when the individual cannot speak for themselves. The MI-POST is signed by the individual's attending physician, a nurse practitioner, or a physician's assistant in collaboration with the patient. A MI-POST is primarily used by those individuals who are afflicted with a very serious illness or who are at high risk of a life-threatening medical event or crisis. If the individual is near death, they can express their treatment and placement wishes with a completed MI-POST. If the individual's medical condition changes or improves, their MI-POST must either be revoked or revisited. A MI-POST form tells all healthcare providers during a medical emergency what the individual wants, such as: "Take me to the hospital," or "I want to stay here," or "Do not attempt CPR." Often a POLST is produced on a distinctive bright pink or green form in order to stand out among other medical records. The Michigan form has a pink boarder on its page.

A MI-POST guides medical care in light of the individual's current medical condition. The individual's participation is voluntary. Normally, a MI-POST is written at a hospital to follow the individual after they are discharged from the hospital with the intent that it will be honored by third-parties outside of the hospital setting, like EMS personnel. As such, a MI-POST continues to have legal effect after the individual leaves his or her physician's immediate care. Since it is in the form of a physician's order, a MI-POST cannot be overridden by the individual's family members. Generally, a MI-POST form does not expire or have a 'shelf-life' but it should be reviewed whenever the individual: (i) is transferred from one care setting or level to another; (ii) encounters a substantial change in their health status; (iii) changes their primary care provider; or (iv) changes his or her treatment preferences or goals of care.

Recently the MI-POST form was updated to simplify its terms, eliminate confusion or the need to search other laws or other records before implementing the individual's treatment wishes, and deal with protected health information that is not readily accessible by others. And it was shortened to be signed on one single piece of paper. The planned effective date of this new MI-POST form is January 1, 2023.

MI-POST is not part of any federal program; rather, POLSTs are developed by each state. Currently only five states have adopted a standard POLST form. There is, however, a National POLST tax-exempt organization that seeks to standardize the POLST process throughout the United States. Under most state statutes, a POLST (like a MI-POST) can replace a stand-alone "Do Not Resuscitate" order. [https//polst.org.]

The intended purpose of an executed MI-POST is to facilitate kind, humane, and compassionate service to individuals who have executed a valid MI-POST, by giving the individual with an advanced illness more control over the medical treatment that they receive. The MI-POST form can guide discussions between individuals, their families, their physician, and their entire health care team about treatment wishes in the event of a serious illness. Consider adding a MI-POST to your estate planning documents if you have serious health issues or are at an advanced age.

"The intended purpose… is to facilitate kind, humane, and compassionate service to individuals who have executed a valid MI-POST…"

Legal Authority for MI-POST: Michigan Compiled Laws 333.20201

*Judy Grace, J.D.*
*Vice President*
*Senior Trust Relationship Officer*

# New Limits to Transfer Taxes for 2023

In late October of 2022, the IRS published the inflation adjusted limits for transfer taxes for 2023. The Applicable Gift and Estate Exclusion Amount increases to $12,920,000 per individual up from $12,060,000 in 2022. For those individuals who have used their full exclusion amount, they now have an additional $860,000 to give without incurring gift tax. This exclusion is the amount that an individual may transfer during their lifetime or at their death without incurring gift and estate tax. As a reminder, the exclusion amount increased dramatically as part of the Tax Cut and Jobs Act of 2017. The exclusion was $5,490,000 in 2017 and increased to $11,180,000 in 2018 and has adjusted annually for inflation ever since. The increase is only temporary and is set to sunset back to $5,000,000 in 2026 (adjusted for inflation). The best estimates for what the adjusted exemption levels could look like in 2026 are between $6.5 million and $6.8 million per person barring any Congressional intervention.

“In addition to an increase of the Gift and Estate Exclusion Amount, there was an increase to the Annual Exclusion Amount for 2023.”

In addition to an increase of the Gift and Estate Exclusion Amount, there was an increase to the Annual Exclusion Amount for 2023. The amount increased to $17,000 up from $16,000 in 2022. The exclusion amount is the maximum amount that an individual can gift to another individual without the need to report the gift to the IRS or without it affecting the individual’s lifetime gift exclusion amount. Married couples can gift up to $34,000 in 2023 without incurring a gift tax. There is no limit to the number of gifts an individual can make in each calendar year. The annual gift tax exclusion was first indexed for inflation as part of the Tax Relief Act of 1997, when it was $10,000, and only increases in increments of $1,000. The annual gift exclusion amount does not include payments for medical or tuition expenses for the benefit of others. The IRS allows a donor to pay medical and tuition expenses for another without it being deemed a taxable gift as long as the payments are made directly to the provider and not to the individual for whom the gift is being made.

For those with significant wealth, a gift of $17,000 may not seem like much of an estate planning tool, but the fact that a person can gift $17,000 to as many people as they like is what makes this gift exclusion so powerful. For example, an individual, Sue, is married and has two children. Both of those children are married and each of those children has two children of their own. Sue can gift $17,000 to each of those members of her family annually. Sue’s annual gifts total $136,000

($17,000 x eight family members). If Sue is married, her spouse can give the same amount. So, Sue and her spouse can gift $272,000 each year. Over a ten year period, without another increase to the annual exclusion amount, Sue and her spouse have reduced their estate by $2,720,000 and shifted significant wealth to their family tax-free.

Both of these increases present opportunities to you for tax-free wealth transfer or continuation of a gifting strategy you already have in place. These increases should be part of your conversations with your advisors in 2023.

# Retirement Plan Industry Year in Review and the Landscape in 2023

*Kathleen J. Waldron, QKA®*
*Vice President, Assistant Director of Retirement Plan Division*

A new beginning and a fresh start is how I typically view the new year. I like the newness and the "re-set mindset" that this time of year allows. It is always good to look back though and review and reflect on the prior year – its successes and setbacks and opportunities.

The same exercise can be done within our retirement industry. The year 2022 ushered in significant events in the industry in many areas. Some were more impactful than others, but a few are worthy of review. First, in the wake of COVID-19 participant and employer contribution rates were at all-time highs beginning in 2021 and into the current year. In light of economic stimulus inflows and a difficult and competitive labor market, participation in and contributions to qualified retirement plans increased. Coinciding with this increase, after a slight uptick during the pandemic, participant hardship distributions and plan loans decreased – which is always a desired outcome. Second, cybersecurity and the need to protect the integrity, security and confidentiality of participant and plan sponsor information was and continues to be a key consideration of any well-administered retirement plan. The sophistication and speed of attacks by hackers is beyond the pale. Greenleaf Trust takes cybersecurity seriously. Third, most retirement plans utilizing a prototype document arrangement required a restatement by 2022 to comply with changes in law generally referred to as the "Cycle 3" restatement. There were interim amendments required as well with this restatement which

> "The year 2022 ushered in significant events in the industry... worthy of review."

*Retirement Plan Industry Year in Review and the Landscape in 2023, continued*

have subsequently had their deadlines generally extended to 2025. Fourth, the Department of Labor and the Employee Benefits Security Administration (EBSA) continue to review proposed regulations surrounding the use of environmental, social and corporate governance (ESG) factors to permit plan fiduciaries to consider when making decisions about retirement plan investments. While the final rule is pending it is important to note that the operative word for plan fiduciaries surrounding these proposed investment options is may, not must, consider ESG factors.

For 2023 and beyond the most dramatic and anticipated legislation which is now in play is the Setting Every Community Up for Retirement Enhancement Act known as SECURE 2.0. This legislation was passed on December 29, 2022. This act builds on the foundation laid by the SECURE Act passed in late 2019 and contains key provisions that could help close the retirement savings opportunity gap for moderate income Americans. Some of the changes that are in the current SECURE 2.0 Act include extending the required beginning date (RBD) in which to start taking required minimum distributions (RMDs) from age 72 to age 75 (implemented over the next 10 years), reducing the 50% excise tax for the failure to take an RMD to a smaller percent and permitting student debt payments to be matched as employer retirement contributions. The IRS announced the 2023 cost-of-living adjustments to various retirement plan limits in October 2022. The current rate of inflation has served to increase most of the rates substantially and, for the first time in several years, the catch-up contribution limit was increased.

"The US retirement landscape in 2023 will be shaped by a number of factors including... financial wellness, access and investments."

The US retirement landscape in 2023 will be shaped by a number of factors including these three themes or trends I would like to discuss – financial wellness, access and investments. Financial wellness can be defined as a state of financial well-being in which one can manage bills and expenses, weather unexpected financial emergencies and plan for long-term financial goals such as saving for retirement and college funds. Encouraging participation in a retirement plan can be a first step, and an important one, but many people need help whether by education or guidance or advice to navigate the complex challenges of retirement and other financial matters. We continue to evolve and innovate our services to meet this important need.

Access to and the adequacy of a retirement plan for the majority of US workers is critical. The result of non-participation in a retirement plan is impactful because of under-saving and the long-term consequences for the individual who has not had the opportunity to share in significant wealth accumulation. Lack of access to a retirement plan is particularly acute for racial and ethnic minorities according to research.

It has been found that overall approximately only 40% of Black workers and 32% of Hispanic workers in the private sector participated in a retirement plan compared with nearly 58% of their white peers. The SECURE 2.0 Act legislation hopes to bridge the gap between those who have access to a qualified retirement plan and those who do not.

The investment landscape theme is important as it highlights how employers and plan providers can help workers weather market challenges to keep portfolios on track in both the saving and the spending phases. The investment landscape looks at the impact of market and economic factors. Inflation, rising interest rates and recession concerns could be immediate issues for investors in 2023 and beyond. The need for diversification and resetting expectations for fixed income is something for plan sponsors, plan providers and participants will want to keep in mind in a complex and potentially volatile market environment.

We in the Retirement Plan Division at Greenleaf Trust enter 2023 with excitement and energy for what the coming year holds. We remain committed to providing excellent and timely service and creative ways to help our plan sponsors with great plan governance and plan participants with great plan outcomes. Happy New Year!

"The SECURE 2.0 Act legislation hopes to bridge the gap between those who have access to a qualified retirement plan and those who do not."

## Stock Market Pulse

| Index | 12/31/2022 | Total Return Since 12/31/2021 |
|---|---|---|
| S&P 1500 | 878.75 | -17.80% |
| Dow Jones Industrials | 33,147.25 | -6.86% |
| NASDAQ | 10,466.48 | -32.51% |
| S&P 500 | 3,839.50 | -18.13% |
| S&P 400 | 2,430.38 | -13.10% |
| S&P 600 | 1,157.53 | -16.15% |
| NYSE Composite | 15,184.31 | -9.20% |
| Dow Jones Utilities | 967.40 | 2.04% |
| Barclays Aggregate Bond | 2,048.73 | -13.01% |

| P/E Multiples | 12/31/2022 |
|---|---|
| S&P 1500 | 17.7x |
| Dow Jones Industrials | 18.3x |
| NASDAQ | 27.9x |
| S&P 500 | 18.1x |
| S&P 400 | 14.0x |
| S&P 600 | 13.7x |

## Key Rates

| | |
|---|---|
| Fed Funds Rate | 4.25% to 4.50% |
| T Bill 90 Days | 4.31% |
| T Bond 30 Yr | 3.96% |
| Prime Rate | 7.50% |

## Current Valuations

| Index | Aggregate | P/E | Div. Yield |
|---|---|---|---|
| S&P 1500 | 878.75 | 17.7x | 1.77% |
| S&P 500 | 3,839.50 | 18.1x | 1.76% |
| Dow Jones Industrials | 33,147.25 | 18.3x | 2.07% |
| Dow Jones Utilities | 967.40 | 20.2x | 3.42% |

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.19%

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