GREENLEAF TRUST

Perspectives

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Greenleaf Trust the Bank

There are a lot of headlines out there questioning the safety and liquidity of our banking system after the recent failures of Silicon Valley Bank and Signature Bank. Time and details have hopefully abated those concerns and revealed that the failures of these banks were company-specific incidents due to poor management rather than an indicator of systemic banking risks.

How did it happen? To best answer that question, it's helpful first to understand the basic banking model. Banks take money in as deposits and pay the depositors a nominal rate of return. They then lend most of those deposits out to borrowers at a higher rate. The bank collects the spread between the rates. They do, however, still need to keep some of those deposits at the bank in case customers want to make a withdrawal. We call these capital reserves and bank examiners monitor this. Usually, banks keep their capital reserves invested in liquid shorter-term US Treasury Bonds in case they need it to accommodate withdrawals.

In the case of Silicon Valley Bank, there were more than a few company-specific issues that led to their downfall. They start with a concentrated customer base consisting primarily of smaller technology and venture capital companies. As inflation rose last summer, it became more and more expensive for these smaller technology companies to conduct their business. With limited earnings, they subsequently needed to go to their bank deposit accounts and make withdrawals to pay their bills. Here is where management's decisions on how their capital reserves were invested became an issue. Instead of shorter-term US Treasuries, Silicon Valley Bank invested their capital reserves primarily in more interest rate sensitive, longer term US Treasuries and mortgage-backed securities. Bond prices move inversely to interest rates. Thus, as the Federal Reserve raised interest rates rapidly over the last twelve months to fight inflation, the market value of the bank's capital reserves was reduced significantly, and they couldn't keep up with the withdrawals that were being requested. Those withdrawals then hit a frenzy when the publicly traded bank went out to capital markets to issue more equity shares in an effort to raise money to keep up with current withdrawal requests. The result was essentially a run on the bank like the one in *It's a Wonderful Life,* and the bank could not meet its obligations.

Greenleaf Trust the Bank, continued

"… we are not a publicly traded company with management beholden to a 'shareholders first' philosophy."

So, could this ever happen at Greenleaf Trust? The answer is no. We are a state of Michigan chartered bank; however, we exercise only our trust powers and do not have the ability to engage in deposit or lending activities. As a Michigan chartered bank, we are regulated by Michigan's Department of Insurance and Financial Services (DIFS). The DIFS conducts a Safety and Soundness Exam on Greenleaf Trust every 18 months. In addition, we have a third-party auditor conduct examinations on the bank annually. Even though we do not accept deposits, the state of Michigan requires us to maintain capital reserves. Our capital reserves are in excess of the amount mandated and are retained corporate earnings, not client assets. Our capital reserves are invested in shorter-term US Treasuries. Finally, we are not a publicly traded company with management beholden to a "shareholders first" philosophy. Our vision has always been and will always be clients first, teammates second, and shareholders last.

2023 First Quarter Update

Nicholas A. Juhle, CFA®
Chief Investment Officer

When we delivered our year-in-review seminars in early January, we characterized our outlook for 2023 as "cautiously pessimistic." This tongue-in-cheek description encapsulated our view that while unresolved issues were likely to impact the economy and markets in unforeseen ways, history and our capital market assumptions supported an improved forward return outlook.

With the first quarter of 2023 on the books, we have seen examples of such previously unforeseen circumstances which have significantly complicated the environment for policymakers. Fortunately, and while not lacking for volatility, financial markets have thus far proven more resilient than might have been anticipated.

Monetary Policy Complications

Exiting 2022, inflation appeared to be moderating as payroll additions trended lower. Expectations for a terminal Fed Funds rate of approximately 5% to be reached by mid-2023 were holding steady since October. On February 1, following the first FOMC meeting of the year, Chairman Jerome Powell said "We can now say, I think, for the first time that the disinflationary process has started… We can see that." His comments were accompanied by a quarter point rate increase, which marked deceleration from a 0.50% increase in December and 0.75% increases in each of the prior four meetings.

The landscape shifted rapidly following a blowout January jobs report (+517K payroll adds vs. +225K expected) on February 3 and a hotter-than-expected inflation reading on February 14. Terminal rate expectations raced higher as

market participants rapidly updated their outlooks. In congressional testimony delivered March 7, Chair Powell confirmed the shift in outlook suggesting the path of rate increases would likely be steeper and hikes would persist longer than previously thought.

A second strong jobs report released on March 10 was overshadowed by three regional bank failures,which highlighted stress placed on the US financial system by rapid rate increases over the last year. Federal regulators stepped in to backstop deposits and placate concerns over broader risk to the US banking system, but investors marked down expectations for the Fed Funds rate to 4.8% (below February 1 levels and down from a peak of 5.7%) in a matter of days.

While expectations took the scenic route, the March 22 FOMC meeting went largely as had been anticipated following the Fed's February 1 meeting. Policymakers raised interest rates by 0.25%, bringing the Fed Funds range to 4.75-5.00%. The committee maintained projections for a year-end 2023 top rate of 5.25% - noting that offsetting factors left projections largely unchanged. Chair Powell stated that the US banking system is "sound and resilient" noting that recent developments were likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. In other words, monetary policy tools might have less work to do.

"... three regional bank failures... highlighted stress placed on the US financial system by rapid rate increases over the last year."

Resilient Markets

Part of our "cautious pessimism" entering the year was because investors appeared to have their gloves up, already anticipating negative developments. As a result, investment markets fared better in the first quarter of 2023 despite the unforeseen circumstances.

- Global Equities: In 2022, global equities declined 18.4% with domestics (-18.1%), developed international (-14.5%) and emerging markets (-20.1%). Year-to-date in 2023, global equities are up more than 7% with domestics (+7.1%), developed international (+8.5%) and emerging markets (+4.0%). Returns remain negative over the twelve months ended 03/31/2023, but have improved materially compared to the twelve months ended 12/31/2022.
- Fixed Income: In 2022, rates were largely on the rise. From a starting yield of 1.51% on the US 10-year treasury, rates peaked at 4.24% in October and closed the year at 3.87%. As a result, bond returns were decidedly negative in 2022. In the first quarter of 2023 rates moved lower, closing the period at 3.47%. As a result, bond markets have rallied year-to-date.

It's still early and circumstances can change quickly when financial stress is afoot, but amid warnings of a banking crisis, a credit-driven recession, pivoting central banks and stagflation, the best strategy so far for investors has been to maintain discipline.

2023 First Quarter Update, continued

Recession Likely As Ever

Three months have passed, but remarkably little changed in our recession-predicting calculus in the first quarter. The economy continues to face challenging macroeconomic conditions, several of which have been present in prior recessions, and economists continue to assign a 65% likelihood that the US will enter a recession in the next twelve months. Meanwhile, traditional indicators are sending the same mixed signals we observed at year end with a strong labor market countered by inflation-dampened consumer spending and an inverted yield curve.

"…economists continue to assign a 65% likelihood that the US will enter a recession in the next twelve months."

While recessions are a relatively common occurrence (we've experienced one every 4–5 years since World War II) they're typically not so widely-predicted as the next one seems to be. We have to consider just 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.

Conclusion

Despite an ever-changing landscape, we remind our clients the importance of staying disciplined in the face of uncertainty. In the remaining nine months of 2023, we are likely to see even more examples of the previously unforeseen. That doesn't mean blindly staying the course. It does mean staying committed to the financial plan you developed with your advisor, avoiding major asset allocation shifts and resisting the temptation to time the market while we do our part to ensure your portfolio is optimally positioned for the long term. On behalf of the entire team, thank you for allowing us to serve on your behalf.

Employee Stock Options, A Primer for Employees

Daniel L. Baker, J.D., CTFA
Senior Vice President
Director of Business Development
Trust Relationship Officer

Executive compensation is the combination of salary, benefits and bonuses offered to executives and other top management in exchange for their efforts on behalf of an employer. A component of compensation typically reserved for executives and top management is equity compensation. This usually takes the form of stock options and/or restricted stock units (RSUs). Stock options and RSUs, unlike salaries and bonuses (cash compensation), are considered long-term incentives. These incentives may total 50% or more of an executive's overall compensation. Because it can make up such a significant portion of compensation, it is important for those receiving equity compensation to maximize its value over time. In this article, we will focus on the more complex of the two long-term incentives—employee stock options.

What are Employee Stock Options?

An employee stock option is a contract between an employee and an employer. The actual contract or document is usually referred to as an option grant agreement. It allows you, as the employee, to purchase shares of a company within a specified time, at a predetermined price, known as the strike price or exercise price. The option is a right, not an obligation, meaning that you, as the option holder, need not exercise the option or actually purchase the stock. Until the option is exercised, it has no real value.

Stock options are favored by employers as an employee retention strategy because in most cases the options may not be exercised until some years after they are granted (typically four years) This incentivizes key employees to remain with the company during the interim and to work hard to grow the business which logically will increase the value of the company's stock. The time between the grant of the option and when it is exercisable is known as the vesting period. Stock options, as part of a compensation package, are especially favored by start-up companies that are usually short on cash.

Stock options would be attractive to you as an employee when you perceive that the value of the company and its stock price will rise significantly from when you were granted the options to when they vest and become exercisable. Employees of start-ups are often willing to bet on the company in hopes that within a few years the company stock can be purchased (for the strike price) at well below the stock's then fair market value.

> "A component of compensation typically reserved for executives and top management is equity compensation. This usually takes the form of stock options..."

What are the Common Types of Stock Options?

There are two primary types of employee stock options and they differ in a few meaningful ways. The less common type is an Incentive Stock Option

(ISO). The other, more commonly granted, is a Non-qualified Stock Option (NSO). The important difference between the two types of options centers on the tax treatment of each upon exercise of the options and ultimate sale of the shares. Given the disparate tax treatment of the two types, it is important that you know which type you have. And because the tax implications can be so significant and the consequences of making poor decisions so impactful, it is highly recommended that you consult with a tax expert before exercising any stock option.

Incentive Stock Options (ISOs)

With ISOs, in most cases, if certain conditions are met, you do not have to pay taxes when the option is exercised. Taxes are not owing until the shares are sold and the difference between the strike price and the sale price is taxed as a long-term capital gain (at a lesser tax rate than ordinary income). To qualify for this special tax treatment under the Internal Revenue Code, you must hold the ISO stock for at least two years from the grant date and one year after the exercise of the option.

There are, however, instances where the alternative minimum tax (AMT) may come into play when ISOs are exercised but the shares are not sold within the same calendar year. The AMT is calculated on the difference between the fair market value of the shares on the exercise date and the strike price. This is because the "phantom gains" that come from exercising the ISOs count toward the AMT calculation, but not regular income tax, and taxpayers must pay either their regular tax bill or AMT, whichever is higher. Many employees who have never been subject to AMT, find themselves faced with it in years where they exercise a large number of ISOs. There are strategies to avoid triggering AMT, including calculating how many options can be exercised in a particular year before hitting the "crossover point" where AMT is owing, but those strategies are very fact specific and beyond the scope of this article.

"Incentive Stock Options... may only be granted to employees and not directors, consultants, or contractors."

Other features of ISOs are that they may only be granted to employees and not directors, consultants, or contractors. There is a $100,000 limit on the aggregate grant value of the ISOs that may vest in any calendar year. To retain the special tax benefits after leaving the company, the ISOs must be executed with three months of you leaving the company. Finally, ISOs which qualify for the special tax treatment are not subject to Social Security, Medicare or withholding taxes.

Non-qualified Stock Options (NSOs)

NSOs do not qualify for special favorable tax treatment under the Internal Revenue Code. The most significant difference between NSOs and ISOs is that when NSOs are exercised, ordinary income taxes are owed on any gains. The tax applies to the difference between the strike price and the fair market value

on the date of exercise. Upon exercise, employers must withhold income taxes, Social Security and Medicare. Capital gains are also owed on any increase in value from when the stock is purchased until it is sold. Unlike ISOs, which may only be granted to employees, NSOs may also be granted to directors, contractors, and consultants.

One advantage to NSOs over ISOs is that NSOs, if the employer's plan allows it, may be used for gifting purposes as part of your estate plan. Unrestricted transferability is rarely allowed, but many plans allow for transfers to family members and trusts for the benefit of family members. This allows the recipient of the gift to benefit from the future appreciation in the stock value and removes the appreciation from your potentially taxable estate. This feature may become more important if the estate and gift tax basic exclusion is cut in half as is currently slated to happen at the end of 2025.

Considerations in Exercising Options and Selling Stock

Once options are fully vested there are several options on what to do with them. The first option may be to simply hold on to them. However, you can't hold on to them forever. Options have an expiration date (often 10 years from the grant date) and if your options pass their expiration date, they will become worthless. Reasons to hold the options past their vesting date may be because you think the share price will continue to increase or you may not want to realize additional income in a particular tax year.

However, should you choose to exercise the options, there a few ways to do so. How you choose to do so will depend on your own situation and some of the other considerations outlined below.

- Exercise and Hold (cash-for stock)

  You can exercise your stock options to buy the underlying shares and then hold the stock.
- Exercise and Sell to Cover

  You can exercise your option to buy shares and then sell just enough to cover the stock option cost, taxes and transaction fees. The proceeds you will receive will be the company shares.
- Exercise and Sell (cashless)

  If your broker allows it, you can exercise your option to buy the shares and sell the shares at the same time without using any out-of-pocket cash.
- Private vs. Public

  If your company is privately owned, there may be additional considerations. Shares of private companies are often difficult to sell as there is often no ready market for them as there is with publicly held companies. You have the risk of holding illiquid shares for a lengthy period of time waiting on an initial public offering (IPO) or other liquidity event.

> "Options have an expiration date... and if your options pass their expiration date, they will become worthless."

Employee Stock Options, A Primer for Employees, continued

"Whether or not to exercise your options and sell shares at a particular time should be largely driven by your financial goals and objectives."

- Your Goals and Objectives
  Whether or not to exercise your options and sell shares at a particular time should be largely driven by your financial goals and objectives. If you have an immediate need for cash or you are overly exposed to the risks inherent in holding a large concentration of stock in a single company, it might make sense for you to exercise your options and sell some of your stock before you otherwise might have.
- Tax Considerations
  As discussed above, there are different tax implications in exercising options and selling the underlying stock depending on the type of options you have. For both NSOs, and those ISOs which do not qualify for the more favorable tax treatment, the gain between the strike price and the fair market value at exercise is taxable as ordinary income. If the additional income from the exercise of the options would push you into a higher tax bracket, you may want to delay the exercise or choose to exercise the options and spread the tax burden over a few tax years.

At Greenleaf Trust, our Trust Relationship Officers, Wealth Management Advisors and Wealth Strategists have many years of collective experience in advising executives on compensation matters as part of a broader and comprehensive holistic wealth management plan. If you would like to discuss how we might be of assistance to you, please let us know. As always, we are here to help.

How to Protect Yourself from Online Tax Fraud

Oliver E. Krings, CISSP, ABCP
Chief Information Officer

In 2022, there were nearly 7.8 million reports of suspicious activities related to taxpayer returns according to the Identity Theft Tax Refund Fraud Information Sharing Mission & Analysis Center, a partnership between the IRS, companies and states. Most of these suspicious activities related to online tax fraud. So how can taxpayers protect themselves from online tax fraud and scams?

Many Greenleaf Trust clients work directly with a tax professional to prepare and file their taxes. This positions them well; however, others also leverage online tools like TurboTax to prepare and file their own taxes. As Chief Information Officer, I often receive questions about using these online tools. While filing taxes online may be an easy, efficient and a cost effective way to complete this yearly task that most of us dread, it can also increase your risk of falling victim to tax fraud. Tax fraud can lead to a

host of problems including identity theft, financial loss, and legal issues. However, there are steps you can take to protect yourself from online tax fraud. In this article, we will discuss some of the best ways to safeguard yourself from these threats.

- Use a Trusted Tax Preparation Service
  One of the most important things you can do to protect yourself from online tax fraud is to use a trusted tax preparation service. When selecting a service, look for reputable companies with a long history of providing quality services. Avoid tax preparation services that are new or have a poor track record.
- Secure Your Personal Information
  Another key step in protecting yourself from online tax fraud is to secure your personal information. This includes using strong passwords, avoiding public wi-fi networks and never sharing your Social Security number or other sensitive information online.
- Keep Your Software Up to Date
  Keeping your software up to date is another important way to protect yourself from online tax fraud. Hackers are always looking for vulnerabilities in software and systems, so it's critical to stay on top of software updates and security patches. Make sure to install updates as soon as they become available.
- Beware of Phishing Scams
  Phishing scams are a common tactic used by fraudsters to steal personal information. These scams typically involve an email or phone call from someone posing as a legitimate business or government agency. The message will often ask for personal information or direct you to a fake website. Always be cautious when sharing personal information online, and never click on links or download attachments from unknown sources.
- Check Your Credit Report Regularly
  Regularly checking your credit report is another important step in protecting yourself from online tax fraud. This can help you spot any unauthorized activity on your accounts and take action to stop it. You can get a free credit report from each of the major credit bureaus once a year. Take advantage of this service, and review your reports for any suspicious activity.
- File Your Taxes Early
  Finally, filing your taxes early can help you avoid online tax fraud. By filing early, you reduce the amount of time that your personal information is vulnerable to hackers. In addition, if someone does try to file a fraudulent return in your name, the IRS will be more likely to catch it if you have already filed your legitimate return.

"While filing taxes online may be an easy, efficient and a cost effective way to complete this yearly task… it can also increase your risk of falling victim to tax fraud."

How to Protect Yourself from Online Tax Fraud, continued

In conclusion, protecting your personal identifiable information is of the utmost importance if you decide to prepare and file your taxes yourself online. By following the above listed recommendations, you can greatly reduce your risk of falling victim to tax fraud. Remember to always be vigilant and cautious when sharing personal information online and take immediate action if you suspect that you have been a victim of fraud.

Ready or Not, Rothification is on the Way

Rosalice C. Hall, MBA, CRPS®
Senior Relationship Specialist

Is "rothification" even a word? Probably not, but to me it seems a fitting term to describe several of the changes in store for retirement plans as a result of new legislation signed by Congress at the end of 2022. Rothification is the idea of eliminating tax deductions and deferrals for retirement savings and instead mandating Roth after-tax contributions, with the benefit of tax-free earnings down the road. SECURE Act 2.0 brings with it over 92 legislative changes to retirement plans, all to be phased into effect over the next several years. The focal point of this overly ambitious legislation is to enable more individuals to save for their retirement, while also encouraging more people to save through Roth retirement accounts.

In the March 2023 edition of *Perspectives*, Wendy Cox wrote an article titled "SECURE Act 2.0 – More Changes to the Rules," which covered several key provisions of the Act. This article will delve further into the specifics of the Rothification that will be taking place in the years ahead as more Roth savings options (mandatory and optional) become available within retirement plans.

"While contributing on a Roth basis makes eminent sense for many… Roth contributions are not ideal for everyone."

Historically, retirement plans have not been required to include Roth dollars and, prior to 2023, employer contributions have only been permitted on a pre-tax basis. While contributing on a Roth basis makes eminent sense for many, especially for those individuals facing contribution restrictions due to compliance requirements, Roth contributions are not ideal for everyone. Since higher-earning, older participants are likely in high tax brackets, it may not make sense for many of them to make catch-up deferrals on a Roth basis. Generally, the tax treatment of a Roth contribution is ideal when the Roth deferrals are made in lower-income years and later withdrawn in higher-income years. Based on the current legislation, it is likely that for older high-earning executives and managers, their catch-up contributions will be made when they are earning a higher income and therefore in a higher tax bracket, to only then be withdrawn in the lower income years

of retirement.

In Congressional budgeting, the analysts only consider a ten year period, so taxes paid in the next ten years are considered as revenue, but any tax benefits after the end of the ten year window are not considered as tax losses. It can be debated that the decision to add a variety of new Roth provisions was simply a math problem aimed at capturing tax dollars in the near term because the reality is that the more money individuals save for their retirement using Roth accounts, the more tax revenues Congress currently generates. It appears that the intent of Congress is to push income tax revenues forward, to assist with making the Act revenue-neutral by offsetting some of the other tax breaks created under the Act.

Mandatory Roth Catch-Up Contributions

Perhaps one of the most controversial provisions of the SECURE Act 2.0 is the mandatory provision that all catch-up contributions will be taxed as Roth contributions for individuals who earn more than $145,000 of FICA wages in the previous calendar year. The earnings amount used to determine the Roth threshold will be indexed to inflation beginning in 2026. This change will force some individuals to make catch-up contributions in Roth dollars which means they will no longer receive a tax deduction for those contributions. However, Roth 401(k)/403(b) accounts are optional by the plan sponsor; Roth provisions are not mandated by ERISA. The Act is silent when a plan participant over the age of 50 wishes to make a catch-up contribution to their account when their employer does not adopt a Roth 401(k)/403(b) feature to its retirement plan. Must the plan sponsor add a Roth account to its existing plan? If the plan sponsor refuses to amend its plan to include a Roth 401(k)/403(b) feature, does that mean that no participant in the plan can make any catch-up contributions, regardless of wage? Clearly, regulations will need to be outlined to help existing qualified plans navigate this new mandatory Roth catch-up rule, effective for tax years beginning after December 31, 2023.

Since the Act is over several hundred pages in length, it should come as no surprise that some mistakes were made in the adoption of the Act. In particular, due to an inadvertent drafting error, the opportunity for any individuals who are over age 50 to make catch-up contributions to their retirement accounts was eliminated, effective at the start of 2024. Consequently, as it stands now, neither higher earners, nor any income-level, plan participants can make any catch-up contribution in 2024 to either a pre-tax or a Roth retirement account. Thus, participants cannot make catch-up contributions in 2024, unless changes are made by Congress. It is worth noting that the Treasury Department has stated they are expecting a technical correction prior to 2024.

> "If an employer permits... employees can elect Roth treatment for matching and non-elective contributions."

Ready or Not, Rothification is on the Way, continued

“If an employer permits... employees can elect Roth treatment for matching and non-elective contributions.”

Optional Roth Employer Contributions

If an employer permits the addition of this provision, employees can elect Roth treatment for matching and non-elective contributions. The intent behind this new provision is to provide employees with more tax diversification options. The Roth option can aid lower-income employees who do not overly benefit from income pre-tax retirement plan deferrals, especially early in their careers. Accordingly, the Roth income tax treatment is intended to give these plan participants a better overall tax outcome in retirement.

While Roth employer contributions became immediately effective under SECURE Act 2.0, considerable IRS clarification is needed before they can be implemented. Questions abound. When are wages are taxable? When are dollars vested? Are the contributions treated as wages? Are the contributions subject to FICA? The IRS will also need to provide updated plan document language. Retirement plan providers and payroll vendors need time to update their systems to accurately track the new sources.

At Greenleaf Trust, we are actively working through and preparing for the many changes brought about by SECURE Act 2.0. Our software provider has assured us that engineers are updating systems to incorporate the multitude of changes. The onus will be on payroll providers to adopt systems that are able to properly track Roth contributions and tax withholding. Additionally, Greenleaf Trust is actively working through establishing payroll integration with many of our retirement plan clients. Payroll integration will provide automation to a complex process, which has been made even more complex through recent legislation.

In conclusion, Rothification is expected to immediately generate large gains in short-term tax revenue, but it does so by sacrificing an equal or greater amount of future revenue. On the net, and over a long enough time horizon, Rothification will not increase federal revenue and it might even reduce it. In researching for this article, I came across Vanguard’s *How America Saves* 2023 edition, which lists the average retirement savings balance as approximately $112,500, with an overall median savings of about $27,000. If a retiree with an average retirement savings of $112,500 opts to follow a recommended demand on capital rate of 4%, they will only receive about $4,500 annually. When you incorporate the behemoth math problem that is the Social Security system, there is no question that more needs to be done to ensure participants are saving for their retirement. On the whole, SECURE Act 2.0 provides additional incentives to save for retirement, while also recognizing that most individuals now save for their future through contributions to their retirement accounts. SECURE Act 2.0 provides many provisions aimed at empowering individuals to increase their retirement readiness and build a stronger financial future.

Retirement Transitions – We're Not In Kansas Anymore

Nicole E. Asher, CFP®, CPWA®, ChFC
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In past articles we strolled down the yellow brick road and ended singing of rainbows, blue skies and dreams. somehow, the fairy tale world of oz has changed over the last year and it looks more like the haunted forest on the way to the witch's castle than the Emerald City. "Toto, I have a feeling we're not in Kansas anymore."

The Wizard of Oz made its way to the Hollywood screens in 1939. It is thought of as one of our country's greatest and best loved fairy tales. It came about during a time when people had endured 10 years of gloom. The economy was finally improving, and hope was thriving. Films like *The Wizard of Oz* reaffirmed the nation's belief in itself and in its ability to endure.

Transitioning to retirement requires this same belief and endurance. Retirement is an ongoing process of emotional adjustments. The actual act of retirement is typically short and sweet and may be marked by a dinner or other celebration. But then it's over — you're retired! Many arrive at the destination they have been dreaming about for decades in a state of jubilation only to find the emotional high wears off quickly. Once the honeymoon phase is over and reality sets in, some feel let down and disenchanted. Retirement is a major life change and is difficult on its own. But when you combine it with economic and financial turbulence, the change can be overwhelming. Retirement is an emotional event with a financial component. Whether your decision to retire is regrettable, wonderful, planned, or unintentional, it is crucial that you grasp not only the financial side but also the psychological side of this transition. In my earlier article we focused on taking a multi-layer approach to retirement and the activities that you can focus on to enhance the experience. In today's article, I will expand on the topic.

> "Fortunately or unfortunately, with retirement comes a great deal of change — all at once."

Fortunately or unfortunately, with retirement comes a great deal of change — all at once. It's almost like the tornado that hit Kansas in *The Wizard of Oz*. Your beautiful sunny day of retirement gets tossed and turned and completely shaken up by the "retirement twister." Unexpectedly, your self–esteem and self-identity are tested. Many people base their identities and who they are around their working self. The question of "who am I?" becomes critical as a person evolves from being a professional to a retiree. For those who have had highly successful careers, they may also become disillusioned by a lack of the respect they had become accustomed to while working. It is not uncommon for a retiree to begin to question their self-worth and their purpose in life. A major source of

Retirement Transitions – We're Not In Kansas Anymore, continued

depression in retirees is isolation and lack of motivation.

A common retirement challenge occurs when married couples choose to retire "as a couple." The picture-perfect thought is that both individuals will retire at once and spend their days "happily ever after" — dreaming, yearning and wistfully longing for a trouble-free, fascinating, new world where bluebirds fly and there are colorful rainbows — a fairy tale. It's difficult not to have this dream. Marketing materials that depict retirement portray this fantasy world. Brochures and fliers are not going to portray the potential downside that may accompany retirement including loneliness, depression, and disillusionment. Unfortunately, unless you prepare financially and emotionally, this could happen, and you won't have a fairy tale ending. Striking the right balance between dreams and realities is one of retirement's biggest challenges.

There are both financial and emotional reasons for working couples to stagger their retirement dates. From a financial perspective, if one spouse chooses to work longer, future social security benefits may increase. In addition, it gives you more time to save and fewer years that you are drawing on your investment assets to support retirement. It could also mean continued health insurance benefits in those years when you may need it the most. Financial reasons aside, the psychological adjustment necessary may be overpowering for two people to adjust to all at once. As previously mentioned, retirement sometimes leaves people searching for their identities. If you are like most couples who have spent their entire married lives with at least one individual working outside the home, the uncharted water of spending every waking minute together can be daunting. But to add to it, two individuals searching for "themselves" can be disastrous. It would make sense, in some cases, for only one spouse to go through this transition at a time. It gives each person a chance to create and build a new identity for themselves without the pressure of a spouse who may be going through the same identity crisis. This is a tension that can easily be avoided by spacing out retirement dates.

"If you are like most couples... the uncharted water of spending every waking minute together can be daunting."

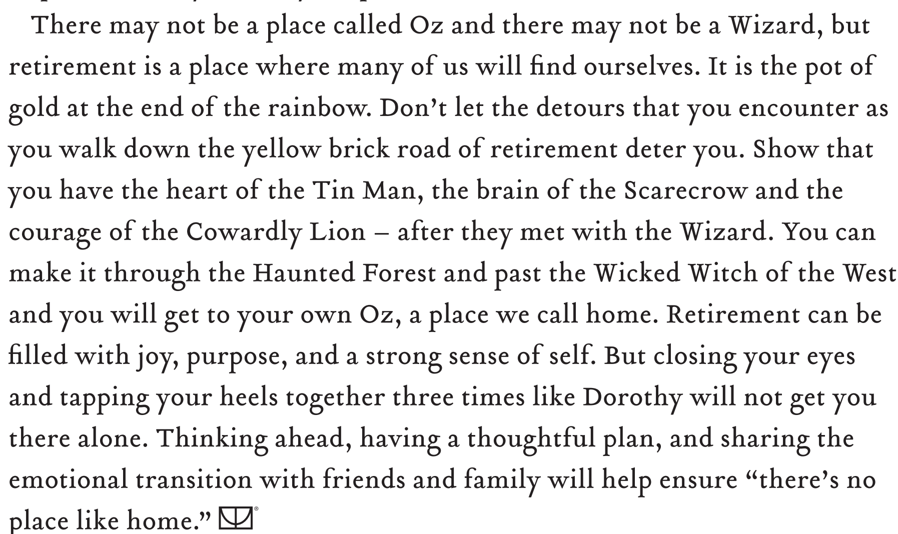
On this same note, if one spouse retires and joins a spouse who has previously not worked outside of the home, some initial friction can be expected. Trying to find a happy medium of how much time to spend together can be taxing. Retirement now puts both spouses on a "level playing field." It may become a challenge to work out who does what. If one spouse previously cared for the house and took care of all the cooking and cleaning while the other spouse worked, it made sense. But now if the previously working spouse reads magazines, watches television and does crossword puzzles and doesn't offer to help out, it could create tension for the spouse who feels that the retiree should now be "pitching in" around the house. On the other hand, this same spouse who has previously stayed

home may feel that the house is "their domain" and the retiree may feel like an "intruder" or an "outsider." Finding a "happy medium" will necessitate some effort, openness, and communication to discover what this new aspect of the relationship feels like for both spouses.

Some people can't absorb everything all at once. For these people, whether they are married or single, it might make sense to not jump into retirement with two feet. Cut back to part-time work or find a new job that "doesn't feel like work" and is not at the stress level of your past career. You might also find that volunteering will help make the transition easier.

Spending so much time together may also bring eccentric personal habits to the forefront, and things that were previously easy to overlook may not be so easily ignored when you are surrounded by them 24/7. It is important for retired couples to keep lines of communication open and determine early on what changes will need to be made. Plan for and give each other plenty of physical and emotional space. If not, it can lead to unnecessary tension.

During our working years, we move quickly and efficiently down the highway of life as we toil to get from one point to another. We dream of a retirement where we no longer must rush to destinations but instead are able to explore the countryside and take detours along the way, like Dorothy as she travels down the yellow brick road. The opportunity to have the time to pursue hobbies and other leisure activities and enjoy "down" time can create an emotional paradox. Some may look forward to idle time while others, me included, panic at the thought. Whether you choose to work well past your retirement age or whether you retire early, it is important that you find your passion in life.



There may not be a place called Oz and there may not be a Wizard, but retirement is a place where many of us will find ourselves. It is the pot of gold at the end of the rainbow. Don't let the detours that you encounter as you walk down the yellow brick road of retirement deter you. Show that you have the heart of the Tin Man, the brain of the Scarecrow and the courage of the Cowardly Lion – after they met with the Wizard. You can make it through the Haunted Forest and past the Wicked Witch of the West and you will get to your own Oz, a place we call home. Retirement can be filled with joy, purpose, and a strong sense of self. But closing your eyes and tapping your heels together three times like Dorothy will not get you there alone. Thinking ahead, having a thoughtful plan, and sharing the emotional transition with friends and family will help ensure "there's no place like home."

"Don't let the detours that you encounter as you walk down the yellow brick road of retirement deter you."

Stock Market Pulse

Index	3/31/2023	Total Return Since 12/31/2022
S&P 1500	937.56	7.15%
Dow Jones Industrials	33,274.15	0.93%
NASDAQ	12,221.91	17.05%
S&P 500	4,109.31	7.48%
S&P 400	2,512.16	3.79%
S&P 600	1,182.07	2.54%
NYSE Composite	15,374.91	1.91%
Dow Jones Utilities	939.79	-1.95%
Barclays Aggregate Bond	2,109.41	2.96%

P/E Multiples	3/31/2023
S&P 1500	19.2x
Dow Jones Industrials	19.8x
NASDAQ	36.3x
S&P 500	19.7x
S&P 400	14.3x
S&P 600	15.4x

Key Rates

Rate	
Fed Funds Rate	4.75% to 5.00%
T Bill 90 Days	4.64%
T Bond 30 Yr	3.65%
Prime Rate	8.00%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	937.56	19.2x	1.69%
S&P 500	4,109.31	19.7x	1.68%
Dow Jones Industrials	33,274.15	19.8x	2.11%
Dow Jones Utilities	939.79	20.1x	3.56%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.96%

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