GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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President
Chief Executive Officer

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Founding Roots in Retirement Plan Services

Our Retirement Plan Services Division traces its roots back to the foundation of our company in 1998. I am very proud of that. Not because I led the effort, but because I benefitted from the division's creation and I believe in the significance of the division to educate people about the importance of saving for retirement. So, having the opportunity I want to provide our readers with a little history and knowledge of this service offering that is beneficially different from our competitors.

When Dean MacVicar, the former director of our Retirement Plan Services Division, moved from First of America Bank in 1998 to Greenleaf Trust he convinced our founder, Bill Johnston, that we could make a difference in a lot of lives by helping people save for retirement. Bill agreed. Dean and I worked together at First of America Bank in the Retirement Plan Services Division where I served as the division's investment specialist. When I applied to Greenleaf Trust in 1999, thankfully Dean was there and recognized my potential.

Today, our Retirement Plan Services Division provides comprehensive management and solutions to over 150 plan sponsor clients and almost 20,000 participants. Total assets under advisement have also surpassed $1 billion.

As a full service shop, we oversee every aspect of a qualified plan for clients, providing plan design and administration, robust participant education, no-conflict investment management, recordkeeping, transparent competitive fees, and we can serve as trustee to ensure compliance with fiduciary requirements. As previously mentioned, we believe strongly in the importance of participant education and support. Education options range from one-on-one consultations to interactive online planning and investment guidance platforms. Our in-house research team that guides the investments used in our personal trust client portfolios is also the same team that guides the investment platform for our Retirement Plan Services clients. Our extensive and broad expertise encompasses 401(k) and 403(b), profit sharing, money

Founding Roots in Retirement Plan Services, continued

purchase pension, defined benefit pension, cash balance pension, and nonqualified plans.

Meeting our clients' needs and exceeding their expectations is part of our culture. Below are some highlights from our 2022 Retirement Plan Division client survey. We proudly received a 100% positive response rate to each of these questions.

- Do you feel Greenleaf Trust offers suggestions and helps tailor your plan to meet your participants' retirement goals and objectives?
- Do you feel as though you are treated as a very important client?
- Do you find the team members at Greenleaf Trust easily accessible?
- Is Greenleaf Trust successful in meeting your participants education and enrollment needs?
- Do you feel Greenleaf Trust listens to and understands your company's retirement benefit plan goals and objectives?

From a plan sponsor's perspective, it is important that they know we have the knowledge and experience to handle everything for them. From a participant's perspective, it's important that they know they have a best in class investment platform to use for retirement savings and we are here to help.

"Meeting our clients' needs and exceeding their expectations is part of our culture."

May Update

Nicholas A. Juhle, CFA®
Chief Investment Officer

As I begin to write this article, I find myself in an awkward position. The elephant in the room, the debt ceiling crisis, has no regard for my monthly publishing timeline and, unfortunately, my crystal ball is still on the fritz. Today is May 22. This article is due on May 23 and with a little luck, this edition of Perspectives will circulate on June 1. If you've been following the headlines, June 1 is also Treasury Secretary Janet Yellen's estimate of the date when the federal government will run out of money. So what's an author to do? As I see them, my options are as follows:

1) Predict the future: Write the article for the most likely outcome and cross my fingers.
2) Ignore the issue: Write on some other topic and avoid the uncertain but highly salient issue.
3) Offer (hopefully unneeded) perspective: Provide a thorough overview of potential scenarios today, knowing that the article may be highly relevant or grossly out of date when it goes to print.

Putting myself in our clients' shoes, it strikes me that the third option probably adds the most value. If the issue is resolved by the X date, wonderful. If not, you will certainly hear much more from our team.

"… the debt ceiling crisis has no regard for my monthly publishing timeline and, unfortunately, my crystal ball is still on the fritz."

Background

The US Department of the Treasury manages payments for the federal government. Congress, by law, limits the maximum amount of debt that the Department of Treasury can issue to finance budget deficits. This limit is commonly referred to as the "debt ceiling."

The current debt ceiling is $31.4 trillion. The US hit this limit on January 19, 2023. Since that time, the Treasury Secretary has been using "extraordinary measures" to continue making payments on obligations of the federal government.

However, these extraordinary measures only provide a limited amount of funds. Without the ability to issue new debt, the Treasury Department will eventually run out of funds to make payments on legal obligations of the federal government.

The Treasury Secretary, along with private and public economists, estimate that in early June, the Treasury Department will no longer have sufficient funds to satisfy all legal obligations of the federal government. This date is being referred to as the "X date."

Estimates of the X date range from June 1st to August and are subject to some level of uncertainty. The Treasury Department receives quarterly tax payments in mid-June that may provide some cushion depending on the level of receipts and outlays. However, the X date may occur before mid-June.

May Update, continued

The approaching X date has created some urgency for Congress to consider legislation to raise the debt ceiling. Congress is currently divided, with Republicans holding the majority in the House of Representatives and Democrats holding the Senate and the Presidency.

House		Senate		White House
D	R	D	R	
213	222	51	49	Dem

The president and congressional leaders are currently negotiating and the first official meeting occurred on May 9. Democrats want a "clean" debt ceiling increase. Republicans want to limit federal spending in exchange for increasing the debt ceiling. At the moment, leaders in both parties are reportedly against any short-term debt limit suspensions or increases and do not want to "kick the can."

"The president and congressional leaders are currently negotiating and the first official meeting occurred on May 9."

Market Reaction

The market reaction to the upcoming X date has been muted so far. There has been evidence of some stress in the securities that would be most directly impacted if the federal government breaches the X date, such as T-bills maturing around that date and credit default swaps (CDS), but broader equity, credit, and currency markets have been resilient.

Looking ahead, we find it difficult to anticipate how the market may respond to the varied potential outcomes. We are evaluating several plausible scenarios:

Plausible Scenarios

Less likely ⟶ More likely	Scenario	Breach the X Date?
	Last-minute negotiated Congressional resolution	No
	Short-term debt limit suspension	No
	Early Congressional resolution	No
	Prioritizing principal & interest payments on debt	Yes
	Brief default no longer than a week	Yes
	"Creative" solutions to avoid default: - 14th amendment - Discharge petition - Executive action to breach the debt limit - Printing a trillion dollar coin	Yes
	Prolonged default	Yes

In our view, a federal default remains a remote possibility. The most probable outcomes are that Congress raises the debt ceiling and that the federal government satisfies all its obligations in a timely fashion.

LAST-MINUTE NEGOTIATED CONGRESSIONAL RESOLUTION: We believe this is the most-likely outcome. In this scenario, within a week of the oncoming X date, Congress passes resolutions to raise the debt ceiling and to limit future federal spending.

This is similar to 2011, when Congress passed legislation just two days before the Treasury-estimated X date. Markets could be volatile in this scenario. In 2011, the S&P 500 fell around 17% in the week leading up to & following the X date. However, in today's environment, it appears that investors are anticipating a last-minute solution and, as a result, volatility could be more muted.

The investment implications of this scenario will depend on the timing and the details of the negotiations. The economic implications of austerity would depend on the specific spending cuts contemplated in the legislation.

SHORT-TERM DEBT LIMIT SUSPENSION: This is the "kick the can" scenario. This scenario is plausible because Congress has limited time to negotiate a solution and avoid breaching the X date. Before the April tax receipts were tallied, many private economists believed that Congress would have until August to avoid a default. Legislators may have been caught flat-footed by the earlier deadline and may prefer a short-term debt limit suspension, perhaps beyond the June 15th quarterly tax receipt period, to negotiate a more comprehensive legislative package.

This scenario would require investors to be attentive to debt ceiling risks over a more prolonged period but may be welcomed in the short term.

EARLY CONGRESSIONAL RESOLUTION: We can hope, right? In this scenario, a resolution to raise the debt ceiling passes without a last-minute showdown. This could occur if the X date actually arrives later than currently anticipated or if negotiations progress faster than expected.

This scenario could provide a short-term boost to investment sentiment, but the ultimate implications would depend on the details of the negotiations.

PRIORITIZING PAYMENTS ON DEBT SECURITIES: In this scenario, congressional leaders fail to pass a debt ceiling increase prior to the X date. This would be unprecedented. It is difficult to anticipate how the president, Treasury Department, and Federal Reserve might respond to such a development.

However, we believe it is probable that payments on the national debt might be prioritized over other payments such as Social Security, Medicare, and Department of Defense spending. Indeed, in 2011, this type of prioritization was discussed in a Federal Open Market Committee conference call. The constitutionality of this type of prioritization is debatable.

This scenario would constitute an instance of "default" in the eyes of

"We believe a last-minute negotiated congressional resolution is the most-likely outcome."

May Update, continued

ratings agencies, but debt holders would receive timely payment. The federal government would be required to delay payment of other legal obligations.

Such a scenario could be sharply negative for the economy because of the significance of Social Security, Medicare, and other federal outlays. If those payments are missed, consumer spending could be significantly curtailed.

BRIEF DEFAULT: In this scenario, the X date is breached and payments to federal debtholders are delayed. Again, this would be unprecedented, but the anticipated consequences would be severe. In a 2013 analysis, the FOMC projected that a brief default could result in recession, elevated unemployment for a period of years, and deflation.

There are open questions about operational processes for defaulted treasury securities. It is likely that market trading in delayed securities would be impaired. It is possible that the Federal Reserve would offer to purchase defaulted securities to maintain market function.

The investment implications of such a scenario would depend on the duration of the delay in payments. In the intermediate term, the dollar's reserve currency status and treasury securities being considered the world's benchmark "safe asset" would likely be impaired.

> "… we believe the best approach for managing through this type of uncertainty is to remain disciplined, maintain proper diversification, and ensure that portfolios align with a client's long-term goals and risk tolerance."

CREATIVE SOLUTIONS: In this scenario, Congress does not raise the debt ceiling prior to the X date in a negotiated resolution. The dire implications of missing debt or Social Security payments induce the executive branch or congressional leaders to engage in constitutionally questionable solutions to avoid missing payments. We have seen reporting on several possible responses, including:

- **THE 14TH AMENDMENT:** The 14th amendment to the constitution reads, in part, "The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned." Some constitutional scholars argue this amendment renders the debt ceiling unconstitutional. In this scenario, the Treasury Department continues to borrow to make payments and breaches the debt ceiling until the constitutional question is resolved by the courts.
- **DISCHARGE PETITION:** This is the least creative "creative solution." A discharge petition would allow minority-party Democrats in the house to force a vote on the debt ceiling. However, they would need 218 signatures and, so far, we have not seen reporting on five House Republicans who would be willing to join in the effort. Reporting has been skeptical about the

plausibility of the discharge petition option.

EXECUTIVE ACTION TO BREACH THE DEBT LIMIT: In this scenario, the president instructs the Department of Treasury to continue making payments and unilaterally breaches the debt limit. This would be a bit of a constitutional crisis.

PRINTING THE TRILLION DOLLAR COIN: In 1997, Congress passed legislation allowing the U.S. Mint to print platinum coins of any denomination. The theory would be to have the U.S. Mint print a trillion dollar coin, deposit it at the Treasury General Account at the Federal Reserve, and then use the newly-replenished account to continue making payments.

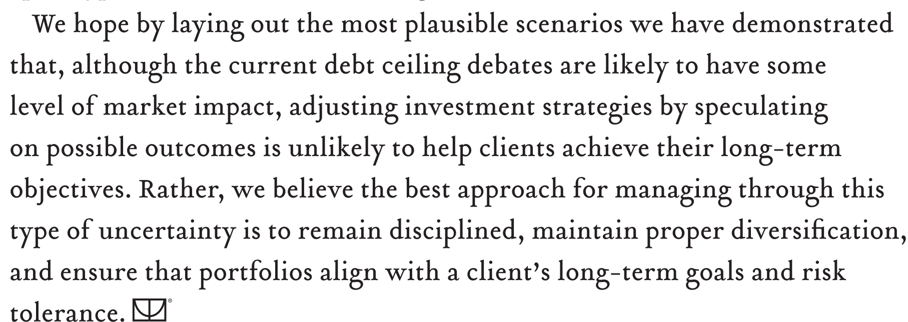
These "creative solutions" would all accompany significant legal questions and uncertainty for debtholders. There would certainly be political pressure to avoid the negative consequences of default, so we cannot rule them out. The investment implications would be highly uncertain for any of these scenarios other than the discharge petition, which is a recognized legal pathway for raising the debt ceiling.

PROLONGED DEFAULT: This is the worst-case scenario. Payments to debtholders and payments on other federal obligations are made only as the Treasury Department receives funds. This would likely result in a severe recession, high unemployment, spikes in interest rates, and financial market turmoil.

The probable implications of a prolonged default would be so negative that it is difficult to imagine Congressional leaders allowing it to transpire.

Summary

We continue to believe that the federal government will honor its obligations in-full and on-time. However, the most likely scenario involves a last-minute negotiation and some significant uncertainty about how Congress will reach an agreement. Clients can probably anticipate some apocalyptic headlines in the coming weeks.



We hope by laying out the most plausible scenarios we have demonstrated that, although the current debt ceiling debates are likely to have some level of market impact, adjusting investment strategies by speculating on possible outcomes is unlikely to help clients achieve their long-term objectives. Rather, we believe the best approach for managing through this type of uncertainty is to remain disciplined, maintain proper diversification, and ensure that portfolios align with a client's long-term goals and risk tolerance.

"We continue to believe that the federal government will honor its obligations in-full and on-time."

Roth IRA vs Roth 401(k): What's the Difference?

Lisa A. Hojnacki
Participant Services Coordinator
Team Lead

When it comes to investing for retirement you have a multitude of options to choose from. Making the decision about how you are going to manage the taxation of your retirement plan contributions makes the decision even more complex. Do you open an IRA (and should it be traditional or Roth) or invest in your employer's retirement plan? What if your employer's plan offers Roth as an option? Which is best? The truth is there is no one-size-fits-all answer and it depends on your own personal circumstances.

One of the most important aspects before deciding what option is right for you is to first understand the differences. A Roth IRA is an individual retirement account that you can set up with a wide variety of financial institutions and is funded with after-tax after-tax dollars allowed to grow tax-free and withdrawn tax-free, provided certain requirements are met.

A Roth 401(k) is an employer sponsored retirement account that allows you to designate after-tax money from each paycheck to be invested in your retirement account. Investment options are limited to the funds made available in the plan. Not every employer offers the option of Roth and if the option is available to you, you are also allowed to contribute pre-tax and make both contribution types at the same time. It is important to note that employers can choose to match an employee's contributions and those contributions are made pre-tax. Thus, when an employee contributes Roth and receives an employer matching contribution the result is two "buckets" of money, one pre-tax and one after-tax.

"Roth IRAs come with an income limit while Roth 401(k)s don't."

Key Differences

- Roth IRAs come with an income limit while Roth 401(k)s don't.
    - In 2023 any individual taxpayer with an adjusted gross income (AGI) over $153,000 or married couple filing jointly with an income over $228,000 are not eligible for a Roth IRA.
- A big advantage of Roth 401(k) is the annual contribution limit. In 2023 you can contribute up to $22,500 if you are age 49 and younger and $30,000 if you are age 50 and older. In a Roth IRA the current limits are $6,500 and $7,500 based upon your age.
- Until the year 2024 and after, Roth 401(k) requires a minimum distribution (RMD) if you are age 73 or older while a Roth IRA does not.
- If you withdraw from a Roth 401(k) before the age of 59½, which

should always be a last resort, you are subject to a 10% penalty. In a Roth IRA you can withdraw contributions without penalty, though earnings are subject to a 10% penalty if withdrawn before age 59½.

Roth Taxation and What to Know

In general, when you are contributing income to a retirement account you will incur income taxes. The Roth option allows you to pay your income taxes on your contributions when they go into your account rather than paying the taxes at the time of withdrawal. It is important to recognize if you are a high-income earner and contributing Roth dollars, you are paying taxes on your contributions at a higher rate than you may be in the future once you are in retirement and living off less income. But here's a key consideration: with both accounts, investment earnings are not taxed with a qualified withdrawal. This can mean a large nest egg of tax-free earnings when you retire, particularly if you've accumulated tax-free earnings for a long period of time. A qualified withdrawal means that you take a cash distribution from your Roth account after age 59½ and the account has been open for at least five years, or you become disabled or deceased.

With a Roth IRA, you can withdraw your contributions prior to age 59½ without tax or penalty but any earnings portion withdrawn would be taxed and a penalty incurred, with a few exceptions. The same tax circumstance exists with Roth 401(k) withdrawals, but you must be qualified to take a withdrawal from your employer's plan. Additionally, there are no exceptions to earnings being taxed unless you are taking a loan from your Roth 401(k). This option is only offered in some employer retirement plans and the earnings will be taxed and penalized if you fail to pay the loan back.

Choosing Between a Roth 401(k) and Roth IRA

When it comes to choosing between the two types of investment vehicles, you don't have to. You are allowed to have both a 401(k) and an IRA and contribute the annual limit to both account types if you are financially able.

A ROTH 401(K) IS A GREAT CHOICE IF YOU:

- earn too much money to contribute to a roth ira and want to accumulate after-tax dollars for your retirement.
- want to take advantage of an employer match and accumulate after-tax dollars.
- want to contribute as much after-tax money as possible.
- prefer the ease of having contributions automatically deducted from your pay and streamlined, well-researched investment options.

"You are allowed to have both a 401(k) and an IRA and contribute the annual limit to both...

Roth IRA vs Roth 401(k): What's the Difference?, continued

A ROTH IRA IS A GREAT CHOICE IF YOU:

- want to be able to withdraw contributions tax and penalty free before you turn age 59½.
- want a wider array of investment options to choose from.
- don't have a Roth contribution option in your employer's retirement plan.

The bottom line when comparing a Roth IRA with a Roth 401(k) is to understand each has its own perks. The most important aspect of reaching a healthy retirement is to invest, whether it be in your own individual retirement account or through an employer. For many people it may be useful to capitalize on the benefits of both types of accounts. If an employer offers a matching contribution, it is always wise to contribute to the plan to take advantage of "free" money even if you prefer to contribute to your own individual retirement account.

Kristen M. Tidd, CTFA
Assistant Vice President
Senior Trust Relationship Officer

A Slice of Real Estate Advice

My middle kiddo celebrated her 15th birthday last month. In our family, the birthday kid gets to select what I make for dessert in honor of their special day. This year Natalie picked cheesecake, likely one of the most finicky desserts to prepare when making it from scratch: getting the chilled ingredients out in time to let them come up to room temperature, hand crushing the graham crackers for the crust while making sure the crumbs are fine and consistent throughout, mixing the cheesecake batter ingredients so they're perfectly combined but not over mixed, wrapping the pan in layers of foil so the water bath doesn't leak into the springform pan and ruin the crust, allowing it to bake just long enough being careful to not under or over bake it, letting it cool with the oven door open just enough to allow the cooling process to be controlled to avoid cracks in the surface of the cake, and further chilling in the fridge overnight. Can't forget to make the sour cream topping with the plan to spread it on the chilled cheesecake just before serving. It is a nerve-wracking experience, a true labor of love, that takes very careful planning every step of the way. While making Natalie's cheesecake, it struck me that the same attention to detail needs to be applied to estate planning and especially so with real estate.

Let's explore some options worthy of consideration for the administration and distribution of real estate assets:

WILL OR LIVING TRUST: Creating a will or a living trust is essential for estate planning. It allows you to specify how you want your real

estate property to be distributed after your death. A living trust can be particularly useful if you want to avoid probate, a legal process that can be time-consuming and costly.

JOINT TITLE: When real estate is held in joint title and one of the joint owners passes away, the ownership of the property typically passes to the surviving owner(s) automatically. This is known as the right of survivorship. Here are a few common forms of joint ownership:

1) Joint Tenancy with Right of Survivorship (JTWROS): In this type of ownership, when one owner dies, their share automatically passes to the surviving owner(s) without going through probate. The property will be solely owned by the surviving joint tenant(s).
2) Tenancy by the Entirety: This form of ownership is available only to married couples and provides similar rights of survivorship as joint tenancy. If one spouse dies, the ownership automatically transfers to the surviving spouse.
3) Tenancy in Common: In this form of ownership, each owner has a distinct and separate share of the property. When one owner dies, their share of the property passes according to their will or the laws of intestate succession rather than automatically to the other owner(s). The deceased owner's share may go to their heirs or beneficiaries as determined by the legal process.

LADY BIRD DEED: A Lady Bird Deed, also known as an enhanced life estate deed or an enhanced warranty deed, is a legal instrument used in estate planning to transfer real property to designated beneficiaries upon the owner's death while retaining the right to use and control the property during their lifetime. The key feature of a Lady Bird Deed is that it allows the property owner to retain full control and use of the property during their lifetime, including the ability to sell, mortgage, or lease the property without obtaining the beneficiaries' consent. Upon the owner's death, the property automatically passes to the named beneficiaries without going through probate.

TRANSFER ON DEATH (TOD) DEED: Also known as a beneficiary deed or a revocable transfer on death deed, a TOD is another estate planning tool used to transfer real property to designated beneficiaries upon the owner's death. With a TOD, the property owner retains full control and ownership of the property during their lifetime, similar to a Lady Bird Deed. However, unlike a Lady Bird Deed, a TOD does not grant the owner the right to freely use and control the property during their lifetime. The owner can only transfer the property to the designated beneficiaries upon their death.

LIFETIME GIFTS: You can reduce the value of your estate and potential estate taxes by gifting real estate during your lifetime. The annual gift tax

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A Slice of Real Estate Advice, continued

exclusion allows you to give a certain amount each year to individuals without incurring gift taxes. This year that figure is $17,000. This strategy can be utilized with an intrafamily in which payments are forgiven up to the annual exclusion amount. A lifetime gift can provide tax advantages if the property appreciates in value.

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT): A QPRT allows you to transfer your primary residence or vacation home into an irrevocable trust while retaining the right to live in the property for a specified period. This strategy can help reduce estate taxes by removing the property's value from your estate while allowing you to continue living in it.

FAMILY LIMITED PARTNERSHIP (FLP) OR LIMITED LIABILITY COMPANY (LLC): These entities can be used to hold real estate property and provide various benefits for estate planning. By transferring the property to an FLP or LLC, you can retain control and management while gifting or selling ownership interests to family members over time.

> "Periodic review of your estate plan… is always a worthy exercise but this is particularly true for your real estate assets."

CHARITABLE REMAINDER TRUST (CRT): If you have a valuable property and charitable intent, you can transfer it into a CRT. This trust allows you to receive income from the property during your lifetime, with the remaining value passing to a designated charity upon your death. It provides income tax benefits and potential estate tax savings.

LIFE INSURANCE: Life insurance can be a useful tool for estate planning, especially if you have real estate property that you want to pass on to your heirs. By designating the policy proceeds to cover estate taxes or provide liquidity for property transfers, you can ensure your heirs have the necessary funds to handle any estate-related expenses and thus will not be faced with the need to sell real estate to cover the tax liability related to your estate.

Just like making a homemade cheesecake, there are times in which a well thought out estate plan can go wrong or no longer fit your desires. Periodic review of your estate plan to ensure your current plan is appropriately set up is always a worthy exercise, and this is particularly true for your real estate assets. Whether you have one home or multiple properties, proper planning is essential to ensure you've accounted for how your heirs will inherit the property and account for all the associated tax implications of the strategy that will be deployed. It's important to consult with your trusted advisors to evaluate which strategies are most appropriate for your specific situation, as laws and regulations may vary depending on your jurisdiction. Consider reaching out to your client centric team for a review of your real estate titling in conjunction with your overall estate plan to determine if an update is needed, maybe over a slice of cheesecake.

Fund a Roth IRA with College Savings

Jeff T. Pauza, CFA®, CFP®
Assistant Vice President
Senior Wealth Management Advisor

I frequently tell anyone who will listen how much I loved my first summer job during high school. While I cherish my role as a wealth management advisor with Greenleaf Trust, there are days where I miss the simplicity of being a lifeguard. Perched high above a pool, basking in the summer sun, and occasionally reprimanding running kids had its perks. It is a glamorous job where you are mostly paid to sit and work on your tan. Making $7.25 an hour, I had no idea how I would spend so much money. Thankfully, my father convinced me that adding some cash to a Roth IRA might be a good idea. That small tip started my passion for saving, investing, and financial planning. It was an incredible gift that I want to pass along to my daughter. I want her to see the benefit of saving in a Roth IRA from an early age. The only problem is three-year-olds that spend their day in an Elsa costume make unreliable employees. Fortunately, the recently passed SECURE Act 2.0 offers a creative solution for funding Roth IRAs for the youngest members of our families by leveraging excess 529 plan savings.

By way of background, a 529 savings plan was originally introduced as a tax-efficient way to pay for qualified education expenses such as tuition, fees, books, supplies, and room and board. These plans are typically used to save for college expenses, but they can also be used for K-12 education expenses. Contributions to a 529 savings plan are made with after-tax money, but the earnings on your investments grow tax-free. Withdrawals from a 529 plan that are used for qualified education expenses are not subject to federal income taxes. Many states offer additional tax benefits to contribute to their respective plans. For example, Michigan's 529 plan offers residents the ability to reduce their state income by up to $10,000 per year.

A 529 savings plan offers unique flexibility since the account owner retains control over the assets and can change the beneficiary as needed if the new beneficiary is a family member. While 529 savings plans offer many advantages, I frequently hear a similar concern from clients: "what happens if we overfund our 529 savings plan?" There have always been helpful answers to this question, but the passage of SECURE Act 2.0 created one of the best presents you could ever give a toddler (that doesn't repeat "Baby Shark" endlessly).

Imagine that you have devotedly saved in a 529 plan for many years. Your graduate has recently walked across the stage to receive their diploma, debt-free. You did an outstanding job saving and now there

"The recently passed SECURE Act 2.0 offers a creative solution for funding Roth IRAs for the youngest members of our families by leveraging excess 529 plan savings."

Fund a Roth IRA with College Savings, continued

are extra funds remaining in your 529 plan. You are so proud of your graduate that you want to give them the remaining balance in the plan. Unfortunately, this distribution would be subject to ordinary income taxes and a 10% penalty. This would still be a generous gift, but there is now a more tax-efficient method of giving them the assets. SECURE Act 2.0 provides a tax and penalty free solution, so your graduate receives the entire gift without the government claiming a share.

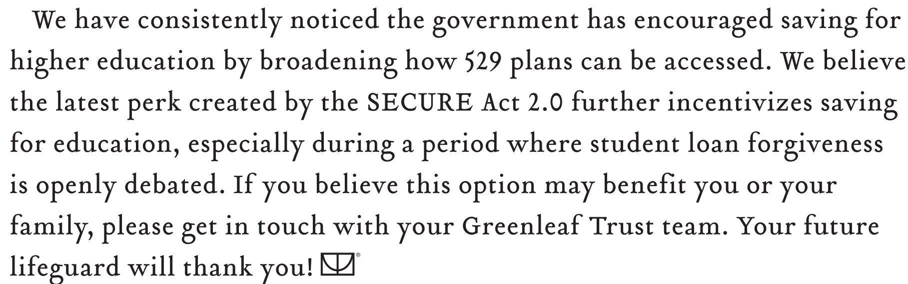
This new rule allows up to $35,000 of excess 529 savings to be converted into a Roth IRA for the beneficiary. SECURE Act 2.0 has greatly reduced the risk of overfunding a 529 plan. Savers are now incentivized to contribute an extra $35,000 to a 529 plan. If you opened a 529 savings plan for a newborn, they could have tax-free earnings over their entire lifetime. Assuming a 7% rate of return, a $1,000 contribution to a newborn's 529 plan would grow to over $4,700 by their 23rd birthday. You could then convert your $4,700 of excess savings into a Roth IRA for your beneficiary. Assuming the same 7% growth rate, the $4,700 conversion would grow to over $81,000 on their 65th birthday. This same Roth IRA would grow to over $440,000 on their 90th birthday. Albert Einstein once said, "Compound interest is the eighth wonder of the world." Clearly, compounding growth is a powerful force, but this gift would also be free from income taxes throughout the beneficiary's lifetime.

"Savers are now incentivized to contribute an extra $35,000 to a 529 plan."

As with all productive saving strategies, there are some restrictions that are important to know. A 529 plan must be opened and maintained for at least 15 years at the time of conversion. The conversion cannot include any amount that has not been held in the plan for at least 5 years. The conversion also must be done directly from the 529 plan to a Roth IRA. None of these provisions are difficult to meet but they do require some planning.

There are also several limitations to be aware of when converting. The amount converted from a 529 plan for the year, when added to any contribution made to a traditional or Roth IRA, cannot exceed the IRA contribution limit in effect for the year. For example, the maximum IRA contribution allowed in 2023 is $6,500 ($7,500 if you are over age 50). You will not be allowed to convert more than $6,500 from a 529 plan in 2023. Assuming you want to convert $35,000, it would take 6 years to transfer the full balance into a Roth IRA. While there is still some ambiguity with the earned income rule, it appears that the compensation requirement for IRA contributions will still apply. This means a 529 plan conversion can be done only for an individual with eligible income for the year.

Don't let the eligible income rule deter you. There is no requirement to spend savings from a 529 plan and the assets will continue to grow tax-free while they remain in the plan. While the funds are held in a 529



plan, they receive the exact same tax treatment as a Roth IRA. Essentially, you can wait to convert your 529 savings into a Roth IRA when your beneficiary has enough earned income. The assets will grow with the same tax-free benefit while you wait.

We have consistently noticed the government has encouraged saving for higher education by broadening how 529 plans can be accessed. We believe the latest perk created by the SECURE Act 2.0 further incentivizes saving for education, especially during a period where student loan forgiveness is openly debated. If you believe this option may benefit you or your family, please get in touch with your Greenleaf Trust team. Your future lifeguard will thank you!

Stock Market Pulse

Index	5/31/2023	Total Return Since 12/31/2022
S&P 1500	949.00	8.76%
Dow Jones Industrials	32,908.27	0.25%
NASDAQ	12,935.29	24.07%
S&P 500	4,179.83	9.64%
S&P 400	2,406.67	-0.32%
S&P 600	1,125.94	-2.07%
NYSE Composite	14,887.14	-0.87%
Dow Jones Utilities	900.37	-5.49%
Barclays Aggregate Bond	2,099.09	2.46%

P/E Multiples	5/31/2023
S&P 1500	19.4x
Dow Jones Industrials	19.0x
NASDAQ	36.7x
S&P 500	20.0x
S&P 400	14.1x
S&P 600	14.9x

Key Rates

Fed Funds Rate	5.00% to 5.25%
T Bill 90 Days	5.15%
T Bond 30 Yr	3.86%
Prime Rate	8.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	949.00	19.4x	1.68%
S&P 500	4,179.83	20.0x	1.66%
Dow Jones Industrials	32,908.27	19.0x	2.15%
Dow Jones Utilities	900.37	18.8x	3.75%

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.18%

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