GREENLEAF® TRUST

Perspectives

A Greenleaf Trust Newsletter

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A Brief History of the Last 25 Years

Do you remember 1998? *Saving Private Ryan* premiered, but *Titanic* dominated the Oscars, Google was founded, the first Apple iMac came out, the Euro became the common currency of Europe, the last episode of *Seinfeld* aired, Frank Sinatra passed away, and the average cost of a gallon of gas was $1.06.

Oh, and Greenleaf Trust received its charter from the State of Michigan in May and opened its doors on July 6 of that year with five teammates.

At its core our business is and should be relationship focused. As national banks acquired regional banks and regional banks acquired community banks in the mid 90s, Bill Johnston saw the need for a holistic wealth management firm with fiduciary expertise to serve from generation to generation. It needed to be structured to remain independent in perpetuity and do so without any conflicts of interest like proprietary products. We would hire really talented people and create a team-based culture that would engage and inspire them and where they could be themselves. If successful, our clients would benefit.

"What we wanted to do was create an institution that was going to be locally owned and last for generations where grantors of trusts and beneficiaries of those trusts wouldn't have to worry about who was going to be the next owner of the bank that was providing trust services for them." That quote from Bill Johnston, our founder, was included in an article published in the Kalamazoo Gazette on August 16, 1998.

Our first office was on the northeast corner of Westnedge and South streets in Kalamazoo, Michigan. It used to be an old dress shop. Our founding teammate alongside Bill was Ron Kilgore who served as our Chief Executive Officer for 24 years before honoring me with the role in early 2022.

Originally, we had a sibling company, Greenleaf Asset Management, which was a wealth management firm started by our founder in 1991, and where I started in 1999 as a Junior Research Analyst. In 2002 with a

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A Brief History of the Last 25 Years, continued

"Our growth over the last 25 years has always been purposeful and… our clients are benefitting."

combined total of 22 teammates, we merged Greenleaf Asset Management and Greenleaf Trust. When we moved into our Kalamazoo corporate headquarters at 211 South Rose Street in January 2008 we had grown to 57 teammates. Today, we have 185 teammates and more than a third of them are new since the beginning of 2020.

Our growth over the last 25 years has always been purposeful and will continue to be moving forward. We started with a handful of clients and less than $100 million in assets under advisement. We now serve almost 1,300 clients and have assets under advisement nearing $18 billion. Our Michigan offices outside Kalamazoo include Birmingham (June 2010), Traverse City (February 2014), Grand Rapids (October 2016), Petoskey/Bay Harbor (June 2018), and Midland (May 2022). We also opened Greenleaf Trust Delaware, a separate bank, in January 2018.

I am extremely proud at what we have built as a team over the years. I also believe we are successful from the sole perspective that our clients are benefitting. Happy 25th anniversary Greenleaf Trust! Cheers to many more.

2023 Mid-Year Update

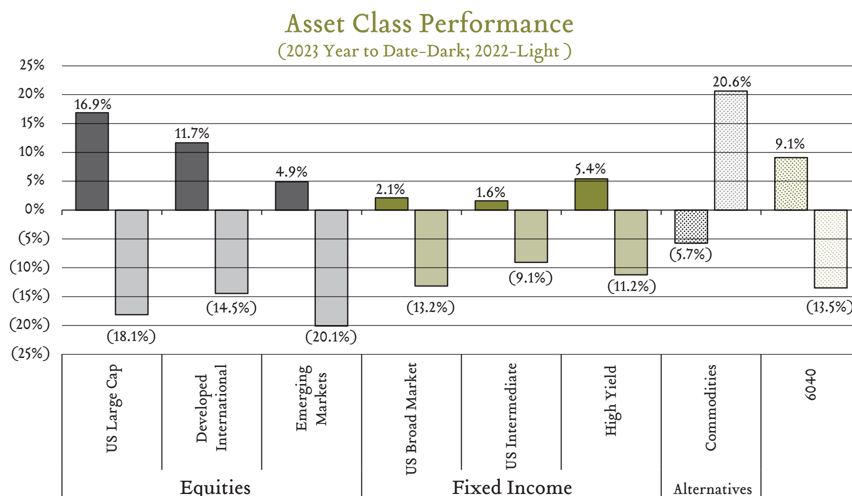
Nicholas A. Juhle, CFA®
Chief Investment Officer

After a challenging 2022, investors should be pleased with the market experience in the first half of 2023. In stark contrast to a period when both stocks and bonds moved lower together, financial markets have largely been in recovery mode over the last six months.

Several positive themes have bolstered markets including a strong labor market, resilient consumer, favorable corporate earnings, moderating inflation, and signs that the Federal Reserve is nearing the end of the fastest tightening cycle in the last 30 years. In addition, removal of two significant tail risks, namely the debt ceiling crisis and regional bank turmoil, has offered relief. Looking ahead to the second half of the year, monetary policy remains in focus, and investors continue to grapple with the prospect of a US recession.

A Healthy Start

Year-to-date, global equities are up more than 14%. Domestic large caps are up more than 16%, while developed international and emerging market stocks are up 12% and 5%, respectively. Fixed income categories are up 2% to 5% while the 10-year Treasury bond rate stands at 3.84% compared to 3.87% starting the year. Commodities, a bright spot in 2022, have fallen nearly 6% in 2023. Even a balanced portfolio composed of 60% stocks and 40% bonds is up more than 9% in the first six months of the year.



“Looking ahead to the second half of the year, monetary policy remains in focus and investors continue to grapple with the prospect of a US recession.”

Tail Risks Abate

It can be easy to forget the intensity of the debt ceiling crisis as well as the regional bank turmoil now that the former has been resolved and the latter appears more muted. We identified the possibility of a US default as a tail risk at our year-in-review seminar in January. The expected outcome was always that policymakers would come to an agreement and avoid the worst case scenario,

2023 Mid-Year Update, continued

however the brinksmanship extended longer than anyone would have hoped given the stakes. Ultimately, the debt ceiling resolution, which suspended the debt ceiling until January 2025 in exchange for modest limits on future federal spending, was a favorable outcome from the perspective of investors. In contrast, we did not foresee the risk of bank failures that arose in the first half of the year. Over two months, four regional banks failed. While others may still be at risk, concerns over contagion into the largest US banks have faded.

Refocusing on Fundamentals

With some of the more exogenous concerns removed from the spotlight, our gaze returns to evaluating the implications of monetary policy choices and fundamentals of the economy. After increasing interest rates at ten consecutive meetings, the FOMC took a pause in June to allow more time to assess incoming economic data. The policymaking environment remains challenging and officials are trying to strike a delicate balance stabilizing inflation without completely dislocating the labor market.

May inflation data showed overall annualized price increases slowing for an eleventh straight month to 4.0% - down from a June 2022 peak of 9.1% to the lowest level in more than two years. Meanwhile, the May jobs report was encouraging. US employers added 339K jobs in May after an upwardly revised +294K in April, while the unemployment rate jumped 0.3% to 3.7% and average hourly earnings growth decelerated to 0.3% month-over-month, from 0.5% in April.

> "Ultimately, the debt ceiling resolution... was a favorable outcome from the perspective of investors."

There is clear evidence that tighter policy is already affecting the most interest rate sensitive sectors of the economy like housing, but officials believe it will take time for the full impact to be felt through the broader economy and to bring inflation back to the committee's 2% target. With this in mind, Fed projections for the 2023 year-end rate now stand at 5.50%-5.75%, implying two more increases, with four 0.25% cuts expected in 2024.

Recession-Proof?

When it comes to predicting the next recession, the question is not "if," but "when" it will happen. Recessions are a very normal part of the economic cycle, typically occurring every 4-5 years on average. Economists currently predict a 65% likelihood that we will enter a recession in the next twelve months – one of the highest readings outside of an actual recession. Interestingly, the same economists were making the same prediction six months ago. So far so good.

In the coming quarters, economists are forecasting zero growth in Q3 and a 0.5% decline in Q4 (QoQ SAAR). Forecasts for growth in Q3 have been improving, while Q4 forecasts have been deteriorating. We joke around the office that the next recession is always six months away. Economists continue to expect declining growth, they just continue to expect it further out in the

future. The official definition of a recession is not consecutive quarters of negative GDP growth, but rather "a significant, widespread, and prolonged downturn in economic activity," so even if these forecasts materialize, the slowdown may not be considered an official recession unless it is accompanied by a deteriorating labor market and other widespread evidence of a downturn in the economy.

Looking Forward – Capital Market Assumptions

As for the market experience going forward, we share our updated capital market assumptions below. These forecasts represent 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.

Asset Class	10 Year Expected Return (June 2023)	10 Year Expected Risk (Standard Deviation)
US Large Cap	6.50%	16.00%
US Mid Cap	8.00%	18.00%
US Small Cap	8.75%	20.00%
Developed International Equities	7.75%	17.50%
Emerging Market Equities	8.75%	21.00%
Core Fixed Income	4.30%	5.00%
Non-Core Fixed Income	6.75%	11.00%
Diversified Alternatives	5.50%	8.00%
Cash	3.60%	0.50%
Benchmark 60/40	5.90%	11.00%
Inflation	2.25%	1.50%

Source: Greenleaf Trust, as of 6/30/2022

"Over the next decade, there will be years where returns exceed our expectations and years where returns trail our expectations."

We continue to recommend most of our clients hold a full weight to global equities in accordance with their individualized risk profile and we remain marginally more constructive on international equities. Concurrently, in this relatively uncertain environment, we are utilizing diversifying strategies (alternative assets) that can access return drivers uncorrelated with traditional stock and bond markets.

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. On behalf of the entire team, thank you for allowing us to serve on your behalf and good luck in the second half of the year.

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

Selecting the Wrong Trustee

"If you think its expensive to hire an expert to do the job, wait until you hire an amateur." Red Adair, famous oilwell fireman

Let's face it, the selection of a trustee is pretty much the choice between either a professional or an amateur. Frequently an inappropriate individual is named as the trustee of a trust. This is because the trust's creator resorts to the use of irrelevant selection criteria. Often selected is the oldest child, or the "smartest" child, or "my Uncle Ned, who is a retired accountant." While a professional trustee could be named to that role, the trust's creator usually believes that a professional trustee will charge a large fee, and by appointing a family member as trustee, the costs to administer the trust will be minimized. That may not be the case if the amateur trustee must hire professional help along the way.

The selection of the trustee is among the most important decisions in the estate planning process. As such, that decision should not be made in haste. Nor should the decision be based on irrelevant or emotional criteria. The choice of the most appropriate trustee can lead to an effective trust administration that results in the efficient distribution of the trust's assets consistent with the trust creator's wishes. The wrong choice of trustee can result in a mess, unnecessary fees and expenses, and multiple trips to the probate court to seek judicial direction, that ultimately erodes the wealth that the trust creator expected to be distributed to his or her family members.

"The selection of the trustee is among the most important decisions in the estate planning process. As such, that decision should not be made in haste. Nor should the decision be based on irrelevant or emotional criteria."

CRITERIA: Selection criteria like the oldest child or the smartest child are totally unrelated to the duties and functions of a trustee. To rely on that kind of criteria is likely to result in selecting an inappropriate trustee. The trust creator seldom uses their child to handle their investments, or work as a mechanic on their auto, or provide routine dental work. Instead, he or she hires an expert for that specific task or purpose with their expertise directly related to the task at hand. When an individual is asked to select a trustee for their trust, they need to apply relevant criteria, such as an individual's attitudes, skills, availability, and competencies when that selection is made.

ATTITUDE: When attitude is considered by the trust's creator, that means an attitude towards rules, obligations, and responsibilities, the most important of which is that a trust instrument is essentially a set of rules that the trustee must follow. Michigan's law is abundantly clear that the trustee must administer the trust in accordance with its terms and purpose, and for the sole benefit of all beneficiaries. So too, the trustee must have an attitude that reflects thoughtful and deliberate decision-making, and not dismissive

or impulsive reactions. Finally, there must be an attitude towards others, since a trustee must always act in the best interests of the trust's beneficiaries and solely for their benefit, which requires that the trustee be sensitive to all beneficiaries' needs (current and remainder beneficiaries).

SKILLS: A trustee's ability to handle trust assets depends upon their life experience, awareness of risk, knowledge about assets and trust principles, duty of impartiality, duty of loyalty, principal and income allocation rules, and investment diversification. In addition, a trustee must regularly communicate with the trust beneficiaries, voluntarily provide them with information about the trust and its assets, and keep accurate and complete books and records.

AVAILABILITY: A trustee must have the time and attention to devote to the trust's assets and beneficiaries. The trustee cannot reasonably administer the trust on Saturday nights when time finally becomes available in his or her busy week.

> "A trustee must have the time and attention to devote to the trust's assets and beneficiaries. The trustee cannot reasonably administer the trust on Saturday nights..."

COMPETENCIES: Some factors to consider when naming an individual to act as the trustee of include the following:

- Can the individual responsibly handle money, investments, and finances, consistent with the prudent investor standard imposed by Michigan trust law?
- Is the individual careful with his/her own money?
- Is the individual cautious with his/her own credit?
- Does the individual manage his/her own savings, investment, and retirement accounts?
- Does the individual prepare his/her own tax return?
- Does the individual carefully maintain and insure his/her own auto, home, collectibles and other personal property?
- Does the individual have an orderly desk where everything is in its proper place and easily accessible when questions arise?
- Does the individual produce neat, written work?
- Does the individual use spreadsheets to record and track his/her own important financial information?
- Does the individual proofread before hitting 'send' in emails?
- Does the individual keep his/her own important information and papers in organized files?
- Does the individual only answer questions when asked, but seldom volunteers to give information?

PRACTICAL CONSIDERATIONS: Other factors also come into play when deciding who to name as the trustee. In addition to requisite attitude, skills, availability and competencies, will the identified individual have sufficient time to devote to essentially take on the equivalent of a second job with the trustee's responsibility to administer the trust, e.g., competing business,

Selecting the Wrong Trustee, continued

family and social commitments? Is the individual likely to be around, available and in good health to take on the trustee's responsibilities when he/she is finally called upon to act?

TRUSTEE FEES: Realistically, an estate plan and a trust's administration as a part of that plan are always going to cost money, and those expenses are going to be incurred, no matter who is in charge of the trust. A professional trustee will certainly charge a fee for its services to administer the trust, just as will any lawyer, accountant or other financial advisor. The Michigan Trust Code authorizes all trustees to charge a reasonable fee, whether amateur or professional. While fees can vary from one professional trustee to another, the fees usually range between 1% and 2% of the value of the trust's assets.

> "A professional trustee will certainly charge a fee for its services... just as will any lawyer, accountant or other financial advisor."

IN-HOUSE OR A LA CARTE?: All trustees will have to maintain an investment account, open a checking account to pay bills, hire an accountant to prepare accountings and tax returns, hire appraisers to value assets for tax reporting or implement "equal share" distribution directives, create periodic reports for the trust beneficiaries, file tax elections, and probably hire an attorney to provide guidance on topics like creditor claims filed against the trust, entitlement to family allowances, and state-specific homestead and spousal elective rights rules, just to name a few. A professional trustee will normally have in-house expertise to handle all of these tasks that an individual trustee will have to pay outside advisors for, a la carte. Practically speaking, naming "Uncle Ned" to act as trustee will often end up causing the trust to pay more than if the trust creator had just named the professional trustee to begin with.

CONCLUSION: While an individual trustee can at times be an appropriate choice, other times a professional trustee may be the best choice by far. Much is at stake if an amateur trustee is selected to administer a trust that may be expected to continue for several years. This important decision is more than just the attorney asking who the trust creator's oldest child or smartest child is, or deciding a professional trustee is "not in the cards" by merely glancing at a professional trustee's published fee schedule.

Hopefully, the estate planning attorney will help the trust's creator to identify and focus on the relevant selection criteria when selecting a trustee. Naming a family member as the trustee usually means that an amateur will control and dispose of the trust creator's hard-earned wealth, not a professional. That's something to think about when a trustee is selected.

Health Savings Account: The Triple Crown Advantage

Corbin M. Donaldson, CFP®, CPWA®
Senior Wealth Management Advisor

The Kentucky Derby is an iconic event that kicks off the Triple Crown series between May and early June of each year. One of the most difficult and sought after accomplishments in horse racing, the grueling schedule requires thoroughbred three-year-old horses to compete in the Kentucky Derby in May, the Preakness two weeks later, followed by the Belmont Stakes in three weeks. While many have tried to accomplish this infamous task, only 13 horses over the course of time have achieved the Triple Crown.

I am not a horse trainer, nor a jockey, therefore, I do not pretend to understand how difficult it be to obtain this achievement. However, being of a financial planning mind and embracing strategies to help our clients grow and accumulate their wealth, the best comparison I can make to the Triple Crown is the triple tax benefit of a health savings account (HSA). While this may not be the Secretariat of the 1970s that smashed racing records, it does carry the reputation of being one of the greatest wealth building vehicles permitted within today's tax code.

Triple Tax Advantage

The health savings account was first introduced in December 2003 as part of the Medicare Prescription Drug, Improvement and Modernization Act. Provisions of the act provided consumers of high deductible health insurance plans the ability to set aside pre-tax dollars with three primary advantages:

1) Tax Deductible: Health savings account contributions are tax deductible, regardless of the individual's income level or whether (or not) the individual takes the standard deduction or itemizes his/her income tax deductions. Additionally, when contributing to a health savings account, funding the account should be completed through payroll deduction whenever possible. The contributions are counted as pre-tax amounts that not only are excluded from taxable income but will potentially avoid payroll taxes as well.
2) Tax Deferred: Contributions in the health savings account grow income tax deferred.
3) Tax-free withdrawals, when used for Qualified Medical Expenses: Health savings account distributions are not subject to income tax when used for qualified medical expenses. The definition of qualified medical expense is relatively broad, and the list of opportunities vary from some insurance premiums to long-term care outlays, with no shortage of potential qualified medical expenses. If the health savings account owner is over the age of 65, withdrawals for non-medical reasons are permitted on a penalty-free basis, but the withdrawals are subject to income tax.

"...the best comparison I can make to the Triple Crown is the triple tax benefit of a health savings account (HSA)."

Health Savings Account: The Triple Crown Advantage, continued

2023 Health Savings Account Contribution Limits

For an individual who is under the age of 55 years, the maximum contribution is $3,850, and if over that age, the maximum contribution to a health savings account is $4,850. Contributions to a health savings account for a family are $7,750, and if over age 55, the contribution limit increases to $9,750. A family covered by a "family" high deductible health plan, which covers both spouses, is still limited to a maximum aggregate amount of $7,750, i.e., the spouses cannot 'double' the contribution(s) to $15,500 for both. The spouses can, however, allocate a catch-up contribution to each of their respective health savings accounts, if over age 55, if the aggregate amount does not exceed the annual contribution limit of $9,750 ($7,750 contribution + $1,000 catch-up Spouse A health savings account + $1,000 catch-up Spouse B health savings account).

Long-Term Compounding Impact

Year	S&P 500 Index: Total Return	Individual	Family	Interest Rate: Bank Deposit Account	Individual	Family
2004	10.88%	$2,882.88	$5,710.32	2.50%	$2,665.00	$5,278.75
2005	4.91%	$5,674.43	$11,240.70	2.50%	$5,381.63	$10,660.72
2006	15.79%	$9,270.42	$18,465.60	2.50%	$8,216.17	$16,377.24
2007	5.49%	$12,629.37	$25,129.36	2.50%	$11,271.57	$22,436.67
2008	-37.00%	$10,856.50	$21,631.50	2.50%	$14,453.36	$28,797.58
2009	26.46%	$16,729.13	$33,305.19	2.50%	$17,814.69	$35,467.52
2010	15.06%	$22,298.54	$44,470.96	2.50%	$21,310.06	$42,504.21
2011	2.11%	$25,819.04	$51,559.29	2.50%	$24,892.81	$49,716.82
2012	16.00%	$33,050.08	$66,058.78	2.50%	$28,615.13	$57,209.74
2013	32.39%	$47,005.01	$93,905.22	2.50%	$32,580.51	$65,089.98
2014	13.69%	$56,739.99	$113,310.84	2.50%	$36,695.02	$73,267.23
2015	1.38%	$60,873.00	$121,524.53	2.50%	$40,962.40	$81,748.91
2016	11.96%	$71,503.42	$142,808.87	2.50%	$45,336.46	$90,542.63
2017	21.83%	$90,512.61	$180,734.04	2.50%	$49,869.87	$99,556.20
2018	-4.38%	$89,998.16	$179,717.89	2.50%	$54,566.62	$108,945.11
2019	31.49%	$121,838.58	$243,311.06	2.50%	$59,430.78	$118,668.73
2020	18.40%	$147,806.88	$295,180.29	2.50%	$64,466.55	$128,735.45
2021	28.71%	$193,842.23	$387,126.55	2.50%	$69,678.22	$139,153.84
2022	-18.11%	$162,387.41	$324,317.94	2.50%	$75,070.17	$149,932.68
Total Contributions		*$60,300.00*	*$120,450.00*		*$60,300.00*	*$120,450.00*
Compounding Growth		$102,087.41	$203,867.94		$14,770.17	$29,482.68

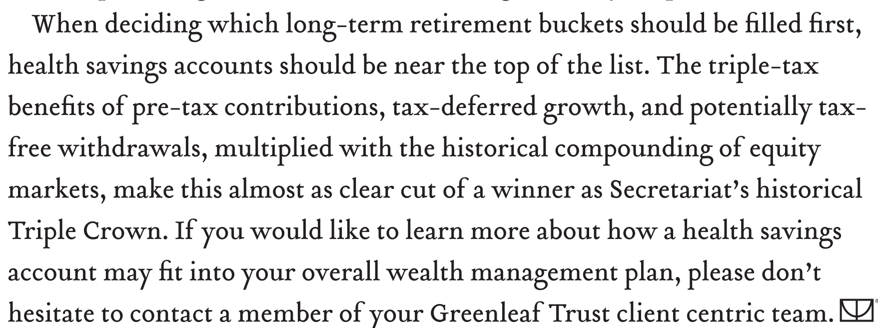
"When deciding which long-term retirement buckets should be filled first, health savings accounts should be near the top of the list."

A majority of health savings account owners use their account to pay for medical expenses at the point of service, and therefore, match their investment strategy to utilize highly liquid, savings account type of investment for their contributions. This strategy makes sense if there are no other means of providing payment for qualified medical expenses, but if there are, the account owner is missing out on long-term, tax-deferred growth. For example, instead of investing in a typical bank savings account or money market fund limiting the potential return, let's say the account owner invested in an S&P 500 index fund. The table above shows the impact of compounding investing power, demonstrating the opportunity set presented through investing in the market

compared to that of a bank savings account.

The data indicates that a single person who saved the maximum amount annually and invested their health savings account dollars into the S&P 500 index fund (start of year), would have amassed a balance of $162,387 by year-end 2022, with over $100,000~ attributed to compounding growth. Similarly, a family contributor who saved the maximum amount annually, invested in the S&P 500 index fund, would have achieved a balance of more than $320,000 of which ~$200,000 is directly from compounding growth. It's important to note that all growth, dividends and interest were sheltered from taxation over the course of 18-plus years. All clients' financial situations are not the same, nor are the cash flow sources to support qualified medical expenses. But if the opportunity is available to invest health savings account contributions into the market versus a bank deposit account, knowing we invest for the long-term, the compounding over the course of time significantly outperforms.

> "…if the opportunity is available… invest health savings account contributions into the market…"



When deciding which long-term retirement buckets should be filled first, health savings accounts should be near the top of the list. The triple-tax benefits of pre-tax contributions, tax-deferred growth, and potentially tax-free withdrawals, multiplied with the historical compounding of equity markets, make this almost as clear cut of a winner as Secretariat's historical Triple Crown. If you would like to learn more about how a health savings account may fit into your overall wealth management plan, please don't hesitate to contact a member of your Greenleaf Trust client centric team.

Hardship Withdrawals Are on the Rise

How to Help Participants Balance Current Needs vs Future Security

Robenson Jean-Baptiste
Participant Services Coordinator

In my role I have access to unique perspectives. By that I mean the interactions with employees of different companies, sectors and backgrounds give me a sense of what is on the average Joe or Jane's mind. In conversations with those employees one thing has been very apparent: a sharp uptick in active employees wanting to withdraw from their retirement accounts. The reasons for these withdrawals are widespread, ranging from falling behind on bills to catching up on credit card debt or seeking help with car repairs. It's clear that high inflation and a general unease about the economy are weighing heavily on all retirement plan participants. While the IRS does allow for withdrawals to satisfy "an immediate and heavy financial need," it's important to consider the future costs of such actions as you mortgage your future to fund current expenses. Employers and plan administrators can play a huge role in stemming

Hardship Withdrawals are on the Rise, continued

these trends by offering resources and making plan design changes.

The evidence supporting this trend isn't just anecdotal. "Vanguard, Fidelity, and Bank of America have all recently reported a rise in hardship withdrawals. Fidelity found that 2.4 percent of 22 million people with retirement accounts in its system took hardship withdrawals in the final quarter of 2022, up half a percentage point from a year earlier. Similarly, Vanguard's analysis revealed that 2.8 percent of five million people with retirement accounts made a hardship withdrawal last year, up from 2.1 percent a year earlier. In the first three months of 2023 Bank of America found that the number of people taking hardship withdrawals jumped 33 percent from the same period a year earlier, with workers taking out an average of $5,100 each."[1] While recent economic conditions have increased the willingness of employees to turn to hardship withdrawals, economics aren't solely to blame. Key barriers were removed with legislation in 2019, making it generally easier to access retirement funds. The easing removed the requirement to exhaust loans before withdrawals, made earnings available to be included in withdrawal amounts, and eased hardship verification requirements.

"In the first three months of 2023 Bank of America found that the number of people taking hardship withdrawals jumped 33 percent from the same period a year earlier..."

This presents an opportunity as plan design can be used to help steer employees towards the goal of employer qualified plans, which is saving for retirement. It is important to note that although the IRS permits hardship withdrawals, it is by no means required to be part of a retirement plan. On one hand, adding this feature may attract employees to the plan as they would have access to these funds in emergencies. On the other hand, it can quickly become a personal savings account that the employee dips into routinely. Offering loans within the plan can help employees in the long run, as the funds must be paid back into the account rather than withdrawn. Starting in 2024, SECURE 2.0 will allow employers to add a plan feature that enables employees to put aside up to $2,500 in after-tax contributions in an emergency savings vehicle within their retirement plan. Details about how exactly this will be implemented are still being ironed out. Plan features can help guide employees to long-term success in funding retirement, but employers and plan administrators can reinforce these efforts with resources like financial wellness.

Most people think of financial wellness as a buzzphrase, but platforms/tools in this realm can adequately serve in place of a formal financial plan. Both plan administrators and employers are taking notice and partnering with vendors to make these services available. Highlights of these programs include financial literacy and education, access to financial calculators, webinars/podcasts, and more. At Greenleaf Trust, our retirement plan participants have access to the platform Savology, which helps employees create a financial plan and directs them toward actions

that can support long-term goals, such as creating an emergency savings fund, saving for their children's education, tools for estate planning, and retirement planning. Other resources, like Employee Assistance Programs (EAPs) offered in many HR benefits packages, provide access to tools such as financial and credit counseling and referrals to professionals with various areas of expertise. These programs usually offer a certain number of covered sessions or reduced-rate referrals. Lastly, retirement education is offered by most plan administrators, including Greenleaf Trust. This education can be tailored to speak about topics relevant to the employees, such as Social Security readiness or an introduction to Secure 2.0 features. Our team has helped educate employees on these topics. If more employees are exposed to these resources and clearly understand how these withdrawals ultimately affect them, it can push back against this rising trend.

Financial emergencies will always exist, and the hardship withdrawal option helps employees avoid falling into financial peril. It surely has offered a lifeline to many employees and will continue to do so in the future. However, it's crucial to recognize that these withdrawals should be used as a last resort. The damage that can be done to retirement savings by taking early withdrawals is very difficult to reverse, especially for those further along in their careers. As plan administrators, it's important for us to partner with employers, leveraging our resources and expertise in designing plans to achieve our goal of helping employees retire with dignity.

> "Plan features can help guide employees to long-term success in funding retirement, but employers and plan administrators can reinforce these efforts with resources like financial wellness."

[1] White, Martha C. "It's 'more Expensive to Live,' and Workers Are Tapping 401(k)s for Help." The New York Times, 27 May 2023, www.nytimes.com/2023/05/27/business/401k-hardship-withdrawals-retirement.html.

Estate Planning or Alphabet Soup?

Wendy Z. Cox, J.D., CTFA
Director of Personal Trust
Chief Fiduciary Officer

Everyone talks about needing an estate plan, but they vary greatly in complexity based on each client's circumstances. Trusts are a major part of most estate plans and attorneys and financial advisors love acronyms to describe the various types of trusts, but what do all these letters mean and what purposes do they serve? Consider the following trusts that are frequently mentioned in a comprehensive discussion about estate planning.

REVOCABLE TRUST: This is the basic trust prepared for most individuals and spouses. It is an alter ego of the individual, and while the individual is living uses the individual's social security number. It is used to avoid probate, and the expense, delays and publicity associated with probate. Revocable trusts can also be used to avoid commingling separate property assets with marital property assets in the event of a future divorce.

Estate Planning or Alphabet Soup?, continued

"Trusts are a major part of most estate plans and attorneys and financial advisors love acronyms to describe the various types of trusts, but what do all these letters mean…?"

IRREVOCABLE LIFE INSURANCE TRUST (ILIT): An ILIT is an irrevocable trust which holds life insurance as its principal asset. It is used to create liquidity, without any additional estate tax exposure, on the settlor-insured's death. The insurance policy's death benefit can either be loaned to the settlor's estate, or used to purchase assets from the decedent's estate, to pay estate debts, expenses, and taxes. While estate taxes have not been much of a concern since the 2017 Tax Act increased the applicable exemption amount and the advent of portability between spouses, federal estate taxes may become far more important in estate planning with the scheduled sunset of the large applicable exemption amount starting in 2026 which will be somewhere between $6.5-$7 million.

CRUMMEY TRUST: This trust is used to receive federal gift tax annual exclusion gifts ($17,000 per donee in 2023) without giving them directly to the beneficiary. The trustee sends the beneficiary a notice advising them of their "Crummey" withdrawal rights to the value of the gift. This process is often used to transfer funds into an ILIT to pay the life insurance premium obligation of the ILIT.

QUALIFIED TERMINAL INTEREST TRUST (QTIP): This is typically a type of marital trust for the benefit of the spouse which may be created after the death of a settlor of the revocable trust. It is used to financially provide for a spouse and requires that all trust net income be paid to the spouse-beneficiary. Assets in the QTIP trust are sheltered from the beneficiary-spouse's creditors. The QTIP trust can also be set-up during the settlor's lifetime to provide an income interest in the QTIP trust to the settlor after the beneficiary-spouse's death. This variation also protects trust assets from the settlor's creditors and allows the income tax basis in the trust assets to be 'stepped-up' to the value of the assets on the beneficiary-spouse's death, thus avoiding capital gains tax.

SPOUSAL LIFETIME ACCESS TRUST (SLAT) OR SPOUSAL LIFETIME ACCESS NON-GRANTOR TRUST (SLANT): This irrevocable trust is used to protect the settlor-spouse's large applicable exemption amount 'now' before it is reduced in 2026. The settlor-spouse continues to have indirect access to the SLAT's income and assets so long as their spouse remains the beneficiary of the SLAT. The assets in the SLAT avoid estate taxation on the beneficiary-spouse's death and are protected from creditor claims.

INTENTIONALLY DEFECTIVE GRANTOR TRUST (IDGT): An intentionally defective grantor trust is one which is irrevocable and outside the settlor's estate, but where the settlor continues to pay the income tax on the trust's income. The trust usually permits the settlor to exchange assets in the trust. A common use of this trust is to move an appreciating asset (e.g. a business) out of the owner's taxable estate without incurring a gift tax. The grantor sells the asset to the trust for a promissory note. The "sale" is not a gift, but because the sale is to a grantor trust, no capital gains are recognized by the settlor. The settlor's payment of the trust's income tax is not treated as a taxable gift by the settlor to the IDGT's beneficiaries. The Department of Treasury recently issued a ruling that the assets in this type

of trust will not receive stepped basis at the settlor's death. The Department of Revenue does not like these structures and has proposed that the settlor's payment of the income tax be deemed a gift and that the sale of the asset to the trust would be subject to capital gains.

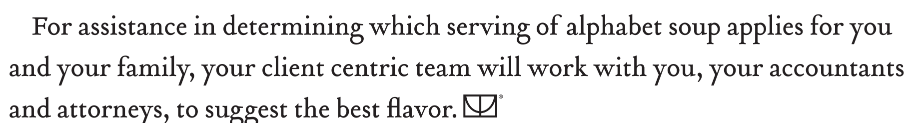
GRANTOR RETAINED ANNUITY TRUST (GRAT): This trust is a type of intentionally defective trust used to potentially shift appreciation in the trust's assets to the trust's remainder beneficiaries with little or no gift tax consequences to the settlor. The GRAT's goal is to remove the appreciation from the settlor's taxable estate. An appreciating asset is transferred to the GRAT and the settlor receives an annuity payment. At the end of the term, the assets transfer to the remainder beneficiaries. The GRAT works best if the assets in the trust grow faster than the deemed interest rate that is used to calculate the annuity that the GRAT pays to its settlor. The Department of Revenue has also proposed changes that would severely hamper the GRAT's effectiveness.

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT): A QPRT is used to shift future appreciation in a principal residence out of the settlor's taxable estate to the remainder beneficiaries with little gift tax consequences to the settlor, while still enabling the settlor to continue to use and enjoy the residence for a defined fixed period of time. During the QPRT term, the settlor pays all property taxes, insurance, and general maintenance expenses. An important note, if the settlor survives the QPRT period, the settlor will need to pay rent to the beneficiaries, typically the settlor's children.

CHARITABLE REMAINDER ANNUITY TRUST (CRAT) OR CHARITABLE REMAINDER UNITRUST (CRUT): These trusts are used to create an immediate income tax charitable deduction for the settlor while deferring capital gains on the trust's sale of the appreciated contributed asset. The trust is tax exempt, so it does not pay a capital gain tax on its sale of its appreciated asset. The result is more assets remain inside the trust to be invested for the settlor's benefit. In a CRAT, the settlor receives a specified amount. In a CRUT, the settlor receives a specified percentage. The remainder beneficiary of the trust is a charity, which can be selected by the settlor-trustee-life beneficiary. A Charitable Trust is normally used only if philanthropy is important to the settlor.

CHARITABLE LEAD ANNUITY TRUST (CLAT): This charitable trust is used to shift taxable income away from the settlor to charities which are beneficiaries for a period of time (e.g. 20 years). At the end of the charitable annuity payment period, the trust assets are then either distributed to the settlor's descendants, or they continue to be held in trust for the benefit of the settlor's descendants. Like the CRAT and CRUT, only those settlors who are philanthropically inclined are good candidates for a CLAT.

For assistance in determining which serving of alphabet soup applies for you and your family, your client centric team will work with you, your accountants and attorneys, to suggest the best flavor.



> "For assistance in determining which serving of alphabet soup applies for you and your family, your client centric team will work with you…"

Footnote: The terms grantor and settlor are interchangeable.

Stock Market Pulse

Index	6/30/2023	Total Return Since 12/31/2022
S&P 1500	1,012.05	16.13%
Dow Jones Industrials	34,407.60	4.94%
NASDAQ	13,787.92	32.32%
S&P 500	4,450.38	16.88%
S&P 400	2,622.34	8.81%
S&P 600	1,216.35	5.99%
NYSE Composite	15,875.91	5.98%
Dow Jones Utilities	906.66	-4.69%
Barclays Aggregate Bond	2,091.60	2.09%

P/E Multiples	6/30/2023
S&P 1500	20.7x
Dow Jones Industrials	19.9x
NASDAQ	39.1x
S&P 500	21.3x
S&P 400	15.4x
S&P 600	16.1x

Key Rates

Fed Funds Rate	5.00% to 5.25%
T Bill 90 Days	5.22%
T Bond 30 Yr	3.86%
Prime Rate	8.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,012.05	20.7x	1.58%
S&P 500	4,450.38	21.3x	1.55%
Dow Jones Industrials	34,407.60	19.9x	2.07%
Dow Jones Utilities	906.66	19.0x	3.73%

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.28%

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