GREENLEAF TRUST

Perspectives

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Strategic Planning Season

It's an exciting time of year for us. Yes, we are all excited about college football, kids returning to school, and pumpkin spice everything. We are really excited though because it is our strategic planning season.

I want to be clear that we view strategic planning as a long-term endeavor. Our current plan to be Top of Mind in the State of Michigan was created and implemented in 2015. That said, each year we want to make sure we take one step forward towards achievement of our longer-term Top of Mind strategic plan. In order to do that we annually engage in a disciplined top-down and bottom-up planning process. It's top-down because it involves the strategic thinking of our Executive Council and bottom-up because it also involves the thoughts from every teammate in our company.

Our season starts in early August when I and the rest of the Executive Council – Dan Rinzema, Chief Client Officer, Tom Drews, Chief Operating Officer, and Jim Gray, Chief Strategy Officer – go offsite for a few days to focus only on the strategic growth of Greenleaf Trust. All aspects of our company are reviewed and we return with our thoughts on continuous improvement and growth for the upcoming year.

We then send out our Strategic Planning Questionnaire to everyone in the company in late August. The goal of the questionnaire is to get every teammates' feedback and thoughts on how we can improve our service to clients, improve their Greenleaf work experience, and ultimately take one more step forward to being top of mind. Participation in the survey is typically high because through their experiences in the process they know their input is heard and matters. They also know that candor is expected and safe because I am the only one to read their responses. Themes develop from their responses. I then take these themes and merge them with the Executive Council's thoughts to create strategic initiatives for the upcoming year.

Then in early September, I share the strategic initiatives with the Executive Leadership Team that consists of all division leaders for them to develop their divisional plans with their teams. Plans are focused on the strategic initiatives and provide another opportunity for teammates to express their thoughts and contribute.

We then get together at our Advance (It's called an Advance and not a Retreat

Strategic Planning Season, continued

because we are moving forward not backwards). Our Advance is an annual three-day meeting in October involving our entire Executive Leadership Team. Candor is again essential. The purpose of the Advance is to share and discuss divisional strategic plans for the upcoming year. Divisional plans are scrutinized and challenged by each leader's peers in an effort to create a cohesive organizational plan. Once an organizational plan is constructed, we build our budget around it and share it with the entire company in early November. The plan is documented for everyone and reviewed for progress throughout the year at our Up Periscope meetings.

Our planning process is purposeful and works for us. We can trace almost every tangible improvement made at Greenleaf Trust over the years to this process. As we are in the midst of this planning season, we can't help but look forward to next season which will start in January as we begin construction of our next long-term strategic plan.

Economic Commentary

Nicholas A. Juhle, CFA®
Chief Investment Officer

It was bound to happen sooner or later. After five straight months of gains, and a year-to-date return of more than 20% through July, the S&P 500 retreated 1.6% in August. Arguably, investors' optimism may have exceeded reasonable levels after key risks that presented earlier in the year including the debt ceiling and the regional banking crisis broke favorably. With moderating inflation and a resilient labor market, the elusive "soft landing" scenario seemed possible. While stocks and bonds both moved lower in August, the outlook for the economy has continued to improve. This has implications for the future of monetary policy, which will likely play a key role for investors in the balance of the year.

When I said investors may have gotten too optimistic, it's not just a feeling I have. There are several indexes that track investor sentiment which, oddly enough, tend to be contra-indicators for market performance. In 2022, surveys of investor sentiment reached extreme levels of bearishness, meaning most investors expected stocks to fall further in 2023. Obviously, that hasn't happened – the S&P 500 has returned 18.7% this year even including the August doldrums. Sentiment improved throughout 2023 into relatively optimistic, though not extremely optimistic, territory in July before settling back into a more balanced posture in August.

> "While stocks and bonds both moved lower in August, the outlook for the economy has continued to improve."

Meanwhile, the outlook for US real GDP growth has continued to improve. Economists' forecasts for GDP growth steadily rose throughout the quarter.

- At the start of Q3, the median economist forecasted 0% growth for Q3 and a 0.5% decline for Q4.
- By the end of July, those figures increased to 0.5% growth in Q3 and a 0.3%

decline in Q4 before returning to growth in 2024.

- Today, expectations call for 2.0% growth in Q3 and 0.4% growth in Q4 (all figures are presented as quarter-over-quarter Seasonally Adjusted Annualized Growth Rates).

The "valley" keeps getting shallower and pushed further into the future.

As it stands, economists assign a 60% probability that the US will enter a recession at some point in the next twelve months, down from a recent high of 65%. These recession forecasts now stand in contrast with improving growth forecasts. For economists who provide a binary 'yes' or 'no' answer to the question of recession, several have changed their opinions this quarter. Remember, the official definition of a recession requires "a significant, widespread, and prolonged downturn in economic activity," which would be hard to achieve given the current resiliency of the labor market.

The most recent jobs report showcased accelerating job gains and moderating wage growth. The U.S. labor market added 187K jobs in August, up from +157K (revised down from 187K originally reported) in July and +105K (revised down from +209K originally reported) in June. U.S. employment has grown by an average of 235K per month in 2023, moderating from an average of 400K per month in 2022. In essence, we have transitioned from an extremely outsized level of monthly job gains to a more normal and hopefully sustainable level. Wage growth decelerated with average hourly earnings up 4.3% over the last year (down from 4.4% in July) and 0.2% month-over-month (down from +0.4% in July). The unemployment rate rose 0.3% to 3.8%, which remains near a fifty year low, largely owing to an increase in the labor force participation rate. Our analysis suggests it would take a sustained period of monthly job gains below 100K for the unemployment rate to rise meaningfully.

"The most recent retail sales report suggests that American consumers… continue to sustain a growing economy despite inflationary pressures and higher interest rates."

The most recent retail sales report suggests that American consumers, supported by a strong labor market and rising wages, continue to sustain a growing economy despite inflationary pressures and higher interest rates. US retail sales came in better than expected on a month-over-month basis, and posted the strongest year-over-year growth since February. Adjusted for inflation, retail spending in July increased 0.5% compared to June and was unchanged year-over-year.

Turning to inflation, July inflation data, reported in August, showed overall annualized price increases accelerated slightly to 3.2% (from 3.0% in June). The increase was largely due to base effects of a tougher (lower) prior year comparison as the yearly calculation dropped the month of June 2022, when inflation registered 1.3% in a single month as well as peak yearly inflation levels of 9.1%. More reasonable current inflation levels are being driven by declining energy prices, which were down 12.5% compared to July 2022. Meanwhile shelter costs (housing) were up 7.7% from a year earlier. Shelter inflation is driven by housing prices with a lag. Recently, home prices have stalled or even

Economic Commentary, continued

declined, but the CPI calculation is incorporating the period of sharply rising home prices from 2022. Over time, the current period of stable prices will work its way into the shelter component of the consumer price index (CPI), which should help to reduce inflation moving forward.

We're not out of the woods yet (I'm not sure if we ever truly are) and the monetary policy making environment remains challenging. On the one hand, inflation has come down significantly, but remains far from the Fed's 2% target. On the other hand, the job market remains firm which means wage inflation has yet to subside. Given the circumstances, officials are grappling with the risks and tradeoffs of further monetary tightening. Inflation remains a primary focus, which could portend more rate hikes, but pushing interest rates too high could drive the economy into a recession. After pausing in June, the Fed moved to raise interest rates by another quarter point to a range of 5.25%-5.50% in July. While the median FOMC projection is for 5.50%-5.75% by year-end, market participants place 50/50 odds on one additional increase in 2023 with rate cuts priced in for early 2024.

"... we continue to monitor the health of the banking sector as higher interest rates are creating a challenging operating environment for banks..."

Other risks remain of course. After a spike in activity earlier this year following an about face on COVID-19 lockdowns, the world's second largest economy (China) is experiencing a slowdown due to a worsening property slump, weak consumer spending and rising unemployment among younger populations. Here at home, student loan payments are set to resume beginning in October, potentially creating a headwind for consumer spending. In addition, we continue to monitor the health of the banking sector as higher interest rates are creating a challenging operating environment for banks and August saw a slew of credit rating downgrades and negative headlines.

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.

More Will Be ABLE

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

Like other states, Michigan provides the opportunity for disabled individuals to hold investments to help them cover costs that support their health, independence, and quality of life without affecting their federal Medicaid or Supplemental Security Income (SSI) support. ABLE is the acronym for *Achieving a Better Life Experience*. Michigan's version is called MiABLE. The funds held in an ABLE account are not used for means tested governmental programs like Medicaid and SSI. The recent SECURE Act 2.0 just made it a bit easier for a disabled individual to establish, or become the beneficiary of, an ABLE account.

The federal legislation for ABLE accounts was enacted in 2014. The MiABLE program was signed into law a year later. ABLE accounts are part of the more familiar federal statute that authorizes the contributions and tax-free earnings to pay for qualified higher education expenses. [IRC 529(e).] And like the 529 college education expense rules, if the funds held in an ABLE account are not used to pay for qualified disability expenses, the distributed amounts are taxable and subject to a 10% penalty.

ELIGIBILITY: To become eligible to own, or be the beneficiary of, an ABLE account requires that the individual: (i) be disabled or blind before attaining age 26; and (ii) is either currently entitled to Social Security Disability Insurance (SSD) or SSI, or who holds a certificate of disability issued by the Department of Treasury.

The SECURE Act 2.0 extends the eligibility rules to permit an individual to have an ABLE account if their disability or blindness originated prior to attaining the age 46. However, this expansion only starts in 2026. Extending the age of eligibility to have an ABLE account will help those individuals with mental illness, disabling diseases, and veterans who become disabled after age 26. Government estimates are that more than 6 million additional individuals will become eligible to open an ABLE account once 2026 arrives.

QUALIFIED DISABILITY EXPENSES: The ABLE statute provides a long list of *qualified disability expenses* that relate to an individual's disability. That list includes education, housing, transportation, employment training, assistive technology, personal services, health care, illness prevention, overall wellness, financial management, legal fees, oversight and monitoring, and funeral and burial expenses. An ABLE account could even be used to assist the disabled individual's purchase of a home.

CONTRIBUTIONS: There are some technical rules that apply to funding a MiABLE account. For starters, there is an annual limit on the total amount that can be contributed to the ABLE account, which cannot exceed the federal gift tax annual exclusion amount, or $17,000 in 2023. If the disabled ABLE account owner also has earned income, up to an additional $13,590 can be contributed to the account in 2023; this annual contribution amount is equal to the federal poverty level for a one-person household, or the account owner's wages, whatever amount is less.

MAXIMUM ACCOUNT BALANCE: However, since an ABLE account is a 529 account that is authorized by the Tax Code, the maximum account balance limit for all Michigan 529 plans is $500,000 (which also includes, by way of example, other prepaid tuition or college savings plans.) Only the first $100,000 that is held in a MiABLE account is not considered a 'resource' when SSI eligibility is determined. If the amount held in the ABLE account exceeds $100,000, the account beneficiary could lose his/her monthly SSI cash payment, but he/she would continue to receive their Medicaid benefit.

> "ABLE is the acronym for *Achieving a Better Life Experience*. Michigan's version is called MiABLE."

More Will Be ABLE, continued

"… the ABLE account functions somewhat like an informal special needs trust as a source of funds to assist in the payment of expenses without jeopardizing governmental benefits."

ADVANTAGES OF AN ABLE ACCOUNT: Some of the benefits of an ABLE account include:

- The account can provide a sense of independence to its owner or beneficiary, since the individual will have access to their own funds and the funds can be accessed at any time;
- The individual can accumulate and compound ABLE funds on a tax-free basis without any impact on their SSI and Medicaid eligibility;
- If the individual does not receive SSI and/or Medicaid, he/she can accumulate up to $500,000 in their MiABLE account; otherwise, the limit is $100,000 that can be held in the MiABLE account; and
- Contributors to a MiABLE account can deduct up to $5,000 on a single taxpayer return, and $10,000 on a joint income tax return, when they file their Michigan income tax return.

DISADVANTAGES OF AN ABLE ACCOUNT: Some of the drawbacks associated with an ABLE account include:

- The individual can have only one (1) ABLE account;
- The individual may fall prey to predators, since they have the flexibility to access their own ABLE account at any time without the need for a trustee's consent;
- The individual must have more than just a "disability;" the government must acknowledge that disability and the individual will need some certification in order to prove that "disability;"
- If the individual is eligible to receive Medicaid benefits, on their death there is a pay-back obligation to repay the government for the Medicaid benefits that the individual received while alive;
- If the individual has another 529 account, e.g., for qualified higher education expenses, all 529 accounts will be aggregated to determine the maximum amount that can be held in the ABLE account; and
- If expenditures from the ABLE account are not for qualified disability expenses, the distribution will be subject to ordinary income taxation and a 10% penalty;

CLOSING OBSERVATIONS: A MiABLE account can provide a secure source of funds for a disabled individual, which can supplement, but not supplant, reduce, eliminate, or impact benefits that are provided by private insurance, supplemental security income (SSI), Medicaid, or the beneficiary's employment. To that end, the ABLE account functions somewhat like an informal special needs trust as a source of funds to assist in the payment of expenses without jeopardizing governmental benefits.

The group of individuals who may become eligible to open an ABLE account is soon to grow. Perhaps a trustee should be authorized by a trust instrument to open and fund a MiABLE account on behalf of a trust beneficiary who later-in-life becomes blind or disabled if one of the trust's material purposes is to provide a nurturing level of independence to a trust beneficiary.

SECURE Act 2.0 – Mandatory and Optional Provisions

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

As we have mentioned in previous Perspectives articles, on December 29, 2022, President Biden signed into law the Consolidated Appropriations Act, 2023, which included a major package of retirement savings provisions known as SECURE Act 2.0. In the eight months since, we have been busy reviewing and unpacking both the mandatory and optional provisions of this legislation that affects qualified defined contribution retirement plans. This is a massive piece of legislation which includes over ninety provisions which, for the most part, are helpful to the cause of promoting retirement security. As a nation, we are growing increasingly serious about closing the coverage, participation, and savings gaps and the social equity disparities that exist with respect to those gaps. This legislation contains significant provisions for making the private, employer-based retirement system a success for more workers than ever before. That said, there is a lot in SECURE Act 2.0. Consideration of and compliance of provisions will require due diligence.

Before I proceed a little history and backdrop might be helpful. SECURE 1.0 was part of the Further Consolidated Appropriations Act, 2020, enacted in 2019 and included provisions aimed at expanding retirement plan access and making retirement savings easier for employers and employees. A few examples of these provisions included lifetime income disclosures, portability for in-plan annuities, elimination of stretch Individual Retirement Accounts (IRAs) and Required Minimum Distributions (RMDs) moved to age 72.

> "[SECURE Act 2.0] contains significant provisions for making the private, employer-based retirement system a success for more workers than ever before."

The Relationship Management team within the Retirement Plan Division have been meeting with our clients throughout this year to provide updates as mandatory provisions become effective and provide information and guidance on optional provisions. We are excited and energized for most of these new options and provisions and, while not all are appropriate for every retirement plan, many of them will help improve individuals' ability to save for retirement and ease plan administration for employers.

Amendments related to SECURE Act 2.0 are required by the end of the 2025 plan year (2027 for governmental and union plans) and plans must operate in accordance with the mandatory provisions of the new Act as of the applicable effective dates.

I would like to discuss a few of the more significant and impactful provisions for all plan sponsors of qualified retirement plans to be aware of and prepare for now and in the years to come.

Provisions Effective by January 1, 2023 (mandatory and optional)

- Increase in Age for Required Minimum Distributions (RMDs) and No RMDs on Roth Dollars (effective 2024) - Mandatory. The RMD age

SECURE Act 2.0 – Mandatory and Optional Provisions, continued

“SECURE Act 2.0 is not the end. There will be more retirement legislation in the coming years.”

will increase to age 73 from age 72 and will increase further over the next decade.

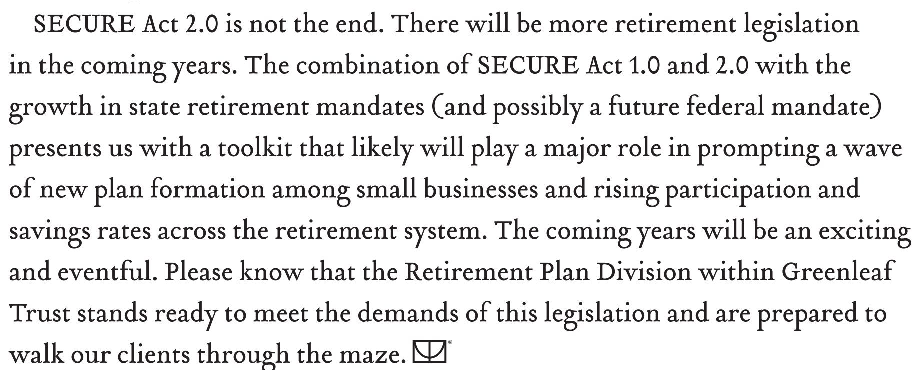
- Treatment of Vested Employer Contributions as Roth Contributions – Optional. Retirement plans may allow participants to elect some or all vested matching and/or non-elective employer contributions to be deposited to the participant’s designated Roth account within the qualified plan. If the participant makes this election, the contribution amount is includible in the employee’s income. While effective this year, we must wait for considerable guidance and clarification from the Internal Revenue Service (IRS) and Department of Labor (DOL) to proceed. Premature implementation will be difficult due to individual written election requests and programming of payroll and recordkeeping systems.
- Self-Certification of Hardship Distributions – Optional. Plan Sponsors can rely on an employee’s self-certification (unless they have knowledge to the contrary) of an immediate and heavy financial need, that is not in excess of the amount required to satisfy the need, that a distribution is being made on account of one of the seven safe harbor hardship reasons. Collecting source documents is not required.
- Withdrawals for Participants with Terminal Illness – Optional. There is an additional 10% tax on early distributions from qualified retirement plans subject to some exceptions.
- SECURE Act 2.0 adds an exception for distributions to a terminally ill participant with certification from a physician. It also allows for the distribution to be repaid within three years.

Provisions Effective by January 1, 2024 (mandatory and optional)

- “Rothification” of Catch-Up Contributions for Certain Higher Compensated Employees – Mandatory. If participants are taking advantage of catch-up contributions and their wages exceed $145,000 in the prior calendar year, such participants will be required to make catch-up contributions on a Roth (after-tax) basis.
- Student Loan Payments Count as Elective Deferrals Towards Employer Matching Contributions – Optional. Permits a plan sponsor to make employer matching contributions under a 401(k) Plan and 403(b) Plan with respect to “qualified student loan payments” if they meet the plan eligibility provisions.
- In-Plan Emergency Savings Accounts – Optional. Non-highly compensated employees may save up to $2,500 (indexed annually) in a retirement plan-linked savings account. Must be funded with Roth contributions and invested in a conservative investment. Withdrawals are penalty free and can be for any reason. Automatic enrollment option is available up to three percent.
- Penalty-Free Withdrawals for Victims of Domestic Abuse – Optional.

Allows retirement plans to permit participants that self-certify that they experienced domestic abuse to withdraw up to the lesser of $10,000 or 50% of the vested balance within one year of the incident without penalty.

- Provisions Effective by January 1, 2025 (mandatory)
- Long-Term, Part-Time (LTPT) Workers Rule is Reduced to Two Years – Mandatory. SECURE Act 2.0 reduced the LTPT rule to two years (from three years under SECURE 1.0). This rule states that employees working 500+ hours in two consecutive years must be eligible to defer into the plan. Employer contributions are not required nor does LTPT participation affect nondiscrimination testing.
- Plan Amendment Provisions – Mandatory. Plan amendments made pursuant to this Act must be made on or before the last day of the first plan year beginning on or after January 1, 2025 (2027 for governmental and union plans).



SECURE Act 2.0 is not the end. There will be more retirement legislation in the coming years. The combination of SECURE Act 1.0 and 2.0 with the growth in state retirement mandates (and possibly a future federal mandate) presents us with a toolkit that likely will play a major role in prompting a wave of new plan formation among small businesses and rising participation and savings rates across the retirement system. The coming years will be an exciting and eventful. Please know that the Retirement Plan Division within Greenleaf Trust stands ready to meet the demands of this legislation and are prepared to walk our clients through the maze.

"... the Retirement Plan Division within Greenleaf Trust stands ready to meet the demands of this legislation and are prepared to walk our clients through the maze."

Kathryn Gadbois Schafer, J.D., CTFA
Trust Relationship Officer

The Chosen One or The One Who is Chosen – Trustee Considerations

Prior to joining Greenleaf Trust, I practiced law as an estate planning attorney. During this time, I navigated difficult conversations with many individuals planning for what would happen upon their passing. This is a difficult topic for many people, but it is a topic I think about often (perhaps a hazard of the industry). My daughter, Emery, is 2½ years old, but my husband and I will do everything in our power to make sure she isn't left to deal with a headache when we pass away, which will hopefully be in a very long time. Some clients would come in ready to draft their estate plans but when you dug a bit deeper, they did not have particularly strong feelings about what would happen when they passed away, saying "I'll be gone anyway!" Others put a lot of thought into making sure every little detail had been considered, leaving nothing to chance – they, like me, wanted to make sure their spouse, children, and/or other beneficiaries would not have to worry about anything; their estate would be administered smoothly.

More often than not, when asked about family dynamics – specifically whether any potential issues may arise, so many of our clients easily said "no, there will be no problems amongst my family members." If only it were that easy! As with so many things in life, you never think it will happen to you, or your family, until it does…

Working as a trust relationship officer, I still have many of the same or similar conversations with clients. We work alongside our clients' attorneys to ensure their estate plan is tailored to achieve their goals. We discuss whether clients would be up for acting as their spouse's trustee when he or she passes away. This is a brutal (but necessary) situation to imagine yourself in – the loss of your spouse, who is very often your best friend, is devastating. It will be hard enough to navigate your way through your normal daily activities without the added new title of "trustee" and all of the fiduciary obligations, estate administration deadlines, and legal duties that come with it.

> "So, what if you find yourself in this position? …you've been named by your loved one to act as their trustee, but you've never acted as a trustee before."

The same is true when you lose a sibling, parent, grandparent, or other loved one. Many of us need the time and space to grieve this loss. But what if the individual you are grieving named you to serve as their trustee? As George Bearup mentioned in his "Selecting the Wrong Trustee" article (*Perspectives*, July 2023), very often the default trustee is the spouse; followed by a child; or other close friend, relative, or advisor; which is often not the best choice.

So, what if you find yourself in this position? You are the Chosen One… or the One Who's Been Chosen – you've been named by your loved one to act as

their trustee, but you've never acted as a trustee before. When do you have to start acting? What if you aren't ready to wrap your head around something new with so many legal and tax implications? Where would you even start?

Many would likely begin by contacting an estate planning attorney to help guide them through the process. You will also need to hire a CPA to assist with filing the final individual tax return as well as preparing the estate tax return. Acting as a trustee is not something to be taken lightly – trustees owe a fiduciary obligation to the trust itself and to all of the trust's beneficiaries, meaning the trustee must act in their best interest. Trustees owe a duty of loyalty, a duty of impartiality, and a duty to exercise reasonable care to the trust beneficiaries. These duties can come with hidden conflicts of interest which the Settlor (the person who created the trust) may not have considered when they named you to act, especially if you are also a trust beneficiary. If there are multiple generations of trust beneficiaries, the situation can become even stickier for the trustee-beneficiary. How will the distributions you make to one beneficiary (or yourself) affect the other beneficiaries? Trustees are obligated to take this into consideration. Will the other beneficiaries (often family members) judge the distributions you make even if they are allowed by the terms of the trust? Their judgment may not matter if the distribution has been appropriately considered and documented but it may be difficult to navigate on a personal level.

Plus, many individuals are not familiar with basic trust provisions. What if a beneficiary wants a distribution to purchase vacation property? Let's say the trust contains what is often referred to as "HEMS provisions" meaning the trustee may make discretionary distributions to the beneficiaries for their Health, Education, Maintenance, and Support. This is called an ascertainable standard which provides courts the authority to hold a trustee accountable for distributions which deviate from this standard. Make sense? Would a distribution to a beneficiary to purchase a vacation property be allowed under this provision? The answer may not be clear to someone who does not draft or administer trusts every day. What if you, as a trustee-beneficiary, need a distribution for something – are you comfortable making the distribution to yourself? Even if you are, have you sufficiently documented your reasoning for making the distribution in case it is questioned later?

What if the individual named to act as trustee didn't know better (because they aren't an attorney or trust officer) and they treated the trust as their own personal bank account? Some individuals think they are free to do whatever they want if they're named trustee, ignoring the terms of the trust itself, but this is not the case. Trustees must always follow the terms of the trust and can be held liable for breaching their fiduciary duties and not following the trust document.

For our clients who would like to make sure every "i" is dotted and "t" is

"What if the individual named to act as trustee didn't know better (because they aren't an attorney or trust officer) and they treated the trust as their own personal bank account? "

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The Chosen One or The One Who is Chosen – Trustee Considerations, continued

crossed when drafting their estate plans – let's make sure careful consideration has been given to naming a successor trustee. Should it be their grieving spouse, child, or their friend who agrees to act as trustee as a favor and may know a thing or two about trusts – as Emery likes to say, "maybe no."

Should adult children be named as the trustee? Here's the typical attorney answer for you: it depends. Do you have an even or odd number of children? What is their relationship like? Can one or more of them be easily influenced by the other(s)? If you name them, can each act on their own or will action require a majority? Are they all local/easy to reach? Do they have the capacity/ability to take on the role of trustee? Are they organized and good with money? Do they have knowledge of taxes and investments? Can they review, interpret, and understand the trust provisions? There's a lot to consider. Naming your children as a successor trustee may seem like the easy option but in many situations, it may not be.

"Corporate trustees are in the business of trust administration and can take the burden from your loved ones during an already difficult time."

Even if you are 100% convinced problems will not arise amongst your family, naming one of them to act as your trustee may be teeing up a perfect storm for problems to surface. Unfortunately, we see it time and time again. If one beneficiary thinks X should happen and another thinks it should be Y, things can change quickly.

What about naming an adult child to be the trustee of the child's own irrevocable trust created upon your passing? Well, what's the ultimate goal? Do you want to make sure the child only takes distributions for their health, education, maintenance, and support (or other specific situations)? Do you want to make sure the child's assets are protected from creditors or divorce? Then, no, the child should not be named as the sole trustee of the trust created for their benefit. Perhaps consider naming an independent or corporate trustee to serve with them or as the sole trustee. If distribution decisions are not solely up to the adult child, the assets held in trust can remain protected.

The actual administration of the trusts is just as important as the drafting. Even well-drafted trusts can encounter problems if a trustee does or does not do something. The good news is a lot of potential conflicts can be avoided by naming an experienced trustee. Corporate trustees are in the business of trust administration and can take the burden from your loved ones during an already difficult time. Naming a corporate trustee can make the odds of an inter-family conflict lower, and who wouldn't want to protect their family from more heartache? In the world of trust administration, does your spouse, child, and/or family friend want to be the chosen one? Again, maybe not.

Generative AI: Proceed with Caution

Oliver E. Krings, CISSP, ABCP
Chief Information Officer

Artificial Intelligence (AI) currently dominates the technology headlines, and rightfully so. The launch of ChatGPT by OpenAI in November 2022 has ushered in a revolutionary era of more natural and efficient human-technology interaction. While we've grown accustomed to issuing voice commands to platforms like Apple's Siri and Amazon's Alexa, ChatGPT introduces a conversational approach to information-seeking. As the chief information officer at Greenleaf Trust, my aim with this article is to help our clients better understand the mechanics and potential risks associated with this exciting new innovation.

Harnessing an expansive and diverse dataset primarily sourced from online text, ChatGPT continually refines its communicative prowess. It evolves by assimilating language, grammar, factual knowledge, logical reasoning, and even a semblance of emotional responses. ChatGPT's language models find extensive application in chatbots, virtual assistants, content creation, text completion, and beyond.

Although ChatGPT boasts impressive capabilities, it is not without limitations. Its generated responses may convincingly resemble accuracy but harbor factual inaccuracies or illogical content. Moreover, slight tweaks in input phrasing can trigger disparate responses due to its sensitivity.

One of ChatGPT's defining attributes lies in its adeptness at grasping context and generating contextually aligned text. It artfully follows cues, delivering comprehensive replies rooted in the input provided.

However, there are instances where the model might struggle to grasp or appropriately address sensitive, offensive, or harmful inputs. Developers at OpenAI and elsewhere are diligently tackling this challenge.

In the realm of ChatGPT utilization, several important considerations arise:

- Precision and Dependability: While ChatGPT may yield plausible responses, factual errors could inadvertently perpetuate misinformation.
- Biases and Fairness: The model's training data biases might lead to inadvertently biased or insensitive content, reinforcing stereotypes or discriminatory language.
- Contextual Understanding: ChatGPT might occasionally miss contextual nuances, leading to seemingly relevant but off-topic responses.
- Inappropriate Output: Unintentional generation of offensive, inappropriate, or NSFW content remains a possibility.
- Prompt Dependency: Response quality hinges on prompt clarity, varying based on the quality of prompts provided.
- Privacy and Security: Sharing sensitive or confidential information could

> "Corporate trustees are in the business of trust administration and can take the burden from your loved ones during an already difficult time."

Generative AI: Proceed with Caution, continued

expose users to privacy and security risks.

- Ethical Application: Responsible and ethical use of the technology is paramount, avoiding misuse or harm to others.
- Legal and Copyright Compliance: Generated content must adhere to legal and copyright standards, clarifying ownership and usage rights.
- Unforeseen Outcomes: Particularly in critical fields like medicine or law, the model's responses can have unforeseen consequences.
- Evolving Knowledge: Responses rely on historical data, potentially leading to outdated or inaccurate information.
- Lack of Emotional Understanding: ChatGPT lacks genuine emotional comprehension and empathy in sensitive discussions.
- Overreliance Caution: Blindly adopting model responses risks erroneous decisions; critical thinking remains vital.
- User Accountability: Users should assess and verify information rather than passively accepting the model's output.
- Feedback Impact: Interactions may inadvertently reinforce biases or shortcomings if not managed prudently.

To navigate these concerns, it's prudent to treat ChatGPT as a tool rather than an infallible source, scrutinize its outputs critically, issue clear prompts, and adopt conscientious, ethical usage practices.

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Vice President
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Recasting a Solution

As my years in portfolio management and financial planning for family, friends, and clients have grown, my experience in understanding their unique core values has vastly broadened. Core values guide an individual's life and help shape behavior, words, and actions. When working alongside a client, it is essential to take stock of the personal values that create an environment for them to live authentically. While highly subjective, personal values influence preferences and ultimately behaviors.

Not long ago, I had a situation in which some friends could not balance their monthly budget and asked me to help them out. We sat together and reviewed their cash inflows and outflows. The couple were in a net deficit and desperate for an option to lighten their monthly outflow. In March 2021, the couple obtained a 30-year fixed-rate mortgage on a dream home. Fortunately, this was during a low interest rate period and the couple secured a 2.85% interest rate. Along with their ideal home came a white picket fence that needed maintenance and many other unforeseen expenses. The couple also had two children who were attending private school, had car payments, and tithed to their church.

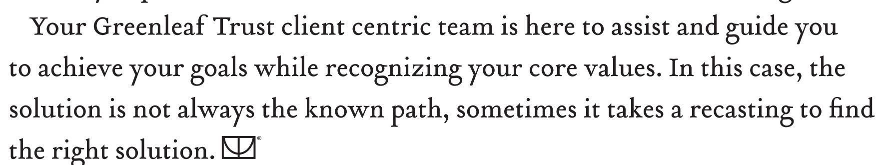
To show enough liquidity and defend the bid on their new home, the couple had withdrawn a large amount from the husband's retirement savings account without professional consultation. The funds were then deposited in a separate savings account. While the withdrawal also allowed them to secure a mortgage, it put them in a bit of a bind with an unexpectedly large tax bill. The couple did not realize that even though they had withheld taxes from the distribution, it pushed them into a new and higher tax bracket.

This is where recognizing core values came into the equation. As part of their faith, the couple had strong feelings about not accumulating large amounts of debt and keeping their children in a private school was paramount. The stress of the net cash outflows was building, and their painstakingly built emergency fund had been quickly depleting. Given the couple's uneasiness with adding additional debt to bring down their payments, we decided to see if the entity that held their mortgage would facilitate a mortgage recast.

A mortgage recast is a potential option for someone who has monthly cash flow issues. The recast would allow a borrower to keep an original loan with the same lender along with the same terms rather than refinancing the loan which would change the terms of the mortgage. In this case, the terms of the original loan were crucial because the Federal Reserve had been raising interest rates and a new loan at current rates with higher payments would have never been feasible for this couple's situation and core values. The recast reduced their monthly deficit significantly by taking the lump sum from the retirement plan and using it to directly pay down the principal of the mortgage. The couple kept the "same" loan, yet now a large portion of the principal balance was reduced. Their monthly payment was now substantially lower and more manageable as the loan was re-amortized with a new lower balance. Another benefit was the cost to the couple was only a $500 administration fee.

Knowing the couple did not want to incur additional debt, the recast mortgage provided a solution to their financial concern and peace of mind that relieved significant financial stress. They were now able to cover all their monthly expenses with their cash inflow and considered it a blessing.

Your Greenleaf Trust client centric team is here to assist and guide you to achieve your goals while recognizing your core values. In this case, the solution is not always the known path, sometimes it takes a recasting to find the right solution.



"A mortgage recast is a potential option for someone who has monthly cash flow issues. The recast would allow a borrower to keep an original loan with the same lender along with the same terms rather than refinancing the loan which would change the terms of the mortgage."

Stock Market Pulse

Index	8/31/2023	Total Return Since 12/31/2022
S&P 1500	1,024.74	17.91%
Dow Jones Industrials	34,721.91	6.37%
NASDAQ	14,034.97	34.89%
S&P 500	4,507.66	18.72%
S&P 400	2,645.47	10.02%
S&P 600	1,226.89	7.19%
NYSE Composite	16,000.37	7.25%
Dow Jones Utilities	872.70	-7.44%
Barclays Aggregate Bond	2,076.80	1.37%

P/E Multiples	8/31/2023
S&P 1500	21.5x
Dow Jones Industrials	20.9x
NASDAQ	39.3x
S&P 500	22.1x
S&P 400	16.7x
S&P 600	16.4x

Key Rates

Fed Funds Rate	5.25% to 5.50%
T Bill 90 Days	5.33%
T Bond 30 Yr	4.21%
Prime Rate	8.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,024.74	21.5x	1.56%
S&P 500	4,507.66	22.1x	1.54%
Dow Jones Industrials	34,721.91	20.9x	2.07%
Dow Jones Utilities	872.70	18.6x	3.96%

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.65%

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