GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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Michael F. Odar, CFA®
President
Chief Executive Officer

The Fourth Member of Your Client Centric Team

Five years ago, we heard from our clients that they wanted a more robust online client portal. So, we did what we do whenever our clients speak. We listened. Then in early 2020, we rolled out MyWealth by Greenleaf Trust (MyWealth), our online client portal that provides a comprehensive overview of clients' total wealth in one secure location.

I am writing about it now to encourage those clients who have not yet enrolled in MyWealth to give it a try. I use it and have found it acts as the fourth member of my client centric team.

Within a single sign-on, you have the ability to connect all your investment accounts, assets, and liabilities for a comprehensive and holistic picture of your wealth. Through our MyWealth planning tool, you will be able to monitor and organize your wealth within a safe and secure online portal, serving as your personal financial website. MyWealth offers the following capabilities to assist you in organizing and simplifying your financial life:

- Aggregation: A consolidated view of all your accounts and investments (including those outside of Greenleaf Trust) will give you a real-time complete financial picture of you on any device at any time.
- Dashboard: View of all your assets and liabilities on a consolidated basis, updated daily.
- Reporting: Develop interactive charts, customized reports, and detailed summaries for all your holdings.
- Spending: Track spending habits and monitor your personal cash flow.
- Budgets: Create budgets and keep track of your progress toward spending goals.
- Document Vault: Unlimited access to secure electronic document storage portal for your private records such as trusts, wills, tax returns, insurance records, and other identification documents.
- Alerts: Email and mobile phone alerts to empower you to monitor the activity across all your accounts.
- Electronic Delivery: A secure, simple, convenient, and green option to

The Fourth Member of Your Client Centric Team, continued

receive your financial statements and notices. Electronic delivery of these documents helps to minimize exposure to identity theft.

I confess that I like reading from paper. I have never read a book from a computer screen, and I actually have printed the internet. But I like having information that I need right away at my fingertips more. MyWealth provides me that capability. So, if you have not already, get enrolled. We can even help. It's easy. Just reach out to your client centric team.

Nicholas A. Juhle, CFA®
Chief Investment Officer

Economic Commentary

August was not for the faint of heart. Starting with a weaker-than-expected jobs report and exacerbated by the collapse of the yen carry trade, the S&P 500 fell 6.5% in the first three trading days of the month. The move placed the index within inches of correction territory – defined as a 10% decline from a recent peak. The risk-off trading caused U.S. government yields to drop precipitously as market participants forecasted an imminent recession. Disciplined investors were, however, rewarded. (They usually are, just not always so quickly.) When all was said and done, the hysteria faded and domestic stocks closed the month not only 2% higher than where they started, but also less than 1% from an all-time high.

The August narrative is truly interesting in retrospect. On July 31, Federal Reserve Chair Jerome Powell held a press conference following the FOMC's July meeting. The message was clear, paraphrasing slightly: "We've been focused primarily on inflation, but now we're focused on inflation AND the labor market. We're not cutting rates today, but we're going to at our next meeting in September (wink wink)." Investors rejoiced. Stocks closed the day more than 1% higher and traders priced in three 0.25% cuts (one per meeting) in the balance of 2024.

"The August narrative is truly interesting in retrospect."

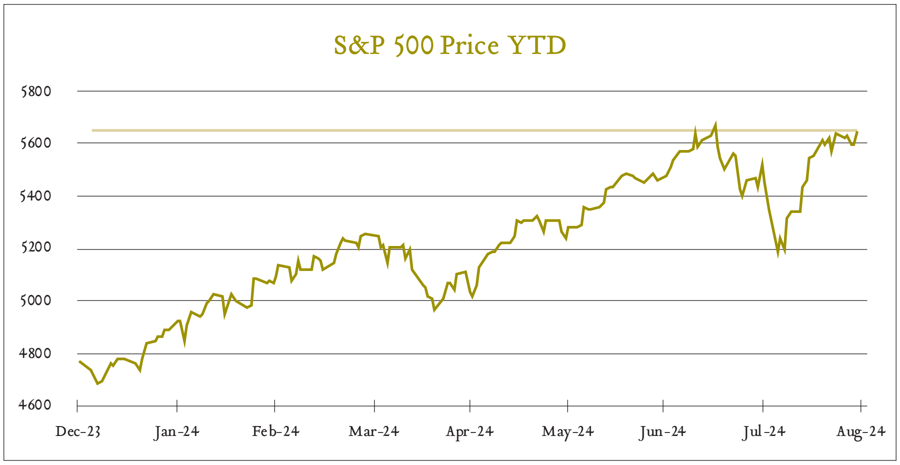
That was a Wednesday. On Friday morning, the Bureau of Labor Statistics released the monthly jobs report which, while not a complete disaster, came in softer than expected. The report showed that the U.S. labor market added just 114K jobs in July compared to expectations for +175K while the unemployment rate ticked up to 4.3% from 4.1% a month earlier. Despite positive payroll additions and a rise in unemployment largely due to a higher participation rate, doubt flooded in as investors questioned if the U.S. was moving from a "balanced" labor market to a "weak" one. Traders priced in a fourth 2024 interest rate cut and two days into August stocks were already down more than 3%.

On Monday, August 5, Japanese equity markets slid 13% as traders worked to unwind so-called carry trades. Yields in Japan have remained low in recent years and investors have been borrowing in low-yielding Japanese Yen and using the funds to buy higher-yielding U.S. Dollar investments. This works well when Japanese interest rates stay low and U.S. interest rates stay high – it also helps when the U.S. stock market is on the rise. But combine a Japanese rate hike to 0.25% - the highest level in more than 15 years – with hefty U.S. rate cuts on the horizon and all of a sudden, the jig was up. Unwinding these trades put technical pressure on both US and Japanese stocks which followed their 13% decline with a 10% rally the next day.

On that same Monday, U.S. markets opened 3.5% lower and bond traders priced for five 0.25% cuts in the remainder of 2024 as panic ensued. In my career, I have rarely seen the level of hysteria that erupted that day. Jeremy Siegel, a renowned economist and professor of Finance at Wharton Business school, went on CNBC declaring that the Fed needed to make an emergency rate cut of 0.75% immediately, with another 0.75% cut in September – essentially calling for six 0.25% cuts in less than two months. (He recanted his position a few days later.) A Bloomberg journalist opened an interview by asking a panel of experts how Monday, August 5 compared to Black Monday of 1987. For perspective, in 1987 the S&P 500 fell 23% in a single day. Considering the index closed Monday, August 5 down a little over 3%, it seems like the similarities stopped after "both were Mondays."

> " After an eventful August, we can only hope for calmer waters in the months ahead."

On Thursday, August 8 weekly initial jobless claims, typically not a market moving data point, came in better than expected and suddenly all was well. The S&P 500 index rose 2.3% that day. By month end, it gained another 5% recovering to within basis points of the mid-July peak.



Looking forward, bond traders are pricing in four 0.25% cuts in the balance of 2024 including one to two cuts in September. Speaking in

Economic Commentary, continued

Jackson Hole, Wyoming on Friday, August 23, Federal Reserve Chair Jerome Powell declared that "the time has come for policy to adjust," reinforcing market expectations. A patient Powell, apparently unmoved by calls for emergency rate cuts, noted that the labor market had recently cooled while inflation has continued to ease downward closer to the Fed's 2% target.

Never a dull moment. After an eventful August, we can only hope for calmer waters in the months ahead. 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.

Kristen M. Tidd, CTFA
Vice President, Senior Trust Relationship Officer – Team Lead

Avoiding the Zero Basis Trap: Tax Planning Lessons from the Trail

On a recent family trip to the North Carolina mountains near Asheville, I discovered a mountain biker's paradise in the Blue Ridge Mountains. My first evening ride was perfect, with great weather and pristine trail conditions. As the sun set, I stood at the trailhead, excitement building as I prepared for the adventure.

The climb up Ridgeline Trail was tough but rewarding, offering breathtaking views of emerald valleys and jagged peaks at the summit. After a brief pause to take it all in, I plunged down the mountainside, navigating hairpin turns and switchbacks with exhilaration. The wind roared, the forest blurred by, and every sense was alive as I descended. When the trail finally leveled out, I stopped, chest heaving, and looked back at what I'd just conquered. What a ride!

"Life's paths, much like those mountain trails, can be unpredictable with unexpected challenges waiting around each corner."

As I stood, catching my breath and soaking in the adrenaline-fueled satisfaction of the ride, my mind began to wander from the thrill of the trail to the complexities of life beyond the mountains. Just as navigating a rugged trail requires careful preparation and awareness of every twist and turn, so too does navigating the legal and financial landscape that awaits us off the bike. Life's paths, much like those mountain trails, can be unpredictable with unexpected challenges waiting around each corner. This brings me to a different kind of challenge—one that many face after the passing of a loved one: understanding the intricacies of inheriting property and the potential tax implications that come with it.

When someone inherits property from a deceased person, they usually get a tax basis equal to the property's fair market value at the time of death (or six months later if using an alternate valuation date) [IRC 1014(a)]. However, under the "basis consistency reporting rules" proposed in 2016, the inherited property's tax basis might end up being $0.00, which could surprise the heir who was expecting a stepped-up basis.

Proposed Regulations: The proposed regulations under IRC 1014(f) emphasize that the tax basis of inherited property must be consistent with the value reported for federal estate tax purposes. This means the tax basis can't exceed the property's value as determined for estate tax purposes.

"...the inherited property's tax basis might end up being $0.00, which could surprise the heir who was expecting a stepped-up basis."

Final Value: The "final value" of property for federal estate tax purposes is:

- The value reported on a federal estate tax return that isn't contested by the IRS before the limitation period ends (typically three years from the return's due date, or six years if there's a 25% or more omission from the gross estate).
- There's no limitation period if no federal estate tax return is filed.

Zero Basis: A $0.00 tax basis can occur if property is discovered after the estate tax return is filed, if it was omitted from the return, or if no required estate tax return was filed.

"Would Result in": The consistent basis rules only apply to property that would cause or increase estate tax liability if included in the gross estate. If property was omitted from the estate tax return and would have increased estate tax liability, its tax basis is considered $0.00.

- **Too Late to File:** A supplemental estate tax return can only be filed within the assessment period. If this period has passed, it might be too late to correct the tax basis to avoid a $0.00 basis.
- **No Return Filed:** If a required federal estate tax return isn't filed, the final value of all property subject to the consistent basis requirement is considered $0.00 until an estate tax return is filed.

Basic Traps: The consistent basis reporting rules highlight the importance of identifying and valuing all assets of the deceased to ensure the heirs can claim a stepped-up tax basis.

- **Example #1:** After Daine's death, an unreported investment account is discovered. Since it wasn't included on the estate tax return, the tax

Avoiding the Zero Basis Trap: Tax Planning Lessons from the Trail, continued

basis for her grandson Trevor, who received the account, is $0.00. If Trevor sells the investments, he'll owe taxes on the full sale amount.

- **Example #2:** James' estate didn't obtain appraisals for some partnership interests, believing the estate was below the exemption amount. If the IRS later finds that an estate tax return should have been filed, the partnership interests might have a $0.00 basis, and penalties could apply. Obtaining a later appraisal could be difficult and expensive.

"Ensuring that all assets are properly accounted for, and the necessary steps are taken to protect the financial well-being of heirs is crucial."

Personal representatives and trustees must carefully identify and value a decedent's assets and be diligent about filing federal estate tax returns when required. They should also educate heirs about the importance of these steps even if it means spending some of the inheritance on appraisals and taxes.

In the end, just as a successful mountain bike ride requires awareness, preparation, and an understanding of the terrain, so too does managing the complexities of inheritance and tax implications. The exhilaration of the ride may be fleeting, but the lessons learned on the trail are lasting—reminding us that whether we're navigating rocky paths or the intricate rules of estate planning, attention to detail and proactive decision-making are key. For those entrusted with the responsibility of managing an estate, the stakes are high. Ensuring that all assets are properly accounted for, and the necessary steps are taken to protect the financial well-being of heirs is crucial. By embracing these responsibilities with the same determination and focus required on the trail, personal representatives and trustees can help ensure a smoother ride through the often challenging landscape of inheritance.

Do I Still Need Life Insurance?

Jeff T. Pauza, CFA®, CFP®
Vice President, Assistant Director of Wealth Management

Is that life insurance policy that you bought decades ago still serving a purpose or could you be doing something better with it? Typically, life insurance is purchased to provide financial protection and peace of mind for policyholders and their family members. Some of the most common reasons we hear our clients purchase life insurance is to 1) replace income if someone passes away unexpectedly, 2) pay off outstanding debts or 3) provide cash to pay estate taxes. We often discover the original reason our clients purchased their policy has changed and life insurance may not be as critical. Here are several alternatives for how to maximize the value of a life insurance policy you may no longer need:

Surrender your policy for cash value

One of the most straightforward options is to surrender the policy. If you have a whole life or universal life policy, it likely has accumulated a cash value. By surrendering the policy, you receive this cash value, minus any surrender charges or outstanding loans against the policy. This option provides immediate access to cash, which can be used to invest, pay off debt, or cover unexpected expenses.

However, it is essential to consider the potential consequences. Surrendering a policy typically results in a loss of the death benefit, meaning your beneficiaries will no longer receive a payout upon your death. Your cash proceeds may also be subject to income taxes if you receive more than the premiums you have paid into the policy.

Friendly reminder: even if you choose not to surrender, this is an ideal time to review the investment options for your cash value. We have often noticed investment strategies were selected decades ago and were never revisited.

> "We often discover the original reason our clients purchased their policy has changed and life insurance may not be as critical."

Convert your policy to "reduced paid up" insurance

If you no longer want to pay premiums but still want to maintain some level of coverage, consider converting the policy to a reduced paid-up insurance policy.

Paid-up insurance refers to a life insurance policy that no longer requires premium payments to remain in-force for life. In other words, the policyholder has fully paid for the policy and the contract will remain in force for the duration of the insured's life without any additional payments required.

This option is typically available for whole life policies and involves using the accumulated cash value to purchase a smaller, fully paid-up policy. This means you will not have to make any more premium payments, and the policy will still provide a death benefit.

This option allows you to maintain some level of coverage without ongoing premium payments. It can be a good choice for those who no longer need coverage but still want to leave something for their beneficiaries.

Donate your policy to charity

For those interested in philanthropy, donating a life insurance policy to a charity is a meaningful way to contribute to a cause you care about. You can transfer ownership of the policy to a charitable organization, which then becomes the beneficiary. Alternatively, you can maintain ownership and name the charity as the beneficiary.

Donating a policy can provide several tax benefits, including a charitable

Do I Still Need Life Insurance?, continued

deduction for the policy's fair market value or the premiums paid, whichever is less. This option allows you to make a significant impact and potentially receive a tax benefit.

Use your policy for long-term care expenses

Some life insurance policies offer accelerated death benefits, which allow you to access a portion of the death benefit while you're still alive if you need funds for long-term care or are diagnosed with a terminal illness. This option can provide valuable financial support if you need to pay for long-term care such as in-home care, assisted living, or nursing home expenses.

Accelerated death benefits can be a clever way to access funds without surrendering the policy or taking out a loan. However, it is important to understand that accessing these benefits will reduce the death benefit available to your beneficiaries.

> "If you find yourself questioning your current life insurance contract, do not let your policy go to waste."

Exchange your policy for a new life insurance policy

If your insurance needs have changed, consider exchanging your current policy for a new one that better suits your current situation. The IRS allows for tax-free exchanges of life insurance policies under Section 1035 of the tax code. This means you can exchange an old policy for a new one without incurring any immediate tax liability.

This option allows you to potentially obtain a policy with lower premiums, different benefits, or more suitable coverage for your current needs. It is essential to consider any fees associated with the exchange and the new policy's terms to ensure it is an advantageous move.

We have noticed a popular option today is to exchange a life insurance policy for a hybrid policy. A hybrid insurance policy combines life insurance with long-term care benefits. This type of policy provides a death benefit to beneficiaries if the insured passes away, but it also offers the option to use part of the death benefit to cover long-term care expenses if needed.

Exchange your policy for a long-term care policy

Another significant benefit of a 1035 exchange is that you can use the cash value from your life insurance policy to purchase a new long-term care policy without paying taxes. A long-term care policy is designed to help cover expenses associated with care that you might need as you age, such as in-home care, assisted living, or nursing home expenses.

Typically, surrendering a life insurance policy could result in a taxable event if the payout exceeds the amount you paid in premiums. Exchanging your policy will allow you to shift the risk you are attempting to cover without paying income taxes.

It is important to note that when you consider exchanging or purchasing a new long-term care policy, you may need to go through underwriting again. This could impact your premiums or eligibility, depending on your current health status.

Life insurance policies are valuable financial tools, but they can become unnecessary, expensive, and burdensome over time. If you find yourself questioning your current life insurance contract, do not let your policy go to waste. Your team at Greenleaf Trust stands ready to help you surrender, convert, exchange, or donate your policy so you can maximize its value and align your financial planning with your current needs.

Understanding and Administration of Plan Defined Compensation and Eligibility

Christina E. Sharp, QKA®
Senior Relationship Manager

Payroll administration plays a critical role when an employer offers a retirement plan, and understanding the plan document provisions is important to avoid operational failures. According to the Internal Revenue Service (IRS), failure to follow the plan's definition of compensation for determining contributions and failure to include eligible employees or to exclude ineligible employees are two of the top ten mistakes.

> "Payroll administration plays a critical role when an employer offers a retirement plan..."

Plan Compensation Definition

First, the payroll department should be aware of the retirement plan's base definition of compensation. Base compensation can be defined as wages, tips and other compensation on Form W-2, code 3401(a) wages for withholding purposes, or 415 safe harbor compensation. Next, there should be an understanding of any adjustments to the elected base compensation. A few examples of possible compensation exclusions are overtime, bonus, and compensation prior to an employee being a participant in the plan. At times, the plan may be designed to allow a type of compensation to be included in the employee deferral calculation, yet not in the profit-sharing calculation. It is very important the payroll system is set up properly for employee deferral and employer contribution calculations to be made accurately.

The payroll department should have knowledge that upon the

Understanding and Administration of Plan Defined Compensation and Eligibility, continued

establishment of a new payroll earnings code, a potential amendment to the retirement plan may be desired. For example, if an employer added a shift differential earnings code and did not wish to increase match and/or profit sharing expense, the plan should be amended to reflect the desired adjustment to compensation.

Although there is flexibility for employers to design the plan with various compensation adjustments, often the employer elects to only exclude the forms of compensation that can be excluded to meet 414(s) test requirements. Allowable forms of exclusion are compensation earned prior to the employee becoming eligible to participate in the plan, reimbursements or other expense allowances, moving expenses, fringe benefits (cash or non-cash), certain deferred compensation and welfare benefits.

"It is very important the payroll system is set up properly for employee deferral and employer contribution calculations to be made accurately."

The plan definition of compensation typically includes bonus compensation, yet employees may desire to defer a different amount into the retirement plan for bonus pay. If an employer is willing to take on the additional administrative burden, they may provide employees with the option to complete and sign a bonus election form to provide direction for a different deferral amount on bonus compensation. Some plans may not wish to assume this additional burden. In this case, the employer may suggest the employees elect a different deferral rate on the website between specific days, and then after the bonus pay date, log back onto the website to elect their normal deferral rate. If the retirement plan is subject to Actual Deferral Percentage and Actual Contribution Percentage testing and passing this test is within a close range, the risk to the employer is too many employees may elect to not defer on bonus or a lower rate, thus potentially causing the test to fail and highly compensated employees incurring returns.

When employees terminate employment, the plan document is typically designed to include compensation paid within 2 ½ months after the termination date or by the end of the plan year for the final payroll, cash out of unused vacation or commissions. However, it is important to be aware compensation may never be included nor deferrals taken on severance package payments.

Eligible Employees

Payroll administration instructions and monitoring should include the understanding of when an employee has met plan eligibility and entry requirements and should not submit deferrals to the 401(k) plan sooner than when the employee meets these requirements. Additionally, there should be awareness of rehired employees, who had met the eligibility and entry during prior employment, being allowed to participate in the plan immediately upon rehire. Generally, rehired employees do not have to meet the eligibility and entry requirements again.

There may also be excluded employee classifications defined in the plan document. For example, the plan sponsor may have established the plan document to exclude interns from participating in the retirement plan. If the intern is hired as a full-time employee, the employee's service time as an intern counts towards eligibility. For example, if the intern worked for the employer for six months and the eligibility period was 90 days, the employee is eligible to participant in the plan immediately upon placement into the full-time position and should be provided enrollment materials to participate per the first pay date as a full-time employee, or automatically enrolled, if applicable.

A plan may dictate that an employee must have a year of service (1,000 hours or 12 months of elapsed time) and attainment of age 21. This is the maximum service and age requirement allowable. Once an employee meets these eligibility requirements, the employee enters the plan based upon the plan definition of entry, which may be immediate, monthly, quarterly or semi-annually. To add to the complexity of payroll administration, different definitions of employee eligibility and entry may be applied to different aspects of the plan. For example, a plan may be designed as 90 days of service and monthly entry for employee deferrals yet require one year of service and semi-annual entry for the employer profit-sharing contribution.

"Payroll errors can be costly to fix if the error is not identified within a short period of time."

As a plan fiduciary, a due diligence process should be established to periodically review payroll administration of the plan definition of compensation and eligibility to monitor the operation accuracy of elective deferrals submission and calculation of employer contributions. Payroll errors can be costly to fix if the error is not identified within a short period of time. When mistakes are identified, they should be addressed promptly, and Greenleaf Trust is here to help work through the required correction. Please reach out to your plan's relationship manager if you have any questions about this topic or any other aspect of your plan design.

Stock Market Pulse

Index	8/30/2024	Total Return Since 12/31/2023
S&P 1500	1,276.56	18.82%
Dow Jones Industrials	41,563.08	11.75%
NASDAQ	17,713.63	18.58%
S&P 500	5,648.40	19.52%
S&P 400	3,091.52	12.22%
S&P 600	1,412.57	8.39%
NYSE Composite	19,292.23	16.33%
Dow Jones Utilities	1,020.86	19.03%
Barclays Aggregate Bond	2,228.33	3.07%

P/E Multiples	8/30/2024
S&P 1500	25.1x
Dow Jones Industrials	22.5x
NASDAQ	49.7x
S&P 500	25.7x
S&P 400	20.1x
S&P 600	20.3x

Key Rates

Fed Funds Rate	5.25% to 5.50%
T Bill 90 Days	5.03%
T Bond 30 Yr	4.20%
Prime Rate	8.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,276.56	25.1x	1.32%
S&P 500	5,648.40	25.7x	1.30%
Dow Jones Industrials	41,563.08	22.5x	1.78%
Dow Jones Utilities	1,020.86	24.1x	3.56%

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.88%

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