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A Message from the CEO

Welcome to our latest edition of *Independent Thinking*.

I'm writing this on my return from the last in a series of visits to clients and colleagues across the country. I've had a terrific time, hearing and learning from often very different viewpoints, and sharing our perspectives of the market and wealth planning landscape. While digital interaction is here to stay, there is no real substitute for sitting down together.

I'm not the only one from Evercore Wealth Management and Evercore Trust Company on the road. Our Chief Investment Officer John Apruzzese has been sharing our market outlook, as he does in these pages. (Clients who were able to join us in San Francisco, Seattle, Menlo Park, Tampa, Palm Beach, New York or at a related event in Minneapolis will find some expanded material here.)

Several of our senior Wealth & Fiduciary Advisors have also been on the move, attending important industry gatherings. Justin Miller, our National Director of Wealth Planning, spoke at a San Francisco conference of the American College of Trust and Estate Counsel, or ACTEC, on support judgments and planning with cryptocurrencies, and Alex Lyden-Horn, our Director of Delaware Trust Services and Trust Counsel, spoke on counseling high net worth Millennials at the Delaware Bankers Trust Conference.

In addition to recovering some much missed in-person time, all this travel helps us retain our perspective, especially in often challenging conditions. After all, declining markets also present opportunities – to revisit attitudes to risk, to refresh wealth and gifting plans, and to invest at potentially lower valuations to meet long-term goals. Each of these topics is addressed in these pages. I'll draw your attention to a few, although all are worth a close read. As always, please don't hesitate to contact us for further information.

First is the article by Brian Pollak on the relative strength of the U.S. dollar in this high interest-rate environment. Good news for Americans traveling abroad and for importers, but it isn't great for many multinationals or for U.S. trading partners. The disadvantages now at least rival the advantages.

Second is the article by Karen Francois and Jay Springer on wealth planning for families with special needs members. This was also the topic of one of our recent webinars, and this expertise is a strength at our firm, which we are proud to provide. We know that for affected families there is no more important wealth management topic, and, as Karen and Jay discuss here, there is a lot to consider, starting with building the right team of advisors.

And last but never least, I'll highlight the regular column by our Chairman Jeff Maurer, this time on aging with grace and joy – and taking difficult markets in stride. As Jeff puts it, wealth is not a panacea for the worries that come with age. But, if managed correctly, it can buy at least some peace of mind.

As we enter the holiday season – and perhaps travel more, to spend time with family and friends – I'd like to take this opportunity to say how grateful we are for your continued trust in our firm. It is our privilege to get to know you and your family, and to help you shape and secure your financial future.

I hope you have a wonderful holiday season and are looking forward to a peaceful and prosperous New Year.

Chris

Chris Zander
President & Chief Executive Officer

Orienting in a Changing Investment Landscape

By John Apruzzese

The 2020s have so far brought us some of the best times in the markets and some of the worst. As we look to 2023 and beyond, it's worth taking stock and reviewing our asset allocation.

3.8%

10-year Treasury rate as of November 22, 2022

There are plenty of factors at play, but the biggest by far is inflation. Unacceptably high and surprisingly persistent inflation, the consequence of poor fiscal and monetary policy in response to the pandemic, has forced the U.S. Federal Reserve to increase short-term interest rates sharply, with promises of more rate hikes to come. That's driven up long-term interest rates from very low levels, to 3.8% from 1.5% in just 11 months, and forced down valuations across all major asset classes.[1]

When the Fed increases interest rates at this clip, a recession usually follows. At this juncture, the question really is whether it will be a mild recession – sometimes referred to as a rolling recession, in which case earnings are flat to slightly down – or a more meaningful recession, with earnings down 10%-20%. If it is a mild recession, then chances are that we have probably seen the market low for this bear market. However, if we have a recession that causes earnings to fall by 10% or more, we would expect the market to fall to new lows.

There are a number of reasons why we put a slightly higher probability on a mild recession, several of which are illustrated below and on the next page.

First, we have a very strong jobs market, with a record number of open jobs relative to unemployed workers, and strong wage growth. So, we are a long way from a large increase in the unemployment rate that would usually accompany a major recession.

> U.S. household balance sheets are very strong.

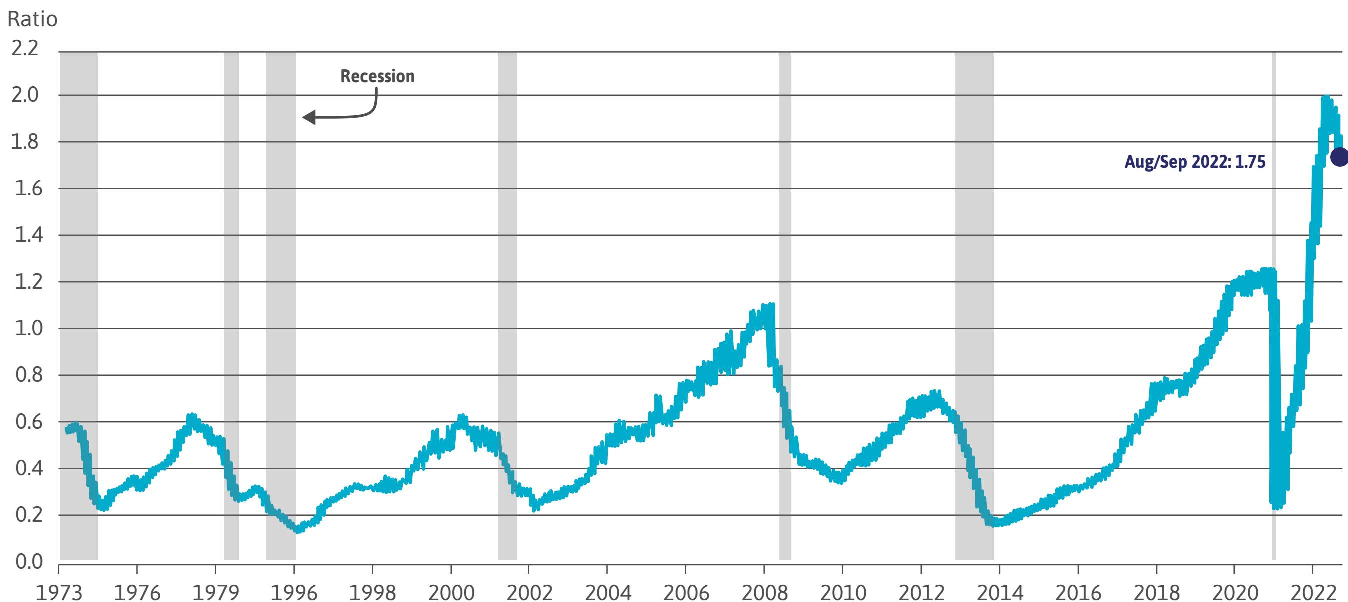
Second, U.S. household balance sheets are very strong, with relatively low debt levels, high net worth and considerable excess savings lingering from the government largess during the pandemic.

Third, a deep recession is almost always accompanied by a financial crisis. While it is admittedly difficult to identify a financial crisis before it happens, we do

[1] Source: FactSet
Note: Market yield on a 10-year U.S. Treasury bond. 10-year yield at 1.51% on December 31, 2021 and 3.81% as of November 18, 2022

Still hiring

Job openings lagged 1 month divided by unemployed persons, seasonally adjusted



Source: J.P Morgan Guide to the Markets – October 31, 2022

not see the early signs of one in the United States. The use of excessive debt, which is the usual precursor to a crisis, is at the government level this time around – as opposed to the corporate or household level. This has significant implications long term but should not cause the more typical financial crisis in the private markets.

9%–10%

Our 10-year expected return on stocks is close to long-run returns

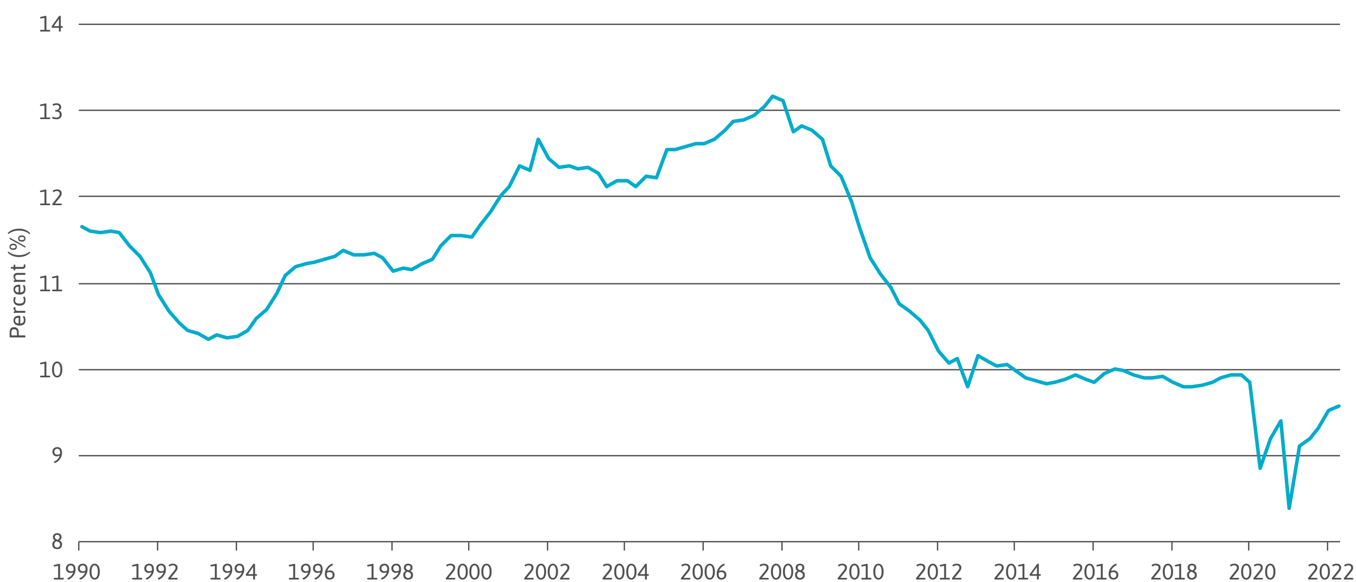
Fourth, the pandemic and shift to remote and hybrid work has helped hone some great American companies. Superb management teams are generating record-high profit margins, even adjusting for low interest rates and taxes, and corporate earnings growth well in excess of overall economic growth. With reduced future profit expectations, it follows that solid returns can be achieved if markets rise, a good thing considering that higher normal future returns will be required to overcome higher rates of inflation. This is an important positive factor worth keeping in mind against an admittedly still difficult backdrop.

Further good news is that even with a recession on the horizon, our 10-year capital market expected returns for all the major asset classes are up considerably from a year ago. We now expect close to 4% or more on cash equivalent investments. And we expect about a 4% tax-free return on high-quality municipal bonds, up from 2% or lower not that long ago, and about a 7% taxable return on credit strategies that take on credit risk. Most important, now that the valuations on stocks are back to, if not slightly below, historical averages, we believe the 10-year expected returns on stocks are close to the long-run returns of 9%-10%.

Here's another, counterintuitive, positive. Negative news – which we have had plenty of this year – breeds negative sentiment, which historically bodes well for the markets. At present, we are at record lows on many measures of sentiment, which are reflected in current reasonable-to-cheap valuations. Lower valuations may set us up for favorable long-term future returns. Even the expected returns

A lighter burden

Household debt payments as a percent of seasonally adjusted disposable personal income



Source: Federal Reserve Economic Data

> Historically investors have been best served by riding out downturns.

for international equity markets are up, due to extremely low valuations, which could be argued fully reflect current challenges – energy prices and a very strong U.S. dollar. (See the article by Brian Pollak on page 6.)

There's no doubt that 2022 has been a tough year in the markets. But we need to retain our perspective, keeping in mind that we previously enjoyed a 10-year strong bull market and truly extraordinary gains between March 2020 and the end of 2021. We are continually evaluating our portfolios and evaluating whether to take losses where possible to offset any realized taxable gains. We do see opportunities, among individual stocks that are at valuation levels well below their historical averages, and in extending maturities within our bond portfolios. We are also continuing to invest in real estate and other carefully selected illiquid alternative investments, which generally represent about 10% of our balanced portfolios.

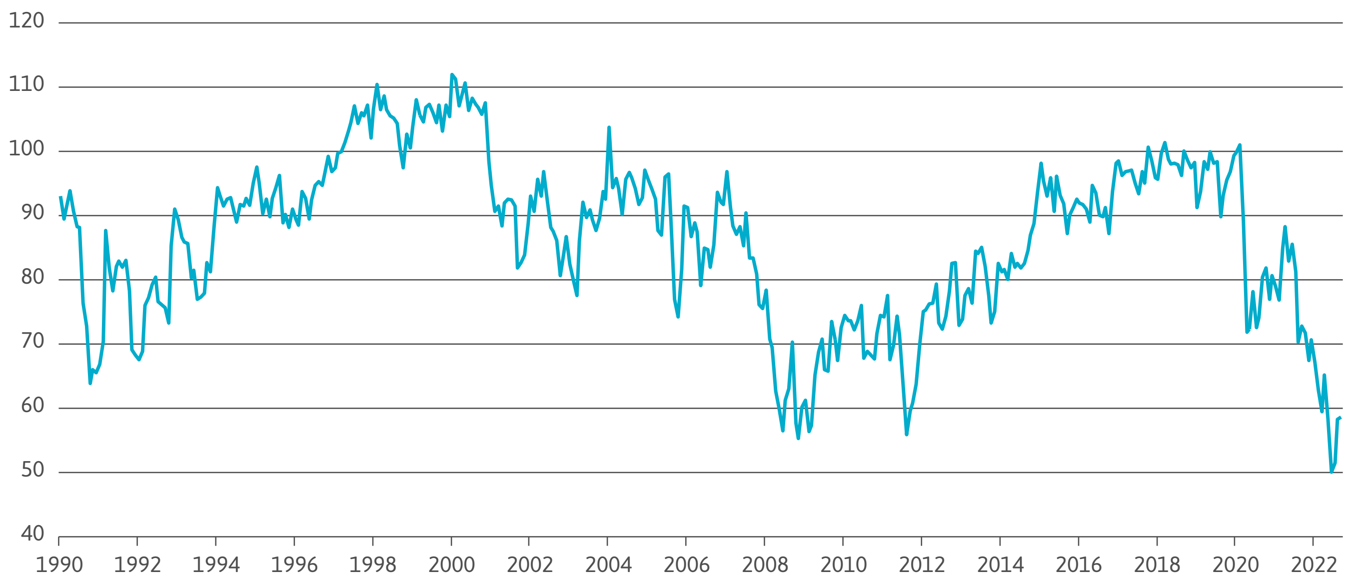
The Fed has made it very clear that it will do whatever it takes to get inflation back down to an acceptable level. No one knows how long that will take. But we do know that, historically, high net worth investors are best served by riding out downturns and staying invested, remaining focused on long-term goals.

John Apruzzese is the Chief Investment Officer at Evercore Wealth Management. He can be contacted at apruzzese@evercore.com.

Expected returns described are based on capital market assumptions and calculated net of fees. Stocks are defined as growth assets. Please refer to important additional information available on the disclosure page.

Low spirits

Consumer sentiment index



Source: Federal Reserve Economic Data

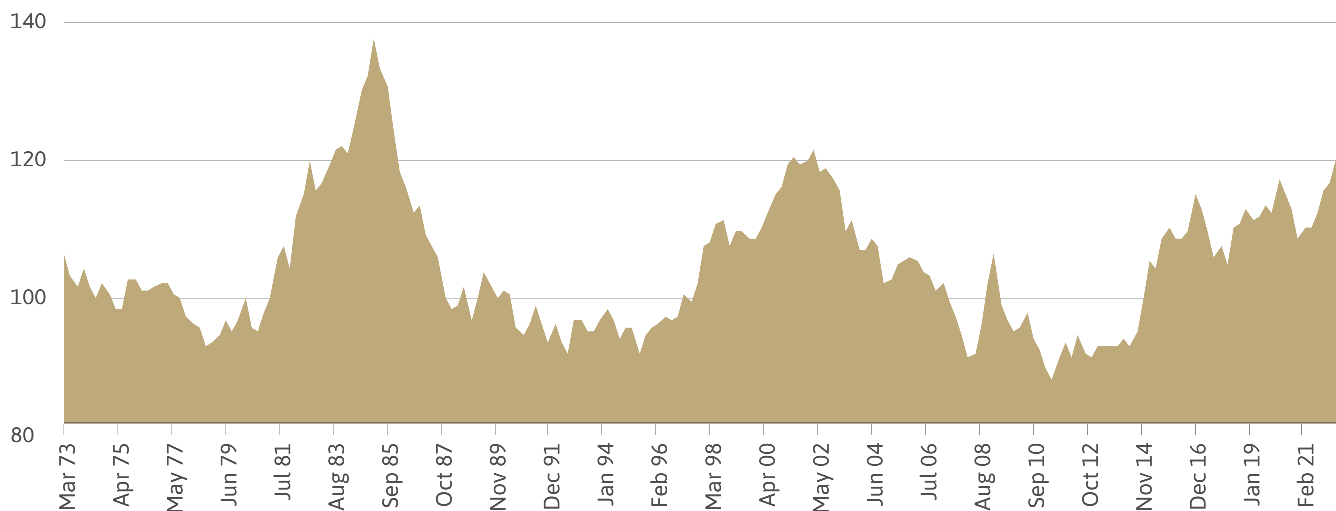
Dollar Exchange Rates: Too Much of a Good Thing?

By Brian Pollak

The U.S. dollar hasn't been this strong since 1985, right before representatives from West Germany, France, the United Kingdom, Japan, and the United States met at the Plaza Hotel in New York City with the shared goal of driving the dollar down, to improve the global trade balance. That degree of collaboration this time around seems unlikely and, as yet, unwarranted, but investors everywhere might have reason to hope that the dollar loses at least a little steam.

The Greenback is Gaining

The inflation-adjusted, trade-weighted dollar index is at its highest point in 37 years; it has increased by over 10% year-to-date



Source: Bloomberg and the Federal Reserve

Just how strong is the greenback? It's up by approximately 12% against the euro, 15% against sterling, and 20% against the yen from the beginning of the year through early November. All told, it's gained more than 10% over the same period on a trade-weighted basket of other currencies, measured by the U.S. Fed Trade Weighted Real Broad Dollar index and illustrated on page 6. That's largely because the Federal Reserve started hiking interest rates to combat inflation earlier and more aggressively than many other central banks. While other central banks, including the European Central Bank and the Bank of England, are now raising rates, they don't appear willing to go the same distance.

There are other factors driving the dollar's strength. As it's perceived by investors around the world as a safe-haven currency, the dollar typically rises during periods of economic weakness or on geopolitical shocks – and we've had no shortage of those over the past year. The dollar soared after the Russian invasion of Ukraine on February 24, 2022, and the gains have accelerated since.

Of course, a strong dollar has its benefits, as Americans opting for the Hôtel Plaza Athénée in Paris over The Plaza in New York this holiday season can testify. And back at home, U.S. consumers and companies are saving on imported goods and services. But it's bad news for our trading partners, for most emerging markets, and, ultimately, for Wall Street.

Around 40% of global transactions are in U.S. dollars, according to the International Monetary Fund (IMF), notably in agriculture and energy commodities. This makes it, as John Connally, Richard Nixon's Treasury Secretary, bluntly put it back in 1971, "our currency, but [Europe's] problem."

A perspective on purchasing power parity

Purchasing power parity, which is calculated by measuring the price of a specific basket of goods to compare the absolute purchasing power of one currency to another, indicates that the U.S. currency is at a 37-year high. Relatively aggressive monetary tightening in the United States and increased global geopolitical risks are prompting investors worldwide to buy dollars.

Liquid fuels, which are priced in dollars, have risen by 79% in euro terms year over year through September 30, 2022, substantially more than the 58% rise recorded over the same period in the United States. Interestingly, countries with their own agricultural and energy sources, such as Mexico and Brazil, have seen their currencies hold their value. But those who are not self-sufficient are struggling. That's particularly true for countries with high U.S. dollar debt burdens, as they are having to pay back coupons and principal using their depreciated local currency, causing their deficits to balloon when they can least afford it.

Indeed, some economists are starting to worry that this crucible of inflation and debt could force a credit crisis. Speculation that Japan has recently sold a small bit of its over $1.2 trillion in U.S. Treasuries to support its currency suggests that central bankers may be thinking the same thing. However, trouble in a smaller, still developing market, such as Colombia or Argentina, seems to us more likely, with correspondingly smaller knock-on effects.

A big risk to U.S. investors of continued dollar strength is in the stock market. Although the United States is a net importer, between 30%-40% of the market-weighted sales of S&P 500 companies are international. A strong dollar has a direct negative impact on these companies' revenue and earnings and therefore is likely to show up in the earnings of the broader market.

While difficult to isolate, some analysts estimate a 2%-3% negative impact to earnings over the course of the year based on present foreign exchange rates.

Further out, a natural catalyst for a correction in the dollar's value would be the resumption of strong global growth alongside lower inflation, which would allow the interest rate differential between counties to close. But the IMF expects global growth to slow to 2.7% in 2023, down from a projected 3.2% for 2022 and 6% for 2021. Meanwhile, inflation is expected to decline to a still too high 6.5% in 2023, down from 8.8% projected for 2022. Full normalization may be some time off.

What if more intervention is needed in the interim? While we don't expect that at present, it's certainly worth considering. Would we see collaboration again along the lines of the Plaza Accord or, more recently, during the Great Financial Crisis of 2008-2009 and in the early days of the pandemic? It's hard to say; China is marching to its own beat and the Group of 7 reaffirmed its commitment to non-intervention in currency markets just a few months ago. We have to hope that we would once again see willing and competent coordination if and when it's needed.

Brian Pollak is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at brian.pollak@evercore.com.

Q&A with Artisan International Value

David Samra

Editor's note: Evercore Wealth Management supplements its core investment capabilities with carefully selected outside funds across the range of the firm's asset classes. Here we speak with David Samra, a managing director of Artisan Partners and a founding partner of the Artisan Partners International Value Team. Please note that the views of the external managers interviewed in *Independent Thinking* are their own and not necessarily those of Evercore Wealth Management.

Q: The convergence of high inflation, rising interest rates and slowing growth is driving volatility in all major markets. How should U.S.-domiciled investors think about investing internationally now?

A: As fundamental investors, we invest in companies, not stock markets. The distinction is meaningful in that we take a highly researched, fundamental approach to investing in businesses that are competitively advantaged globally and have the market position, financial resources and management talent to prosper through all types of economic environments. That is fundamentally different than a security, such as an ETF, that simply provides exposure to a region or a factor. One difference that we would point to today is the overvaluation of the U.S. dollar on just about any measure. We believe the non-US. equities we own in our portfolio today are not only attractively valued, but also offer exposure to currencies that are meaningfully undervalued.

Q: What risks and opportunities does the strong U.S. dollar present for companies in your portfolio?

A: Many of the multinational companies in our portfolio are today benefiting from increased earnings from their U.S. dollar operations. While we believe the dollar today is overvalued, we also believe it puts several of the businesses in the portfolio in an incrementally advantaged position on labor and certain material costs that are commonly not priced in dollars. However, there are a few companies in the portfolio that source raw materials in dollars, and it will take time before price increases in local currency can fully cover those costs.

Q: Let's look at some specific regions, and their potential impact on the portfolio. How do you view recent events in China, in the context of your investments?

A: China's geopolitical issues, unfortunately for the rest of the world, create certain frictional costs, such as the need to adapt supply chains. That need will add to already high inflation pressures. Another frictional cost is the reduction in foreign direct investment in China. Companies around the globe have curtailed Chinese investment, which will further slow one of the world's largest economies. One must also consider the newly emboldened centralized Chinese government that is increasingly involved in the affairs of private enterprise. This approach to economic management over decades created inefficiencies and hampered efficient wealth creation. We have invested

a small portion of the assets in the portfolio in what we believe are a few well-run and well-positioned Chinese businesses that are trading at valuations we have not experienced in our career.

Q: About half of the companies in your portfolio are in the European Union. How do you see them managing their current economic challenges, notably higher energy costs?

A: Higher energy costs are a global phenomenon, though certain parts of Europe have a time-constrained need to replace Russian gas and are experiencing a significant increase in those costs. Of course, that will likely lead to a tax on consumption and a reduction in profit margins for companies that do not have the ability to pass on those higher costs.

Q: British management teams are struggling to keep up with changes in government and policy. How would you describe the investment outlook there?

A: We believe the United Kingdom is facing some near-term fiscal and political challenges that will create economic headwinds. As a result, share prices have declined significantly. As with the United States, U.K. culture and the corporate governance system provide an incredible foundation for corporate value creation. The United Kingdom has always been a somewhat outsized focus for our investment portfolio. Today's challenging situation allows us to parse through falling share prices and invest selectively in what we believe are higher-quality businesses at very attractive valuations.

Q: As part of your investment process, you calculate an estimate of intrinsic value for companies. Given the declines in the equity markets, what type of discounts to intrinsic value are you seeing for companies in your portfolio?

A: The Artisan International Value Fund was launched in 2002. We have since tracked what we call the portfolio's discount to intrinsic value. The discount represents the difference between the market value and fair value of the securities owned in the portfolio. That discount has ranged from a low of approximately 5% to a high in the mid-40s over the last 20 years. Today the portfolio is trading at the highest end of the historical discount range.

Q: More specifically, Samsung Electric has been one of your larger holdings for some time. It has been a tough year for many technology companies, but particularly tough for semiconductor companies. What are some of the issues affecting Samsung currently, and how do you see those issues getting resolved?

A: Samsung Electronics is a vertically integrated manufacturer of technology and consumer products. The basis of the company's competitive advantage comes from the internal manufacturing at scale of components including panels, displays, optical semiconductors, application processors and memory chips, including DRAM and NAND. Samsung is the world's largest manufacturer of memory chips due to significant scale and technological leadership. Today, the DRAM and NAND markets are oversupplied, resulting in falling prices that have hurt reported operating profits. The market for memory chips is today characterized by excess inventories, growing demand and falling supply. Eventually, we believe excess inventory will be worked down through growing demand and supply cuts, which should move prices back to more normal levels. Once Samsung's profit begins to recover, we would expect the share price to follow.

For further information, please contact Evercore Wealth Management Partner and Portfolio Manager **Judy Moses** at moses@evercore.com.

Tax-Loss Harvesting: A Silver Lining in a Down Market

By Michael Kirkbride

Tax-loss harvesting means selling an investment at a loss to offset capital gains. Over the last 20 years, it's been applied to stocks, which tend to be more volatile than bonds. But the recent and severe bond market dislocation has provided investors with harvesting opportunities in both markets.

Quite simply, this means selling shares of a loss-making security and applying the loss against realized gains taken in other investments. Critically, the security must not have been purchased under 31 days before the sale, or repurchased in under 31 days after the sale. Repurchasing in under 31 days triggers what is known as a wash sale and negates the realized loss for tax purposes.

The most straightforward approach is simply selling the investment at a loss, be it a mutual fund, an exchange traded fund, a stock, a bond, or another investment. By selling and realizing the loss and keeping the proceeds in cash, assuming the wash sale rule is respected, the loss can be used against realized gains.

Alternatively, the loss-making investment can be swapped for a similar, albeit not identical investment, such as a closely correlated index fund or individual security, to maintain the overall asset allocation. It's important to note that the newly purchased security must be sufficiently different from the sold security; for instance, selling one S&P 500 index fund and buying another would trigger a wash sale, as would selling and buying the same fund or security through different investment vehicles.
For a bond tax-loss swap to avoid the wash sale rule, it must have at least two of the three following characteristics: a different issuer (name of the issuing entity); a different coupon; and a different maturity. This rule provides the bond manager enough flexibility to take tax losses across a bond portfolio and avoid wash sale rules, while maintaining the basic duration, liquidity, and credit quality of the portfolio.

Keep in mind that gains and losses incurred on investments held less than a year are taxed at higher rates than those on longer-term investments. There can also be transaction costs to consider.

Efficient tax-loss harvesting requires careful planning and close consultation with your portfolio manager and tax advisor. But the right tactical moves, in the context of a well-thought-out investment strategy, can help support the long-term goals of income and capital appreciation, even at the end of a very challenging year.

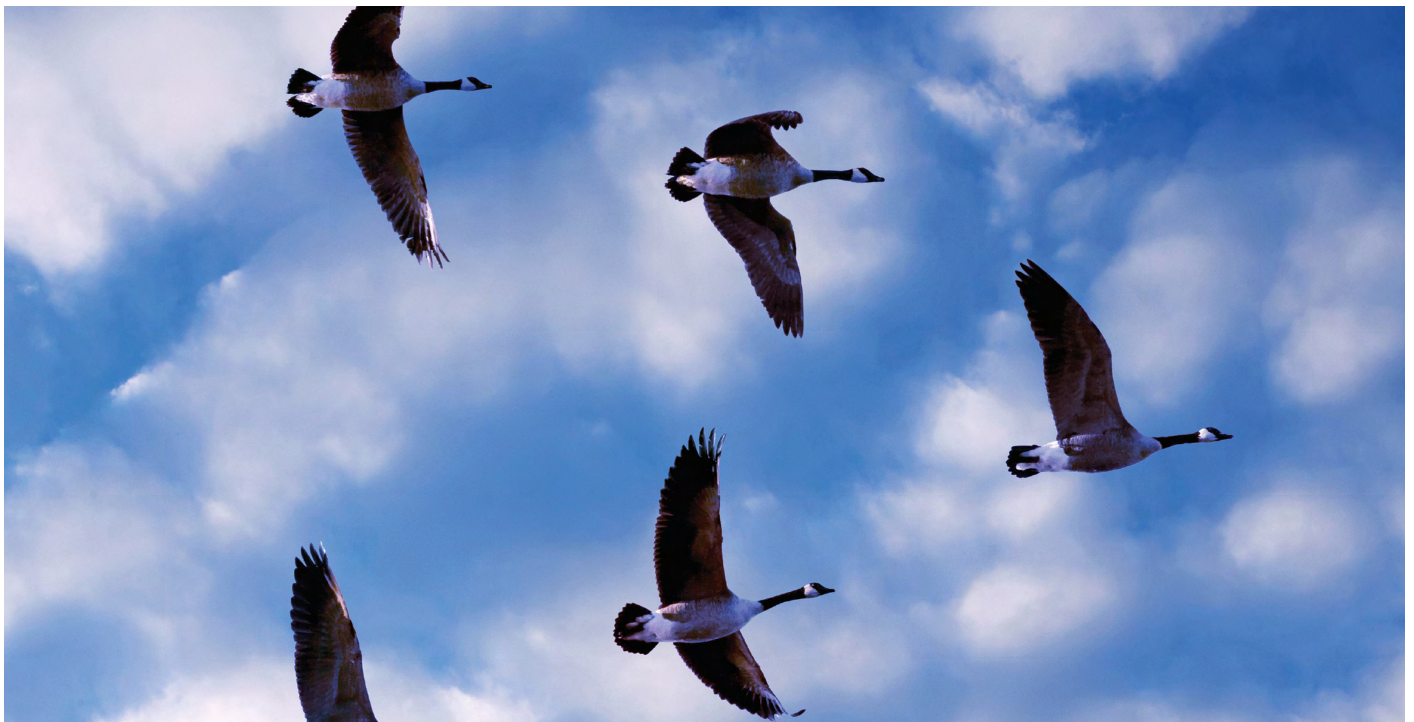
Michael Kirkbride is a Managing Director and Portfolio Manager at Evercore Wealth Management. He can be contacted at michael.kirkbride@evercore.com. To learn more about tax-loss harvesting, please view Michael's recent video at *https://www.evercorewealthandtrust.com/tax-loss-harvesting-pros-cons/*.

Keeping Interest Rate Rises in Perspective

By Helena Jonassen

Higher interest rates – up fourfold in a year, albeit still low – can complicate wealth planning decisions. But families who keep rates in perspective, stick with established wealth plans, and make tactical moves now should stay on track to help meet long-term goals.

Grantor Retained Annuity Trusts, or GRATs, have been popular with high-net-worth families for years. Historically low interest rates have enabled grantors to fund trusts at the Section 7520 rate, or the hurdle rate, published monthly by the IRS, in the expectation that the funds would in fact outperform that rate and



the excess appreciation be transferred to the beneficiaries free of gift and estate tax. That worked brilliantly when rates were low and markets were rising. Now families have a higher hurdle to surmount; as of November, the 7520 rate is 4.8%, up from 1% just a year ago. And the markets haven't been helping the existing GRATs.

This is where perspective matters. Sure, rates aren't as favorable as they were a year ago, but as illustrated by the chart below, they are still low from a longer-term perspective. As for the markets, a bear market can be a boon when funding a brand new GRAT. Once the account performance clears the hurdle rate, the GRAT beneficiaries could benefit from a subsequent market recovery. (See the diagram on page 14 for an example of a GRAT.)

A Charitable Lead Annuity Trust, or CLAT, may still be an attractive transfer strategy for families who are charitably inclined. CLATS are split-interest trusts that benefit a charity during their terms and, at the termination of the trust, allow remaining assets to pass to the remainder beneficiary, typically the heirs. As with a GRAT, the amount of the remainder will depend on whether the trust's investments outperform the Section 7520 rate.

In a still relatively low interest rate environment and after a market dislocation, CLATs can be an effective means of wealth transfer to the next generation. The interim beneficiary of the charitable lead interest can be a donor-advised fund, a private foundation, or a public charity. If structured as a grantor trust, the grantor may have an immediate tax deduction as well. Decisions between grantor and non-grantor CLATs are based on personal circumstances and should be made with professional consultation.

Please note that both GRATs and CLATS should only be used for the transfers to the immediate next generation, not to grandchildren.

Families looking for more immediate wealth transfer solutions, say to help buy a home or start a business, may want to consider intra-family loans, especially now that mortgage and bank personal loan rates have spiked. Intra-family loans can be made using the Applicable Federal Rates (AFRs) published monthly by the IRS. At present, that could mean as much as a three-percentage point difference on a 30-year mortgage. It is important to note that the loan documents should be properly drafted, as they may otherwise be viewed by the IRS as a gift. The interest on the loan will be taxable to the lender as ordinary income.

Other estate-planning vehicles, such as Qualified Personal Residence Trusts (QPRTs) and Charitable Remainder Trusts (CRTs), will become more attractive if interest rates continue to rise. We

Still Relatively Low

Section 7520 rates May 1989- November 2022

Source: Evercore Wealth Management

will review these in future editions of *Independent Thinking* as circumstances warrant. At present, rates are still relatively low, and we continue to think that it is more likely than not that they will stay that way. (See John Apruzzese's article on page 2.)

Either way, it's important to keep in mind that interest rates should never be the only driver in wealth transfer decisions. While giving sooner rather than later could provide significant tax benefits, as a married couple can transfer up to $24.12 million in 2022 and $25.84 million in 2023 completely free of taxes over their lifetimes until 2025, after which time the exemption amounts are roughly halved, transfer strategies should also be executed in the context of long-term plans. Families considering substantial transfers should consult their Evercore Wealth & Fiduciary Advisors to review the most appropriate planning vehicles in the context of long-term wealth plans, as well as prevailing economic and market conditions.

Helena Jonassen is a Partner and Wealth & Fiduciary Advisor at Evercore Wealth Management and Evercore Trust Company. She can be contacted at helena.jonassen@evercore.com.

Follow the money: Heirs can substantially benefit from GRATs

Step 1: The grantor transfers asset(s) to an irrevocable trust. Typically, the grantor pays minimal gift tax or uses minimal gift tax exemption on the present value of the trust remainder.

GRANTOR
$0 Gift Tax Paid

GRAT
$5,000,000

GRANTOR
$5,362,793

BENEFICIARIES
$1,779,358

Step 2: The grantor receives an annuity stream for a set term in cash or in kind. The grantor pays tax on ordinary income and realized capital gains earned by the trust (but not on the annuity amount transferred from the trust to the grantor).

Step 3: When the GRAT term ends, any appreciation of the trust assets in excess of the applicable monthly IRS Section 7520 rate ("hurdle rate") passes to the trust remainder beneficiaries free of gift and estate tax. If the grantor does not survive the term, the trust assets are includible in the grantor's estate and are subject to estate taxes.

Assumptions

For illustrative purposes only:

- $5,000,000 asset transferred to the GRAT
- Two-year GRAT term
- IRS Section 7520 hurdle rate of 4.8% (November 2022)
- 25% appreciation assumption for the asset
- $0 Gift tax paid

Notes:

- If the investment return at the end of the trust term is greater than the hurdle rate, the trust remainder beneficiaries receive the trust balance, including any appreciated assets free of transfer tax.
- If the investment return at the end of the trust term is less than the hurdle rate, the trust assets, are paid back to grantor and the trust remainder beneficiaries receive nothing.

Wealth Planning Highlights in an Evolving Tax Landscape

Editor's note: In a still evolving tax landscape, it's important to revisit long-term wealth plans before implementing any new strategies. Here's an updated extract from the Evercore Wealth Management and Evercore Trust Company tax planning guide, first distributed to clients in October, to prepare clients for end-of-year discussions with their wealth and fiduciary advisors, attorneys, and accountants. Please note that the guide focuses on federal tax planning; It is important to also address state tax planning opportunities with advisors.

HIGHLIGHTS

- The IRS updated the tables used to calculate required minimum distributions, or RMDs, to account for longer life expectancies beginning in 2022. That means RMDs should be a bit smaller now.
- Retirees must take the first RMD by April 1 of the year after turning age 72. (This applied to all retirees who turned 70½ after December 31, 2019.)
- Qualified Charitable Distributions of up to $100,000 directly from IRAs to qualified charities are permitted for individuals 70½ or older and may be a tax-efficient strategy for RMDs.
- The federal gift, estate, and generation-skipping transfer, or GST, tax exemption increased from $11.7 million to $12.06 million in 2022 ($24.12 million per married couple) and increases to 12.92 million for individuals (25.84 per million per married couples) in 2023. This use-it-or-lose-it exemption amount sunsets after December 31, 2025, and returns to $5 million adjusted for inflation – projected to be about $6.9 million.
- The new Clean Vehicle Credit under the Inflation Reduction Act of 2022 made significant changes to the Electric Vehicle, or EV, tax credit – including limitations based on adjusted gross income and a requirement that after August 15, 2022, the vehicles must be finished in North America.

TACTICAL MOVES TO CONSIDER NOW

- Make gifts outright – or protected in trust – utilizing currently available gift, estate, and generation-skipping transfer, or GST, tax exemption amounts. The recent market downturn may be an opportunity to gift assets at depressed prices. If structured properly, when markets recover, the gift – as well as the future appreciation – will be out of your estate.
- Use estate planning transfer strategies that take advantage of valuation discounts, such as family limited partnerships or family limited liability companies. Future regulation or legislation could limit intra-family discounts.
- Accelerate income into the current tax year and delay deductions to 2023 if your income tax rates would be higher next year. Consider the opposite approach if you will be in a lower tax bracket in 2023.
- If you are charitably inclined, consider:
    - Funding a donor-advised fund, private foundation, or public charity with low-basis, long-term stock. Current market conditions and income tax implications should be considered in timing such a gift.
    - Changing your beneficiary designation on your traditional IRAs and retirement plans to name a charity.

For further information or to discuss your specific circumstances, please contact your Evercore Wealth Management and Evercore Trust Company Wealth & Fiduciary Advisor.

Special Needs Trusts: Protecting the Whole Family with Wealth Planning

By Karen Francois and Jay Springer

Families facing addiction, autism and other physical, mental, and emotional health issues are not alone, even if it can feel that way at first.

Over three million children in the United States, or almost 5% of the total, have some form of disability; one in every 44 are now diagnosed with an autism spectrum disorder.[1] Millions more young Americans suffer from mental health issues, substance abuse or, often, both. And about 6.5 million people age 65 and older suffer from Alzheimer's and other related dementias,[2] the dark side of the longevity gains addressed by Jeff Maurer on page 17.

[1] US Census, CDC, December 2, 2021
[2] Alzheimer's Association, March 14, 2022

Special needs planning takes a team: Learn more

The Evercore Wealth Management and Evercore Trust Company recent webinar *Special Needs: Protecting the Whole Family with Wealth Planning* explored this topic with our guest Ann Koerner, who founded National Care Advisors in 2008 to provide consulting services for attorneys, financial planners and trustees who support individuals with complex care needs and their families.

Please reach out to your Evercore Wealth & Fiduciary Advisor or contact wealthmanagement@evercore.com to access the replay.

If your family is among these numbers, you don't need to feel alone, or have to plan or care for your loved one on your own. While every family is as unique as the people and circumstances involved, experienced guidance – and guiding principles – can really help. Here are a few suggestions; please contact your Evercore Wealth & Fiduciary Advisor to learn more and to discuss your specific situation.

BUILD YOUR TEAM

Every family with a special needs member needs a support network. In addition to family members and medical professionals, members can include a care manager, educators, therapists and counselors, an attorney, an accountant, and a wealth and fiduciary advisor.

START WITH A CONVERSATION – AND KEEP TALKING

Special needs planning discussions should start early and occur regularly, from diagnosis and as the situation evolves. For some families, comprehensive planning might start with the birth of a special needs child; others will receive a diagnosis later or even much later, when a family member develops cognitive challenges associated with aging. Whatever the timeline, the important thing is to work with your team and start planning as soon as possible.

ESTABLISH YOUR GOALS

Your team can help you determine how your family member with special needs can reach their full potential, and how much that will cost. The team will also help you plan for your own and other family members' needs too. Some of the biggest questions you are likely to have will be around future care, as the primary caregivers age, and how much responsibility other family members can and should assume – and how they can be supported in that.

EXPLORE YOUR OPTIONS

Families with the financial wherewithal to provide for the care of their loved one may still wish to access government programs, such as Medicaid, the Supplemental Security Income program, and certain vocational or socialization programs that are only offered to those enrolled in these government programs. As improper use of funds can disqualify a special needs individual from benefits, consider establishing a special needs trust and engaging a trustee or co-trustee with a full understanding of government programs, including the strict regulations concerning the use of trust assets. If drafted properly, the use of a special needs trust does not prevent a family from using the assets of the trust or other assets to provide for the beneficiary.

APPOINT A TRUSTEE OR CO-TRUSTEE

Who will serve as a fiduciary, or co-fiduciary, to counsel the family, provide objective oversight, and balance your wishes with the evolving needs of your beneficiary after your lifetime? Who will work with your other advisors and serve as a single point of contact for your family? Trustees of special needs trusts should have a deep appreciation of the circumstances and aspirations of the beneficiary with special needs, to ensure that the trust will serve its purpose as a positive contribution to the quality of that person's life, and to the family as a whole. The trustee should be prepared to work with – and often lead – the family's dedicated team.

REMEMBER THAT YOU ARE NOT ALONE

There are plenty of resources for the many families with special needs individuals. Wealth can help, as well as add complexity. The right choices for your family should be shaped by your unique goals and circumstances, in close consultation with your team of experienced advisors.

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Aging with Attitude (and Gratitude)

By Jeff Maurer

If age is an attitude, then I feel pretty good. When I think back to my parents at this age, it seems to me that they were somehow much older than I am now. I'm more active, more engaged, and more physically fit. While they had rewarding lives, mine just seems more fun. Perhaps my own children and grandchildren will feel that way too. If 75 is the new 60 now, imagine what the experience of future generations could be.

I'll never know, of course. But as two-thirds of my life has been spent in the wealth management business, I do know one thing: Successful aging is greatly influenced by financial health and a good attitude, as well as by physical and mental health, and relationships. Federal longevity statistics bear that out at the most fundamental level, with the top one percent of Americans by wealth living longer than the average, and life expectancy across the board increasing with income.

Wealth is not a panacea for the worries that come with age, of course. But, if managed correctly, it can buy at least some peace of mind and, when needed, the best medical care. (Of course, a healthy diet, not smoking, exercising, and only light use of alcohol also help.) Here are three current examples, much in my thoughts at present.

First, how can anyone – especially people who like to live well – afford to live to 100 years old, while still meeting important family and philanthropic goals? As Wealth & Fiduciary Advisor Tom Olchon discusses on page 19, planning for a very long life starts and continues with rigorous financial analysis, regular risk assessments, and steady fiduciary oversight. As I round what I hope is only third base, my wish is to keep running in good health and with good cognition. But I have backup plans in place too, including a revocable trust, appropriate powers of attorney and health care proxies, a living will, and a good team of wealth and health advisors.

Second, how can we remain resilient and keep having fun through inevitable and often brutal market drawdowns? There have been 20 bear markets since 1929, with an average drawdown peak-to-trough of 37% and an average 3.3-year recovery time. My advice remains the same as it was at the beginning of this bear market: Don't panic and stay the course. Maintain a balanced portfolio with sufficient cash and defensive assets to ride out the hard times and be in a position to capture the market upside over the long term.

Third, how can we share our good fortune with our children and grandchildren, without inadvertently depriving them of the satisfactions of challenge and accomplishment? Watching my eldest grandchild preparing to head off to college reinforces my view that education is the greatest gift we can give those

we love. (Anyone who wants to learn more should view a recent video https://www.evercorewealthandtrust.com/comprehensive-lifestyle-planning-cost-education/ by Ashley Ferriello, a Partner and Wealth & Fiduciary Advisor at our firm, who describes some of the tax-efficient and satisfying ways in which to fund or contribute to an education.)

That view – that education makes a fine gift – is widely shared, I know. I haven't seen much consensus beyond it, however. If, when and how to transfer assets to children and grandchildren is one of the most dynamic and challenging discussions in our work, and no two families have the same opinion. That's why we are hosting a webinar on December 15, 2022, titled *Enough, but Not Too Much: Raising Independent Children in an Affluent Environment*. Please join it, if you can: https://www.evercorewealthandtrust.com/enough-not-much-raising-independent-children-affluent-environment/

Attitude, said Winston Churchill, is a little thing that makes a big difference. Multiple studies have drawn a connection between maintaining a positive attitude and aging with resiliency. I should add that anyone who reaches this age in good health, with strong relationships and solid finances, has reason to feel enormously grateful. I know I do.

Jeff Maurer is the Chairman of Evercore Wealth Management and Evercore Trust Company. He can be contacted at maurer@evercore.com.

75

75 is the new 60.

Financial Planning: More Than Investing

By Tom Olchon

There are two types of financial plans: the ones that sit in the back of a drawer (or the email box equivalent), and the ones that are regularly revisited and refreshed. We are proponents of the latter.

Proper financial planning begins and continues with conversation, at least every year and often more frequently, as family, business, regulatory and market conditions evolve. Current financial circumstances, attitudes to risk, and long-term goals are likely to be the major topics. But as much of the advisor's work is in getting the details right, there's a lot more to discuss too.

What are the best steps to take now to secure your lifestyle and protect you as you age? How will a new venture, gift or donation impact your liquidity needs? What are the tax implications for your estate?

It's a lot to consider. Done right, regular financial modeling will enable you to understand the long-term implications of spending patterns on your portfolio, taking into account capital market assumptions embedded within various asset allocation decisions. You could review Monte-Carlo simulations, which predict the probability of a variety of outcomes across a range of variables, but you may be better served by a thorough drawdown analysis that illustrates what may happen to your portfolio in a variety of market conditions, such as a repeat of the 2008-2009 financial recession, the brief 2020 COVID meltdown, or the 2022 inflation-related drawdown.

If the results are too much to stomach, you'll want to consider a less risky portfolio, and the consequences to income and growth that will likely flow from that decision. Either way, you'll probably want to maintain the equivalent of three to five years in cash and defensive assets. You may establish a specific reserve fund or strategy if there's a known risk on the horizon. For example, if your plan is dependent on continued employment income from you and/or your spouse, have you assessed the need for disability and/or life insurance to protect that income stream?

Once the asset allocation is agreed upon, the next (but not last) step is implementation. Whether putting cash to work to build out agreed asset allocations, transitioning an existing portfolio, or managing around a concentrated holding, the investment process should be methodical and transparent.

A financial plan is only as good as the inputs used and the assumptions made – and life, as we all know, can be unpredictable. As such, it is essential to revisit the plan regularly, ensuring that you are on track to meet your goals, and accounting for evolving family and market conditions, always mindful of potential tax consequences. Recent losses in the markets and spikes in inflation make this a particularly important time to revisit your plans. And of course, every major life change – marriage, birth of a child, retirement – is a reason to check back in with your advisors and adjust the plan appropriately.

A comprehensive and thoughtfully managed financial plan shouldn't collect literal or virtual dust. It should evolve, providing inspiration and peace of mind.

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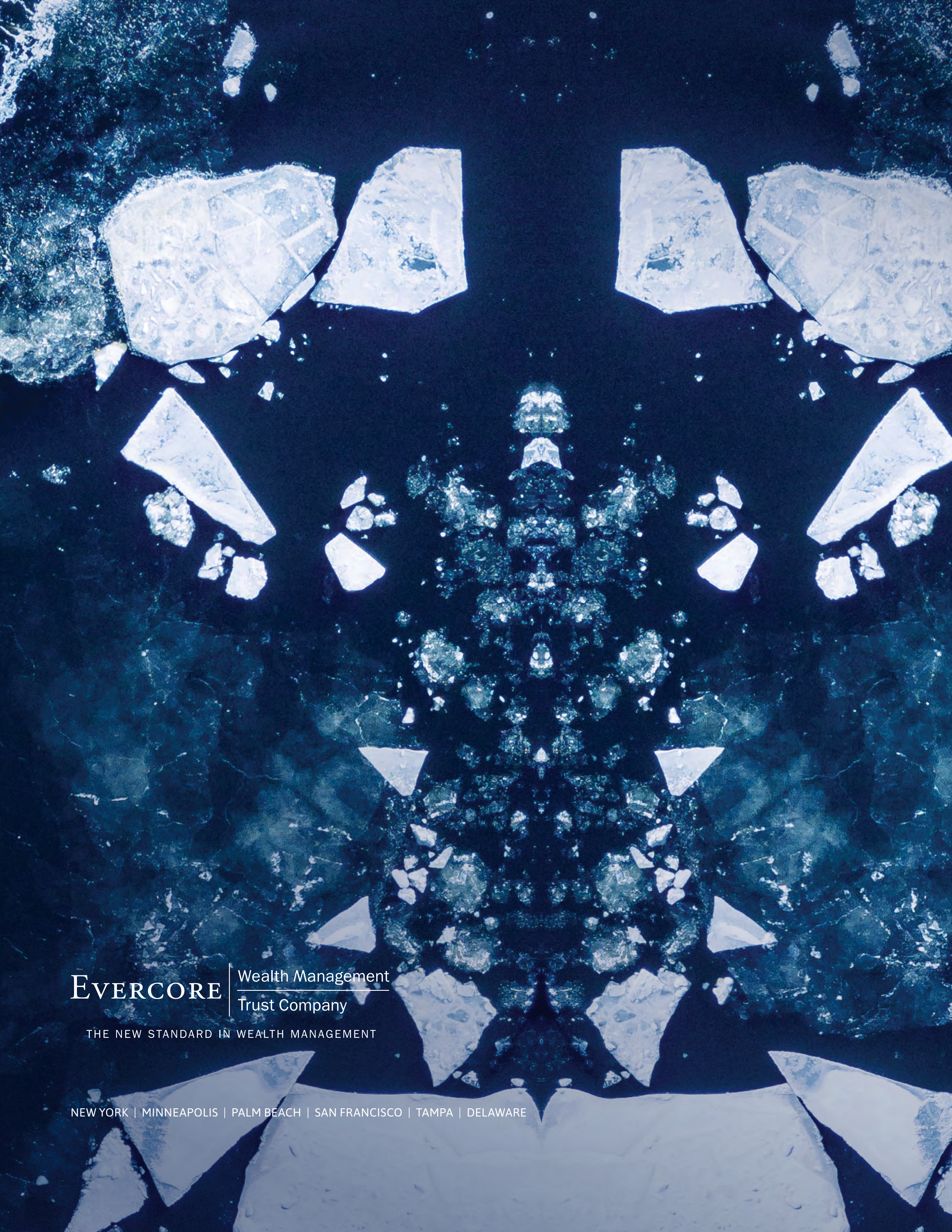
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