

INDEPENDENT THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

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A Message from the CEO



I have three children, close in age, but each in very different stages of life. One is starting his career; one is in her second year of college; and the youngest is still in high school, starting to think about his place in the bigger world. Different vantage points, but they are each asking the same question: Is the world getting worse, or does it just seem that way?

Many of us wonder the same thing. The headlines certainly make for tough reading, with truly horrible wars in Ukraine and the Middle East, continued dysfunction in U.S. politics, a lingering possibility of recession and, as my children would observe, the existential threat of climate change hanging over us all. But there's good news too.

Good news doesn't get reported as broadly, because change for the good is often slow in the making and therefore less remarkable. There aren't constant cable and social media updates on, say, rising global living standards. But global income per capita as measured by the United Nations is at all-time highs. Around the world, hundreds of millions of people are living lives their grandparents could have only dreamed of. Advances in innovation, productivity, diversity – these are all positive developments. Even the constant barrage of news on our screens could be viewed as good news, once we manage it better; free information flow should support education and democracy everywhere.

Many Americans, notably the affluent, are better off than they were, with record-high levels of household wealth at around eight times disposable personal income at the Federal Reserve's reckoning, up a third from the average of the past 30 years – and consumers are spending accordingly. U.S. companies, generally very well run, are doing incredibly well, notably to the top technology exporters. Rising U.S. debt and deficits are a problem, as described by

John Apruzzese in these pages, but the economy in the United States continues to outperform that of most other developed countries and of China, addressed here by Brian Pollak.

Still, we worry. It's human nature to do so, for young people first considering the big picture, and at every other stage of our adult lives. So please take a look at the article by Jeff Maurer on managing anxiety in stressful times. Also in this issue of *Independent Thinking* are articles by Neza Gallitano on wealth planning around executive compensation plans, and preserving special assets in trust by Julio Castro. And keep in mind that our advisors are here to work with you and your family, helping you to plan across a range of scenarios and invest accordingly.

As always, we welcome your questions and input, so please let us know your thoughts on the subjects raised here and anything else on your mind.

I hope that you and your family are enjoying the holiday season and looking forward to what I am sure we all hope is a more peaceful year in 2024.

A handwritten signature in black ink that reads "Chris".

Chris Zander

President & Chief Executive Officer

Watching the U.S. Debt: The Implications for Investors

By John Apruzzese

“A national debt, if it is not excessive, will be to us a national blessing,” said Alexander Hamilton in 1781. What might he have made of our \$26 trillion debt? At the current clip, U.S. federal debt held by the public will soon exceed nominal GDP, as illustrated on the next page. Without a radical change in the federal budget, we risk entering a terminal fiscal crisis, in which the rising average interest on the debt causes the debt to grow faster than nominal GDP.

Recession, still a possibility, would make matters worse, forcing nominal GDP down while likely driving the federal deficit higher. Like Greece over the last 10 years, the U.S. federal government would eventually be forced into austerity.

There are reasons to think that Congress may act before it's too late.

First, some politicians took note back in June when the bond vigilantes “saddled up,” as Ed Yardeni, the economist who coined the term back

in the 1980s, recently put it. The idea is that the vigilantes, concerned about profligate fiscal policy, drive bond yields high enough to create a debt crisis and a recession. Rising yields exacerbate the debt problem, of course, but may also force Congress to tackle it. Efforts to create a bipartisan commission to address the deficit and debt are still in the works, but it's a start.

Second, the alternative to acting is too grim for just about any politician to bear. When the Social Security

Social Security is in trouble, running an ever-increasing deficit.

program was founded in 1940, U.S. life expectancy was 60.5 years for men and 68.2 years for women. Every year for 39 years, the Social Security Trust funds took in more from payroll taxes than they paid out in benefits, contributing the surplus to the Treasury's consolidated budget, in exchange for what is

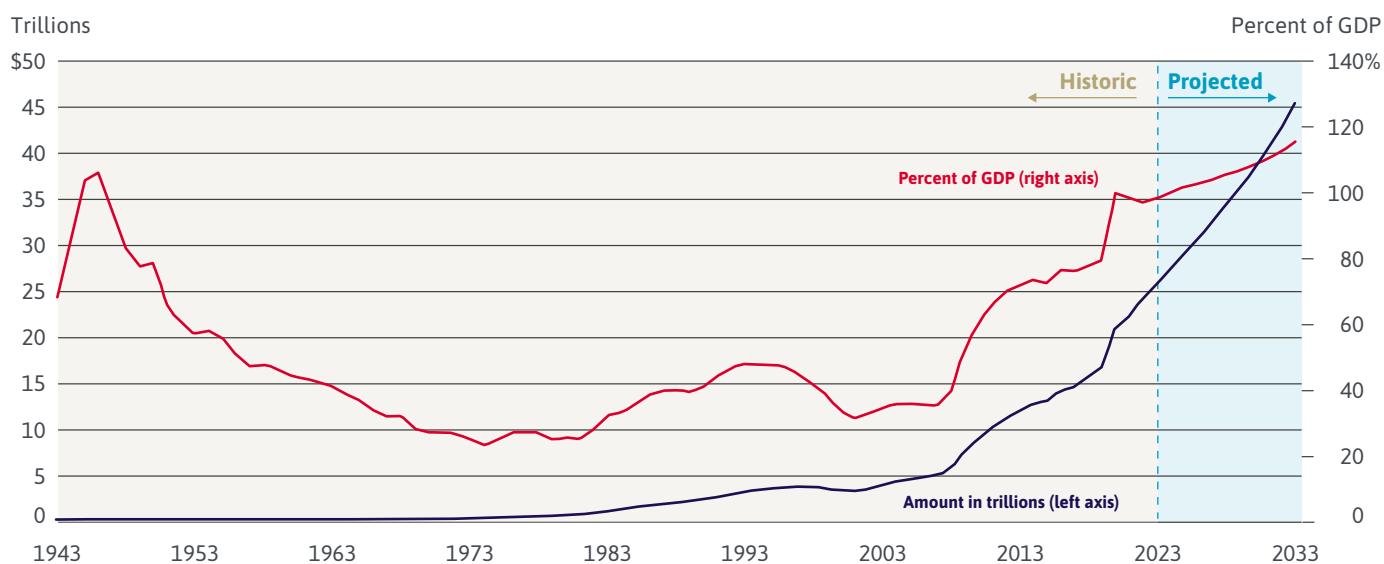
76 million

Baby Boomers are in or nearing retirement



More Hat Than Cattle: U.S. Debt Outstrips Nominal GDP

Debt held by the public (in trillions of dollars and as a percent of GDP)



Note: Nominal gross domestic product (GDP) is the total market value of all goods and services; Unlike other GDP measurements, nominal GDP is not adjusted for inflation. Debt held by the public is all debt that the federal government owes to those outside of the federal government. It includes debt held by individuals, businesses, banks, insurance companies, state and local governments, pension funds, mutual funds, foreign governments, foreign businesses and individuals, and the U.S. Federal Reserve Bank. However, it does not include intragovernmental debt.

Source: Congressional Budget Office, Office of Management and Budget, and Committee for a Responsible Federal Budget. As of September 15, 2023.

40.8%

Current highest marginal federal income tax rate on unearned income

essentially an IOU. Today, with over 76 million Baby Boomers in or approaching retirement, and life expectancy at 73.5 years and 79.3 years, respectively, Social Security is in trouble, running an ever-increasing annual deficit that should exhaust its \$2 trillion reserve within 10 years. But slashing Social Security benefits by the 25% to 30% it would take to match the program's revenues is something no politician wants. Lawmakers will have to act, and soon.

So, what would radical change look like? It seems likely that Congress will follow the playbook established in 2013 when it bolstered the Medicare trust fund through the elimination of the wage cap and the application of a 3.8% payroll tax on all unearned income above \$250,000. An equivalent remedy for Social Security would be to eliminate the current \$160,000 cap on wages (\$166,600 in 2024) and apply some or all of the 12.4% Social Security payroll tax to unearned income.

Currently the highest marginal federal income tax rate on unearned income is 40.8% (37% plus the Medicare tax of 3.8%), and the highest marginal federal tax rate on long-term capital gains is 23.8%, which also includes the 3.8% Medicare tax. Benefits could be reduced by a further increase in the retirement age and/or

means testing. In any case, at this juncture, all long-term financial planning should consider the very real possibility of higher tax rates on unearned income and capital gains. We do not yet know how high the tax rates could go, but the prospect does potentially reduce the attractiveness of income deferral tactics. (See page 14 for an extract of our annual year-end wealth planning guide.)

Clearly, much is riding on how long the Federal Reserve must keep short-term interest rates above 5% to fight inflation, as well as how high long-term interest rates go to clear the market, so there is no excess supply or a shortage. The 10-year Treasury recently spiked to 5% before settling back a bit as the market adjusts to the prospect of ever-larger Treasury debt actions.

Long-term financial planning should consider the very real possibility of higher tax rates.

We are actively extending maturities in our bond portfolios to take advantage of higher long-term interest rates, but we will extend gradually because we recognize the possibility that interest rates may rise further. After all, in the six years prior to the Great Financial Crisis, rates averaged 4.5%. We may simply be returning to a more normal rate environment.

We believe persistent high interest rates will put pressure on equity valuations. However, the U.S. economy remains extraordinarily resilient in the face of very restrictive

John Apruzzese introduced the firm's latest investment thinking in New York, Minneapolis, and San Francisco in November. Justin Miller, National Director of Wealth Planning, joined the San Francisco presentation to discuss the wealth planning outlook. Please contact your advisor for a copy of the presentation.

monetary policy. There are many reasons for this, including stimulative fiscal policy, robust household and corporate balance sheets, and a structurally tight labor market. Corporate earnings remain healthy and we believe are likely to resume growing at about 8% next year.

We are in the process of increasing our allocation to credit strategies. High-yield bonds and other non-investment grade fixed income securities are now yielding 8%-11%, which is an attractive yield, assuming the United States does not enter full recession within the next two years. At present, we believe this is a reasonable assumption.

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All the Debt in China

By Brian Pollak

If misery loves company, Americans should take comfort in knowing that other countries have similarly high debt burdens. Government debt in the United Kingdom and many European Union member states hovers around the U.S. levels, and Japan's debt represents more than twice the country's gross domestic product (GDP). But the real standout is China, because its debt – government, corporate, and household – has grown so fast and is based on such shaky collateral.



Photo credit: Kalyakan, stock.adobe.com

280%

China's debt is now 280% of its GDP

China's debt – including government, corporate, and household borrowing – appears to have doubled in the 15 years since the financial crisis, to around 280% of GDP, as illustrated below. All three components have risen, in contrast to the United States, where corporate and consumer debt have remained relatively stable. And China's government debt is bigger than it looks, because a large proportion of Chinese debt liabilities are really the responsibility of the government. This debt exists in the form of the approximately \$9 trillion of outstanding debt obligations issued by local government financing vehicles, or LGFVs. These shadow debt structures, which are not represented in the

government's debt figures, are backed by land, infrastructure and, ultimately, obligations of local governments. Collectively, they now represent about half of Chinese GDP, bringing the total government debt close to 100%.

It has become clear that many of these projects don't have the cash flow to support their debt loads. In some cases, they never did. In others, cash flows were predicated on property sales, but when demand for property and, consequently, property prices, dried up, so did the cash flow to pay back the bondholders. Indeed, S&P calculates that it's possible that up to two-thirds of the real estate sector may be suffering from liquidity stress. Private real estate debt markets have also had significant struggles. China Evergrande, the world's biggest property developer, and Country Garden, another massive Chinese home builder, have both defaulted and together have in excess of a \$500 billion debt load. This has only added to the pressure on the broader property market, and as prices have spiraled downward, the dangers

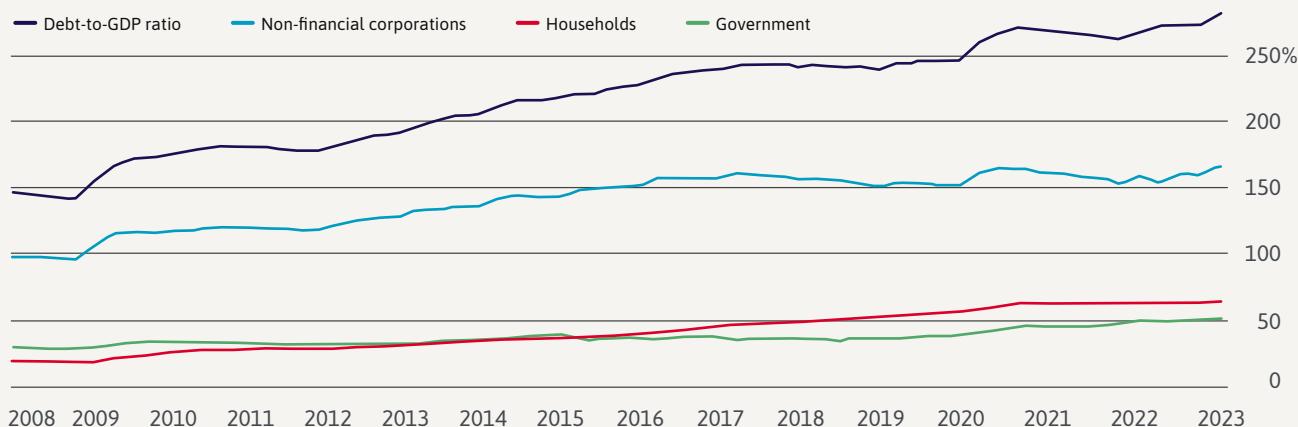
of a highly leveraged, property-focused economy are becoming more apparent.

The central government has stepped in for now, with a plan announced in August 2023 that allows local governments to raise about \$140 billion in bond sales to refinance the struggling LGFVs. While this amount will in no way cover all the failing LGFVs, the now more explicit backing of the central government may provide some comfort to investors and banks with exposure to these vehicles. It also makes it clearer that the large debt load represented by the LGFVs can be considered a direct liability of the government.

It's understandable that China took on this debt. In 1980, about 20% of China's population lived in cities; today that proportion is about 65%. And there are so many cities now; 160 have populations of over one million people. That enormous transformation required new roads, bridges, railways, airports, power stations, schools, hospitals, and real estate development, both residential

China's Heavy Debt Burden

China's Total Debt as Percentage of GDP



Source: National Institute for Finance & Development, Bloomberg. As of March 31, 2023.

70%

Approximately 70% of household wealth in China is tied up in the property sector.

and commercial. Unfortunately, the debt incurred to make these investments will be difficult to pay off. Like the United States, China has a large government deficit; the International Monetary Fund puts it at the equivalent of 7.1% of GDP in 2023 and expects it to rise further (see the chart below). At the same time, the population is aging at an alarming rate, as discussed in the previous edition of *Independent Thinking*. The government will need to increase spending on social services to accommodate the needs of the growing older population. As approximately 70% of household wealth is tied up in the property sector, future wealth creation in the country may be

imperiled, and citizens are increasingly likely to be reliant on government entitlements in their retirement.

While we worry in the West about inflation and persistent high interest rates, in China, with inflation flatlining over the last year, deflation and future growth are the pressing concerns, as evidenced by the paltry 2.7% yields on 10-year central government bonds. It is likely that strong sovereign support will contain any issues stemming from LGFVs, at least for the time being. But the combination of high debt, rising deficits, and aging demographics should impinge on China's long-term growth rate.

At the same time, rising tensions with the United States are suppressing trade and limiting access to some technologies. While forward price to earnings ratios in Chinese stocks are below the long-term historical average and below that of many other global equity markets, they are reflective of a dimming earnings and economic growth outlook. This makes direct investment

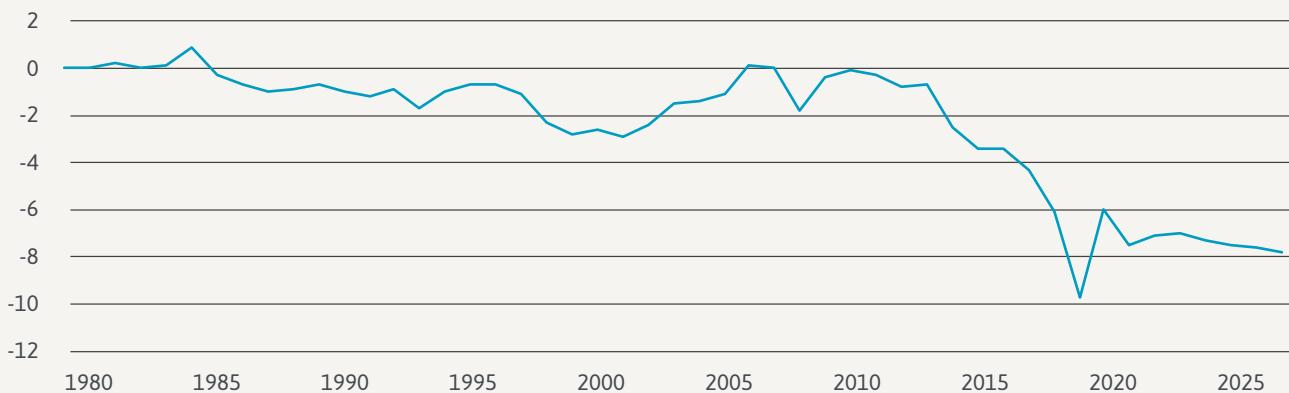
in China's stock market less appealing than it's been at any time since it was admitted to the World Trade Organization in 2001. We are also mindful that China's economic challenges may reduce the trajectory of global growth and limit the growth of companies and countries with significant reliance on China.

At present, we are limiting exposure to China in our allocations, relative to their benchmarks. We remain open to targeted investments in the country, as the country's stock market is too big to fully ignore, and there are likely to be pockets of innovation and productivity gains as urbanization continues and the country becomes less reliant on western technology. At present, however, China's heavy debt burden is an obstacle to growth.

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China's Widening Deficit

Chinese General Government Debt as a Percentage of GDP, Net Lending and Borrowing



Source: International Monetary Fund.

Note: Data after 2022 are predictions. As of October 2023.

Making Do: Federal Shutdowns, States and Municipalities

By Howard Cure

Federal shutdowns may be no way to run a country, but at the state and local level, governments generally make do. At present, municipal bond issuers are in generally good financial shape and should be able to weather the inevitable next shutdown, unless it drags on.

In the wake of the last near shutdown, averted in the eleventh hour on November 14, 2023, by a bipartisan vote to keep the government open until early January, it's worth reviewing why shutdowns happen in the first place.

Government shutdowns occur when policymakers fail to enact legislation to fund the federal government by the end of the fiscal year, on September 30. Each year, Congress must pass, and the President must sign, legislation to provide funding for most government agencies. That legislation comes in the form of 12 appropriation bills, one for each appropriations committee. Lawmakers may also choose to pass a temporary funding bill, known as a continuing resolution, or CR,

to provide funding for a limited time. If lawmakers fail to pass some or all of the appropriations bills on time, and a continuing resolution is not in place, the government shuts down, in part or in full.

The deadline has not been fully met since fiscal year 1997. Instead, lawmakers have come to rely heavily on CRs – temporary, imperfect solutions that avoid the difficult but necessary work of allocating funding. Lawmakers often enact multiple CRs in a single fiscal year before deciding on full-year funding levels. For fiscal years 1998 through 2024, 132 CRs were enacted.

Unlike a breach of the U.S. debt ceiling, for which there is no precedent, there have

been 14 shutdowns since 1981, four of which lasted for more than a day, with the longest full shutdown lasting 16 days in 2013. The 35-day shutdown in 2018-2019 was considered a partial shutdown, as Congress had already enacted five of 12 appropriation bills, including funding for the Department of Defense and the Department of Veterans Affairs, which are the largest federal employers.

Programs categorized as mandatory spending, including Social Security, described by John Apruzzese in the cover article of this issue, Medicare, and Medicaid, are not subject to annual appropriations. Border

protection, hospital care, air traffic, law enforcement and power grid maintenance workers, along with some legislative and judicial staff, can also be categorized as essential, meaning that they must stay on the job during a shutdown. Federal workers will likely get back pay once a shutdown ends, as they have in previous government shutdowns. However, private contracting companies serving the federal government could be forced to suspend operations and not receive back pay.

While a brief shutdown should not affect state and local budgets, a months-long spending pause could. Should it drag on, government leaders may have to decide if they want to use state funds to replace missing federal dollars and keep certain government services running. While states are in a much better financial position to keep programs going than in the previous extended shutdowns, their rainy-day funds could eventually run dry.

State and localities administer most federally funded social programs for low-income households; that money stops flowing when the government shuts down. In prior shutdowns, states have kept most programs and services running and later been paid back by the federal government. But sometimes they aren't fully or quickly reimbursed.

Certain states that have federal lands or high concentrations of federal employees will feel the impact of a federal shutdown the most. After the threat of a shutdown in September, the governors of Arizona, Colorado and Utah announced that they will pay to keep national parks open in the event of a shutdown to avoid any loss of tourism spending. Base personnel in military communities are required to work, but they will stop receiving the support they rely on, including a paycheck, childcare, and the already financially challenged USDA Special Supplemental Nutrition Program for Women, Infants and Children.

Current credit considerations in specific municipal bond sectors

- **State and local governments: Minimal impact.** Tax revenues in regions with high concentration of federal employees could slow, but financial reserves built up from programs during the height of the pandemic should alleviate short-term declines.
- **Mass transit: Low impact.** Federal grants could be disrupted, and ridership in federal employee concentrated areas could slow. However, existing liquidity buffers and the ability to cancel or pause capital spending will help mass transit agencies mitigate the disruption.
- **Higher education: Minimal impact.** Federal research funding could be disrupted.
- **Healthcare: Minimal impact.** Medicare and Medicaid funding is mandatory and not subject to appropriation.
- **Airports: Minimal impact.** Airports will remain operational. Longer security lines/delays occurred during the last shutdown, as air traffic controllers/TSA agents went without pay, and some did not report to work.
- **Grant Anticipation Revenue Vehicle, or GARVEE: Minimal impact.** This vehicle is secured by federal gas taxes, and federal funds to the states continued to flow during the past shutdowns. Also, issuers typically prepay debt service a year in advance, insulating GARVEE credits from the effects of a shutdown.

A shutdown would halt federally required environmental reviews and reviews of grant applications for funding from the Infrastructure Investment and Jobs Act, or IIJA. Rulemaking for the IIJA and the Inflation Reduction Act may also pause. Commercial airports could also be affected, as a shutdown could disrupt the training of new air traffic controllers, who are already in short supply.

While a shutdown could cause problems for some of the most vulnerable members of society that are reliant on federal aid, these programs could be temporarily supplemented by ample state financial resources. An extended shutdown could also delay many capital projects due to the intricate federal approval process that is necessary to proceed.

Overall, we do not anticipate a significant credit problem in state and local bonds. Our clients hold a range of municipal bond

enterprise systems in their portfolios. Of these sectors, mass transit has the potential for the greatest disruption due to an extended government shutdown. Mass transit systems, still recovering from declines in ridership during the pandemic and the loss of farebox receipts, are vulnerable to potential losses in federal funds. These exposures are balanced against alternative funding sources in weighing investment allocations.

If Congress continues to threaten funding for well-established federal programs, either through the budget process or through separate legislation, our concern over municipal credit will grow. We will update clients accordingly.

Howard Cure is the National Director of Municipal Bond Research at Evercore Wealth Management. He can be contacted at cure@evercore.com.

Managing Executive Compensation Plans

By Neza Gallitano

Like professional athletes, corporate executives are often paid for performance. Unlike many athletes, executives may have more time on their side, thanks to deferred pay compensation structures that reward those who hang in there – and plan well. And it's not just the top players who benefit. In recent years, companies have expanded deferred compensation packages well beyond the C-suite, in some cases to nearly all employees. Long-term incentives as a proportion of C-suite executive pay have more than tripled over the last few decades to about 70% of total pay.

That proportion is likely to continue rising in the wake of the 2022 ruling by the Securities and Exchange Commission, or SEC, on "Pay vs. Performance," which requires companies to disclose executive compensation along four specific measures, as illustrated on the next page. The ruling is the latest step to pay transparency, which started with the "Say on Pay" ruling in 2011 as part of the Dodd-Frank Act. Shareholders and boards want to see that executives have skin in the game, and by large, executives have benefited enormously.

Let's take a quick look at the most common types of executive compensation, along with the advantages, drawbacks, and other considerations. Many companies will provide a mix of compensation structures, with the most common features including cash compensation with additional incentive compensation in the form of restricted stock and performance-based restricted stock.

Stock options are a powerful, tax-efficient tool to compensate executives, which gained immense popularity in the 1950s when marginal tax brackets were much

higher. If the underlying stock price grows, the owner of a stock option can participate in those gains while simultaneously deferring tax until the exercise of the option. And if the underlying stock price falls below the strike price, the owner of the options can simply let them expire; the only downside is opportunity cost. Further, if the stock options are qualified incentive stock options and the holding requirements are met, the owner may be able to avoid ordinary income tax due when they exercise the options and instead pay long-term capital gains tax.



Year	LTI Vehicle Prevalence for S&P 500 CEOs		
	Performance Plan	Stock Options	Restricted Stock
2009	50%	70%	46%
2014	83%	59%	59%
2019	94%	50%	69%
2020	92%	47%	67%
2021	93%	50%	69%

Source: <https://corpgov.law.harvard.edu/2023/03/07/sp-500-ceo-compensation-increase-trends-5/>

Defining the Next Big Act in Your Multistage Life Event Recap

What's your next act? Defining and realizing next steps was the focus of the October 11 event at Evercore Wealth Management in New York, hosted by Stephanie Hackett and featuring CEO and serial entrepreneur Wenda Millard, Executive Producer Carla Singer, and Joanne Lipman, the author of *NEXT! The Power of Reinvention in Life and Work*. To view the discussion of their personal reinventions, and the potential challenges and rewards we may encounter on our own individual journeys, please contact your advisor.



on the difference between the sale price and the strike (purchase) price at disposition of the shares. Although, it is important to note that the exercise of incentive stock options could result in significant alternative minimum tax consequences.

sell shares at the time of vesting, this means that the tax bill is due before the liquidity is available and cash must be used from other sources. **Performance-based restricted stock units, or PSUs**, vest only if the company hits certain performance targets and are thereafter taxed like RSUs. PSUs are especially appealing for companies and boards, as they motivate executives to meet performance targets while also allowing companies to present large compensation packages to attract executives.

There are several other compensation structures that are available but less prevalent, such as traditional deferred compensation plans, long-term incentive plans, or LTIPs, and performance stock plan "kickers" (whereby additional discretionary stock grants can be made for superior performance). Employees should note that forced bonus deferrals are often made to non-qualified deferred compensation plans. These plans are subject to the creditor risks of the company, which should be taken into account when considering how much to defer and how to plan for these

It is important for employees to understand the specific policies of their incentive compensation plans.

funds. Companies often implement new compensation measures trying to balance current year fiscal reporting while competing to attract top-tier talent.

In just about all cases, employee shares in both public and private companies are often required to be held in the employee's own name. Transfers to family trusts or family members are either prohibited or very restricted. As a result, sometimes the largest asset on an individual's balance sheet cannot be used to take advantage of the current lifetime estate tax exemption amounts.

Therefore it is important to maximize estate planning techniques available for unrestricted assets, as well as develop a plan to incorporate company stock assets into the estate plan once they become unrestricted. Some companies

70%

Long-term incentives as a proportion of C-suite pay

Other types of stock awards also align the executive and shareholder goals. In other words, everyone makes more if the company does well. Although, non-cash awards may carry more risk for the executive. **Restricted stock and restricted stock units, or RSUs**, are taxed as ordinary income at the time of vesting. Unless the share owner is able to simultaneously

do allow vested shares of common stock to be reassigned, so it is also important for employees to understand the specific policies of their incentive compensation plans.

Companies competing for talent at all levels put together enticing compensation packages but are equally motivated to push much of this compensation into long-term payout structures, thereby tying employee compensation to tenure. Further, companies have different vesting conditions in the case of termination or change of control. It is important for employee shareholders to understand how their shares vest, or don't vest, in each of these scenarios to calculate a net present value of their compensation, which can guide future decision making.

Often, employee shareholders do not actually diversify away from company holdings until they leave that role. The bull market that we've seen since March of 2009 and record IPO valuations have made it easy for employee shareholders to stay invested. Without proper planning, though, employees could be left holding the bag. Employee stockholders who worked at Lehman Brothers in the first two weeks of September 2008 saw their net worth invested in company stock drop 46% before being completely wiped away in one day. More recently, the COVID-19 pandemic caused some companies' values to soar (such as Zoom and Peloton), while others plummeted (such as airline stocks and hotel brands). Both Zoom and Peloton shares have fallen back to pre-pandemic levels, off 89% and 97% of their COVID-19 era peaks, respectively. This year, employees and other shareholders of First Republic Bank lost nearly all the value in their holdings as the share price lost over 90% of its value over a period of six weeks in February and

March 2023, before losing nearly all remaining value before May. Executives at WeWork and Twitter had similar experiences as fraught management caused share values to tumble. While these examples are extreme, even lower levels of volatility can impact an individual's cash flow plans or retirement timing.

Diversification is a crucial part of the planning process for executives.

Diversification is therefore a crucial part of the planning process for executives. However, sale restrictions, trading windows, and tacit expectations not to sell stock can often prevent employee shareholders from fully diversifying their concentrated positions, which further exposes their net worth to large fluctuations and volatility. One simple way for employees to diversify away from company stock is to elect shares to be sold upon vesting or exercise to cover income tax withholding. Some companies even allow employees to elect a higher withholding rate than the statutory federal withholding rate of 22%, thereby allowing them to fully cover their tax liability. Selling shares to cover tax withholding allows individuals to reduce their overall employee stock exposure while preserving cash and other assets outside of the concentrated stock. It is important to work with a wealth planning advisor and a CPA to properly plan for tax liabilities associated with vesting of restricted shares or the exercise of options.

10b5-1 plans are often established to allow insiders of public-traded

corporations to set up a trading plan for selling company stock they own while abiding by insider trading laws. Documents pertaining to these plans set forth certain events, whether date-based or stock-price based, at which an executive's shares will be sold. Plans can stipulate various time frames, but typically are in force for six months to two years. While it may be possible to modify and terminate an existing plan, such changes are subject to significant limitations.

Proper planning can enable executives to ensure that they are meeting lifestyle and tax liability needs through their direct (cash) payments while addressing their incentive payments in the context of longer-term goals. This planning should consider various scenarios, including those in which the company performance metrics miss their mark and shares don't vest. With the right planning, an executive will be fully apprised of the existing and potential value of a compensation package involving stock and have the power to understand and negotiate for future roles. Most important, proper planning allows individuals to maximize their balance sheet and cash flow and make informed diversification decisions to preserve their earnings for years to come.

It's also worth noting that different companies call these incentive plans by different names, in which case a wealth advisor could help identify the plan and its advantages and constraints.

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Wealth Planning: Updates for Year-End 2023 and 2024

Editor's note: Evercore Wealth Management released its legislative and regulatory guide in October to inform clients of end-of-year planning discussions in the context of overall wealth planning goals. Highlights and subsequent relevant IRS updates are included here. Please contact your advisor for further information or to discuss your specific circumstances.

2024 Tax Rates

For tax year 2024, the top marginal tax rate remains 37% for individual single taxpayers with incomes greater than \$609,350, married couples filing jointly with incomes greater than \$731,200, and estates and trusts with incomes greater than \$15,200.

Taxable income thresholds to qualify for either a 0% or 15% rate on long-term capital gains are detailed below:

Filing Status	Maximum 0% Rate Amount	Maximum 15% Rate Amount
Married Individuals Filing Joint Returns and Surviving Spouse	\$94,050	\$583,750
Married Individuals Filing Separate Returns	\$47,025	\$291,850
Heads of Household	\$63,000	\$551,350
Individual Single Taxpayers	\$47,025	\$518,900
Estates and Trusts	\$3,150	\$15,450

* Rates exceeding this amount are taxed at 20%. Note that an additional 3.8% net investment income tax also may apply.

SECURE Act

The new Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0 included adjustments to required minimum distributions and qualified charitable distributions. In addition, guidance issued by the IRS addressed estate tax portability elections, and a recent tax court opinion highlighted the importance of careful planning and timing of charitable contributions ahead of a liquidity event. The age for RMDs was raised from 72 to 73 as of January 1, 2023, and will rise again to 75 on January 1, 2033.

Qualified Charitable Distributions (QCDs)

Currently, an individual who is 70½ or older can make QCDs up to \$100,000 directly from an IRA to a qualified charity – but not to a donor-advised fund. Beginning in 2024, the QCD amount will be indexed for inflation to \$105,000.

Individuals who are 70½ or older are now permitted a one-time QCD of up to \$50,000 from an IRA to a charitable gift annuity (CGA), charitable remainder unitrust (CRUT), or charitable remainder annuity trust (CRAT) that benefits the participant or their spouse. For more information, please speak with your Wealth Advisor.

Inflation Reduction Act

The Inflation Reduction Act was passed in 2022 and continues to be implemented. It includes a wide variety of legislation targeting many different sectors of the economy. Among its provisions are:

- An expansion of Medicare benefits to include free vaccines and lower prescription drug costs. Most important, the law will require the federal government to negotiate prices for some drugs covered under Medicare Part B and Part D beginning in 2026.
- A new 15% minimum corporate tax and a 1% fee on stock buybacks.
- Expanded IRS tax assistance and enforcement through investment of \$80 billion over the next 10 years – which could be cut by up to \$21 billion pursuant to the debt ceiling agreement that was enacted in June 2023.
- Extension of the Affordable Care Act's federal subsidies to 2025, which lowers the cost of premiums for enrollees.

Gift and Estate Tax

The 2024 lifetime gift and estate tax exemption will be \$13,610,000, an increase of \$690,000 from 2023 levels. Additionally, the annual gift tax exclusion amount will be \$18,000 for gifts made in 2024, an increase of \$1,000 from 2023.

Timely tax planning highlights

- Take advantage of current federal gift, estate, and generation-skipping transfer (GST) tax exemption amounts to make gifts outright or protected in a trust. The federal exemption amounts are currently \$12.92 million per individual and \$25.84 million per married couple but are scheduled to be cut roughly in half after 2025. If structured properly, the gift – as well as the future appreciation – will be excluded from your estate for estate tax purposes.
- 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 2024 if your income tax rates would be higher next year. Consider the opposite approach if you will be in a lower tax bracket in 2024.

As always, we recommend meeting with your Evercore Wealth Management advisor, your attorney and your accountant before implementing new strategies to ensure that they are aligned with your long-term goals.

Keeping the Special in Special Assets

By Julio Castro

Any inheritance represents more than the value of the underlying asset, for both the benefactor and the beneficiaries. That's especially true when the inheritance includes a family business, real estate, a collection, or another precious asset. When the practical *and* emotional stakes are high, it's important to seek out objective advice and support.



Special assets are pretty much any asset other than traditional stocks, bonds, or cash. They are often illiquid and complex, requiring specific skills to preserve, manage, and grow. If the next generation or their fiduciary lack the requisite passion, ability, or consensus, then governance cracks can quickly appear. No one wants siblings to end up fighting while a much-loved vacation home falls into disrepair. Or, as one new client

Managing special assets requires sensitivity and flexibility.

family previously experienced, the unexpected incapacity of a business owner resulting in intra-family litigation and a court-ordered wind-down of the business. In short, the set-it-and-forget-it approach to estate planning critiqued by

Michael Cozene in the previous edition of *Independent Thinking* is particularly ineffective in handling these assets.

Families and their personal fiduciaries don't have to face these challenges alone. Indeed, they shouldn't. The Office of the Comptroller of the Currency, the government agency that regulates national trust companies, requires that corporate trustees maintain the requisite level of expertise

Identifying Your Trustee/s

"Just manage the assets and distribute the income equally to the heirs." Simple enough, right? Maybe not.

All trusts, especially those designed to last for two or more generations, need to have an element of flexibility to balance the intent of the grantor with the evolving needs of the beneficiaries. Here are some additional considerations in choosing trustees for trusts with special assets.

1. It takes a team. We usually recommend an individual trustee and a corporate trustee.

- a. An individual trustee generally has a long and intimate relationship with the family, ideally someone who shares the values and other qualities of the wealth creator and can serve for a decade or more.
- b. An experienced corporate trustee can protect the assets from theft or misappropriation, making thoughtful investment decisions, ensuring that the trust income is accurately reported and the appropriate tax returns are filed. A corporate trustee can also provide effective financial counsel to heirs.
- c. The right corporate trustee will supplement, not supplant, the individual trustee and other established family advisors.

2. All assets are not alike. Special and shared assets come with unique issues.

- a. Lifestyle assets (vacation homes, yachts, aircraft, and the like)
 - i. Who will pay for ongoing property taxes, maintenance, insurance?
 - ii. Who will manage the property, including any rentals, and coordinate the family's usage?
 - iii. Who will decide if the lifestyle asset is no longer an appropriate holding of the trust?
- b. Family business assets
 - i. What role does this asset play in the family's income and diversification?
 - ii. Who will manage the business and who will decide if the business should be sold?
 - iii. How will the business reinvest for growth while maximizing business income?
 - iv. How does the trustee's decision-making process help or hamper the operation or the administration of the business?

and establish adequate processes and procedures to effectively administer trusts containing special assets. This requirement should be a good standard for anyone asking a family member, friend, or advisor with taking on this important responsibility. Other considerations for existing and potential individual fiduciaries may include the scale of the necessary learning curve in administering these assets and the potential for personal

liability. Please see the brief guide to selecting a corporate fiduciary below.

Managing special assets requires sensitivity and flexibility. Assets like these are usually of great emotional – as well as financial – significance to the family. Planning for these assets requires both great communication and specialized knowledge, so that the benefactor's wishes are respected, and the individuals involved feel that they have been fairly

treated. At the end of the day, what really matters is that the assets are managed in the family's best interests – and that the family remains a family.

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- c. Art, cars, and other collectibles
 - i. Is the intent to hold the items in perpetuity, or may they be sold over time?
 - ii. How and where will the items be stored and how will the cost of storage, maintenance, and insurance be covered?
 - iii. How are the assets intended to serve the needs of the beneficiaries – i.e., are they held for investment or for personal use?
- d. Other special assets, such as life insurance and digital assets (including cryptocurrency), present other issues.

3. Consider bifurcating trustee responsibilities

- a. Trust laws in Delaware and several other states now permit the division of traditional trustee responsibilities among multiple trustees or between a trustee and one or more advisors (such as investment advisors, distribution advisors, and trust protectors).
- b. Control over special assets can be vested in the person with the closest connection to the asset and remaining trustee duties handled by the corporate trustee.
- c. The trustee that is directed with regard to certain assets or duties is generally protected from liability for following directions.

4. Ask the right questions in identifying your corporate trustee team member.

- a. What experience and resources exist within the organization to understand the complexity and management of multigenerational trusts and the special assets?
- b. What is the governance structure and process for decision making for routine and extraordinary fiduciary decisions?
- c. Will experienced professionals be assigned to my family for the long term?
- d. Is there redundancy in place to provide continuity of administration, including fiduciary decisions, through vacations, illness, or emergencies?
- e. Are third-party professionals engaged to manage complex assets or support family cohesiveness? If so, is there an additional fee?

5. Prepare for the unexpected.

- a. Your advisors can recommend appropriate methods to give someone the right to replace your individual or corporate trustee if circumstances change.

Retaining Perspective in a Crazy World

By Jeff Maurer

A friend tells me that she now spends the evenings watching *I Love Lucy* reruns to take her mind off the news. I can think of worse coping mechanisms.

We should strive to keep calm and carry on.



The headlines are mostly grim, and I know that many of my generation worry most about what they may mean for our children and grandchildren. But as we are told on every flight, we must first secure our own oxygen mask before helping others. So here are a few personal reflections, in the hopes that they may prove useful. In my experience, testing – and retesting – our predilections and tolerance for risk is the best way we can prepare for the future.

Politics: We can control our media exposure, staying informed without doom scrolling or rewarding those that peddle hype or falsehoods. And we can engage, as we wish our politicians did, across the aisle – getting to know people with different views. At the least, we'll gain insight. At best, we'll find common ground and do some good in this world. And, of course, we can vote.

Health: It wasn't long ago that the news was dominated by a single headline – an experience that has made us all more aware of our health. Diet, exercise, regular checkups, vaccines and, increasingly, technology can help position us to take full advantage of the trend to increased longevity. (Contact your advisor to view my discussion about "silver tech" with Andy Miller of the AARP's innovation unit). But 100-year life spans need to be protected and funded. Long-term healthcare policies,

a healthcare proxy, durable power of attorney, and a revocable trust, which allows a designated successor trustee to take care of finances in the event of cognitive impairment, can all play important roles in protecting us as we age.

Home: In theory, a single storm could take out both of my houses, on the east coast of Florida and in Long Island. But for me, five days of pure terror are so far a reasonable price to pay for 360 days of joy. Having made that choice, there's a limit to how much I can control, beyond hoping that personal lifestyle, philanthropic, investing, and voting choices are the right ones. But I can keep up to date with relevant technological, landscaping and maintenance techniques. And I can make sound decisions on insurance, to the extent that market conditions allow. (Contact your advisor if you would like to view our recent webinar on property casualty coverage.)

Personal finances: I have spent the last 50 years worrying about financial risks for clients, institutions, and my family. In that time, there have been six bear markets, with an average drawdown of 41%, and an average recovery time of 2.8 years. Understanding our risk tolerance – where we fall in the "eat well versus sleep well" scale – is a very personal determination, and one that is likely to evolve. Some

clients wish to take only limited risk and are content with 100% of their assets allocated to a laddered bond portfolio; others simply don't invest in bonds because of the relatively low return potential. Most of us are somewhere in the middle.

Personally, at this stage in my life, I do not want to have a pit in my stomach during a significant drawdown. I therefore maintain sufficient cash and bonds to cover five years of spending. On that basis, I am more aggressive with my other assets, investing in illiquid private equity and real estate where I personally expect higher returns. When the drawdown does occur – because it will – I can tap my reserves for spending and meeting capital calls.

Perspective: Attitude really is everything, so we should all strive to keep calm and carry on, come what may. I've learned, on occasion the hard way, that keeping busy and optimistic is the best way to live. So, when headlines feel overwhelming, try looking for the good. It's there too.

"I'm not funny," Lucille Ball once said.
"What I am is brave."

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

New Frontiers in Aging: Technology for Long and Happy Lives

Evercore Wealth Management Chairman Jeff Maurer and Andy Miller, Head of AARP's Innovation Lab, discussed the latest advances in "silver tech", including technology to prevent falls, control body temperatures, and even holographic technology-driven devices to see, hear, and interact with others anywhere in the world. To view a replay of *New Frontiers in Aging: Technology for Long and Happy Life*, please contact your advisor.



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