# MP McShane Partners

# MARCH 2023 INSIGHTS

## INVESTMENT OVERVIEW

### CASH MANAGEMENT IS CRUCIAL

Given the rapid rise in interest rates, cash management has become critical to portfolios. Certain low-risk interest-bearing vehicles have gone from yielding next to nothing to close to 4%! During the second half of calendar year 2022 ("CY2022"), the Investment Team conducted a thorough review of cash management strategies as part of a firm-wide review of account-/portfolio-level cash balances in order to determine how best to adjust account-/portfolio-level positioning to reflect revised recommendations given the significant shift in financial market conditions over the past ±12-18 months. To that end, the Investment Team believed it necessary to provide some context for how its updated best practices for cash management strategies have evolved over the past several years.

In September 2018, following initial efforts by the U.S. Federal Reserve ("the Fed") to normalize interest rates by raising the federal funds target rate ("fed funds rate"), the Investment Team discussed the increased importance of reviewing cash management strategies in a rising rate environment, emphasizing that investors who failed to do so could be unintentionally sacrificing ±1.0%-2.0% of lower-risk return through the later stages of an historically extended market cycle. At the time, the Investment Team cautioned that investors should acknowledge the incremental risks of higher-yielding cash-equivalent investments (e.g., money market mutual funds) in order to avoid assuming unintentional risks within an asset class that is presumed to be the most secure. For example, at the height of the 2007-2008 global financial crisis ("GFC"), certain money market mutual funds saw their net asset value

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## WEALTH ADVISORY OVERVIEW

### THE SECURE 2.0 ACT

The SECURE 2.0 Act was signed into law in late 2022. The legislation provides a slate of changes that build on the original SECURE Act of 2019. It is designed to help strengthen the retirement system and addresses issues related to flexibility and accessibility to help individuals plan for a more secure retirement.

While SECURE 2.0 contains dozens of provisions, the highlights include increasing the age at which retirees must begin taking RMDs from IRA and 401(k) accounts, and changes to the size of catch-up contributions for older workers with workplace plans. Additional changes are meant to help younger people continue saving while paying off student debt, to make it easier to move accounts from employer to employer, and to enable people to save for emergencies within retirement accounts.

*Please see page 5 for the 8 things SECURE 2.0 changes*

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### INVESTMENT TEAM

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*Senior Portfolio Manager*

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### WEALTH ADVISORY TEAM

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### POINTS OF INTEREST


- Monthly Index Review
- Stock & Strategy Spotlight
- Around McShane Partners

# Investment Overview

## Cash Management is Crucial

("NAV") per share fall below $1.00: this is referred to as "breaking the buck" and represents a worst-case scenario for any investor seeking a safe-haven protection and principal preservation in money market mutual funds.

In September 2019, the Investment Team revisited cash management strategies within the context of asset allocation and portfolio-level positioning during periods of outsized strength in risk assets; specifically, the Investment Team reiterated the critical role of cash as a risk management tool in protecting and preserving principal during severe market downturns or prolonged cyclical weakness. For example, after experiencing a sharp correction in December 2018, the S&P 500® Index enjoyed a fairly steady recovery throughout calendar year 2019 ("CY2019"), primarily driven by multiple expansion vs. any meaningful growth earnings or improvement in underlying fundamentals; given its concerns regarding extended valuations and a lack of substantiating evidence supporting the short-term rebound, the Investment Team indicated its preference for increasing portfolio-level cash allocations and reducing equity market risk (i.e., beta) as a means of maintaining purchasing power for high-quality, high-conviction buying opportunities.

### Money Market Mutual Funds

Money market mutual funds, more commonly known as money market funds ("MMFs"), are pooled investment vehicles that typically invest in short-term, high-quality, and lower-risk fixed income securities, such as commercial paper, certificates of deposit ("CDs"), and/or U.S. Treasury bills. While many consider MMFs to be cash equivalents, investors in MMFs should be cognizant of the fact that MMFs are mutual funds with investment risks and underlying management fees. Just like fixed income and equity mutual funds, MMFs are regulated by the U.S. Securities & Exchange Commission ("SEC") and are not eligible for deposit insurance coverage from the FDIC.

In 2018, investors in MMFs were only able to earn slightly higher interest income on their MMF investments relative to the interest earned on cash held in traditional depository accounts as a means of compensation for assuming incremental risks, including the potential loss of principal. At that time, investors who elected to allocate capital to and invest in MMFs were able to earn marginally higher interest income but did so at the expense of forfeiting the aforementioned principal protection afforded by FDIC insurance. As the Investment Team highlighted in September 2018, the average rates on proprietary MMFs at Fidelity National Financial Services ("Fidelity") and Charles Schwab & Co., Inc. ("Schwab") were ±1.72% and ±1.68%, respectively; with several online savings accounts offering higher rates and also providing FDIC insurance, the MMF options were less attractive as effective cash management solutions for clients' investment portfolios.

As yields on U.S. Treasury bonds appeared to bottom in late-2021 and started to steadily climb throughout CY2022, the Investment Team embarked upon another review of cash management strategies to compare the relative risk-reward opportunities across cash sweep features, high-yield savings accounts, and high-quality MMFs. While online savings accounts continued to offer higher yields and more attractive rates of return than traditional depository accounts, the Investment Team believed that the yields on high-quality MMFs had risen sufficiently high enough to be not only compelling on an absolute basis, but extremely competitive on a relative risk-reward basis, as well. As can be seen in Chart I on the following page, the weighted average seven-day gross yield on MMFs has risen

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**Monthly Index Review**
**USD Total Return**

| Data as of February 28th 2023 | February 2023 | 2023 YTD | 2022 | 2021 |
|---|---|---|---|---|
| S&P 500® Index | -2.44% | +3.69% | -18.11% | **+28.71%** |
| Dow Jones Industrial Average | -3.94% | -1.13% | -6.86% | +20.95% |
| NASDAQ Composite | -1.01% | **+9.61%** | -32.54% | **+22.18%** |
| Russell 2000 | -1.69% | **+7.89%** | -20.44% | +14.82% |
| MSCI Emerging Markets | -6.48% | +0.92% | -19.74% | **-2.22%** |
| MSCI EAFE | -2.08% | +5.87% | -14.01% | +11.78% |
| Bloomberg U.S. Aggregate Bond Index | -2.59% | +0.41% | -13.01% | **-1.54%** |

# Investment Overview

## Cash Management is Crucial

significantly over the past ±12 months, driven primarily by the series of larger-than-expected increases in the fed funds rate enacted by the Fed as part of its accelerated rate hiking cycle aimed at preventing heightened inflationary pressures from becoming entrenched in the U.S. economy. As of December 31st 2022, the weighted-average seven-day gross yield on MMFs (i.e., **the green line in Chart I**) had increased to **±3.55%** from **±0.14%** the prior year (i.e., December 31st 2021). Moreover, as can be seen in Chart II, below, despite having spiked in early-2020, portfolio-level allocations to Cash & Cash Equivalents (e.g., **MMFs - the green line in Chart II**) as a percentage of total investable assets have remained below long-term historical averages over the past couple of years. With U.S. investment portfolios still marginally underweight cash relative to prior market cycles, the Investment Team believes that high-quality MMFs should continue to benefit

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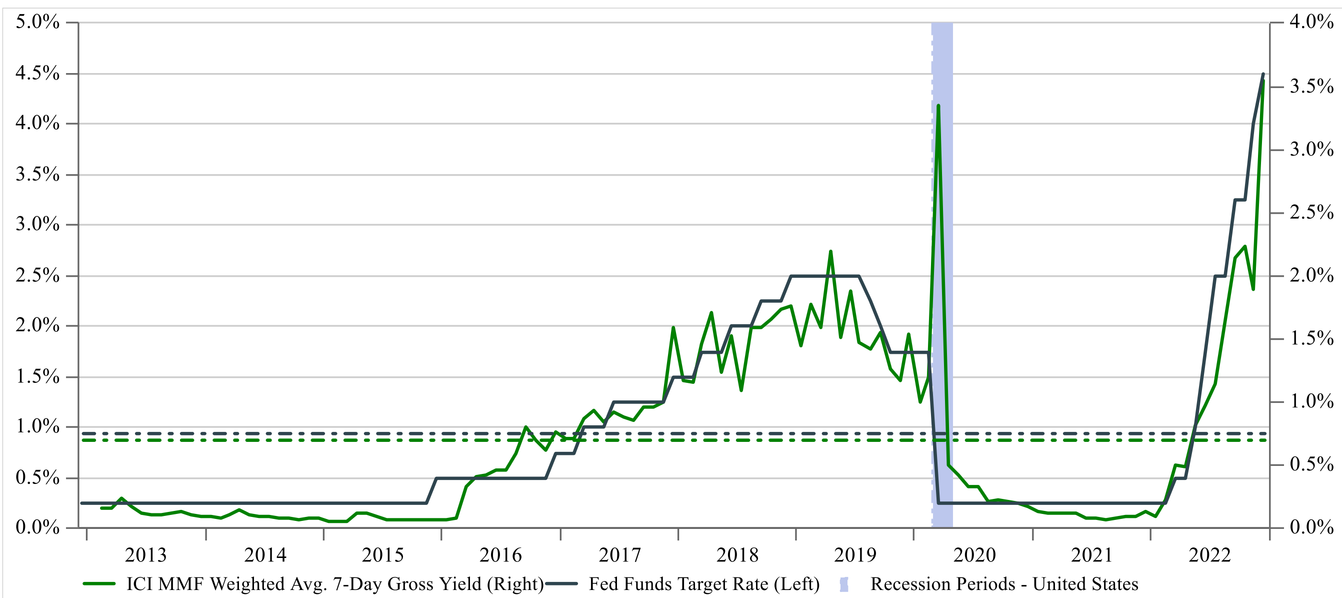
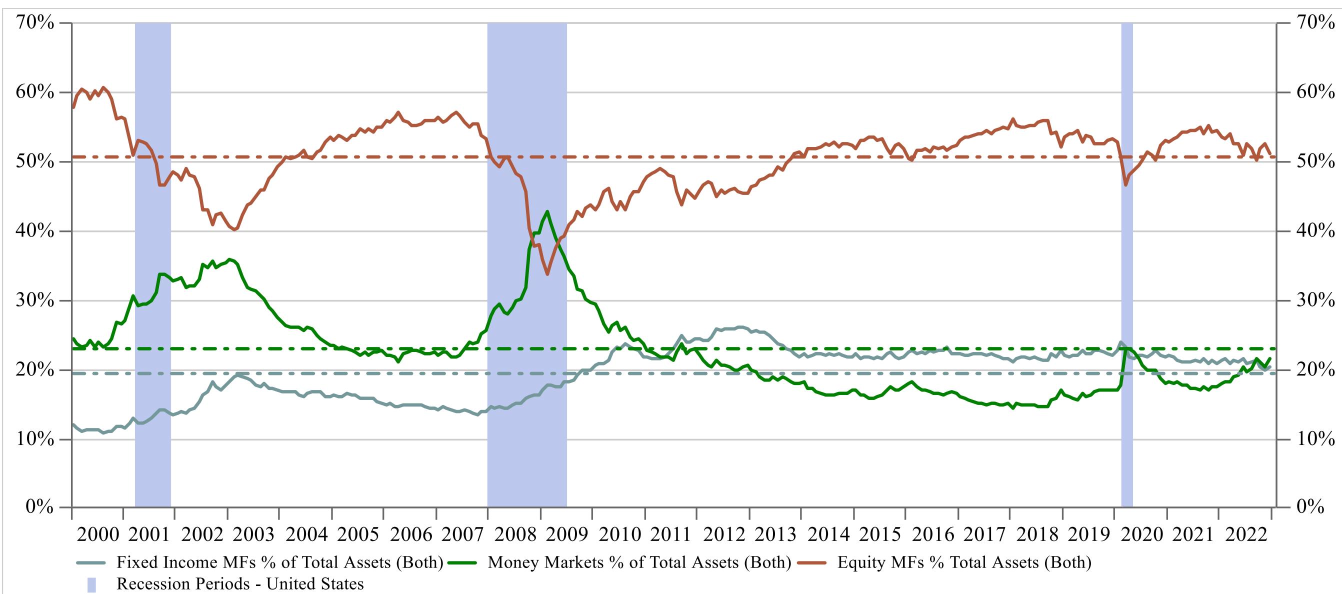
### Chart I: Money Market Fund Yields vs. Fed Funds Target Rate




### Chart II: U.S. Asset Allocation




*Source: McShane Partners - FactSet Research Systems, Inc.*

# Investment Overview

## Cash Management is Crucial

from additional inflows from investors seeking to earn incremental return on excess cash.

### Updating Recommendations | Ongoing Implementation

Taking all of this into consideration, the Investment Team believes that the risk-reward opportunity for introducing and incorporating high-quality MMFs into effective cash management strategies is attractive given the positive fundamentals supporting the higher yields being offered at this time compared to prior periods over the past couple of years when the dynamics were less favorable for MMFs relative to FDIC-insured cash options and high-yield savings accounts. While separate and distinct from the Investment Team's recently updated recommendations for portfolio-level Fixed Income allocations, the fundamental framework used to make both decisions is reflective of increasingly dynamic financial market conditions during the later stages of an elongated market cycle, which warrants stalwart adherence to objective analysis and rational decision-making reflective of ongoing developments.

To that end, the Investment Team screened for and researched high-quality, low-cost MMFs available to client investment accounts across our primary custodial platforms (e.g., Fidelity and Schwab) and found that several proprietary options offered more attractive yields on MMF strategies of comparable quality in terms of the composition of the underlying investment portfolio relative to the aforementioned weighted average yields. As such, the Investment Team elected to include two proprietary MMFs with similar investment mandates and portfolio characteristics in our firm-wide Cash & Cash Equivalent buy lists and is continuing to work on incorporating those MMFs into effective cash

*"A foolish consistency is the hobgoblin of little minds."*

*- Ralph Waldo Emerson*

management strategies across client investment portfolios where prudent and appropriate.

For additional information on either MMF strategy, please be sure to reach out to a member of the Investment Team, as we would be more than happy to review or discuss our recommendations in more detail, as needed.

### Stock & Strategy Spotlight

| Name | Ticker | February 2023 | 2023 YTD |
|---|---|---|---|
| Pfizer, Inc. | PFE | -8.13% | -10.52% |
| Amgen, Inc. | AMGN | -7.37% | **+20.19%** |

**Description & Investment Thesis**

Over the past month, the Investment Team has begun adding shares of Amgen, Inc. ("AMGN") to client investment portfolios after a recent pullback in the stock. AMGN is one of the world's largest biotechnology companies with a broad and diverse drug portfolio, focused on cardiovascular disease, oncology, bone health, nephrology, and inflammation. Many of the company's products are focused in areas of high unmet medical needs, as AMGN strives to find solutions to improve people's lives. Recently, a strong combination of new drug launches combined with attractive acquisitions have elevated the company's future growth expectations toward industry-leading levels. The Investment Team believes ongoing execution on growth objectives this year could lead to investors assigning higher valuation multiples to shares, resulting in incremental outperformance relative to sector and industry peers. To help fund this new addition to firm-wide buy lists, the Investment Team has been trimming existing holdings of and positions in Pfizer, Inc. ("PFE"), where prudent and appropriate. After recent relative outperformance, shares of PFE have been under pressure as a result of declining forward sales and earnings expectations due to a rapid deceleration in the company's COVID-related revenues.

# Wealth Advisory Overview

## The Secure 2.0 Act

1. **Required Minimum Distributions -** The age at which owners of retirement accounts must start taking RMDs will increase to 73, starting January 1, 2023. The current age to begin taking RMDs is 72, so individuals will have an additional year to delay taking a mandatory withdrawal of deferred savings from their retirement accounts. Two important things to think about: If you turned 72 in 2022 or earlier, you will need to continue taking RMDs as scheduled. If you're turning 72 in 2023 and have already scheduled your withdrawal, you may want to consider updating your withdrawal plan. Note: SECURE 2.0 also pushes the age at which RMDs must start to 75 starting in 2033.

   Consider when to take your first RMD: If you are turning 72 in 2023, you can take your RMD either by December 31, 2024, or delay until no later than April 1, 2025. Remember, if you delay your first RMD to April 1, 2025, you'll need to take 2 RMDs in 1 tax year: Your first by April 1, 2025, which satisfies your required withdrawal for 2024, and your second by December 31, 2025, which satisfies your required withdrawal for 2025.

2. **Higher catch-up contributions -** Starting January 1, 2025, individuals ages 60 through 63 years old will be able to make catch-up contributions up to $10,000 annually to a workplace plan, and that amount will be indexed to inflation. (The catch-up amount for people age 50 and older in 2023 is currently $7,500.)

   One caveat: If you earn more than $145,000 in the prior calendar year, all catch-up contributions at age 50 or older will need to be made to a Roth account in after-tax dollars. Individuals earning $145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement.

   IRAs currently have a $1,000 catch-up contribution limit for people age 50 and over. Starting in 2024, that limit will be indexed to inflation, meaning it could increase every year, based on federally determined cost-of-living increases.

3. **Matching for Roth accounts -** Employers will be able to provide employees the option of receiving vested matching contributions to Roth accounts (although it may take time for plan providers to offer this and for payroll systems to be updated). Previously, matching in employer-sponsored plans were made on a pre-tax basis. Contributions to a Roth retirement plan are made after-tax, after which earnings can grow tax-free.

   Important to know: Unlike Roth IRAs, RMDs from an employer-sponsored plan are required for Roth accounts until tax year 2024.

4. **Qualified charitable distributions (QCDs) -** Beginning in 2023, people who are age 70½ and older may elect as part of their QCD limit a one-time gift up to $50,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This is an expansion of the type of charity, or charities, that can receive a QCD. This amount counts toward the annual RMD, if applicable. Note, for gifts to count, they must come directly from your IRA by the end of the calendar year. QCDs cannot be made to all charities.

5. **Automatic enrollment and automatic plan portability -** The legislation requires businesses adopting new 401(k) and 403(b) plans to automatically enroll eligible employees, starting at a contribution rate of at least 3%, starting in 2025. It also permits retirement plan service providers to offer plan sponsors automatic portability services, transferring an employee's low balance retirement accounts to a new plan when they change jobs. The change could be especially useful for lower-balance savers who typically cash out their retirement plans when they leave jobs, rather than continue saving in another eligible retirement plan.

6. **Emergency savings -** Defined contribution retirement plans would be able to add an emergency savings account that is a designated Roth account eligible to accept participant contributions for non-highly compensated employees starting in 2024. Contributions would be limited to $2,500 annually (or lower, as set by the employer) and the first 4 withdrawals in a year would be tax- and penalty-free. Depending on plan rules, contributions may be eligible for an employer match. In addition to giving participants penalty-free access to funds, an emergency savings fund could encourage plan participants to save for short-term and unexpected expenses.

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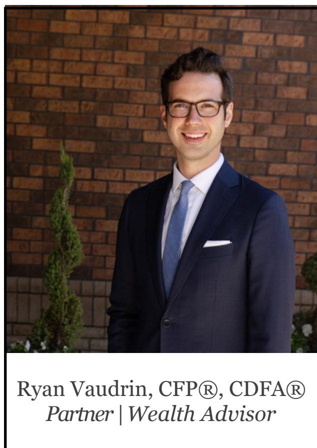
# Wealth Advisory Overview

## The Secure 2.0 Act

7. **Student loan debt -** Starting in 2024, employers will be able to "match" employee student loan payments with matching payments to a retirement account, giving workers an extra incentive to save while paying off educational loans.
8. **529 Plans -** After 15 years, 529 plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of $35,000. Rollovers cannot exceed the aggregate before the 5-year period ending on the date of the distribution. The rollover is treated as a contribution towards the annual Roth IRA contribution limit.

While SECURE 2.0 provides increased opportunities to save for retirement, everyone's financial situation is different. As always, consult your Wealth Advisor to understand how SECURE 2.0 changes apply to you.

# NexGen: What is a revocable living trust



Ryan Vaudrin, CFP®, CDFA®
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A Revocable Living Trust is a legal agreement created by a Grantor for the benefit of a Beneficiary. Trust accounts follow the rules and terms of the agreement and are managed by a Trustee. A Revocable Living Trust provides the Grantor with the ability to modify the trust while still retaining ownership of the assets within trust during their lifetime. In most situations, the Grantor of the Revocable Living Trust is also the Trustee and beneficiary until they become incapacitated or pass away.

So, what is the benefit of holding assets within this type of trust? The main benefit of having a trust account is avoiding probate and controlling assets after death. As the Grantor's estate is settled, the trust contains instructions for the successor Trustee including who receives assets and when. To ensure that the Grantor's wishes are followed, the Revocable Trust transitions to an Irrevocable Trust upon death. Therefore, the successor Trustee is unable to make changes or updates regarding the final beneficiaries.

Establishing a Trust can be accomplished with the help of an Estate Planning Attorney. However, this does include additional expenses. These expenses can vary depending on an individual's net worth, types of accounts, and overall goals. Investors can also utilize a Transfer on Death designation or their Will to pass along assets. There are pros and cons for each option and every situation is unique. At McShane Partners, we review each situation and partner with exceptional Estate Planning Attorneys to provide advice and options that are suitable for an individual's overall goals.

# NextGen: HSA vs. FSA — Which One is Right For You?

Daniel Hudspeth, CFP®
*Wealth Associate*

As healthcare costs continue to rise, Health Savings Accounts (HSA) and Flexible Spending Arrangements (FSA) both offer wonderful options which can help to minimize the financial impact for families and individuals. HSA's and FSA's share many similarities but are two very distinct plans.

**Health Savings Accounts (HSA)**

Health Savings Accounts are similar to standard investment accounts. One distinct advantage when compared to standard investment accounts is that funds held within an HSA are entitled to tax-free growth when utilized for qualifying expenses. A list of common qualifying expenses can be viewed within IRS Publication 502 here. For 2023, individuals can contribute up to the maximum amount of $3,850 per year, while families are eligible to contribute up to $7,750 per year. "Catch-Up" contributions are also available for participants who are 55 years or older. This provision allows account holders to make additional contributions, up to the annual limit of $1,000. Unlike Flexible Spending Arrangements, year-end account balances are not "Use It or Lose It". Instead, Health Savings Account balances are eligible to remain within the account and continue to grow tax-free. Additionally, account owners age 65 and older may withdraw funds for non-qualifying expenses without incurring a 20% penalty; however, the amounts withdrawn WILL be subject to income taxes.

**Flexible Spending Arrangements (FSA)**

Flexible Spending Arrangements may be viewed as more of a reimbursement account when compared to a Health Savings Account. Participants choose a deferral amount prior to the new plan year. For 2023, the minimum deferral amount of $100 and a maximum deferral amount of $3,050 per employer for 2023. If a participant is married and their spouse is also eligible for an FSA, they can also contribute up to $3,050 annually. The elected deferral amount is excluded from taxable income and can be used for qualifying expenses (see above for the link to IRS Publication 502). One advantage of an FSA is immediate access to funds. For example, if an individual has a procedure or expenditure of $1,000, they can utilize their FSA even if year to date contributions are only $500. However, funds held within an FSA at year's end are subject to more restrictions when compared to an HSA since account balances generally must be used at the end of year. This may vary since it depends on how the employer structures the FSA. Some plans allow for rollovers while others may provide a grace period. However, it is one or the other and cannot be both.

| | **HSA** | **FSA** |
|---|---|---|
| **Annual Contribution Limit** | $3,850/Individual<br>$7,750/Family | $3,050/Eligible Participant<br>$100 Minimum |
| **Catch-Up Contribution Eligible?** | Yes; $1,000/Year | No |
| **Tax-Exempt for Qualifying Expenses?** | Yes | Yes |
| **Rollover Eligible?** | Yes | May be Eligible for Rollover OR Grace Period |
| **Self-Employment Eligible?** | Yes | No |

As always, if you have any questions or would like to learn more about available options, please contact your McShane Partners advisor and we will be happy to help.

## Senior Planning: Annual Gifting, Lifetime Estate Tax Exemption, and Gift Tax Returns

Lorri Tomlin, FPQP™
*Partner | Wealth Advisor*

Clients are sometimes confused by the amount they are "allowed" to gift each year and if they will be required to file a gift tax return and pay tax. There are two pieces to this puzzle; The lifetime estate tax exemption and the annual gift tax exclusion.

The lifetime estate tax exemption is the maximum amount you can gift during your lifetime or at your death and not pay estate tax. The annual gift tax exclusion is the amount, set by the IRS each year, that you can gift above and beyond the lifetime estate tax exemption. Each year the annual gift tax exclusion allows taxpayers to "gift" a set amount to other individuals essentially removing those assets from their estate in an attempt to keep their estate value below the lifetime estate tax exemption and avoid estate taxes.

Currently the IRS allows you to gift up to $12.92 million over your lifetime without paying estate taxes. For a married couple, each spouse is allowed up to $12.92M. Therefore, until the law changes, many taxpayers won't ever pay estate tax. Keep an eye on this amount though, as it is set to revert to pre-2018 levels in 2026.

If annual gifts do not exceed the annual exclusion amount, no gift tax return is required. If a gift does exceed the exclusion amount, and a gift tax return is required, usually no tax will be owed with the return because the total lifetime estate tax exemption amount has not been gifted.

What happens if you gift more than the IRS annual gift tax exemption amount? Any gifts made in excess of the annual exclusion reduce your lifetime estate tax exemption.

Example—The gift tax exclusion for 2023 is $17,000 per person. If you gift $23,000 to 2 people you have exceeded the annual exclusion amount by $10,000 (2 x $5000 for each person) This will reduce your lifetime estate tax exemption by $10,000, from $12,920,000 to $12,910,000.

The Gift tax return, Form 709: US Gift (and Generation-Skipping Transfer) Tax Return, is used to track the amount that will need to be deducted from your lifetime estate tax exemptions. You must file the gift tax return even if you don't actually owe any gift tax. If you should exceed the lifetime estate tax exemption, gift tax rates range from 18% to 40% based on the value of the gift above the annual exclusion limit.

The IRS does not limit the number of annual gifts you can make, only the amount you can give to each recipient. You are allowed to gift the annual exclusion amount to as many people as you want without filing a gift tax return and without reducing your lifetime estate tax exemption. However, if you exceed the annual exclusion amount for just one person, you are required to file a gift tax return. You could give 20 separate gifts of $17,000 in 2023 and not be required to file a gift tax return but if you give $18,000 to one person, you will need to file a return.

A gift is basically any transfer of property by one individual to another while receiving nothing, or less than full value, in return. It is the gift giver, not the recipient who is responsible for filing the gift tax return and paying the gift tax. So, if you are the beneficiary of one of these gifts, there are no tax consequences for you.

| Gifts That Can Trigger a Gift Tax Return | Gifts That Are Tax Exempt |
|---|---|
| • Putting money in a 529 for a grandchild. Do not exceed the annual limit. You can take advantage of the rule that allows a one-time gift to be spread out over 5 years<br>• Paying for a loved one's wedding or expensive trip<br>• Forgiving loans or making interest free loans to friends or family<br>• Having joint ownership of a bank account with a non-spouse<br>• Gifting more than $175,000 (2023) to a spouse who is not a US citizen | • Gifts to IRS approved charities<br>• Political contributions<br>• Gifts to your spouse (if they are a U.S. Citizen)<br>• Anything given to a dependent<br>• Gifts covering another person's medical expenses, if the payment is made directly to the medical service provider<br>• Gifts covering another person's tuition expenses if the payment is made directly to the educational institution (payments for room and board, books and supplies don't qualify) |

## Around McShane Partners

### Dancing With The Stars

Elliott Van Ness not only competed in *Dancing with the Stars of Charlotte - Dancing for a Cause*, but was awarded the Judge's Choice Winner and crushed his fundraising goal of $50,000. Elliott raised a total of $52,865. Donations support Carolina Breast Friends and the Go Jen Go Foundation! Congratulations Elliott.

### Las Vegas Getaway

Tracy and her husband Chris were married last year on 2.22.2022 in Key West, Florida on the Argo Navis. For their first wedding anniversary on 2.22.2023 they renewed their vows. They found the Chapel of the Flowers on Las Vegas Boulevard. February is the perfect month to celebrate love.

**McShane Partners**

Wealth management is our only business; therefore, our attention is undivided, and our intentions are transparent.

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