PROSPER

MANNING & NAPIER'S GUIDE TO WEALTH MANAGEMENT

Know someone who may find this edition of Prosper useful? We would be happy to send a copy to your friend or family member. Please email us at info@manning-napier.com

Contents

Wealth Management at Manning & Napier is about so much more than helping you to invest. It's building a partnership to better understand you and your goals. Whether that's planning for retirement, a meaningful charitable contribution, or simply worrying less about money, our team aims to get you one step closer to achieving your goals.

One aspect of this partnership involves providing you all the resources you need to feel empowered in not just your financial plan, but all aspects of your financial life. *Prosper* is our most comprehensive planning guide, outlining our latest views on taxes, estate planning, investment themes, and more. With knowledge comes more confident decisions, empowering you to make the financial choices that serve you best.

With knowledge comes more confident decisions, allowing you to make the choices that serve you best.

We hope this year has brought brighter things for our families, our communities, and our world. Change may be the only constant, and we want you to be well prepared for it. You can depend on Manning & Napier to remain your trusted partner every step of the way.

On behalf of our entire Wealth Management team, we appreciate the opportunity to work with you and your family and we look forward to another strong year ahead.

— Dana Vosburgh, CFP®
Managing Director of Advisory Services

The 411 On Your Financial Plan

"You need a financial plan". You've heard it before, likely many times. But what does it mean to have a financial plan and do you really need one?

Let's start with the second question first. As you may have guessed, the answer is a resounding YES– this is a financial planning magazine after all!

A financial plan is like a map, with a specific set of instructions that help guide you to your destination. It helps to prioritize your goals and provides a way to measure your progress. Individuals with a plan have more confidence in their financial situation and tend to make better financial decisions, regardless of their tax bracket.

Now that we know why having a plan is important, let's get back to the first question: What does it mean to have a plan? In general, a financial plan should cover the following 10 areas.

Your Financial Goals
What do you want to accomplish? Retiring early, paying for college, buying a vacation home? The more specific you can be, the more accurately your plan can be tailored to your goals.

A Budget
If your financial plan is your roadmap, a budget is the car. It gets you there. With a budget you decide when and how to spend your money. It shows you how much you can save and helps you devise a plan.

An Emergency Fund
These are assets that are easily accessible and liquid. They're there when emergencies arise and assist in keeping you from incurring additional debt.

Tip: You should have roughly 6 months of expenses saved.

An Investment Plan
Put your money to work for you. Investments are the engine, and they should work in conjunction with your goals, risk tolerance, and time frame. And remember, over the long-term, the power of compounding is on your side.

Insurance Coverage
Ensure you have the proper amount of coverage for all of your needs, including life, health, disability, home, auto, business, and long-term care. In addition to your emergency fund, insurance is your safety net. It protects your highly valued assets and loved ones in case you experience a life event that takes a great amount of money to resolve.

A Retirement Plan
Deciding when to stop accumulating assets and start spending them is one of the biggest planning decisions you'll undertake. If you plan to retire before age 65, you'll need to factor in the cost of health care until you can apply for Medicare. If you're already retired, it will be important to determine where you'll draw assets from to fund retirement, as well as to incorporate any non-investment income sources.

Estate Planning
Just as important as building wealth is determining where that wealth will go and passing it as tax-efficiently as possible. An estate plan consists of not only a will, but powers of attorney, health care proxies, and coordinating your beneficiary designations with that plan.

Taxes
No one likes paying them but estimating and preparing for taxes should be a part of your plan. A good plan can help you maximize the benefits of tax-advantaged accounts, like an employer-sponsored retirement plan, as well as find ways to minimize your tax bill.

Continued Monitoring
Creating a plan is a great start, but your plan shouldn't be 'set it and forget it'! Set up a review frequency, at least annually, to make sure you're still on track to meet your goals, and don't forget to incorporate any significant life changes or new goals.

Staying on Course
Along with continued monitoring, your plan should factor in your goals, risk tolerance, and time horizon. Clearly defining these seemingly obvious factors can be critical. When the markets go through an event like March 2020, these definitions can help you keep perspective and avoid making any radical, fear-driven decisions.

While you might not need professional help with all these items, a financial consultant can help you bring all the pieces of your plan together. They can also coordinate with other professionals, like an estate planning attorney, to ensure your plan is unified and cohesive.

Financial planning tools can help you quantify your goals and objectives. For example, cash flow modeling and Monte Carlo simulations (are used to model the probability of different outcomes and risk in a process that cannot easily be predicted otherwise) assist in determining the amounts you'll need to retire, how changes in savings can impact your plan, and appropriate investment recommendations based on your time horizon and risk tolerance.

Both the tools and the way they are implemented can make a big difference in planning outcomes. That is why not all financial plans are equal. Here are some things to consider when working with a financial consultant:

Inflation – Does your plan account for inflation over the long term, and if so, by how much? Historically, annualized inflation has been approximately 2.9% going all the way back to 1926. For plans with 10, 20, or even 30 year horizons, inflation can make a huge dent in your purchasing power and must be factored in.

Taxes – Your income tax and long-term capital gains tax rates are derived from different IRS tables and may not be the same. Likewise, different account types have different tax treatments, such as a traditional IRA vs a Roth IRA. Does your plan account for your tax rates, both federal and state? Does it treat income and capital gain taxes differently? Not factoring in taxes can have a profound effect on the actual dollars in the future.

Strategic Asset Allocation – If your financial consultant is also helping with investment recommendations, they should be able to explain why their recommendation is a fit for your situation. Defining your strategic asset allocation is the first step in putting your investment recommendations into action, and it helps to understand how it fits with your goals.

Investment Returns – Your financial situation might look bright if you assume an annual 10% return, but is that realistic? It could be over the long-term, depending on your investment allocation. Often, 10% is a touch too optimistic. Also, your plan should be factoring in the impact of volatility, using tools such as Monte Carlo simulations, that are more realistic representations of the real world.

Fees – You should have a good understanding of the total fees you're paying, such as an ongoing advisory fee and any underlying fees. While you shouldn't make investment decisions based on fees alone, you should ensure you are receiving an appropriate level of service for those fees (i.e., informative webinars and value-add services).

Creating and maintaining a financial plan that incorporates all these moving pieces can be daunting for non-professionals. We are here to help, with comprehensive wealth management solutions that fully integrate investment, advisory, and financial planning for individuals, families, businesses, and non-profit organizations.

Source: Morningstar.

Three important things for DIY investors to keep in mind.

1 Have a Contingency Plan

Frequently, we see a situation in which one spouse has primarily handled the family finances, and when they can no longer maintain that position, it may leave the other spouse floundering. Regularly involving your spouse (or your named power of attorney) and providing contact information and account lists for the pieces of your plan can go a long way in ensuring a smooth transition should you become incapacitated.

2 Diversification

Whether through your portfolio holdings or even utilizing different investment managers, diversification is a key foundation of asset allocation. However, just as important as having a diversified portfolio is ensuring that you have a mechanism to coordinate adjustments to your portfolio's asset allocation as current market conditions change.

3 Take Control

Consider what levers you have the most control over in optimizing your plan's success – how much you save and how much you spend. The more you can save, and the earlier you begin, generally the better your outcome will be. Likewise, if you have flexibility in the amount you need to spend in retirement, you can benefit from taking less from your portfolio in years where returns are muted or more volatile.

Buyer Beware

Not all financial products are created equal. Some may appear more complex than others, but complexity is not inherently bad. There may be strategic reasons to utilize a range of different products. It is most important to fully understand these products before deciding to invest in them. Here we cover three financial tools that can be helpful for certain planning goals but are often misunderstood.

Variable Annuities

What is it: This type of annuity contract provides a steady stream of payments from a specific start date to a future end date. Unlike a fixed annuity that provides a specific, guaranteed return, a variable annuity's value changes based on the underlying mutual funds in its portfolio.

When it may be useful: The annuity can be structured to provide an income stream specific to your needs, and it can provide asset protection against creditors and debt collectors.

What to be aware of: Variable annuities provide a performance pattern similar to traditional investing, but with much higher fees than traditional investment vehicles. Any riders, like an income guarantee, will further increase the fee, and many are also subject to surrender fees.

Whole Life Insurance

What is it: Also known as 'permanent' insurance, this product covers the entire life of the insured and pays a benefit at death. They typically have a savings component that you can sometimes access, known as the cash value.

When it may be useful: This type of policy can be a useful estate planning tool in the form of an irrevocable life insurance trust (ILIT) or for business continuity planning purposes.

What to be aware of: Whole life policies can be very expensive. Unless you need coverage for your entire life, or for specific reasons specified above—speak with an expert to understand if your needs fit these niche cases—then you are most likely better off purchasing a term policy and saving the difference.

Private Equity Investments

What is it: Private equity investments can be similar to normal equity securities, but they are not listed on public exchanges (e.g., New York Stock Exchange). Most investors access this alternative investment class as limited partners through these private equity funds.

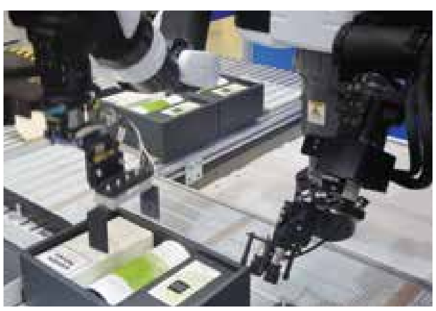
When it may be useful: As a portfolio diversification tool, private equity can provide exposure to an alternative investment class. It may also have the potential to provide high returns that can be enticing to certain types of investors.

What to be aware of: Liquidity is a concern with private equity, and many investment vehicles, such as non-trade real estate trusts, have lock-up periods of 10 years or more. Since private equity funds are not available in public markets, pricing is determined by negotiations between a buyer and seller, and it leaves little clarity on how the investment is actually doing. Lastly, there are often substantially higher costs and fees associated with these investment vehicles.

As with any investment decision, it is important to understand the impact to your complete financial picture. What are your goals and objectives? Do you have a financial plan, and are these investments appropriate for your plans, especially when considering fees? To discuss your financial goals, please feel free to reach out to a Manning & Napier financial consultant.

Five Investment Themes for Today

One of the great advantages of our traditional, bottom-up investment process is the ability for our analysts and sector teams to focus on the long-term. Great results are not about short-term trading, but about driving shareholder value for years to come. In this issue of *Prosper*, we're going to bring back a few themes from last year that we still love today, and also add in a few new ones that we like.



AI & Cloud Computing

These two themes both made an appearance last year, and they're back this year as a pair. Advancement in AI continues, with rapid progress in areas like natural language processing, conversational AI, and recommendation engines. This progress is enabled in no small part by hyperscale cloud vendors investing billions to build out the infrastructure this software runs on. And while businesses were already rapidly moving workflows to the cloud to take advantage of increased agility and cost-savings, the pandemic has only accelerated this shift. As more companies take advantage of AI's insights to drive even greater innovation and efficiencies, we think these two themes will continue to mutually reinforce one another, providing investors with significant long-term optionality.

Digitalization of Payments

With everyone stuck at home, it is no surprise that online shopping has picked up speed. Consumer habits have changed as more people use curbside pickup, contactless delivery, and even buy groceries online. Once habits form, they can be hard to break. We think these eCommerce trends are here to stay, benefiting all the digital payment companies. But it doesn't stop there, some financial technology providers are pushing this transformation further. Digital wallets and one-click shopping solutions are proving popular, and some firms are now offering full-scale financial services. This includes checking and savings accounts, investment services, and even cryptocurrency trading, deepening ties with customers, and attacking share from the rest of financial services. This payments freight train isn't stopping; it's picking up speed.

Real Estate

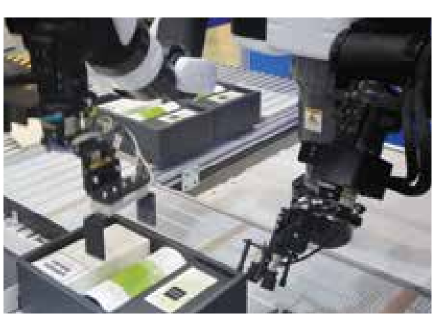
The pandemic battered real estate, damaging sectors such as office space and retail, as well as major metro areas. But amid the pain, we see areas of opportunity as the economy stabilizes and turns around. Initial REIT dividend suspensions and cuts have subsided, and historically, real estate tends to do well coming out of recessions. Its recurring revenue streams, price escalators, and protection against inflation are not to be overlooked. And within real estate, we also like certain businesses, such as data center and cell tower REITs, as their growth characteristics are very attractive given current prices. Real estate may continue to take punches in the year ahead, but we see plenty of opportunity when it starts to heal.

Gold

Gold has little actual utility in its physical form, but that doesn't mean it has no value. While not as critical to the plumbing of our financial system as in decades past, gold is still a popular investment with a few very attractive characteristics. First, it is a notoriously safe investment that tends to do well when markets become volatile, and second, it can be a good hedge against rising inflation. Markets today remain highly dynamic with elevated valuations in both equities and fixed income, and all the fiscal and monetary stimulus slushing through the economy may very well be the long-awaited catalyst for inflation. We think this setup is great for gold, giving the yellow metal quite a bit of value after all.

Gaming

After a year of stay-at-home orders, social distancing, and mass quarantines, it's no surprise that video games have taken off. This surging popularity was then exacerbated by a new round of game console releases so popular that many consumers couldn't buy new hardware if they tried. For investors, we believe the engagement is here to stay, accentuated by a shift to digital in-game spending and subscriptions that extend and smooth revenue generation. We like a variety of video game companies specifically, but we also like select industries further up and down the supply chain, including certain gaming platforms, service providers, and semiconductor manufacturers. While the game industry used to be driven by hits, shifting business models are creating opportunities for investors who can think outside the box.



ESG Investing 101

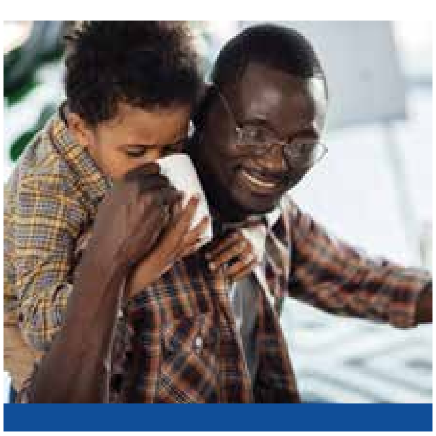
ESG (Environmental, Social, and Governance) investing has gone from a new fad to a commonplace investing option. More and more investors want to build wealth and they want to make a positive impact on society, too.

ESG's rising popularity is closely tied to the sustainability movement and a desire to make society greener, but that's not the only force at play. For many, having investments match up to personal beliefs is a must. This means many investors are hoping to put their dollars to work for companies that aim to tackle various sociopolitical issues, like gender, racial, and wealth disparities.

Positioning Your Family for the Next Generation

Family-owned businesses are a notably underappreciated force in our economy. They make up a large concentration of America's wealth and comprise 80% to 90% of all business enterprises in North America. These businesses make a difference, and there is a huge opportunity to plan for not only the transfer of family wealth, but the business values to future generations of family members as well.

Consider these succession planning tips to help position your family-owned business for a successful transition from one generation to the next.



Ownership

- Identify the future ownership structure of the business.
- Develop a timeline to transition the business. A successful transition plan is developed with time in mind. The earlier a plan is created the greater the likelihood it will achieve the desired goal of transitioning the family business in an orderly and non-disruptive manner. A long-term succession plan can give children or other family members time to understand the business and develop management skills to lead and grow the business in future years.
- Communicate and detail the future ownership structure to provide a clear understanding among family members before the transition takes place.

Governance

- Have a governance structure in place to avoid conflict between family members and foster a cooperative atmosphere during a transition.
- Establish an advisory board or a board of directors. Formal governance structures are necessary for the interchange between the family-owned business and the family members. For example, a corporate board can help support the execution of a succession plan and the transition of leadership to the next generation.
- Consider the creation of a family council (especially for second-generation family-owned businesses) where there are multiple family members (both immediate and extended) who are active and/or passive investors in the business.

Management

- Identify the next leader of the business. Depending on the circumstance, this individual can be a family member, or an employee. For example, children who are seen as likely leaders of the company stand to benefit from a founder's planning and foresight.

  With ample time, the children may also be introduced to key customers and suppliers, develop their own business contacts, and establish networks with internal and external stakeholders. Additionally, placing them in key roles or having them lead certain projects will allow them to gain experience and insight as to how the business operates. Their continued participation and decision-making in business operations may earn the respect of non-family employees and may open the door to mentorship from non-family executives or directors.

- In addition to building their management skills, having children involved in running the business may help the founder decide which child or family member should be the next leader.

- In the event no one can be identified to lead the business, develop an interim leadership team/plan until the children are ready to lead. Consider selling the business if that is a more suitable succession plan.

  Starting a business succession plan for a family-owned business does not have to be complicated. Feel free to reach out to start a conversation with a Manning & Napier financial consultant to discuss transitioning a family-owned business.

What is the oldest family-owned business in the US?

Any music fan of drums and cymbals knows Zildjian Cymbal Co. They're an iconic company known for their cymbals, and they are also the oldest family-owned business still operating in the United States. The company founded in 1623 in Constantinople (now Istanbul, Turkey), moved to the United States in 1929, and settled in Norwell, MA. Many generations later, family members are still leading the company. Zildjian Cymbal Company's success as a multi-generational, family-owned business can serve as an example of how successful succession planning can sustain the family business and keep it flourishing for years to come.

Source: Family Business Alliance.

Stretching Out Your IRA with a Charitable Trust

Financial planners often will advise their charitably inclined clients to use their individual retirement accounts (IRAs) to pass assets directly to charities. There are a variety of tax reasons why this can be appealing, but it isn't always the right decision for everyone.

Tax-deferred vehicles carry a full income tax burden. If the heirs of an estate are in relatively high-income tax brackets, it may actually be advisable to inherit taxable assets over tax-deferred assets, especially under the relatively new SECURE Act withdrawal requirements.

With the passing of the SECURE Act requirement that most beneficiaries of an IRA must withdraw the entire IRA balance within ten years of the IRA owner's death, planners have proposed a new approach to "stretch out" payments to a beneficiary. That is through the use of a charitable remainder trust (CRT).

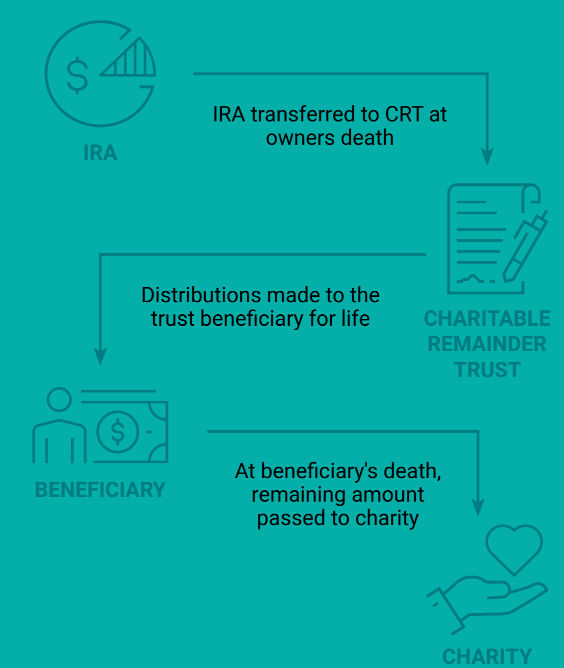
A CRT is an irrevocable trust created for the benefit of an individual beneficiary for either their lifetime or a term of years. Upon that individual's death or at the end of the term, the remainder will pass to a charity of the grantor's choosing. In most CRTs, the grantor is also given the ability to change the charitable entity at any time.

From an income tax perspective, since the charity is a tax-exempt entity, no income tax is assessed once assets, including the IRA, are transferred to the trust. Income taxes will only be paid by the individual beneficiary once he or she receives distributions from the trust. For estate tax purposes, a calculation is done for the projected amount that will ultimately pass to the charitable beneficiary as part of the estate tax return. That amount is treated as a charitable deduction on that return.

Combining Tax Efficiency and Charitable Intentions

So, how does this work? Assuming a lifetime CRT, upon the death of the IRA owner, the IRA is collected by the CRT's trustee. There is no taxable event at that time. Thereafter, distributions are made to the individual beneficiary of the CRT for their lifetime or for the term of years as outlined in the trust agreement. These distributions are a percentage of the total value of the CRT, distributed at least annually. The individual beneficiary pays income taxes on those distributions as they are made to him or her. Upon the beneficiary's death or at the end of the term, the remainder passes, tax-free, to the charitable beneficiary.

USING A CHARITABLE REMAINDER TRUST TO BENEFIT HEIRS AND CHARITIES



For example, assume an individual transfers an IRA valued at $1,500,000 to a CRT, and it grows at 7%. The beneficiary's annuity amount, per the trust agreement, is to be 8% of the account value. It is a lifetime trust where the beneficiary has a life expectancy of 29 years. Based on those numbers, over her lifetime, the beneficiary would receive $2,837,152, upon which she would pay income tax annually, and, upon her death, the charity would receive $966,354 free of tax.

Why is this arrangement advantageous? For those who are charitably inclined, this situation has a two-fold benefit. First, it allows the IRA account owner to meet his or her charitable intentions in a tax efficient manner. Second, it allows the beneficiary of the CRT to withdraw the proceeds of the IRA over his or her lifetime, if drafted in that manner, paying taxes on those distributions when withdrawn, instead of having to withdraw the entire IRA within ten years and pay income taxes over that much shorter time period. This may also give the IRA owner some comfort in knowing the funds will be available to the beneficiary during their life but also accomplish a charitable desire at the beneficiary's death.

On the flip side, this planning opportunity is not without its disadvantages. First, it does limit flexibility since the beneficiary will only receive the annuity amount annually and will not have the ability to receive more than that, like they would if the IRA were treated as their own. Second, upon the beneficiary's death or the end of the term, whatever balance is left passes to the charity. The beneficiary of the CRT has no ability to direct any part of the IRA to his or her heirs. And last but not least, the grantor must pay an attorney to draft a trust agreement and make the relevant calculations as to the annual annuity amount payable to the beneficiary.

It will be up to the individual to weigh whether this type of planning makes sense for them, but it is something that should be considered for those with large IRAs and charitable intentions.

Source: Kitces.

"With longer lifespans than their male counterparts, many women are likely to end up managing estates."

Now is the Time for Women to Focus on Finances

When you know the basics of personal investing from an early age, building wealth for life's big goals can feel much easier than it seems. With time on your side, a solid background in financial literacy and a healthy dose of patience can go a long way.

These investing fundamentals should be true for both men and women, but it simply isn't the case. Women are at a clear disadvantage in the financial literacy game. They are much less likely to describe themselves as financially literate, and according to a study by FINRA, the gap between financial literacy for men and women in baby boomers is particularly wide.

This, of course, has massive and well-known implications. Women are less likely to have rainy day funds or non-retirement investment funds, and more likely to be in medical debt. And with longer lifespans than their male counterparts, many women are likely to end up managing estates that they previously had little involvement with.

Fortunately, the resources are nearly endless. It's never too late to get involved with investing, even if you have a partner or manager dealing with your finances. And now is the perfect time.

Taking Advantage of the Pandemic

The pandemic has exacerbated already-present trends in the gender gap. Women were more likely to be laid off than their male counterparts, and they were four times as likely to voluntarily drop out of the work force to take on things like full-time childcare or homeschooling.

It was sobering to again see how fragile the job market and the economy were. Even experienced investors got quite the scare. With these disadvantages, the past year has been useful as a wake-up call to the financial services industry. It's easier than ever before to totally manage your finances and investments quickly and virtually.

Charitable organizations also had a difficult year in 2020. They struggled to provide for growing needs and fight for change during a time of societal unrest. Investing properly and knowledgeably can allow you to make significant contributions to organizations and causes you feel strongly about.

Like any significant economic downturn in history, the events of last year reminded us that the unexpected can happen quickly. Too often, financial managers see recent widows and widowers dealing with a messy financial situation they're unfamiliar with. Arming yourself with a clear understanding of your financial picture, even if you aren't the primary decision maker, can prevent having to deal with sorting out years of finances while grieving.

Great Wealth Transfer

The role of women continues to change drastically. In addition to controlling household discretionary budgets, women are increasingly likely to be family breadwinners, as well as to be the ones making serious investment decisions.

As wealth managers, we often talk about the 'Great Wealth Transfer'. Over the course of the next few decades, younger generations of women stand to inherit a significant amount from their boomer family members, creating opportunities for women to get into investing. Understanding financial principles will be vital for this – and even before, as you may become a power of attorney, co-trustee, or executor of a will for a parent or family member.

It's important to remember that as you earn more wealth, hoarding cash isn't the answer. Maintaining an emergency cash fund is important, but cash loses value quickly. And leaving large lump sums in low-yield savings accounts is tempting, but it won't help you grow or even maintain your financial worth. In order to plan for retirement or other financial goals, it's vital to diversify and invest your portfolio, which can be done at your own pace.

Once they've started, women are proven to be stronger investors than men – numerous studies throughout the 20th century cite better performance and less volatility in female-led investment portfolios as compared to their male peers. Women are less likely to pick stocks in a gambling-like style and are more risk-averse in their choices, all great attributes to have for long-term investment success.

The Best Way to Get Involved

Once you decide to become more involved with your family's finances, there's still the lingering question: how exactly do I accomplish that? The answer comes in two parts: however you want, and with the right team.

However You Want

With more financial knowledge comes more financial freedom. Investing on your own terms means taking ownership of where exactly your dollars go to work, and your financial goals can be as personal and unique as you want them to be.

In order to be a successful investor, you don't have to constantly watch the market like TV makes it seem. Long-term investment success is about clearly defining your goals, finding the plan that works the best for you, and a healthy dose of patience and perspective.

You can challenge many widely assumed rules for investing (a 60/40 portfolio, etc), and also choose to invest in companies and causes you feel strongly about. This can mean backing women or black-owned companies, avoiding businesses whose principles you don't agree with, or finding companies who have a focus on sustainability and environmental responsibility. When these preferences are discussed up front, it is easier to find a solution that can generate the results you're looking for and stay aligned with your principles.

Having a robust, well-defined financial plan can give you more freedom when it comes to estate planning, potentially allowing you to make larger contributions to charitable organizations you care about. You can get your family involved and make decisions that work for all of you and your futures.

With the Right Team

The second half of the equation is equally as important. The right manager is somebody who understands your specific needs and doesn't try to sell you on products or solutions that don't fit you.

You should be able to ask whatever questions you like – no matter how simple they are, because a plan you understand and believe in is a plan that you'll be better able to stick to when market volatility inevitably strikes. Financial professionals should be willing to explain even the simplest investment concepts and meet you at your level of financial literacy.

In fact, we encourage you to ask questions about all parts of the financial journey. You are hiring someone to not only place your money into the 'correct' investments, but also to be your partner in your financial journey.

Your financial consultant should also give you access to the professional help you need – whether that's recommending someone to help you rewrite your will or putting you directly in touch with the investment professionals that manage the dollars in your portfolio. Managing your complete financial picture takes a team.

Finding the right wealth manager to fit your goals and principals can make all the difference. Getting serious about investing for the first time or becoming an active player in family finances doesn't have to be scary. But doing so can be a chance for you to create your future the way you want.

Sources: Annuity.org, Kiplinger.

Flexible Retirement Savings Solutions for Owner-Only Business

There are over 26 million owner-only businesses in the nation today. Owner-only businesses consist exclusively of owners, partners and spouses and have no non-owner employees. Owner-only businesses are commonly formed as sole proprietorships, limited-liability companies, or S corporations, and some are very profitable endeavors.

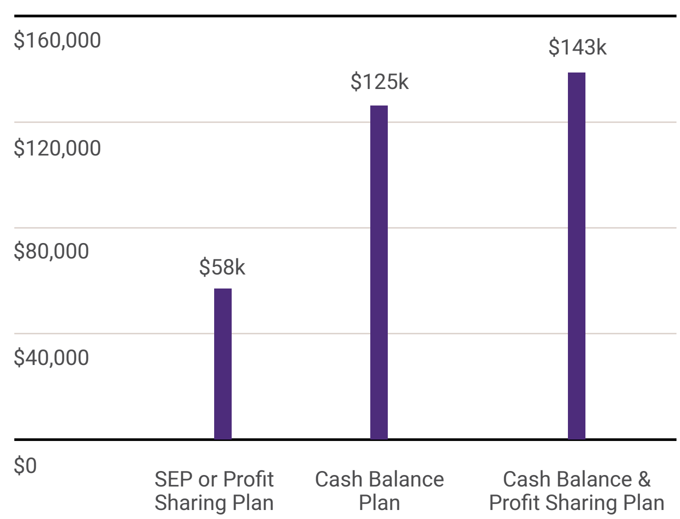
Many of these businesses can benefit from substantially increased retirement savings through the use of cash balance or traditional defined-benefit plans. The following examples illustrate how a qualified pension, like a cash balance or traditional defined-benefit plan, can meet the retirement savings objectives of successful business owners, young and old alike.

A Young Business Takes Off

Mikki is a hard-working business entrepreneur. She'll be 45 years old in 2021, and she started her business in 2016. Between 2016 and 2020, the only income she took was a $50,000 annual salary. Finally, in 2021, after working tirelessly and pouring every available dollar back into her business, Mikki hit her stride and will increase her annual salary to $290,000 for the foreseeable future. She knows she can do a simplified employee pension (SEP) or profit-sharing plan and save up to $58,000 this year and thereafter, but she's confident that her business and income will continue to grow. She would like to save $125,000 a year, if possible, on a tax-qualified basis.

After working with her financial professional and an actuary, Mikki learns that it is absolutely possible to meet her retirement savings objective with a single cash balance plan! Based on her age, service, and compensation history, Mikki can adopt a cash balance plan effective on 01/01/2021 and create a maximum deductible plan contribution of almost $232,000 for year one. To avoid front-loading the plan too soon, the actuary advises Mikki that annual deposits of $125,000 will sufficiently fund the liability. In fact, Mikki could achieve the same results with either a cash balance or a traditional average pay defined-benefit pension. Furthermore, if Mikki wants the discretion each year to save an additional 6% of pay (up to $17,400 in her case), she can adopt a profit-sharing plan alongside the pension. The following chart summarizes Mikki's alternatives.

ANNUAL CONTRIBUTION BY QUALIFIED PLAN TYPE
MIKKI, AGE 45



For illustrative purposes only. Analysis: Manning & Napier.

The One-Hit-Wonder

Principals of owner-only companies often experience significantly increased income in certain years for a variety of reasons. For example, a trial attorney wins a really big case, a songwriter pens a hit song, or an independent consultant earns a lucrative short-term contract. We refer to these situations as one-hit-wonders.

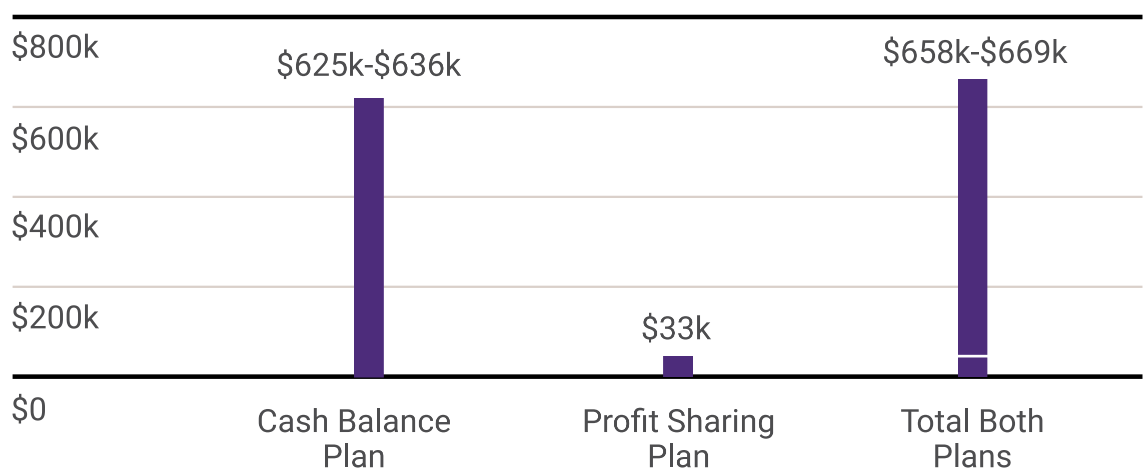
While a large increase in income is generally considered a good thing, the one-hit-wonder is generally not enthused with the associated taxable impact and requires help to mitigate it. They can use a qualified defined-benefit plan to alleviate or even eliminate the tax-bite of a short-term income surge, so long as the plan is intended to be permanent and funded.

Let's review an example. Jack and Jill are trial attorneys, each aged 57. They are married and operate their law firm as an S-corporation. They have no other employees and consistently pay themselves a $275,000 annual salary each. They have been in business for 15 years and intend to retire in five years. In 2021, an extremely lucrative lawsuit will win them a one-time payment of $625,000 for their efforts.

In addition to annual incomes of $275,000 each for 2021, Jack and Jill must deal with the taxes on the one-time payment of $625,000. Using either a cash balance or a traditional defined-benefit plan, Jack and Jill can offset the taxable impact that's headed their way. A properly designed benefit formula will create a lump sum liability of roughly $740,000 at age 62, and will support a maximum deductible contribution of up to $636,000 for 2021. At a 5% annual rate of return, a deposit of $625,000 will accumulate to about $797,675. Plan assets in excess of the projected lump sum can be used to pay plan expenses. Also, there is plenty of room under allowable limits to increase benefits and avoid overfunding.

ONE-TIME CONTRIBUTIONS BY QUALIFIED PLAN TYPE

JACK & JILL, AGES 57



For illustrative purposes only. Analysis: Manning & Napier.

To offset even more, Jack and Jill can also adopt a discretionary profit-sharing plan that will allow a contribution of up to $33,000 (limited to 6% of pay). And, at the end of 5 years, they can each roll the lump sum present value of their respective benefits, and profit-sharing plan balance, into an IRA. The chart above summarizes these amounts.

Oars Out!

Projected Lump Sum Benefit @ Age 70	$1,457,074
2021 Minimum Required Contribution	$54,371
2021 Maximum Deductible Contribution	$652,965
Annual Funding Objective	$280,000
Projected Plan Assets @ Age 70, 5%	$1,547,177
Monthly Income @ Age 70	$9,062

For illustrative purposes only. Analysis: Manning & Napier.

At age 64, Archie is in excellent health and still going strong. He's built a successful architecture practice from which he has derived an annual income of $300,000 to $500,000 in each of the last 20 years. He would like to work another 5 years and take his oars out by age 70. Archie and his spouse have various investments, and they own their home. But Archie would like to devote his remaining income-producing years to funding a guaranteed baseline retirement income for his spouse in case he predeceases her during retirement.

Using either a cash balance or a traditional defined benefit plan, Archie can fund a joint and 100% contingent annuity of $9,062 per month. This means that at retirement age 70, the plan will begin to pay Archie $9,062 per month for the rest of his life. If he dies before his spouse, the plan will continue to pay the $9,062 monthly life annuity to her.

The lump sum dollar amount needed to pay this monthly joint and contingent annuity is slightly more than $1,460,000. To fund this benefit, Archie can make annual tax-deductible contributions of roughly $280,000 for each of the next 5 years. Assuming a 5% rate of return, plan assets would grow to over $1,500,000. This information is summarized in the table above.

Upon reaching age 70, Archie has some options. He can use excess plan assets to continue paying the actuary for servicing the plan and managing the monthly income distributions. He can also transfer the monthly benefit obligation to a structured settlement and terminate the plan. If he maintains the plan and Archie predeceases his spouse, the estate can continue overseeing the plan actuary who continues work as per usual. Alternatively, the estate can still terminate the plan and the remaining monthly benefit obligation can still be transferred to a structured settlement. If Archie is concerned about dying before age 70, the plan can purchase decreasing term life insurance as an investment of the trust to help replace lost benefits.

Cash balance and traditional defined-benefit pensions can be powerful planning tools for owner-only businesses at virtually any age. Despite the perceived complexity versus their defined-contribution counterparts, pensions still allow great flexibility for these businesses.

Benefits can be crafted differently for different owners of different ages with relative ease. Also, defined-benefit plans are, by definition, all trustee-directed arrangements as individual participant accounts are not allowed. From the advisor's perspective, this means you are working with only principals of the employer, and generally one single investment account.

Talk to your Manning & Napier financial consultant today to learn what might be possible for your owner-only business.

The Four Stages of Retirement

Retirement is a big change, but have you really thought about what your life will be like? Many imagine retirement as an opportunity to relax, but it is likely you will live a busier lifestyle during your first years of retirement than your later ones.

We view retirement in four phases that each have their own challenges. As you proceed through retirement, your lifestyle, personal goals, and objectives will change and, likewise, your financial plan will need to change, too.

01

Pre-Retirement (Ages 50 - Retirement)

Whether you call it the 'go-go-go' or the 'sandwich' years, your final working years can play a massive role in setting up your future. This is the time to begin seriously planning for your life in retirement and how to realize your goals. Here are a few tips to keep in mind as you navigate this stage and prepare for your life of freedom:

- Decide how you want to spend your time in retirement. This may include traveling the world or helping to raise your grandchildren. Perhaps you want to follow your passion by authoring a book or becoming a paid speaker. Whatever path you choose, consider how you will finance it by creating a post-retirement budget.
- You are likely in your peak earning years so be sure to maximize your savings with pre-tax and after-tax accounts, like 401(k)s, traditional and Roth IRAs, and HSAs (health savings accounts). Don't forget catch-up contribution exceptions, and if you have income left over, consider putting more away in your taxable accounts.
- This is a period where we often hear, "I've finally earned enough, and I can't afford to lose it." It is critical to have a well-defined strategic asset allocation as you approach retirement and begin taking withdrawals. Generally, those with longer time horizons can afford a higher allocation to growth-oriented positions (i.e., stocks).

02

Early Retirement (Retirement - 75)

You now have time to enjoy all the fruits of your hard work and are looking to celebrate. Some of you will see big changes in your spending patterns, while others may continue spending as you enjoy increased travel and leisure activities. Even if you choose to celebrate, continue to focus on your financial plan and become acclimated with your budget (i.e., ongoing withdrawals).

- Make a withdrawal plan for your many accounts to better control your tax bill. Typically, you will want to redeem from your savings and taxable accounts first, allowing your tax-deferred accounts to continue growing over time. Remember to maintain a reliable emergency fund equal to 6-12 months of expenses.
- If you have not started taking Social Security or other deferred income, such as a pension, this may be an ideal time to consider a Roth conversion. A conversion can 'fill up' your income tax bracket while taxable income is low.
- Position your investments appropriately so unexpected expenses do not derail your goals. If you find yourself overspending, make an adjustment to your spending habits or consider a higher allocation towards defensive and income generating positions.

03

Mid-Retirement (Ages 75 - 85)

At this point, you are probably more willing to slow down and enjoy the little things in life. You may be spending less on travel and other luxuries, and in general, you are likely focusing on simpler living and refining your routine. Perhaps this is the perfect time to seriously pursue intellectual discovery or decide what you want to leave as a legacy. Whichever path you choose, here are a few things to consider.

- Consider potential changes in your living situation, such as downsizing or moving closer to your children. This can cause additional expenses and may require an adjustment to your financial plan.
- You may need to address your health or your spouse's health. This might involve to consider obtaining assistance, potentially having a substantial impact on your finances.
- As we get older, our mental and physical abilities may decline, which makes it all the more important to prepare for the future early on. This is an important time to speak with an attorney about your final wishes, as well as to develop an estate plan if you haven't already.

04

Late Retirement (Ages 85 & on)

In this stage, you may at some point begin battling the physical and mental challenges of old age. It is difficult to predict the future, and it is wise to plan for contingencies, like emergency healthcare costs. These are not easy tasks, but they can help minimize the fears surrounding old age.

- This is a time when you are most likely to have stepped up healthcare expenses, especially if you move to an assisted living facility or nursing home. Increased spending and withdrawals may require reworking your investments to be more conservative.
- Make inheriting your assets easier for your heirs through consolidation and simplification. Confirm your assets are titled appropriately, especially if you have trusts in place, and ensure your beneficiary designations are in-line with your estate plan.
- Be realistic about the potential challenges you may face. It is okay to ask for help. Give clear instructions for loved ones by signing powers of attorney and health care proxies, or other legal documents, that allow a trusted person to act on your behalf.

The Big Picture

Regardless of your retirement stage, consider the following:

1. Your spending will evolve over time, and it is likely to be higher early on and lower in the later years.
2. It is possible you will live longer than you plan for.
3. Managing distributions and withdrawals from your accounts is essential to minimizing your tax bill.
4. Actively managing your portfolio so it adapts to changes in both your life and in markets is imperative.

We only get one shot at retirement. It is essential to have a comprehensive financial plan that addresses your spending, insurance, tax, and estate planning needs. Once created, it is equally important to be hands on with keeping your plan up to date. Work with a financial consultant to adjust for changes in your life and use an active investment manager that adapts your investments to changing market conditions. This will ensure your investment decisions and planning process are designed to guide you through the retirement years enjoyably and with peace of mind.

Estate Planning in an Uncertain Landscape

The one constant with estate tax laws is that they are ever-changing and evolving. Just when things appear to be certain, uncertainty is inserted into the process. For example, 2017's Tax Cuts and Jobs Act (TCJA).

The TCJA substantially raised the federal estate tax exemption, a welcome change for many families and individual investors. The threshold annually adjusts for inflation, and for 2021, it is up to $11.7 million. The higher TCJA threshold is, however, scheduled to sunset in 2026, likely resulting in the threshold falling to a range between $6 and $7 million in 2026. To add another wrinkle to the estate tax discussion, President Biden has proposed for even lower estate tax limits of $3.5 million.

Where does that leave individuals who are within those numbers? What can be done now to plan for these potential changes?

Individuals within those numbers have a great opportunity. The IRS has come out with guidance indicating that individuals will not be penalized for making larger gifts now that are within the current estate limits if those limits are reduced in the future. Below, we will discuss some thoughts on the most common planning concepts that wealthy individuals are using in this ever-changing estate tax landscape. As always, estate planning attorneys are happy to help.

Grantor Retained Annuity Trust (GRAT)

A GRAT is established by an individual/grantor who receives annual annuity payments from the trust for a set term. Whatever balance is remaining in the trust at the end of the term passes to the beneficiaries outside of the grantor's estate. These trusts are ideally established with assets that will appreciate over time, such as stock portfolios, and are especially effective when interest rates are low, like they currently are.

The annuity payment paid back to the grantor is based on several factors. One is the interest rate established by the IRS the month the assets are transferred. With interest rates that are historically low, if the invested assets grow at a rate higher than 1%, which is generally likely, the grantor receives the annuity payment based on that 1% factor, not the actual growth in value of the assets. The remainder then passes to the beneficiaries of the trust, free of estate and gift taxes at the termination of the trust.

Transferring $1 Million to a GRAT for 3-Year Term with a 0.8% IRS Interest Rate

grantor receives annuity payment of

$1,017,016

amount you can gift tax free if GRAT grows at 5%

$95,207

amount you can gift tax free if GRAT grows at 10%

$221,783

For illustrative purposes only. Source: Day Pitney, LLP.

Intentionally Defective Grantor Trust (IDGT)

This trust is somewhat unique. Assets transferred into the trust are excluded from your estate for estate tax purposes, but the grantor of the trust pays income taxes on assets held in the trust, even though those assets are removed from the grantor's estate. In effect, the grantor is allowed to make another gift to the trust by paying the income taxes for the trust, but that tax payment is not actually treated as a gift for tax purposes.

This structure is most ideal for transferring interests the grantor owns in a business that will appreciate over time and may also have significant cash flow which the grantor may not need to support herself. An IDGT is especially effective if paired with a promissory note back to the grantor for the value of the business, thereby treated as a sale of the business to the trust. This scenario is ideal, because there is a sale of the business, not a gift of the business. The grantor will use very little of their lifetime estate tax exemption amount at the time of the sale of the business to the trust. The grantor would, instead, receive a stream of income for the term of the note, or a balloon payment at the end of the term, based on the current IRS interest rate.

For example, say a grantor transfers a $10 million business to an IDGT and takes back a promissory note for that amount for a nine-year term with a current IRS rate of 0.5% as an interest-only note with a balloon payment at the end. That monthly interest-only payment would be almost $30,000 per month with a balloon payment at the end of about $7.2 million. Because the loan would be paid in full at the end of the term, there would be no gift tax due at the time of the sale, and any growth in the business over the nine-year time frame, plus any income earned in the business, would escape estate taxation at the grantor's death. In addition, having the balloon payment at the end allows that money to stay invested in the trust until it needs to be paid, thereby potentially leading to more returns in the trust.

Qualified Personal Residence Trust (QPRT)

In this trust, a grantor transfers his or her personal residence or qualified vacation home to a trust, while retaining occupancy of the home over the term of the trust. If the grantor survives the term of the trust, then the property passes estate tax-free to the remainder beneficiaries. After the term of the trust, if the grantor continues to utilize the property, they would pay rent to the trust as the owner of the property, which the children or beneficiaries of the trust could then use to pay property taxes, upkeep, utilities, etc., thereby further reducing the grantor's taxable estate over time with these rental payments. QPRTs are best used for family vacation homes that you anticipate will increase in value, and which you anticipate the family continually using after the death of the grantors.

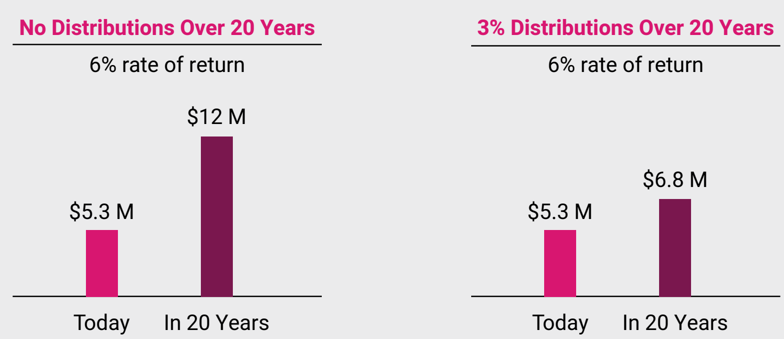
Spousal Lifetime Access Trust (SLAT)

And last, but certainly not least, is one of the newer estate tax planning ideas. A SLAT is designed by one spouse for the benefit of the other spouse. It is a way to 'have your cake and eat it too' from an estate planning perspective.

In a SLAT, one spouse creates a trust for the benefit of the other spouse (each spouse can actually create one for each other, as long as they have some material differences), and usually for the children and even grandchildren as well, which allows for the trustee(s) to distribute income and principal to the spouse beneficiary and the other beneficiaries at their discretion. The spouse creating the trust uses part or all his current lifetime estate tax exemption, yet still has some indirect access to the trust assets when distributions are made to the other spouse.

The advantage to such a trust is that, as a couple, you do not lose full control over the gifted assets as is the case with the other trusts discussed above. Generally, to have an asset removed from your estate for estate tax purposes, you have to give up dominion and control over that asset, which a lot of individuals are loath to do. With a SLAT, one spouse gives up direct control of the asset once the trust is funded. They do, however, still have some indirect access to the trust fund through the beneficiary spouse. That beneficiary spouse may request distributions from the trust per the trust terms.

The Effects of Distributions on the Growth of Your Trust



For illustrative purposes only. Analysis: Manning & Napier.

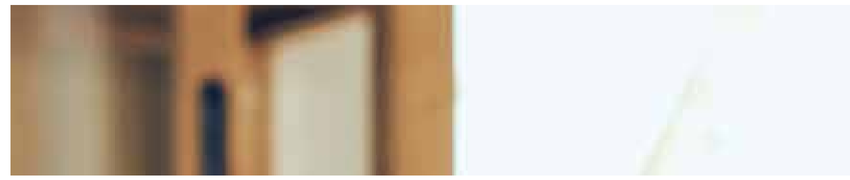
In addition, the spouse for whose benefit the trust is created may also act as a co-trustee of his or her own trust (most often with a corporate co-trustee), thereby giving that spouse more control over the trust assets and how they are invested. It is to the spouse's estate tax advantage to not use any assets from the trust to meet normal everyday spending needs. This allows the amount in the trust to continue growing estate tax-free going forward, but the trust is there, to access funds if needed. These trusts may also be drafted as grantor trusts, allowing the spouses to pay the income taxes for the trust on their personal income tax returns, thereby allowing the trust assets to continue to grow.

On the flip side, the disadvantage to this type of trust is that if the spouse for whom the trust is created passes away, the grantor spouse loses access to the funds in the trust as the trust would then be paid out according to the terms of the trust.

While these are some of the main ideas that estate planners are discussing, this is not an exhaustive list by any means. Various iterations of these concepts exist, as well as other ways to use them in conjunction with each other. As the estate tax landscape is ever-changing, it is necessary for your estate plan to evolve as well. We encourage you to speak to your estate planning attorney if your estate is near the limits discussed above.

Sources: Farmers & Merchants State Bank, Halliday Private Trust, Kitces, Fidelity.

Saving & Investing



If you understand compounding and the power of building wealth, you can save yourself a lot of money.

Time is the best friend of compounding. Put away some money for several years, and it can grow exponentially. But the catch is that compounding, while powerful, will not help you unless you are saving or investing in the first place.

Interest and investment growth tends to snowball, whether you are saving for retirement or letting interest accrue on unpaid debt. Compounding can increase the value of your investments and savings over time, it can also increase the amount of money you owe. It's important to make compounding work for you, not against you.

The Power of Compounding

A few additional percent might not sound like much but it absolutely adds up. As years become decades, the power of compounding and exponential growth can exacerbate even the smallest differences in performance.

For example, if you manage to achieve a 7% return instead of 5%, over 30 years, an initial $100,000 investment would effectively become twice in size! Twice the retirement portfolio can literally be the difference between having the retirement of your dreams and not.

How Saving and Investing Work Together

Of course, the prior example is in no way real life. Most people start with a small sum of savings, and they look to compound those savings and add to it over the subsequent years.

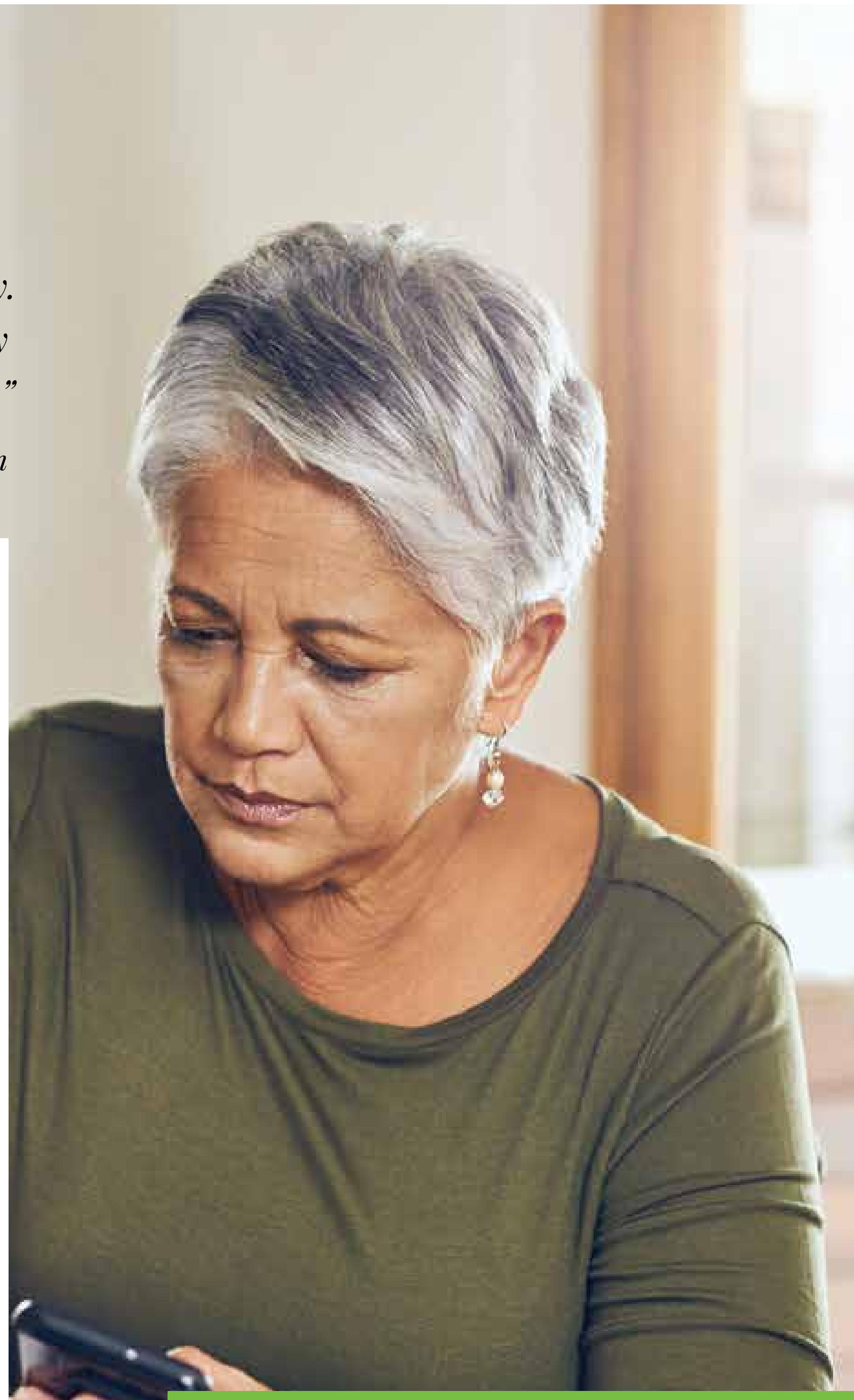
The following example illustrates the importance of both saving and investing. Assuming a goal of $1 million by the age of 70, the chart to the right provides approximate annual savings targets needed, assuming a straight-line return of 7%. Remember, these are annual savings amounts.

You might not notice it at first, but the 'Rule of 72' is a useful shortcut. Assuming a 7.2% annual return, for every 10 years you delay saving for retirement, your target annual savings rate doubles. For example, at age 25, savings of just $63 per week until retirement would grow to approximately $1 million at age 70, but waiting until 35, your weekly target would have to more than double to $130.

It is never too early to start on your path to building wealth. The benefits of establishing a disciplined savings plan as early as possible are significant. Combine the power of consistent savings and compounding investment growth, and you'll be able to reach your financial goals sooner.

*"Money makes money.
And the money that money
makes, makes money."*

– Ben Franklin



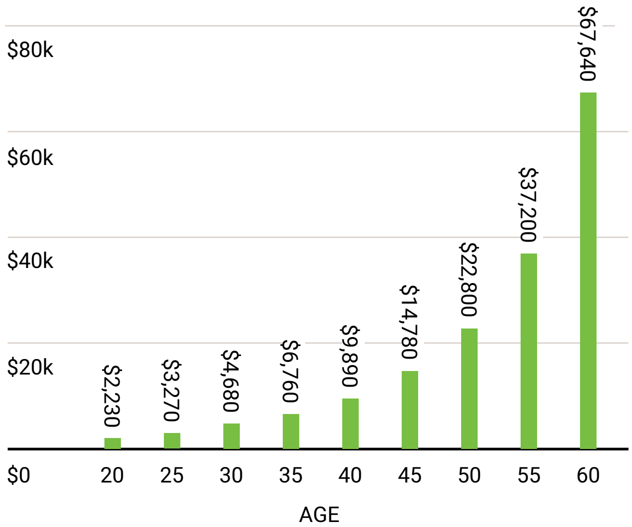
Compounding in Action

Interest Rate	10 Years	20 Years	30 Years
1%	10%	22%	35%
3%	34%	81%	143%
5%	63%	165%	332%
7%	97%	287%	661%

Table shown is for illustrative purposes only and is based on a starting investment of $100,000 with return rates of 1%, 3%, 5%, and 7% over 10, 20, and 30 years.

Annual Savings to Reach $1M by Age 70

For illustrative purposes only. Analysis: Manning & Napier. Assumes a 7% annual rate of return

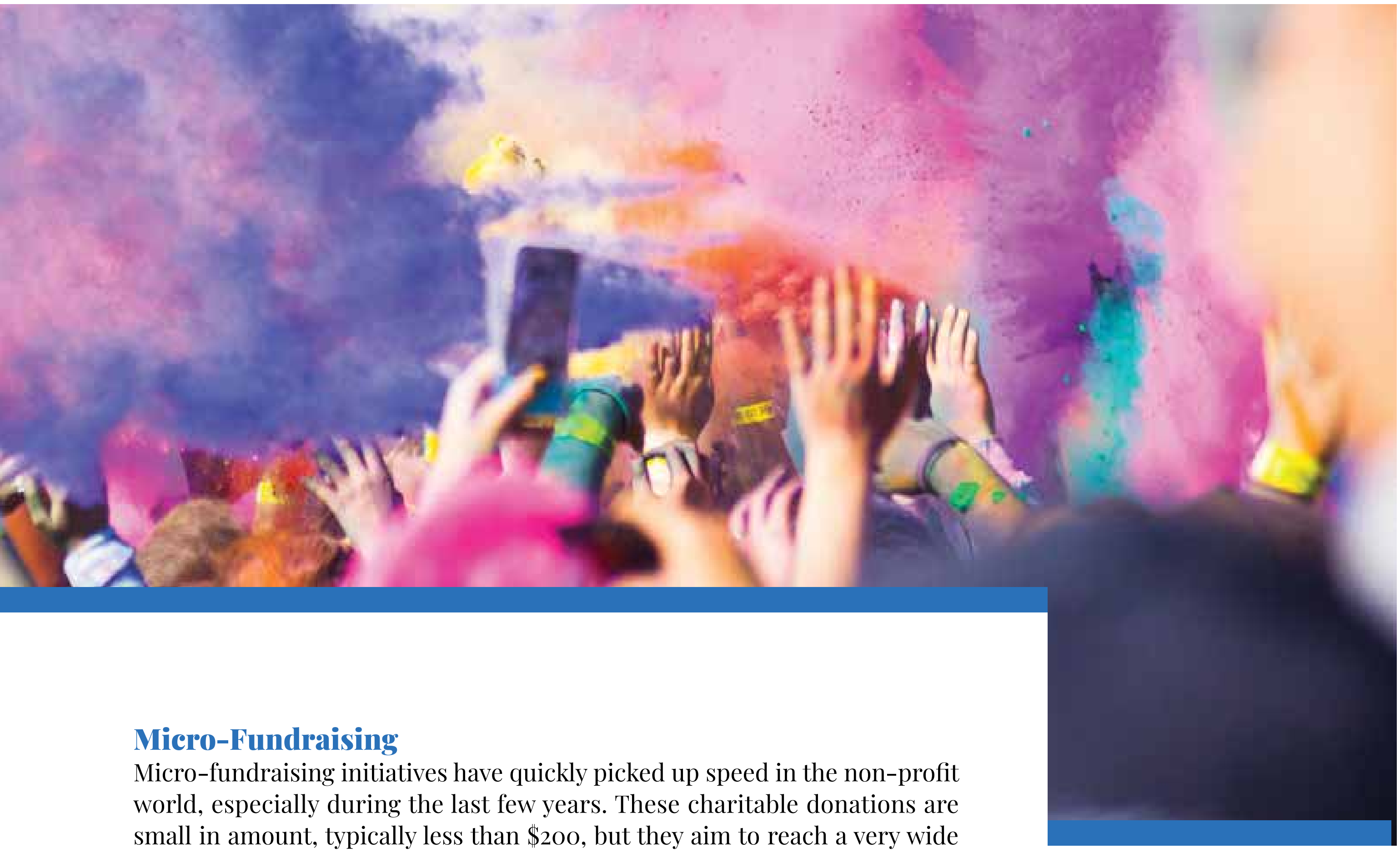


The 'Rule of 72'

The 'Rule of 72' is a useful shortcut for how long it takes for an investment to double in value. A 10% return doubles its value in 7.2 years, or a 7.2% return doubles in 10 years!

Four Trends in Philanthropy

At Manning & Napier, we believe in helping those who help others. We are committed to helping our individual, family, and non-profit clients meet both their financial and philanthropic goals. Keeping our clients up-to-date on the evolving non-profit landscape is part of the job. The following are four trends in philanthropy that we are seeing today.



Micro-Fundraising

Micro-fundraising initiatives have quickly picked up speed in the non-profit world, especially during the last few years. These charitable donations are small in amount, typically less than $200, but they aim to reach a very wide audience and are an innovative way to utilize technology to boost funds.

Technology is the key enabler. By utilizing social media and the prevalence of mobile applications, non-profits can make it quick and easy for donors to contribute to a cause. If all goes right and your message reaches far and wide, with just one swipe or click, donors from anywhere and everywhere can make a contribution without thinking twice about it. This method of giving is proving very popular with younger demographics, but older generations are starting to catch on as well.

For example, micro-fundraising made a huge impact boosting funds during the height of the COVID-19 pandemic. While the pandemic left many unemployed or unsure about what the future held, there was still a significant number of donors that wanted to support their communities in any capacity they could. Many donors took to social media platforms to bring awareness to causes they were supporting, propelling these organizations' missions.

Giving Circles

A giving circle is a group of individuals who join together, pooling their dollars to collectively make a smaller number of larger, more impactful donations. Most giving circles are started by a small group of interested friends, family members, coworkers, and neighbors who all have shared interests.

Each circle decides on its own operational structure: how much money will be collected by each member, how often the group will meet, the nomination and voting process for each organization, and the overall goals and objectives of the circle.

Giving circles have been around for years, but their number has tripled over the last decade. There are approximately 150,000 members in the US, and that number is expected to grow to 350,000 over the next five years. At that point, giving circles could be expected to award up to $1 billion annually in donations.

Giving circles are great for making an impact locally. Rather than engaging with national organizations, they promote philanthropy at a grassroots level and tackle community issues. Often, members will not only give money to organizations directly, but they will volunteer their time too! Giving Circles also tend to distribute their funds quickly. Roughly 80 percent of the money collected is given back to a charity within 18 months.

Next Gen Donors

Millennials and Gen Z are revolutionizing charitable giving. More than prior generations, they prefer to do good by either investing their time and assets in socially responsible ways or by supporting organizations with views that align with their own.

The younger generations have also clearly demonstrated their desire to have professions that align with their passions, and there is a natural affinity for Millennials and Gen Z to seek careers in the non-profit space. Even those who are not looking in the non-profit realm will seek out jobs at firms that demonstrate social responsibility.

For non-profit organizations that they choose to support, Millennials and Gen Z want to maintain a close and active relationship. These demographics have grown up with a significant exposure to volunteerism, and many even had volunteer-based requirements to graduate high school or college. This engagement leads to a desire to serve organizations at a board level.

Currently, only 17% of non-profit board seats are held by this age group. The younger generations' push to be more involved at the board level can lead to friction between the older board members with different motivations. Many organizations are responding by implementing associate boards. These groups are a way for the younger generations to gain knowledge and experience of board level responsibilities, while collaborating with older board members they will eventually serve with.

Lastly, Millennials and Gen Z tend to feel more compelled to take action when it comes to pushing for change in their communities. This generation has shown a commitment to diversity, equity, and inclusion beyond anything seen before. They are often who we see on the front lines of demonstrations, and they leverage their vast social networks to call attention to the injustices they see as they advocate for change.

Women & Household Donations

Women are no strangers to philanthropy, and their influence over charitable decisions is continuing to grow. In comparison to men, women donate twice as much on average, and they make three times the number of charitable donations.

In 1980, women were the primary breadwinners in only 15% of households with children. With a smaller share of wealth, they were less often involved in financial decision making, including charitable giving. Today, that number has risen to 40%, and this increased share of wealth is empowering women to take more control over household financial decisions.

In households where women are the sole decision-maker when it comes to charitable giving, they choose to give their dollars to organizations that focus on health, education, and human services. Breaking it down further, women tend to give to organizations that appeal to them on an emotional level. They are more compelled to give not just their dollars, but their time, and this is true of women across virtually all income levels.

Additionally, there is a notable difference between donations from older and younger households today. Older households are more likely to make charitable giving decisions jointly, while younger households are more likely to make these decisions separately. This is in correlation to the many young people who are waiting to get married at an older age. By getting married at a later stage in their lives, men and women have already spent years managing their individual finances and making their own charitable giving decisions, prompting them to continue to make these decisions separately.

For more insights on the successes and challenges non-profits face today, please go to **manning-napier.com/impact** to download a copy of our Impact magazine, specifically tailored for non-profit organizations and their concerns.

Roth Conversions & Beneficiaries

The passing of major legislation is the perfect occasion to reevaluate your financial plan. Some of our clients have found a Roth conversion to be the right solution for them given the passing of the SECURE Act, and you may want to consider this option, too.

The Stretch IRA and Roths

Among a host of other changes, 2019's SECURE Act made significant changes to longstanding rules on inherited IRAs. The so-called 'stretch IRA' provision was eliminated, impacting most non-spouse beneficiaries of retirement accounts.

The changes took effect last year, and the new regulations remain in place today. Previously, beneficiaries were allowed to take annual required minimum distributions over their life expectancies. Now, most beneficiaries must withdraw all IRA assets within 10 years of receiving the account, likely a much shorter distribution timeline.

As a result, and because any distributions from inherited traditional IRAs will be added to the beneficiary's existing income, individuals should consider each beneficiary's personal and financial situation and whether passing down significant traditional IRA balances is in the beneficiary's best interest.

The Roth Alternative

A good alternative option for some traditional IRA owners is a Roth conversion. This involves converting a portion of your traditional IRA balance to a Roth IRA and paying individual income taxes today. Any converted Roth IRA balances, plus any future growth, can be distributed later, tax-free.

This tax-free benefit means that a Roth conversion can equate to effectively 'prepaying' a beneficiary's income taxes, plus on any further growth during the 10 years beneficiaries can wait to withdraw inherited IRA balances.

Furthermore, individuals utilizing Roth IRAs over traditional IRAs may also leave more IRA assets to beneficiaries. This is because, unlike traditional IRAs, Roth IRAs are not subject to annual required minimum distributions (RMDs). If not needed to meet spending needs, these assets can remain in an IRA and compound growth on a tax-free basis for life. Converting IRA assets later in life reduces the size of the individual's current gross estate and, for residents of states that impose an estate tax, can also help avoid estate taxes on the income tax amount.

As with any financial planning topic, Roth IRA conversion may not be appropriate, or the best solution, for all individuals. These decisions are highly dependent on your specific financial situations, goals, and overall estate structure. Reach out to a financial consultant to review your personal situation and whether a Roth conversion may make sense.

Planning & Investing Q&A

We get a lot of questions from clients throughout the year, and we're taking the opportunity to answer some of the most popular reader questions on planning and investing. If you have additional questions, please reach out to our Financial Consultant teams.

Loosening government regulations seem to be creating opportunities like cannabis, and legal gambling. Is Manning & Napier looking at these areas? Do you see opportunities you like?

Our unique research process involves looking at all areas of opportunity, including emerging industries. For example, we have sector experts in our consumer goods and services group who study these sectors day in and day out.

In our investment research team, our analysts are always looking for the right combination of potential growth and current price. When there's pent-up demand for a certain kind of good or service, like cannabis or gambling, the excitement leads to prices that can be too high for the underlying fundamentals. We all want growth, and these areas are clearly growing, but at this time, we don't feel the risk is worth the reward.

Now that the Democrats control both Congress and the White House, should I expect my taxes to rise? If so, what should I be doing to prepare?

Although the Democratic Party did secure a majority after the Georgia run-off elections, their margin is still quite slim. With this slight majority, we expect to see some adjustments to the tax code, but no widespread overhauls.

Of these possible changes, we're anticipating adjustments to the top marginal income and capital gains tax rate, estate tax exemptions and certain types of business taxes.

Changes are anticipated to occur before the end of the year when the Democrats attempt to pass legislation through the budget reconciliation process. That doesn't mean there's nothing you can do to prepare. We are urging some clients to accelerate income to this year or consider realizing gains (particularly those in concentrated positions) now, while taxes are still relatively low.

What do you think about the future of corporate taxes? How do you anticipate tax changes will impact the market?

Although the Democratic margin is slim, the Biden Administration appears to be pushing forward ideas that involve raising corporate tax rates. We wonder how much political appetite there is for hiking taxes, especially to older, pre-Tax Cuts and Jobs Act levels that were uncompetitively high versus international peers.

Should they be raised, higher corporate taxes would have the opposite effect of what we saw when they lowered a few years ago. This would mean a short-term hit to earnings that could cause the market to experience temporary volatility as it adjusts. Longer term, its impact is debatable, and the devil would certainly be in the details.

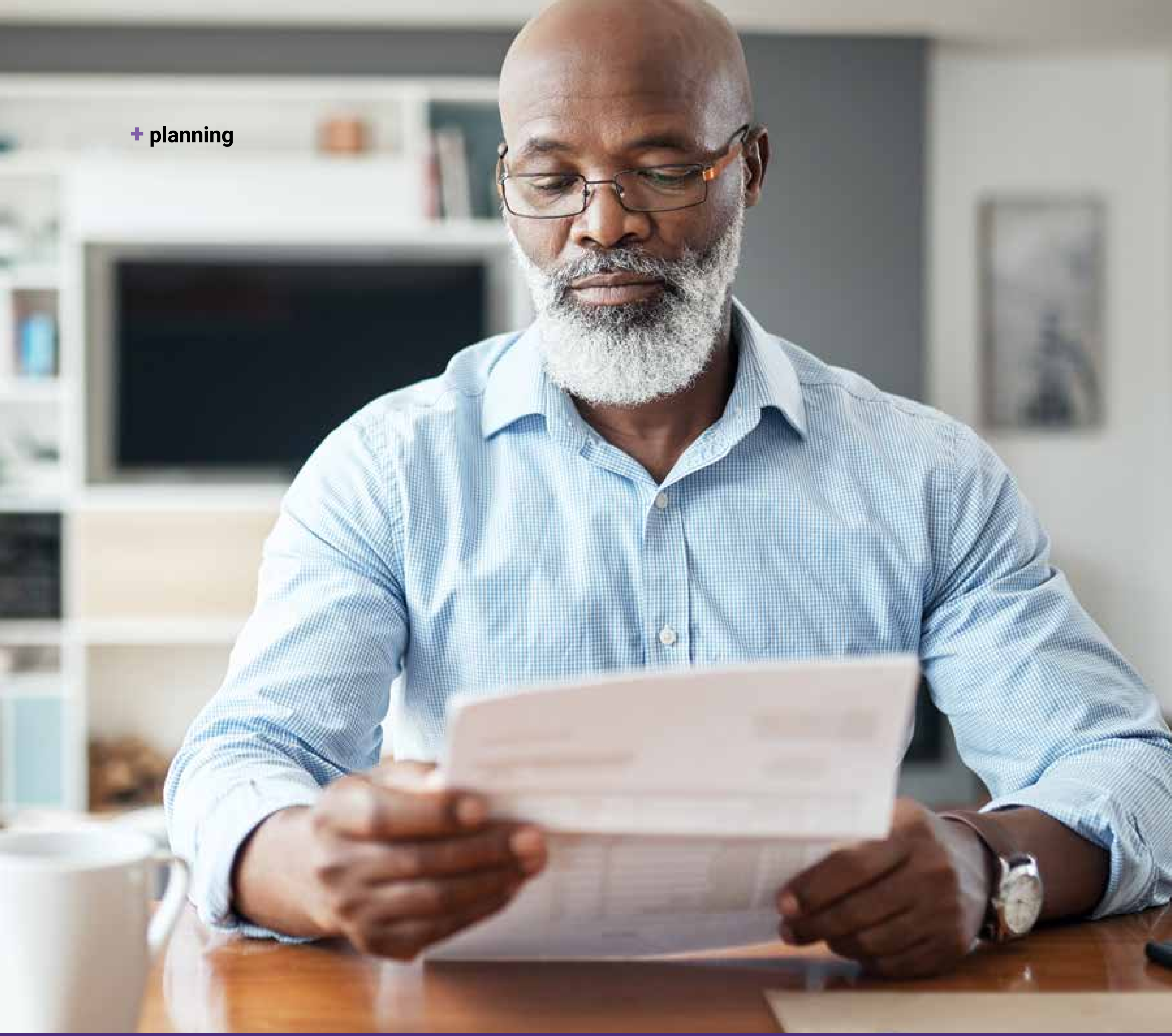
While policy changes can make a difference, their effects are usually transitory as compared to the structural economic forces of productivity gains, technological advancement, and capital deepening. Our investments teams are keeping an eye on potential developments, and we will make necessary portfolio adjustments if warranted.

Should I be investing in cryptocurrencies?

First, we have to take a look at the nature of cryptocurrencies. Cryptocurrencies appear to share some characteristics with currencies and look a bit like a digital form of gold. But more than anything, they're still trying to emerge as an asset class, and it's unclear how their characteristics will hold up long-term. At this point, it's all speculation.

We believe there may be realistic use cases for cryptocurrencies. The underlying technology, the blockchain, seems to have practical use cases for both finance and other areas. Cryptocurrencies themselves may also prove to be a useful alternative investment vehicle as a part of a diversified portfolio.

But again, this is still a highly dynamic, rapidly evolving space that is prone to enormous bouts of volatility. Our disciplines are designed to generate successful investment results over the long-term, and when we look at the cryptocurrency space right now, we don't yet believe they fit within our time-tested research processes. This is not to say we are ruling them out for the future, and we will keep our eye on how things progress over the coming years.



+ planning

Keeping an Eye on Taxes

A change in tax policy can bring about a lot of worries: How will my yearly tax bill change? Will the new rules lower my income? Does my spending rate need to change?

Possible tax increases from the Biden administration are on the minds of many. Little is certain, and proposals continue to come and go. But what we do know is that there is growing desire to make higher taxes a reality, and even though we don't know what changes, if any, will ultimately happen, that doesn't mean it's too early to prepare. We've outlined some hypothetical scenarios, as well as provided planning considerations for how we are helping clients prepare.

A Variety of Ways to Raise Taxes

Some of the most talked about and oft discussed tax changes are to the income brackets. They are always shifting, and recently, there appears to be a growing desire to raise the top marginal tax rate from 37% to something in the 40% range (or perhaps to the pre-President Trump level of 39.6%). Additionally, the long-term capital gains rate has been at a reduced 20% level for some time, and policymakers appear keen to increase that rate, with some suggesting a few percentage point hike, and others looking to nearly double the rate.

From an estate planning perspective, the estate tax threshold appears to be in the political crosshairs. Some are looking to significantly lower the rate at which the so-called death tax starts taking effect (perhaps by slashing the threshold in half or even more). Other considerations related to grantor trusts and the ability to exclude certain assets from a decedent's estate could potentially impact popular trusts such as GRATs, SLATs and ILITs, and they are worth closely monitoring. There also remains some debate over the merits of broad-based wealth taxes, but we see these and other more sweeping reform ideas as less likely to pass.

What We're Doing Now

Although the specific numbers may evolve as proposals are examined and debated, it's a good idea to start planning based on the directional information we have now.

First, it may be a good idea to consider accelerating personal or business income to this year before the top tax rates are increased, and along with the potential for tax bracket compression. It may also make sense for you to sell highly appreciated assets now while capital tax rates are at today's potentially lower levels . Others should consider establishing a charitable-remainder trust (CRT), which can allow the taxpayer to convert highly appreciated assets like real estate or stock into lifetime income and benefit an important cause. Lastly, we are reminding clients to keep in mind that it may be impractical to prioritize avoiding capital gains taxes over everything else.

We have advised clients with large estates and estate tax concerns to begin making annual exclusion gifts now. These are gifts of $15,000 per spouse per year to as many individuals as they like. Others are taking advantage of the higher lifetime gift exemption now, before it may be significantly reduced. One way is by creating an irrevocable trust, such as a spousal limited access trust (SLAT) using a portion of a grantor's lifetime gift exclusion. This can allow the couple to keep an element of control over the assets in the trust since your spouse maintains access as a beneficiary. Another option is to consider grantor retained annuity trusts (GRAT) now, although their creation may be affected by potential legislation which is currently being considered.

Just like with income tax and capital gains tax changes, estate tax changes can be a concern for many. While some are concerned about the effect on markets, we believe it's still too early to say for certain. Many investors whose wealth is primarily held in tax-deferred accounts (like 401(k) and IRA accounts), are not, for example, exposed to the capital gains tax. Discuss possible ways to prepare with your financial advisor, and keep in mind that it's likely a number of changes will be made to the proposed legislation before it is passed.

As always, it's important to keep your financial goals and objectives top of mind when making changes to your financial and estate plan. Our planning professionals keep up to date with all the latest proposals and how they may affect your individual situation. They can work with you to create or update your plan accordingly. Visit our website to learn the latest news on tax legislation and how it can impact your plan.

An Economic Attitude Adjustment

COVID-19 changed everything. After over a year of social distancing, quarantines, economic shutdowns, and re-openings, our work and social lives were forced to adapt.

Everyone learned how to Zoom. We all became comfortable over FaceTime. We adjusted to using hand sanitizer, wearing a mask, and working from home, full-time. When we think about how much the pandemic caused us to change, it is often these day-to-day moments that stick out the most.

But it would be far too short-sighted to think the pandemic will have only impacted the minutiae of our lives. The way our society absorbed, handled, and is attempting to move on from the pandemic is going to leave a much more lasting legacy.

Scar Tissue

Like a hurricane or other natural disaster, the pandemic swept in out of seemingly nowhere, and while its impact was devastating broadly, it clearly hit some much harder than others. Those caught in the middle of the storm are only now beginning to recover.

As compared with those working at large corporations and in professional services, the working poor and those in industries such as hospitality and travel bore the brunt of the pandemic. Even economic groups as enormous as small businesses paid a major price, all because their enterprises were unofficially deemed 'too small to save' by the stimulus bailouts, as compared to their larger peers.

Our society was already grappling with fierce differences before the pandemic. COVID has, in many ways, dramatically accelerated them. Mass poverty, a dramatically indifferent health care system, and a sharp divide between those who can work in the 'Zoom economy' and those who cannot, as well as those able to find and afford childcare versus those who could not, exacerbated tensions and highlighted inequities.

Perception is part of what makes us human. The uncomfortable juxtaposition of people watching well-off people not only survive, but thrive, at a time when they and so many others they know are coping with layoffs, fighting wage cuts, saving a career, simultaneously working and teaching children from home—all while entirely unable to find a waking moment for themselves, or just looking for a simple break—is, of course, going to spark immense jealousy and anger, like burning a raw wound. It is easy to see why so many Americans are so frustrated with 'the system.'

Put more simply: How is it that financial markets could have recovered so quickly and fiercely, benefiting the rich and holders of wealth, while at the same time business activity plummeted, leaving so many unemployed? Add in differing generational attitudes toward a whole host of topics ranging from politics to capitalism itself, and it becomes easy to see the rising undercurrents of frustration driving for change.

We Didn't Start the Fire

Exacerbating the divergence in outcomes are the trillions and trillions of dollars printed by the government and Federal Reserve; monies that were quickly poured into people and business checking accounts, the economy at large, and ultimately, financial markets.

Some of those dollars were desperately needed, either by those who had no other means to get by, or by business owners who so unfairly had their doors shuttered due to no fault of their own. For those needed places, the funds were quickly spent. But a very significant amount of money also went to those who did not need it. This includes people who kept their jobs, but got a stimulus check anyway, as well as business owners whose enterprises were only partially impacted, but who were given generous quasi-government grants anyway.

Fairness aside, it really doesn't matter how the money was initially deployed. As the velocity of money teaches us, dollars spent by one person become income for another, which are then in turn spent, and spent again, in a business-boosting, circular multiplicative effect. As much as our economy has changed in recent years, this economic axiom remains the same.

Over one full calendar year and half a dozen stimulus bills later, the flywheel effect is now being fully appreciated for its power. 2020 witnessed the sharpest economic contraction in US history, and 2021 has the potential to provide the strongest economic growth the country has experienced in decades.

Taking Away the Punchbowl

Mainstream economic theory has come to argue that as the economy heats up, it's time to pump the breaks. When the economy gets overheated, inflation tends to pick up, and risks start to build. To prevent bubbles from forming or becoming dangerously big, policymakers must take away the proverbial punchbowl from the economy and investors.

With the recovery fully ignited and the economy ready to roar, history says that investors should be expecting policymakers start to bring the party to an end. Whether that is fiscal policymakers reigning in spending, hoping to attempt for a balanced budget while the economy is strong, or monetary policymakers aiming to raise interest rates, looking to rein in credit expansion and excess risk.

Today, in a remarkable turn of events, investors are instead looking at a federal government that is aggressively attempting to accelerate spending, working hand-in-hand with a Federal Reserve that is telegraphing plans to keep interest rates lower for longer. They are each fully supported by a general populous that is zealously cheering them on. Quite the turn of events indeed.

New Ideas for a New Age

This philosophical turnabout is clearly reflective of shifting political winds. When we and so many other observers witnessed the rise of populism five or so years ago, it was obvious we were witnessing regime change, even if it wasn't clear where that regime change would take us.

What we seem to now be learning is that it foreshadowed us entering a world where the status quo is no longer acceptable. Long standing views on what constitutes proper, fiscally sound economic policy are being fundamentally challenged to their core, replaced instead by an emerging acronym of ideas including UBI (universal basic income), JG (jobs guarantee), and MMT (Modern Monetary Theory)—the granddaddy of them all.

These very much unproven theories are rapidly becoming our reality today. The other side of the coin of trillions of dollars of printed money are the very theories unpinning MMT and its related ideas. The fiscal and monetary support measures, not just today but dating back to the financial crisis programs too, could all be well considered as the 'catalyst' for such things as Bitcoin, Ethereum, Dogecoin, and the rest of the cryptocurrencies. While some crypto enthusiasts will certainly present utility-based arguments for their success, it seems fair to say that at least a large portion of their proposed value lies within its much more ethereal investment characteristics.

Our Fluid World

Regardless of where you stand on these emerging trends, many of us have a renewed sense that the world is somehow different that it was before. That our lives and our society have become more malleable than we have seen in long time.

Attitudes on so many issues that investors had come to 'know' are starting to shift right below their feet. What if the government doesn't stop the printing press? What if deflation isn't the biggest fear, and if inflation reappears for the first time since the 70s? Are investors prepared for a world that isn't led by a handful of growth companies, but instead driven by a broad-based mixture of old and new, big and small, value and growth-style businesses?

We believe a dose of humility is in order. Humility in that, neither you, nor me, nor markets as a whole have all the right answers. No one has a crystal ball, and we are only just now starting to see some of the long-term ramifications of one of the most significant non-wartime events in US history.

For investors, the task is not to shy away from the unknown, but to take it head on with a plan. Have a plan for what can go right, what can go wrong, and how you intend to evolve with our changing world. Be proactive with your financial plan, active in your investment portfolio, and prepared for whatever life is going to throw at us next.

We wrapped up last year's issue of *Prosper* with a short piece on magic. Not really about magic, but about how, when done right, investing can feel like magic.

The article focused on what makes for a successful investment strategy in good times and in bad, and the common thread is discipline. Market volatility is inevitable, and the only real way to prepare for it is to always prepare for it.

At the time we wrote, "This isn't magic, it is by design. We work to provide substantial downside protection for clients in bear markets, while participating in the growth of up markets."

We couldn't be prouder of our ability to deliver exactly what we set out to do for our clients. During the most difficult moments of 2020, our time-tested investment disciplines gave us the strength and fortitude to invest when others couldn't, generating terrific value for clients as markets stabilized and recovered.

Being able to execute and provide the calm, smooth ride that our clients (and we) prefer provides great joy for our entire Manning & Napier team. We are thrilled to have such loyal clients whose trust and faith in our process and teams make for such a rewarding partnership.

Thank you, and we look forward to more great years ahead.

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