THE TRUST COMPANY *of* TENNESSEE

WEALTH INSIGHTS

Investment Concepts

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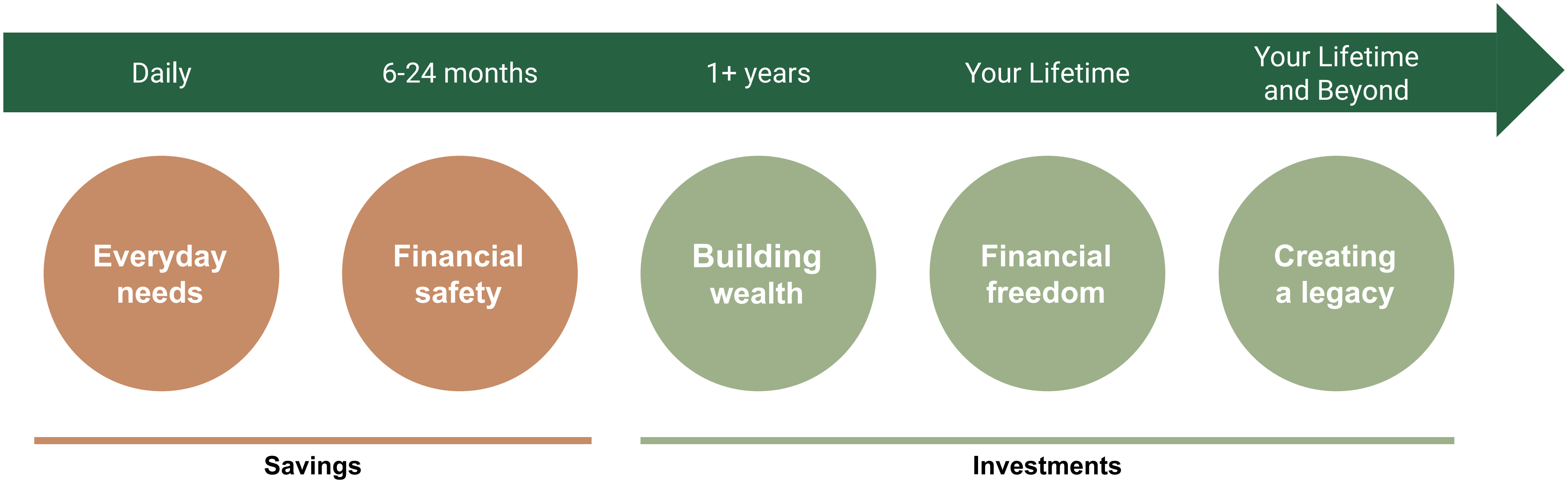
HOW LONG DOES THE MONEY NEED TO LAST?

Know the roles saving and investing play, because savings alone isn't enough to reach every goal in your life's journey.

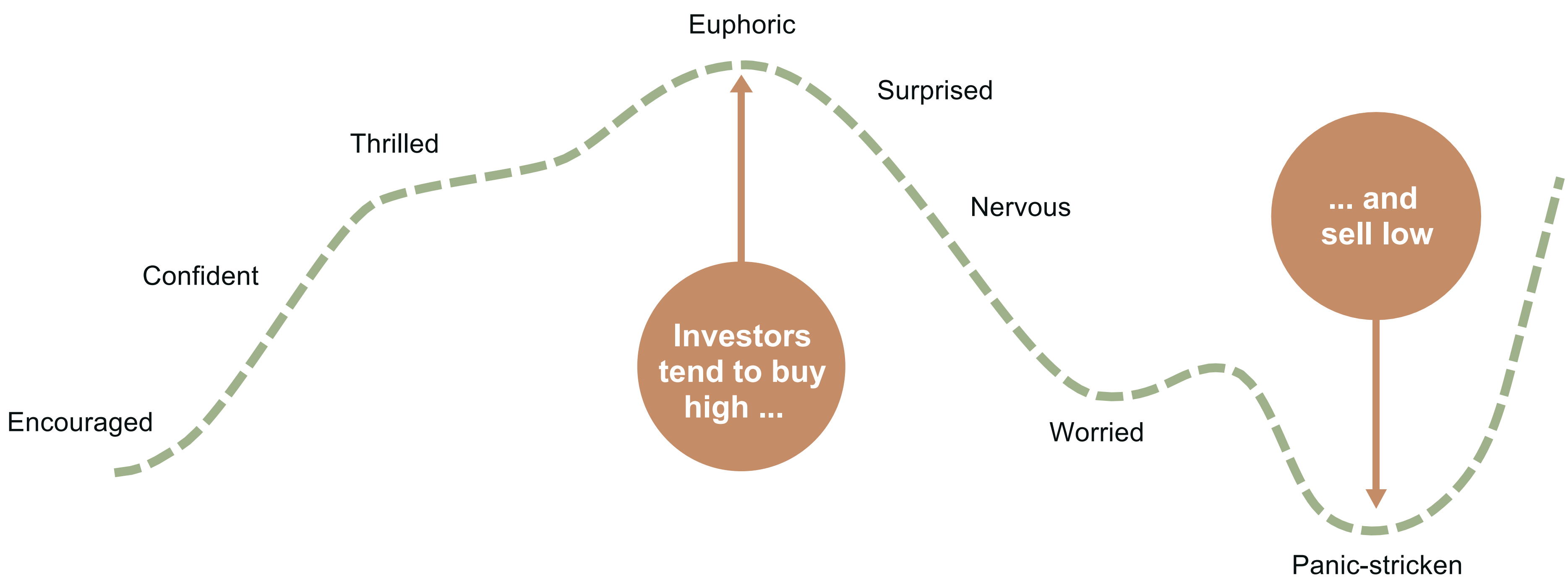


INVESTING WITH EMOTIONS CAN BE COSTLY

When things are bad, we want to limit our losses. When things are great, we wish we had invested more. We all fear missing out.

When investing, giving in to fear often is a losing strategy. Investors with this mindset tend to buy high and sell low as they invest more in a rising market and pull money out in a falling market.

Riding the ups and downs of the market



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DIVERSIFICATION DOESN'T ALWAYS FEEL GOOD

A diversified portfolio can help you achieve your long-term goals and limit your portfolio's downs (and ups). But it doesn't always feel good. You may get upset when you lose money during certain periods (though your loss is likely less than that of the S&P 500 Index). You may also be disappointed during up markets when you didn't do as well as the S&P 500 Index. The good news: A diversified portfolio may produce a better outcome for you in the long term.

A perfect market for "S&P Envy" during the last 20+ years

Years	S&P 500 Index	Diversified portfolio	
2000-2002*	-40.1%	-15.7%	"I lost money."
2003-2007	+82.9%	+91.5%	"Diversification worked."
2008	-37.0%	-28.5%	"I lost money."
2009-2019	+351.0%	+237.2%	"I didn't make as much."
Q1 2020†	-30.4%	-24.2%	"I lost money."
Q2 2020-2021‡	+119.0%	+69.8%	"I didn't make as much."
2022	-18.1%	-15.3%	"I lost money."
2023	+26.3%	+15.9%	"I didn't make as much."
Total return **Growth of $100,000**	**+390.8%** **$490,770**	**+391.4%** **$491,430**	**"Diversification can work even when it feels like it's losing."**

Source: Morningstar as of Dec. 31, 2023. *Performance is from Sept. 1, 2000 to Dec. 31, 2002. †Performance is from Jan. 1, 2020 to March 23, 2020. ‡Performance is from March 24, 2020 to Dec. 31, 2021. Diversified Portfolio is represented by 24% S&P 500 Index, 24% Russell Mid Cap Index, 5% MSCI EAFE Index, 2% Russell 2000 Index, 5% FTSE Emerging Stock Index, 20% Bloomberg U.S. Aggregate Bond Index and 20% Bloomberg U.S. Corporate High Yield Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index. Diversification does not guarantee a profit or protect against a loss in a declining market.

Financial Planning

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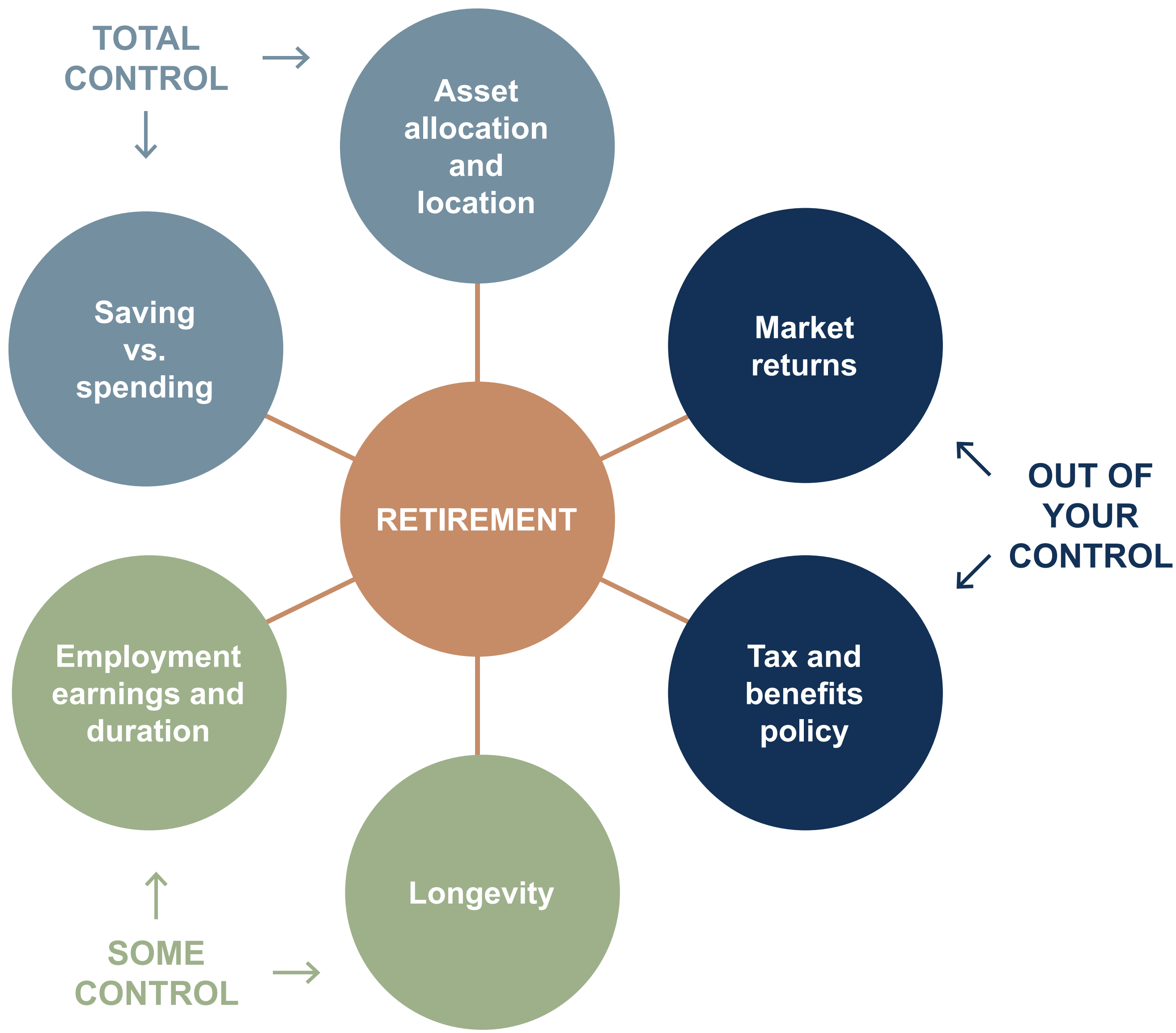
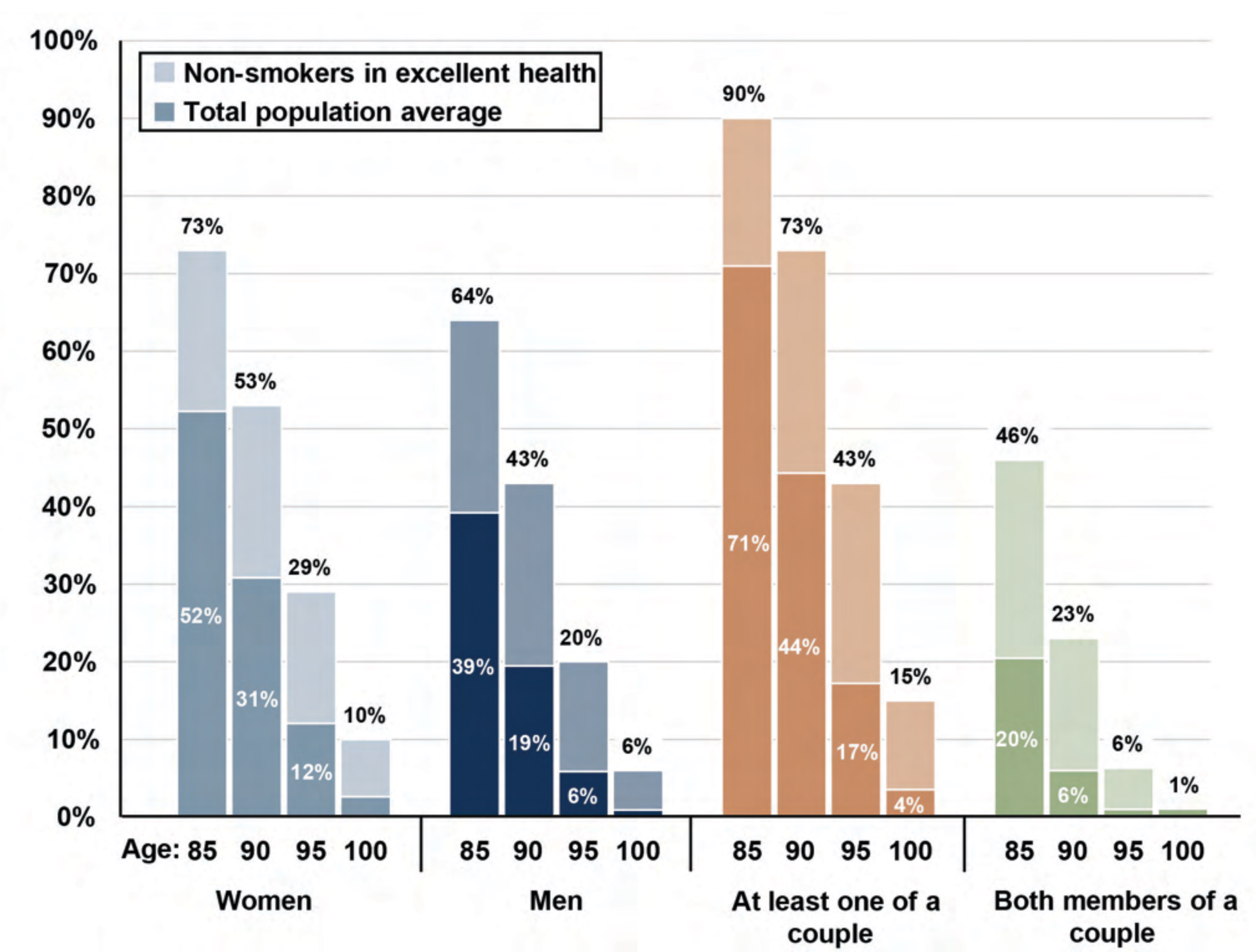
A SOUND RETIREMENT PLAN

Make the most out of things that you can control but be sure to evaluate factors that are somewhat or completely out of your control within your comprehensive retirement plan.



LIFE EXPECTANCY PROBABILITIES

If you're age 65 today, the probability of living to a specific age or beyond



Source (chart): Social Security Administration, Period Life Table, 2021 (published in the 2024 OASDI Trustees Report); American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, http://www.longevityillustrator.org/ (accessed December 2024), J.P. Morgan Asset Management.

PLAN FOR LONGEVITY

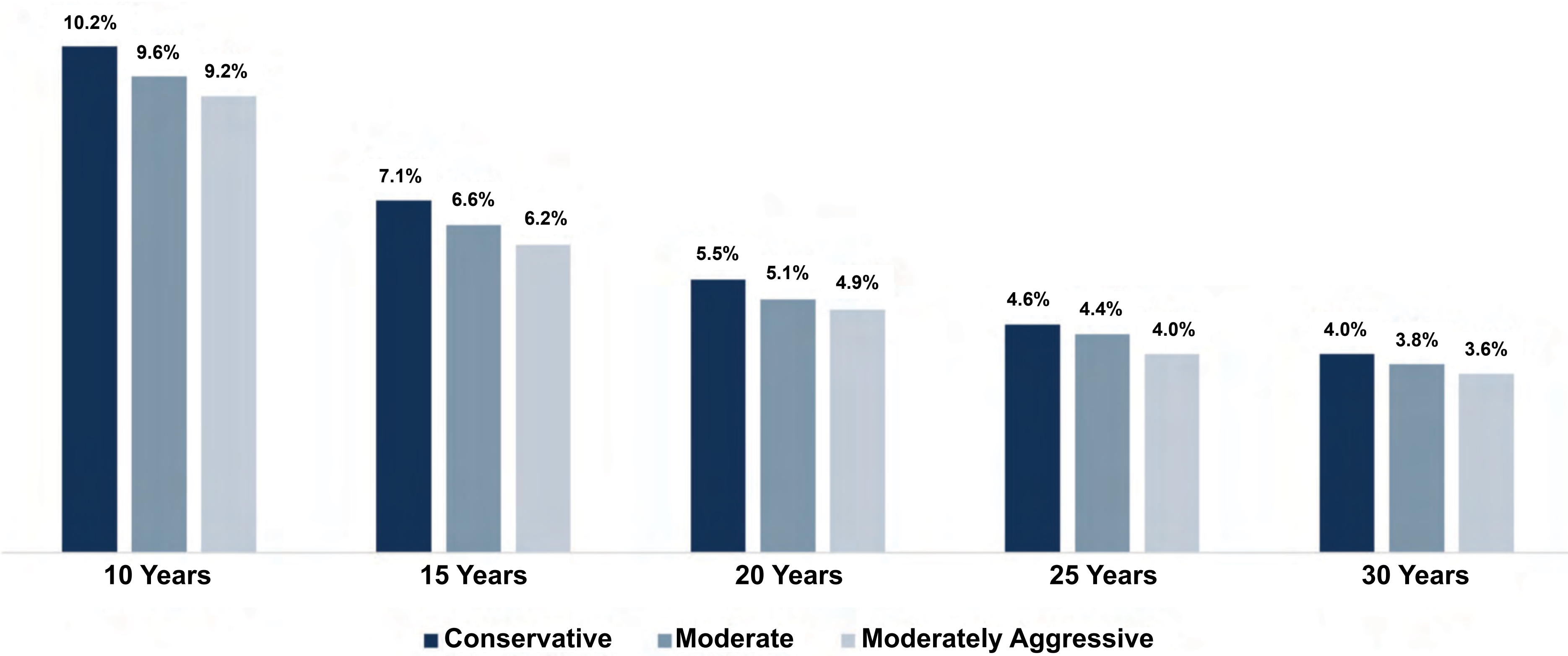
Average life expectancy is a midpoint not an endpoint. You may need to plan on the probability of living much longer – perhaps 35 years in retirement – particularly if you are a non-smoker in excellent health.

Investing a portion of your portfolio for growth is important to maintain your purchasing power over time.

CHOOSING A PRUDENT SPENDING RATE

The "4% spending rule" is well-known but may not be applicable for all retirees.
Ideally, a sustainable spending rate should be built on: time horizon, portfolio allocation and risk tolerance.

Hypothetical withdrawal rates for time horizon & portfolio allocation



Source: Schwab – "Beyond the 4% Rule: How Much Can You Spend in Retirement?" (Feb. 27, 2023). Source: Schwab Center for Financial Research, using Charles Schwab Investment Advisory's (CSIA) 2023 10-year long-term return estimates and volatility for large-cap stocks, mid/small-cap stocks, international stocks, bonds and cash investments. Spending rates target a 90% confidence level for time horizon. Distribution rates are hypothetical and should be reviewed for an individual's personal goals and risk factors.

Estate Planning

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GUIDE TO ESTATE PLANNING

Level One: Must Haves

Planning for and documenting the transfer of assets with minimized tax and transfer cost. Review upon life events (marriage, divorce, birth, adoption, etc.).

- A **Will** appoints guardians for your children and spells out specifically how you want your property split.
- A **Living Trust** avoids probate, allows for privacy and designates how assets are to be divided upon your death.
- A **Healthcare Power of Attorney** allows you to designate a healthcare agent to make healthcare decisions in the event you are unable to make decisions for yourself.
- A **Financial/Property Power of Attorney** allows you to designate an agent to make financial decisions in the event you are unable to make decisions for yourself.
- Joint accounts transfer to a designated person upon death, it is important to **review co-ownership provisions and the titling of accounts**.
- Some assets (such as IRAs, life insurance and annuities) pass to your designated beneficiaries. **It is very important to periodically review beneficiary designations and coordinate with the overall estate plan.**

Level Two: Considerations

Further enhance the direction of assets, minimize estate taxes or increase asset protection.

- The **Spousal Lifetime Access Trust (SLAT)** has become a popular estate planning strategy to take advantage of current lifetime gift tax exemptions ($13.99 million each).
- **Grantor Retained Annuity Trusts (GRAT)** seek to pass assets to beneficiaries free of estate and gift tax that have appreciated over the IRS Section 7520 interest rate.
- Explore **Charitable Trust, Donor-Advised Fund and Foundation** options.
- Since life insurance is not necessarily estate tax-free, consider establishing an **Irrevocable Life Insurance Trust.**
- A **Qualified Personal Residence Trust (QPRT)** is a popular planning strategy which allows the donor to "freeze" the value of the residence with the intent of future estate tax savings.
- **Intra-Family Loans** can provide family members with lower borrowing rates than traditional financing options.
- **Special Needs Trusts** ensure the proper passing of assets to ensure beneficiaries with special needs are not disqualified from entitled benefits.

Level Three: Advanced

For complex estate tax issues or liability concerns.

- **Domestic and Offshore Asset Protection Trusts** offer those in high liability fields of work and those with high estate tax brackets options to reduce liability.
- **Self-Cancelling Notes** allow the exchange of property for periodic payments based upon mortality.
- **Family Limited Partnerships and Family LLCs** provide legal, financial and tax structure to family businesses.

PORTABILITY

Portability allows you to use your spouse's unused estate tax exclusion. While portability was made permanent for federal estate tax purposes, you should check if your resident state also allows for portability of a deceased spouse's unused estate exclusion. In the event your resident state does not allow for portability, it may make sense for both spouses to have assets in their respective name (or trust's name) up to the resident state's estate exclusion amount. Note that portability may require the filing of estate tax returns at first death even if there is not a taxable estate.

ADVANCED ESTATE PLANNING

Spousal Lifetime Access Trust (SLAT)

Married couples exceeding the 2025 estate exclusion ($13.99M per person) can use this strategy to maximize their gift tax exemption while keeping indirect access to trust assets via their spouse.

Charitable Remainder Trust (CRT)

A CRT can be appealing for individuals seeking both income and charitable impact. It provides lifetime (or term) income and supports charity afterward (trust remainder), potentially reducing income taxes during life or at death, based on its structure.

Qualified Personal Residence (QPRT)

A Qualified Personal Residence Trust (QPRT) can help individuals transfer a family home to the next generation while minimizing gift and estate taxes. The owner transfers the home to a trust but retains use for a set term; afterward, the home passes to the trust's beneficiaries.

Grantor Retained Annuity (GRAT)

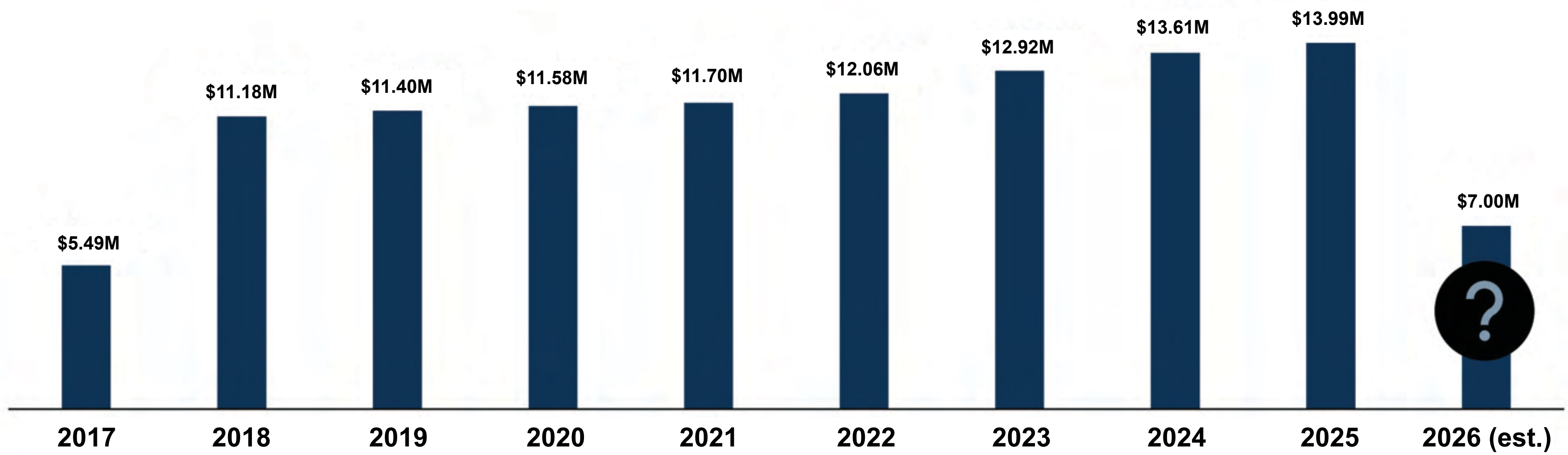
A GRAT enables a grantor to "freeze" estate value by transferring assets to a trust in return for annual payments based on rates published monthly by the IRS. If the assets appreciate beyond these annuity payments, the excess passes to beneficiaries without additional estate taxes.

Source: Fiducient Advisors

TAKE ADVANTAGE OF FAVORABLE EXEMPTION AMOUNTS

Under the Tax Cuts and Jobs Act (TCJA), the federal estate exclusion and lifetime gift tax exemption are scheduled to drop significantly after 2025 (barring any action by Congress).

Federal estate exclusion & lifetime gift tax exemption (2017-2026)



Key Takeaways

- Federal estate exemption has increased due to the inflation adjustment to $13,990,000, providing additional gifting opportunity to those who had previously exhausted the lifetime gift tax exemption.[1]
- Estate tax exemption is scheduled to decrease after Dec. 31, 2025, unless Congress acts to extend current limits. Individuals with taxable estates over $7 million (adjusted for inflation) and sufficient retirement savings should monitor tax legislation and consider whether to make additional gifts before the end of 2025.

[1]Source: IRS - "What's New- Estate and Gift Tax" (Oct. 22, 2024)

Tax Planning

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CHARITABLE GIVING OPTIONS

	Donor-Advised Funds[2]	Private Foundations	Charitable Lead & Remainder Trusts	Check, Cash or Credit
Organizations supported	IRS-qualified public charities	Many organizations and individuals, as long as the grant is made for a charitable purpose	IRS-qualified public charities and generally, private foundations	Public charities
Growth potential	☑	☑	☑	☒
Donations of non-cash items	☑	☑	☑	☒
Income tax deduction[1]	60% for cash 30% for appreciated assets[3]	30% for cash 20% for appreciated assets[4]	Depends on the type of charity supported by the trust and the type of trust	60% to qualifying charities
Tax on investment income	None	1.39% of net investment income	Depends on the nature of the trust	N/A
Option to support charities anonymously	☑	☒	☑	☒
Ability to name successors	☑	☑	☑	☒
Consider this when you want …	A turnkey giving solution with low costs and the potential to grow tax-free over time	To operate a charitable organization; potentially employ a staff; hire investment managers; actively manage grant-making; sponsor charitable events	A trust that can generate income for, and eventually pass on a remainder interest to, heirs and charities	To make one-off donations and manage your own donation receipts at tax time

Options are presented for illustrative purposes.

1 Percentage of adjusted gross income (AGI).
2 At a 501(c)(3) public charity.
3 Appreciated assets held over a year are generally deductible at fair market value (this applies to both publicly and non-publicly traded assets).
4 Appreciated, publicly traded assets held for over a year are generally deductible at fair market value, while non-publicly traded assets are generally deductible only at basis.

THE IMPORTANCE OF ASSET ALLOCATION

Thoughtfully allocating your portfolio can greatly enhance after-tax returns.

Allocate higher-growth strategies to Roth retirement accounts (if available)

- Allocate primarily to global equities and other high-growth strategies
- Additional consideration should be given to actively managed, higher-turnover equity strategies

Allocate tax-inefficient asset classes to Traditional retirement accounts (Traditional IRA / 401(k) / 403(b))

- Focus on asset classes which produce income taxed as ordinary income
- Tier 1: High-Yield Bonds, Dynamic Bonds
- Tier 2: U.S. Core (Taxable) Bonds, REITs
- Tier 3: Global Bonds, TIPS

"Round out" the portfolio allocation

- Determine whether to allocate to tax-exempt (municipal) bonds based on federal tax bracket
- Allocate to global equities which produce income typically taxed at favorable qualified dividend rates
- Additional consideration may be given to lower-turnover strategies

Source: Fiducient Advisors

DIVERSIFIED SOURCES OF RETIREMENT FUNDING

Account type	Investment earnings/ withdrawals	Included when calculating: Income taxes owed?	Included when calculating: Social Security % taxed? Medicare surcharges?
Health Savings Account	Tax-free withdrawals (for qualified health care expenses)[1]		
Roth 401(k)/IRA	Tax-free withdrawals[2]		
Taxable Account	Tax-exempt interest		☑
	Ordinary dividends Taxable interest	☑	☑
	Qualified dividends	☑	☑
	Realized capital gains	☑	☑
Pre-tax 401(k)/ Traditional IRA	Taxable withdrawals (ordinary income)	☑	☑

RETIREMENT FUNDING SOURCES ARE NOT CREATED EQUAL

Investment earnings and withdrawals from tax-advantaged accounts are primary sources to fund retirement spending needs.

When building a retirement income plan, be aware of sources that may be used to determine:

- Income taxes
- How much of a Social Security benefit is subject to tax
- Additional required Medicare premiums

Qualified withdrawals from Roth or Health Savings Accounts can provide tax-free funding that is not included in means-testing of government benefits.

This is not intended to be individual tax advice; consult your tax professional.

[1] Must have a qualifying high-deductible health plan to make contributions. Funds in the HSA may be withdrawn tax free for qualified medical expenses unless a credit or deduction for medical expenses is claimed. After age 65 funds also may be withdrawn at ordinary income tax rates without penalty for any reason.

[2] Subject to 5-year Roth account holding period and age requirements.

Live CONFIDENTLY.

You can live a life of financial confidence, and The Trust Company of Tennessee can be your guide.

We help individuals, families, business owners and nonprofits make better financial decisions, so that dreams can become reality.

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