What Happened to Inflation?

Evercore ISI: Inside the Beltway

Value Investing with Artisan International

Wealth Transfer: Full Steam Ahead

Private Wealth Education

Confronting the Challenges of Alzheimer’s
Committed to meeting our clients’ financial goals, and to earning and sustaining their trust

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A Message from the CEO

Independent Thinking is more than the title of this publication; it’s a promise to our clients. Our best thinking – and that of our Evercore colleagues – informs our planning, investing, and trust and fiduciary services. It is an approach that has served our clients well and continues to set us apart in a crowded marketplace.

I’m pleased to say that Evercore Wealth Management was recently named by Barron’s as one of the top Registered Investment Advisors in the United States. The ranking is based on assets under management, retention, and “factors that contribute to providing broad and consistent service to clients.”

As the wealth management arm of Evercore, we are also delighted to see Evercore profiled by Euromoney, the same organization that recently recognized the firm as the “World’s Best Independent Bank.” We share a common culture, perhaps best articulated in the related article by the head of the firm’s healthcare practice, Francois Maisonrouge. “Independence is much more than a state of mind,” says Maisonrouge. “It is absolutely hardwired into a firm that does not put capital at risk and can be absolutely and wholeheartedly devoted to its clients’ interests.” To view the article, please visit evercorewealthmanagement.com.

And the research arm, Evercore ISI, was named the top-ranked independent firm for the fourth year in a row in Institutional Investor’s All-American Equity Research survey.

So, not a bad start to the fall season. But also, I believe, well deserved. Evercore was built – and is managed – to serve the best interests of our clients. Independent thinking, along with direct and enduring relationships with our clients, is a core value of our firm. We don’t check boxes, and we don’t invest with the herd.

You’ll see several examples of this thinking in this issue. John Apruzzese, our Chief Investment Officer, challenges conventional wisdom on market valuations, making the case for including inflation as a key evaluation metric. By this reckoning and in the context of our expectations for inflation, as described by Brian Pollak on page 6, U.S. stocks are reasonably valued at present – not cheap by any means, but also not as expensive as some investors may think.

Chris Zander, our Chief Wealth and Fiduciary Advisor, also considers the impact of continued low inflation, observing that certain wealth transfer strategies make good sense now and – if and when – tax laws change. Although it’s hard to believe that it’s only been a year since the U.S. Presidential elections, the scope and timing of tax changes remains uncertain.

While we are cautioning clients against making any moves at present that incur a gift tax, we see no reason to hesitate in implementing wealth transfers and other long-term planning strategies.

Ours is the most personal of the Evercore businesses, and we are often very involved in our clients’ lives. Private wealth education is a responsibility we take very seriously, as both Martha Pomerantz and I discuss in this issue. She outlines our approach on page 19, and I address one of our areas of focus – meeting the challenges and opportunities afforded by longer life spans.

In this issue, I concentrate on what is arguably the biggest challenge of all. At a recent event at our headquarters in New York, we asked how many clients in the room had been affected by Alzheimer’s disease, whether through a family member or a friend. Just about every person in the room raised a hand. So please take a look at my article on page 16. For those in other cities or otherwise unable to make the event, take a look at the video highlights on our public website now or the video in full on our client website in November.

We want to hear from you, about the topics raised in this issue of Independent Thinking and about anything else that you may have on your mind. Please don’t hesitate to contact any of us at Evercore Wealth Management with any questions or comments you may have. I hope that you and your family are enjoying the fall and looking forward to the holiday season.

Jeff Maurer
Chief Executive Officer

evercorewealthmanagement.com
Most investors don’t account for inflation when evaluating the stock market. While there is widespread agreement that low inflation generally justifies a higher price-to-earnings ratio, it is not true that the U.S. market is overvalued by every metric. Factor in inflation, and stocks are fairly valued, trading right around historic averages.
ratio, the P/E ratio itself, along with other, less commonly used metrics, does not reflect inflation. Indeed, it’s unfortunate that investors settled on the convention of using the P/E ratios, because just about all other investments are evaluated based on their expected rate of return, or yield. For example, the 10-year Treasury bond is described as selling at a 2.15% yield, not at 46.5 times its coupon.

To better understand the relationship between the valuation level of the equity market and rate of inflation, we need to use the reciprocal of the P/E ratio – the earnings yield. By taking the earnings yield of the market over the last 60 years and subtracting the concurrent inflation rates, we discover the real earnings yield, or inflation-adjusted earnings yield of the market. The current real earnings yield of 2.9% is pretty much bang on the 60-year average, as illustrated in the chart below. Stocks aren’t cheap at this level, but they aren’t overvalued either.

Investors who focus exclusively on P/E ratios and other metrics that don’t take inflation into account are understandably worried about an imminent correction. The P/E ratio is at or near all-time highs (excluding the nonsensical valuations in 2000 at the top of the tech/telecom bubble), giving rise to headlines like CNBC’s recent “Any Way You Look at It, This Market is Overvalued.” But again, their ways of looking at it don’t reflect continued low inflation.

Our approach certainly doesn’t rule out a change in the markets. While we believe that inflation will remain low for some time (see Brian Pollak’s article on page 6), and that a recession in the next two or so years seems unlikely, there are always risks on the horizon. If inflation, currently 1.7%, returned to

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**United States**

**S&P Real Earnings Yield (REY)**

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**Sources:** Bloomberg. Data for S&P 500 REY reflects monthly S&P 500 trailing diluted 12M earnings yield from continuing operations and monthly U.S. CPI Urban Consumers Less Food & Energy YoY NSA Trailing (core CPI rate) from September 1957 to September 2017. During this period, the correlation between the nominal S&P 500 earnings yield and the core CPI rate was 0.81, and the correlation between the nominal S&P 500 earnings yield and the 10-year U.S. Treasury rate was 0.64.
Eurozone
Euro Stoxx 50 Real Earnings Yield (REY)

Average REY = 4.3%

Source: Bloomberg.
Data for inflation in the Eurozone reflects the Euro Area MUICP All Items YoY, a harmonized index of consumer prices used primarily within the European Union. Data provided by Eurostat.
For these reasons, it is our view that the U.S. stock market is, as a whole, reasonably priced. Of course, the usual amount of risk in the market remains. Earnings could go down because of an economic recession or inflation could increase if the economy overheats. While we do not see any indications of either of these events at present, we remain vigilant. In the interim, as inflation rates remain near record lows, we continue to maintain our policy allocation to growth investments in our client portfolios, adjusting for individual and family circumstances, and for appetites for risk.

its long-term average – of about 3.7% – the stock market valuation would come down considerably.

Still, it is more accurate to use the stock market’s real earnings yield when comparing the valuation of the stock market to other asset classes, or various expected growth rates or various levels of inflation. On this basis, U.S. stocks are at present not overvalued. The valuation level of the international markets similarly appears reasonable in the context of local inflation rates. Most of the developed markets are also trading close to their long-term average valuations when adjusted for inflation.

Market commentators generally compare stock market valuations to those of the bond markets and leave inflation aside. However, the bond markets have their own dynamics, including heavy manipulation by the central banks. Central banks in most developed markets are having a harder time manipulating inflation in recent years, and that’s not for lack of trying. Indeed, after eight years of Federal Reserve investment, the U.S. Treasury market still looks expensive, even when current low inflation rates are taken into consideration. Treasuries with maturities of five years or less now have negative real interest rates.

This is not normal – nor do we view it as any kind of “new normal.” We are generally conservative investors and are not interested in justifying high prices for their own sake. Instead we are accounting for inflation in determining valuations, which most other investors fail to do.

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

Thriving & Surviving in a Low-Inflation Environment

By Tim Evnin

Continued low inflation permeates many aspects of business, impacting corporate earnings and stock prices. The companies that innovate, grow units and lower costs will have a better chance at thriving in this environment. Others may not survive.

The most robust contenders are driving value for consumers by attacking cost and inefficiencies, while improving their ease of use. Amazon and Google are giants among this group, but much smaller companies, such as commercial food equipment supplier Welbilt, are also navigating this economy.

Amazon delivers often amazing convenience, especially through its Amazon Prime offering, and focuses on driving prices down for its customers, as other, more traditional retail companies know all too well. Google’s search capabilities and increasingly focused advertising platform are making price discovery simple. And Welbilt offers smaller, more efficient and more automated equipment than its rivals to help its customers cut space, energy, and manpower costs.

Consumer staples companies are generally not faring as well in this low-inflation world. This sector thrived for years in large part by increasing prices over and above the rate of inflation to augment unit growth. Low inflation makes these price increases much harder to implement. We have very little exposure to this sector, focusing only on the few companies able to generate earnings without having to raise prices. Lamb Weston, a recent spin-off from ConAgra and the maker of what it describes as innovative frozen potato products, is a recent addition to our portfolio.

Tim Evnin is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at evnin@evercore.com.
In the spring issue of *Independent Thinking*, we addressed the prospect of so-called Trumpinflation, noting that while there was a possibility of higher inflation and resulting increases in interest rates, powerful long-term deflationary forces were not going away. Inflation has since remained low, and we expect it to remain so for the foreseeable future.

• **Demographics.** The oldest baby boomers are in their early 70s, and the youngest are in their mid-50s. Their exodus from the workforce exerts a downward pressure on the size of the workforce.

The Fed’s Goal vs. Reality

A 2% inflation rate has been difficult to achieve.
Brian Pollak is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at brian.pollak@evercore.com.

Leaving the Workforce

Participation in the labor force is in decline.

* Shaded gray areas reflect recessions

What’s Working and What’s Not: An Insider’s Guide to the Beltway

By Terry Haines

THE U.S. POLITICAL ENVIRONMENT

President Trump and the Republican congressional majority continue to be likely to act in the coming months to jump-start the economy and maintain current fiscal policy stability. Republican majorities in Congress do not equal policy control, however, and some evidence of bipartisanship will have to happen to result in most major changes. The big exception is tax reform, which will be pursued under special budget process rules that require only simple majorities.

The ongoing investigations by special counsel Robert Mueller of Russian interference in the U.S. election remains
a wild card that has potential to delay policy achievements.

**TAX REFORM**

Tax legislation is both a policy and political must-do: Congressional Republicans have long made economic growth a top priority, and they think they will be in a much stronger position to succeed in the 2018 midterms if they accomplish it. Today, we see the overall tax reform success odds at 55%, a combination of an 80% chance that the fiscal year 2018 budget enabling tax reform is approved by Thanksgiving and then a 70% chance of tax reform likely between the last quarter of 2017 and the second quarter of 2018.

Repatriation of foreign earnings is almost certainly part of tax reform. There is a strong bipartisan desire to provide the biggest possible jump-start to the economy, and a low 10% repatriation tax rate seems likely.

**GOVERNMENT DEFAULT**

The potential debt limit cliff in early 2018 probably is decoupled from spending. Either way, we see default as very unlikely, as both the Republicans and President Trump are eager to avoid the policy and political fallout.

**INFRASTRUCTURE SPENDING**

The absence of infrastructure action was the biggest policy surprise in the first half of 2017, and there is no bipartisan plan ready now. Direct federal spending, if fully paid for, is unlikely to exceed $300 billion over the next three years. That leaves the majority of the $1 trillion spending Trump wants dependent on private sector incentives that have yet not even been proposed. Even if a plan can be finalized in 2018, infrastructure spending will have little immediate direct economic impact because it takes years to move projects to fruition.

**TRADE**

President Trump is pursuing an aggressive trade strategy of preferring bilateral agreements, renegotiating NAFTA and other existing commitments, increasing enforcement, and pressuring the World Trade Organization to interpret trade agreements to favor market-based, transparent economies. He is unlikely to start a trade war or attempt to take unilateral trade action or impose tariffs, but some potential for wild card actions remains.

**BANK DEREGULATION**

Attempts to repeal or change Dodd-Frank will cause some market buzz and be a small positive for shares in financial services companies. But major change will be opposed by Senate Democrats and is therefore almost impossible at present. The pace of deregulation is much slower than most think, and as of today not much could be accomplished before early 2019.

**MERGERS & ACQUISITIONS**

The current administration is friendlier to M&A activity than the Obama “red light” and the ad hoc Department of Justice respective approaches. This suggests more M&A activity across sectors and industries.

**HOUSING FINANCE REFORM**

Sidetracked for 10 years, the lack of housing finance reform has been a market negative for the U.S. housing sector. Reform may become a 2018 priority, but without a strong Trump position and a commitment of political capital, little will happen. Democrats want to retain a government role for affordable housing; Republicans want to gradually privatize housing finance.

**IMMIGRATION**

The revised Trump immigration executive order is being expanded slightly, even while parts remain under court review. President Trump and congressional Republicans have not made immigration reform a legislative priority, and it will be difficult because of the need for bipartisanship, but the DACA six-month timeline might jump-start a new approach. A Trump/Republican plan will likely include more border enforcement and more enforcement of current U.S. immigration laws and regulations. The United States will continue to welcome highly skilled workers.

**ENERGY AND ENVIRONMENTAL REGULATION**

EPA’s Pruitt is moving to end Obama climate change regulations, which were already stopped in federal court and rebalances the federal-state relationship in this sector. We expect energy policy to focus on unleashing of U.S. potential, with a speedier permitting process and no additional fracking regulations.
Q&A with Artisan International

David Samra

Q: How do you view the relative value of the U.S. and international markets now?

A: There are no significant investable equity markets around the globe that are, in our view, very depressed. Generally speaking, we believe that excess central bank liquidity has been supporting valuations of all securities and markets globally – and continues to do so.

Our strategy relies on security selection. This virtually eliminates the significance of broad-based market analysis. A good example of why this is so can be gleaned by thinking through something as simple as a price-to-earnings, or P/E, ratio-based comparison between General Motors and Alphabet, the holding company that owns Google. Even if General Motors has a much lower P/E than Alphabet, that fact alone is not enough to determine which security is likely to generate a better return. It is imperative to focus on the valuation in combination with other determinants of return, including stability and growth of cash flows, capital allocation, economic opportunity and corporate governance.

Our approach, combined with the correlated elevation of almost all stock markets globally, means that we find no meaningful insights into where we should be spending our time based on the relative value of any given region.

Q: How about sectors? Do any seem particularly attractive? What are you avoiding?

A: As value investors, we generally spend our time where prices have been in decline or where other investors hesitate to invest. There are few, if any, pockets in the market that are depressed. There are a few sectors where there have been price declines, including energy and generic pharmaceuticals. In addition, we find valuations in the financial services sector to present select opportunities.

Editor's note: Evercore Wealth Management supplements its core investment capabilities with carefully selected outside funds across the range of the firm’s asset classes. Here we discuss active value investing with David Samra, Lead Portfolio Manager of the Artisan International Value Fund. The managers have historically produced consistent long-term performance and the fund contributes to Evercore Wealth Management’s international equity exposure, notably in Europe. Please note that this represents the views of Artisan and not necessarily the views of Evercore Wealth Management.

$20 Bil lion

under management in the Artisan Non-U.S. Value Strategy as of July 31, 2017
Investment Process – Defense/Offense

Artisan International seeks to invest in high-quality, undervalued companies with strong balance sheets and shareholder-oriented management teams.

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<th>DEFENSE</th>
<th>OFFENSE</th>
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<td>Undervalued Companies</td>
<td>Risk management</td>
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<tr>
<td>Quality Businesses</td>
<td>Time value of money risk</td>
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<td>Financial Strength</td>
<td>Financial flexibility</td>
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<td>Shareholder-Oriented Management</td>
<td>Intelligent management</td>
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Q: This portfolio fits broadly into the value category, but the portfolio currently includes some stocks with high market valuations. How do you think about value in the context of this portfolio?

A: Our general limitation on holding cash is 15% of assets under management. Today, the portfolio is very close to that. At the same time, equity markets continue to rally, causing many securities in the portfolio to trade at intrinsic value – i.e., typically a higher P/E – faster than our research platform is able to find replacement securities that are truly undervalued, i.e., a lower P/E.

Q: You have over $20 billion under management in the Artisan Non-U.S. Value Strategy as of July 31, 2017. Is it difficult to manage a focused portfolio of stocks when there is so much to invest?

A: Yes, in this market environment.

Q: Let’s talk about active management; a discipline that is broadly out of favor at present. Do you think the massive fund flows to passive investment strategies are warranted?

A: It makes sense to prefer an investment in a broad market index if you have no resources in place to determine the competency of an active manager. On the other hand, as stewards of capital, we would not consider investing capital in securities that we had not determined had good prospects, financial stability, and at least a reasonable valuation. For those who have the time and resources to think about investing, it is in our view absurd to believe that active management is an inferior investment strategy over the long term.

Q: How have you managed to outperform the passive indices? What are your expectations for the future?

A: Our objective is to find securities that help grow our clients’ purchasing power after inflation and taxes. We believe that over time, a portfolio of well-managed, operationally advantaged, and well-financed businesses purchased at an attractive price should provide both strong absolute and relative performance.

For more information about the Artisan International Value Fund and about other funds on the Evercore Wealth Management investment platform, please contact Stephanie Hackett at stephanie.hackett@evercore.com.
A lot has happened since Donald Trump was elected the 45th president of the United States. But here’s one thing that hasn’t happened: the widely anticipated spike in inflation and interest rates, both of which are still hovering at record lows, while the stock market reaches record highs. Even as we wait to see how the proposals announced in late September pan out, families considering wealth transfer and other tax-planning strategies have little reason to hesitate in this market environment.

Sure, it’s possible that the estate tax exemption, currently set at $5.49 million per individual, will be entirely abolished in the first big tax reform since 2013, although President Trump will almost certainly encounter considerable opposition on this score. As a result, we caution against implementing any strategies that incur a gift tax until the dust has settled on tax legislation. If the estate tax is fully repealed, then transfers at death would incur no estate tax and a premature gift tax payment would be unfortunate. However, wealth transfer strategies designed in the context of a family’s overall strategic plan still make sense.

For example, gifts that properly utilize the individual $14,000 annual gift tax exclusion, or gifts made up to the individual’s remaining federal gift tax exemption, also $5.49 million, should not result in gift taxes. Also, the unlimited exclusion for payments made directly to medical or educational institutions – such as college tuition payments – continues to be an effective wealth transfer technique, especially for those who have a large number of family members or friends that they would like to help.

Wealth transfer strategies that are structured to remove only the future appreciation on assets from family estates also shouldn’t be a source of regret if the estate tax is repealed – and could save families a great deal if it’s not (or in the event of a partial repeal or later reinstatement). These include so-called freeze transactions such as grantor retained annuity trusts, or GRATs, sales to intentionally defective grantor trusts, and intra-family loans. Each of these benefits significantly from lower interest rates, which reduce the hurdle for success. A GRAT established in October 2017, for example, will have a hurdle rate of only 2.2% annually over the course of its prescribed term. Examples of assets used in these types of strategies include equity.
in undervalued closely held businesses or late-stage venture capital investments, a rental real estate property in a promising part of the country, or a single public stock position in a sector that is out of favor at the moment but holds potential for growth over the next few years.

**Wealth transfer strategies could save families a great deal**

Concerns have ebbed that transfers relating to closely held business and other non-marketable assets would be adversely affected by proposals under section 2704 of the Internal Revenue Code. Treasury Secretary Steven Mnuchin recently called the 2016 proposals “unworkable” and recommended withdrawal.

It’s also worth noting that there has been no mention to date in the latest tax proposal of the loss of a step-up in basis. In previous proposals, the repeal of the estate tax was coupled with a repeal of the tax basis step-up under IRC.1014, which would result in an income tax due at some point on the appreciation of assets (the step-up in basis provision eliminated that tax at death). While one previous proposal imposed this tax at death (with an exclusion amount), others allowed for a deferral of tax until the asset was ultimately sold.

One idea to combat this potential issue of an income tax at death is the use of a charitable remainder unitrust, or CRUT, for individuals who have highly appreciated stock or other assets in their estate. Since these assets may not receive a step-up in basis (and potentially incur an immediate income tax at death), contributing them to a CRUT could be utilized to create a tax-efficient, long-term income stream to the individual while offering portfolio diversification and a benefit to charity in future years. The viability of this strategy increases if the step-up in basis is repealed.

In the interim, families have reason to wonder why they still need trusts if the estate tax could be repealed. Quite apart from the possibility that it won’t be fully or permanently repealed, trusts enable families to provide governance and protection around their assets for generations. Without a crystal ball, grantors and/or decedents will still want trusts to carry out their intentions under myriad economic and tax scenarios, and as family circumstances evolve and individuals live longer. It’s as least as important as it ever was to establish trusts with flexible terms, in situses that offer the ability to decant a trust or otherwise modify it to allow trustees and trust protectors to address future legislation and other changes.

**We caution against implementing any strategies that incur a gift tax**

The proposed tax reform also simplifies the individual tax code, a mixed blessing for many affluent families. The pros include a drop in the headline tax rates for high earners (and the sole proprietors of pass-through businesses), the repeal of the Alternative Minimum Tax, or AMT, and the retention of both the mortgage interest and charitable deduction. There is at least one very significant con; in that property owners in high tax states and towns will lose some of their most meaningful itemized deductions related to state and local income taxes, as well as property taxes. To the extent that tax rates are slated to drop next year (and if any tax reform is not retroactive), it makes sense to consider a larger charitable gift in 2017 to maximize the current value of the tax deduction.

**It makes sense to consider a larger charitable gift in 2017**

Certainly, income tax planning will remain important for individuals and families, to maximize annual charitable deductions and to avoid or defer capital gains taxes (neither of which are yet impacted by the proposed reforms). As we wrote in the immediate aftermath of the 2016 election, long-term tax deferral and compounding, while eventually taxed, still drives long-term asset growth, even if current tax rates are low. Decisions made now, as we approach year-end planning and look forward to 2018, could have lasting repercussions. (See the end-of-year planning article on page 15.)

At Evercore Wealth Management and Evercore Trust Company, it’s our job to make sure that our clients know what to expect, as much as anyone can in this political environment, and are on course to meet their goals.

**Chris Zander** is the Chief Wealth & Fiduciary Advisor at Evercore Wealth Management and the President and CEO of Evercore Trust Company of Delaware. He can be contacted at zander@evercore.com.
Editor’s note: Evercore Wealth Management advisors work directly with families and their other trusted advisors to prepare for year-end. This is an extract from a comprehensive framework for those discussions sent to clients in early October. For further information, see Chris Zander’s article on page 12 and contact a Wealth & Fiduciary Advisor regarding your family’s specific circumstances.

## GIFTS AND WEALTH TRANSFER

The lifetime federal gift, estate and generation-skipping tax exemption increased to $5,490,000 in 2017 from $5,450,000 per individual. This allows individuals who have utilized all of their exemption in 2016 to make a gift of an additional $40,000, exempt from federal estate, gift, and generation-skipping tax.

Annual exclusion gifts allow individuals to give up to $14,000 per year to anyone without gift tax (married couples may give up to $28,000). Checks to individuals must be cashed prior to December 31. Parents or grandparents may also want to consider additional tax-free gifts in the form of direct payments for health insurance premiums, medical expenses, or school tuition. These payments must be made directly to the applicable institution to qualify for this unlimited exclusion.

As we wait for the dust to settle on tax reform, we are not recommending making any taxable gifts. Instead, we suggest focusing on exemptions, exclusions, and other gifting techniques that do not incur gift taxes, to transfer wealth to heirs.

### CHARITABLE GIVING

Given current income tax rates and stock market levels, individuals should consider charitable contributions using qualified appreciated stock. For shares held for more than one year, the current fair market value of the securities contributed can be deducted (subject to certain AGI limitations), avoiding the capital gains tax due on the appreciation had the asset been sold.

Those with longer-term philanthropic objectives, who would also benefit from a larger charitable deduction in 2017, may want to consider establishing a private foundation or donor-advised fund. These vehicles can achieve current income tax-planning objectives, while deferring decisions on which charities will receive the funds. Charitable remainder trusts may also be a solution for those who would like to diversify an appreciated stock position, receive a charitable income tax deduction, and retain a tax-efficient income stream for life while providing for a charity upon their death.

### IRA DISTRIBUTIONS

IRA account owners over age 70 ½ can make tax-free direct transfers (up to $100,000 in the calendar year) from IRA accounts to charity to satisfy their required minimum distribution, or RMD. With this strategy, the charitable portion of the RMD is excluded from ordinary income tax but is not tax deductible. IRA owners who turn age 70½ during 2017 have until April 1, 2018 to take their first required minimum distribution and must take the second by December 31, 2018. It may make sense to wait until April in the event that the ordinary income tax rate will be reduced in any potential tax reform. IRA account owners already in distribution mode must take their annual RMD by December 31, 2017.

### EDUCATIONAL PLANNING

529 College Savings Plans may be an effective strategy for setting aside funds for college expenses for children, grandchildren, or other potential beneficiaries. 529 Plans have contribution limits set by individual states, and the federal gift tax rules apply to contributions. Contributions are not deductible for federal income-tax purposes, although they may be deductible for state income tax purposes. Distributions used to pay qualified tuition expenses (expanded to include computers, computer technology and Internet services) are tax-free.

By filing a gift tax return, giving can be accelerated by using the annual exclusion gifts for the next five years, and making up to a $70,000 contribution for an individual (or a joint $140,000 contribution with a spouse). The owner of the 529 Plan may also change beneficiaries or withdraw assets, subject to a penalty, in the future, should circumstances change.
Not many people want to even think about Alzheimer’s, let alone prepare for its impact. Indeed, of the diagnoses Baby Boomers can hear from our doctors – and there’s no shortage as we age – Alzheimer’s has to be the worst.

So it’s understandable that many of us engage in at least some degree of magical thinking about our own fates, willing to undergo screenings for just about every other disease but this one. Still, it’s our job, as trusted advisors and as the custodians of our clients’ wealth, to help families defend their futures.

The statistics are pretty damning. More than five million Americans are already living with Alzheimer’s, and by 2050 the number could more than triple. Deaths from Alzheimer’s have risen since 2000 by an astonishing 89%, making it the sixth leading cause of death in the country. It’s the only one of the top 10 killers that, to date, cannot be prevented or cured.

One in three senior Americans can expect to die from Alzheimer’s or another form of age-related dementia.

Still reading? Good for you, because there are constructive measures we can take to protect ourselves and our families from some of the consequences. We tackled many of these at a recent event at Evercore’s New York headquarters, the latest gathering in our ongoing Longevity Challenge series in confronting the opportunities and challenges of the 100-year life. (See page 18 or visit evercorewealthmanagement.com for some of the evening’s highlights.)

First, define your own wishes. Pick your team to help you and your family, and make sure that the right people have the right authorities. Someone, for example, should have a durable power of attorney with all powers, including the ability to carry on your gifting program. You’ll also need to establish a healthcare proxy and make your medical wishes known to your delegates. And get organized, updating documents and records, and making sure someone will have access to all your digital passwords (for everything from your banks accounts to your Facebook page) long before it’s too late.

Next, create a revocable trust and direct your assets to the trust. As the grantor, you are the initial trustee of the trust and can change its terms as you see fit. You should name a successor trustee to carry out your wishes in the event that you become incapacitated. This is a more effective approach than relying solely on a durable power of attorney, which may not be fully recognized by banks and brokerages, and may also be limited in its gifting powers. A revocable trust can serve as the main estate-planning vehicle, preventing delays of the probate process and allowing the terms of the trust to remain confidential.

It should not be regarded as a substitute for a will, however. A will is still necessary to manage outlying assets and to exercise certain powers. Also, make sure that your beneficiary designations are up-to-date, especially for retirement plans, pensions, and insurance policies.

It’s important to consider all the people involved. A diagnosis of Alzheimer’s is
devastating for the whole family. Two-thirds of caregivers are women, the dark side of relatively longer life expectancies, as well as the typical two- or three-year age gap between spouses. Of the 15.9 million people providing care at last count to those with Alzheimer’s and other dementias, about a fifth are adult children also caring for the next generation. It’s not surprising that caregivers of those with dementia indicate substantial emotional, financial, and physical difficulties at twice the rate of those caring for people with other illnesses.

That brings us to the costs, for care and to ease the burden of our family caregivers. Long-term care associated with Alzheimer’s and other forms of dementia is not covered by medical insurance or Medicare; long-term care insurance is expensive and may be difficult to obtain. There are techniques – all complicated and some controversial – to qualify even affluent people for Medicaid while retaining their assets to provide for other qualified services. Your wealth advisor can direct you to an eldercare attorney if that’s of interest. However, it would be a mistake to bank on the government picking up the tab.

Remaining at home with full-time care – the first choice by far for most of us – currently runs about $30 an hour, or $265,000 a year in major metropolitan areas. Professional geriatric care managers, trained to assess, coordinate, and provide services for the elderly and their families, can do much to ease the burden, but will add to the expense. A skilled nursing facility charges about $300,000 a year, with another $200,000 to $300,000 a year for really personal care.

Moving to one of the new residential communities designed for the affluent can be an attractive alternative to remaining at home. They can provide a wonderful environment in which to age in place, with assisted living and nursing care when required, while allowing healthy spouses to retain independent lives. This option is expensive too, but it can make the final chapter less of a burden on family caregivers.

All told, the cost of top-notch care could run to between $5 million and $10 million for those who live for eight to ten years, the average life expectancy after diagnosis.

Just about every one of us knows someone affected by this disease. While we wait – and, perhaps, through philanthropy and volunteering help scientists work – for a cure, we have to plan for our families and ourselves. Don’t hesitate to consult your advisors if you have any questions or concerns.

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Confronting the Risks & Costs of Alzheimer’s: Planning Highlights

Editor’s note: The statistics are pretty damning. More than five million Americans are already living with Alzheimer’s, and by 2050 that number could triple – the darkest and most complicated consequence of longer life spans. Here are some constructive measures discussed at a recent Evercore Wealth Management event featuring CEO Jeff Maurer and George Vrandenberg, President of USAgainstAlzheimer’s and a leading authority on combating and managing the disease.

HEALTH & WELLNESS

• Exercise often. Regular aerobic exercise helps the heart and the brain.

• Sleep well, for at least a good seven-and-a-half or eight hours a night. That’s the time when toxic proteins are cleared out of the brain.

• Eat a Mediterranean-oriented diet. It doesn’t have to be extreme, but it should be healthy. On a related note, keep your weight down, avoiding diabetes and obesity.

WEALTH PLANNING

• Control stress and hypertension through meditation and other mechanisms. Stress evokes an inflammatory reaction in the brain.

• Keep learning. Continued learning makes your brain stronger. Video games don’t help – they just make you better at video games. But learning a second language in our older years is not a fantasy.

• Sign up for clinical trials. We should all participate in the research to combat this disease.

• Consider the potential impact on family and friends. Alzheimer’s is an enormous challenge for spouses and other caregivers. Plan together and make sure there is plenty of back-up support.

• Crunch the numbers – and invest accordingly. In New York City, individuals can expect to pay $250,000 a year or more for full-time care at home and $300,000 at a facility; double that for really personal care. Keep in mind that Medicare, like most forms of insurance, doesn’t cover the long-term care costs of Alzheimer’s and other dementias.

• Get organized. Keep financial records and digital records up-to-date and provide the right members of the team with access.

• Take advantage of technology. There are some wonderful resources now for patients and families, from automatic medicine dispensers to medical and motion sensors.
Private Wealth Education: We All Have Something to Learn

By Martha Pomerantz

Educated investors make better investors, not only because they understand financial markets and investments but also because they understand themselves. What, for example, is an acceptable level of risk? Are certain financial goals, such as transferring assets to children, realistic—or even the right thing to do? If one spouse handles everything to do with finances,
The Longevity Challenge Events:

We are pleased to present a special series of events on embracing the 100-year life. We’ll consider the mental, physical, and emotional challenges – and opportunities – afforded by dramatically lengthened life spans, as well as strategies to plan and invest accordingly.

• The 100-Year Life: Healthspan vs. Lifespan – A Discussion on Aging Well with Dr. Brian Kennedy

Private Wealth Education at Evercore:

• Better Together: Active & Passive Investing
• Staying in the Game at Any Age: A Discussion with Leading Medical Experts at Hospital for Special Surgery

Wise Women Seminars:

• Mother Daughter/Daughter-in-Law Champagne Tasting on the topic of Mindfulness

Please contact your Wealth & Fiduciary Advisor or Jewelle Bickford at jewelle.bickford@evercore.com for further details on upcoming Evercore Wealth Management events in your region.

how will the other spouse cope alone? And how, as Jeff Maurer considers on page 16, can we begin to prepare for the emotional and financial costs associated with increased life spans?

The best decisions are informed by the perspectives of those involved

These are very personal questions and the answers will vary, even among couples and within a family. Members will have different views – and different levels of knowledge to support those views. There will be some black and white answers, of course, and good advisors can help navigate the shades of gray. But the best decisions are informed by the perspectives of those involved.

In talking about risk, for example, it is important to project investment returns across a full range of scenarios (and inclusive of all associated costs, including taxes, fees, and inflation), so investors can assess the associated risks, not just in broad strokes but also in practice. As previous articles in Independent Thinking have stressed, it’s what you keep that’s important.

For sophisticated investors, those discussions might include deep dives into alternative asset structures or a seminar with John Apruzzese on the relationship between inflation and market valuations, as described on page 2.

For the less experienced, and even those who don’t think they have any interest in finance, there are other approaches to discussing risk or, indeed, any wealth management topic. Personal coaching or a small seminar on investing basics can open communications around money, and may help individuals develop the confidence to contribute much needed perspectives to family wealth planning.

We all have something to learn and to contribute, especially when planning for our own futures, and for the people and organizations we care about. Whether it’s retirement planning, thoughtful giving to children and grandchildren, or deciding on a trust structure to provide for future generations, the better the understanding of everyone involved, the better the outcome.

At Evercore Wealth Management, we work with clients, and their families, to help inform at every level of knowledge and to articulate and define important family wealth objectives. Our private wealth education program includes private and family meetings and seminars on a wide range of educational topics, which run the gamut from the financial basics to meetings with our top external managers and colleagues at Evercore and Evercore ISI. Like Benjamin Franklin, we believe that an investment in knowledge pays the greatest dividend.

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