THE TRUST COMPANY

Wealth Management Update

October 2022 Third Quarter

Our staff and their families enjoying a fall evening of fun together at Britt's Farm.

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THIRD QUARTER MARKET UPDATE

By Mark Knackendoffel
President & CEO

By Michael Carlisle
Vice President & Investment Committee Chair

The Silver Lining in the Bond Bear Market – INCOME!

3rd Quarter Market Performance – U.S. & Global Stocks. Stock markets again dropped in the 3rd Quarter. After a strong rally in July, generally increasing stock prices about 15%, they dropped in late August and throughout September. U.S. stocks generally declined between 2% & 6% for the Quarter, while foreign stocks generally dropped 5% to 11%.

2022 Fixed Income Markets & Current Yields. Fixed income markets have continued to decline with ever-increasing interest rates, generally dropping about 1%-2% in the 3rd Quarter, but ultra-short-term funds actually appreciated during the quarter.

U.S. Treasury rates now top 4% across the entire yield curve. Even Money Market Fund rates now offer attractive yields and a safe-haven component within diversified portfolios. Please note the chart for The Trust Company's 2022 MM Fund rates, which have dramatically increased 20-fold since March. We've never seen that type of change in our respective 40-year careers. **That's the "silver lining" in this 2022 brutal market decline – Bonds, CDs and MM funds are now paying enough income that they should once-again assume their traditional role in helping offset the market risks and volatility associated with equity components within portfolios.**

The Trust Company's 2022 Money Market Rates

January	.13%
February	.13%
March	.13%
April	.25%
May	.40%
June	.78%
July	1.21%
August	1.69%
September	2.33%
October	2.70%

And those rates will likely keep increasing over the next several months as fund holdings mature and roll over to current higher yields.

But note that the Federal Reserve Board is still lagging the overall bond market after setting the Fed Funds Rate at 3.25% in September. So, additional increases in the Fed Funds rate will likely push it above 4% as well, but many forecasters expect inflation to begin to moderate and that should limit future bond market rate increases. This makes bonds much more attractive . . . and eventually, stock markets more attractive as well.

The Trust Company's Perspective. We have positioned client portfolios by gradually increasing MMF balances and continuing to allocate fixed income holdings to short and ultra-short bond funds. These holding essentially become the "dry-powder" within diversified portfolios, which we expect to reallocate to longer bond funds and equities when we rebalance portfolios again within the near future. This has allowed our client portfolios to slightly out-perform market indexes, but only slightly.

But how "near" is the "near-future?" We don't know! What we do know is that corporate earnings growth is solid enough to justify more attractive P/E Ratios for stocks, a key valuation metric. We also believe the factors choking our economy with higher inflation will also subside, eventually. But we're not quite committed yet to execute our next round of rebalancing purchases and sales; however, we expect to do so within the next month or so.

And if those inflationary factors and trends continue to persist, then we'll do it again . . . and again! Stay tuned!

Market/Index	2021 Close	As of 9/30/2022	3rd Qtr 2022 Change	YTD Change
S&P 500	$4,766	$3,586	-5.28%	-24.77%
DJIA	$36,338	$28,726	-6.66%	-20.95%
NASDAQ	$15,645	$10,576	-4.11%	-32.40%
Russell 2000	$2,245	$1,665	-2.53%	-25.86%
Global Dow	$4,138	$3,168	-9.67%	-23.43%
Fed Funds Rate	0% - .25%	3.00%-3.25%	150 bps	300 bps
10-Year Treasury Rate	1.51%	3.80%	83 bps	229 bps

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WELCOME, NEW STAFF!

MARGIE MICHAL

Account Administrator-Retirement Plan Services

Margie joined The Trust Company as an Account Administrator with the Retirement Plan Services Team in October 2022. Her prior experience has always focused on people - most recently as the Practice Manager at Family & Implant Dentistry and previously as the Senior Director of Development for the Mercy Community Health Foundation. She is a graduate of Kansas State University, with a Bachelor of Science in Marketing from the College of Business Administration.

Manhattan "Townies", Margie and her husband, Bruce, both grew up in Manhattan, KS and have always called it home. Together, they have two grown children, a daughter-in-law, two grandchildren, and one Goldendoodle fur baby.

Outside of work, Margie enjoys spending time with family, going on walks, watching cooking shows, and traveling (they have an annual trip to Florida that is a family favorite travel destination).

When asked about what's important to her at work, Margie shared, "Taking care of others and building meaningful relationships has always been top priority for me throughout my career."

WEALTH MANAGEMENT SPOTLIGHT

Decisions, Decisions: Choosing Among Retirement Plan Contribution Types

If your employer-sponsored 401(k) or 403(b) plan offers pre-tax, Roth, and/or non-Roth after-tax contributions, which should you choose? How do you know which one might be appropriate for your needs? Start by understanding the features of each.

Pre-tax: For those who want lower taxes now

With pre-tax contributions, the money is deducted from your paycheck before taxes, which helps reduce your taxable income and the amount of taxes you pay now. Consider the following example, which is hypothetical and has been simplified for illustrative purposes.

Frank earns $2,000 every two weeks before taxes. If he contributes nothing to his retirement plan on a pre-tax basis, the amount of his pay that will be subject to income taxes will be the full $2,000. If he was in the 22% federal tax bracket, he would pay $440 in federal income taxes, reducing his take-home pay to $1,560. On the other hand, if he contributes 10% of his income to the plan on a pre-tax basis — or $200 — he would reduce the amount of his taxable pay to $1,800. That would reduce the amount of taxes to $396. After accounting for both federal taxes and his plan contribution, Frank's take-home pay would be $1,404. The bottom line? Frank would be able to invest $200 toward his future by reducing his take-home pay by just $156. That's the benefit of pre-tax contributions.

In addition, any earnings made on pre-tax contributions grow on a tax-deferred basis. That means you don't have to pay taxes on any gains each year as you would in a taxable investment account. However, those tax benefits won't go on forever. Any money withdrawn from a tax-deferred account is subject to ordinary income taxes, and if the withdrawal takes place prior to age 59½ (or in some cases, age 55), you may be subject to a 10% penalty on the total amount of the distribution, unless an exception applies.

Roth: For those who prefer tax-free income later

On the other hand, contributing to a Roth account offers different benefits. Roth contributions are considered "after-tax," so you won't reduce the amount of current income subject to taxes. But qualified distributions down the road will be tax-free.

A qualified Roth distribution is one that occurs:
- After a five-year holding period and
- Upon death, disability, or reaching age 59½

Distributions of Roth contributions are always tax-free because they were made on an after-tax basis. And distributions of earnings on those contributions are tax-free as long as they're qualified. Nonqualified distributions of earnings are subject to regular income taxes and a possible 10% penalty tax. If, at some point, you need to take a nonqualified withdrawal from a Roth account — due to an unexpected emergency, for example — only the pro-rata portion of the total amount representing earnings will be taxable.

Keep in mind that tapping your account before retirement defeats its purpose. If you need money in a pinch, try to exhaust all other possibilities before taking a distribution. Always bear in mind that the most important benefit of a Roth account is the opportunity to build a nest egg of tax-free income for retirement. Finally, not all plans allow in-service withdrawals.

After-tax: For those who can exceed the limits

Finally, some 401(k) and 403(b) plans allow you to make additional, non-Roth after-tax contributions. This plan feature helps those who want to make contributions exceeding the annual total limit on pre-tax and Roth accounts (in 2022, the limit is $20,500; $27,000 for those age 50 or older — up from $19,500 and $26,000, respectively, in 2021).[1] As with a traditional pre-tax account, earnings on after-tax contributions grow on a tax-deferred basis.

If this option is offered (check your plan documents), keep in mind that total employee and employer contributions cannot exceed $61,000, or $67,500 for those age 50 or older (2022 limits).

Another benefit of making after-tax contributions is that when you leave your job or retire, they can be rolled over tax-free to a Roth IRA, which also allows for potential tax-free growth from that point forward. Some higher-income individuals may welcome this potential benefit if their income affects their ability to directly fund a Roth IRA. [In addition to rolling the proceeds to a Roth IRA, you may also (1) leave the assets in the original plan (if allowed), (2) transfer assets to a new employer's plan (if allowed), or (3) withdraw the funds.] [2]

Which to choose?

Determining which types of plan contributions to make is a strategic decision based on your household's needs and tax situation. Because non-Roth after-tax contributions are generally most appropriate only to those who wish to exceed the contribution limits on pre-tax and/or Roth accounts, it may be best to focus on maxing out those accounts first.

If your plan offers both pre-tax and Roth contributions (check your plan documents), the general rule is to consider whether you will benefit more from the tax break today than you would in retirement. Specifically, if you think you'll be in a higher tax bracket in retirement, Roth contributions may be more beneficial in the long run.

Also, regardless of whether you choose pre-tax or Roth contributions, be sure to strive for contributing at least enough to receive any employer match that may be offered. Matching contributions represent money that your employer offers to help you pursue your savings goal. If you don't contribute enough to take advantage of the full amount of the match, you are essentially turning down free money.

Keep in mind that employer matching contributions are made on a pre-tax basis. Distributions representing employer matching dollars and related earnings will always be subject to regular income taxes and a potential 10% tax penalty if distributed prior to age 59½ (or, in some cases, age 55).3

Once the annual contribution limit has been reached for pre-tax and/or Roth contributions, it may be time to consider non-Roth after-tax contributions if your plan permits them.

For more information specific to your situation, visit with advisor or a qualified tax expert. 1 Section 403(b) plans may allow employees with 15 or more years of service to make special catch-up contributions in addition to the age 50 catch-up contribution. Under this special rule, the maximum additional catch-up contributions in any year is $3,000 and the lifetime aggregate special catch-up contribution is $15,000.

2 Keep in mind that distributions of earnings on non-Roth after-tax contributions will be subject to regular income taxes and possibly penalty taxes if the money is not rolled over to a traditional IRA. IRS Notice 2014-54 clarifies the rules regarding rollovers of non-Roth after-tax plan contributions to a Roth IRA.

3 Employer matching contributions may be subject to a vesting schedule, through which plan participants earn rights to the employer contributions, and earnings on those contributions, over a period of time. Employer matching contributions are not offered in all plans. Check your plan documents.

Sustainability Tips

We want to share a few tips with you about how you can help do your part to help preserve this great planet. We are committed to continuing to find more sustainable options including paperless documents when possible.

- **Receive your account statements electronically. Contact your advisory team today to request online statement access rather than mailed print copies.**
- Use electronic direct deposit and electronic bill pay versus paper checks as often as possible.
- Carpool, walk, bicycle or use public transit as often as possible...plus, you can get some extra steps in while you're at it!
- Stop using single use plastics (water bottles, straws, etc.) - get a reusable or refillable one and take it with you on the go.
- Use cold water for laundry and take shorter showers.

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