2021 left its mark. How did it impact your plan?

It was a year of more – more COVID-19 variants, more vaccinations, more economic growth, more in-person gatherings, more workers leaving their jobs, and more demand for goods and services.

Last year certainly left its mark on households and businesses across the United States – the pandemic turned out to have longer legs than expected, but even so, the real GDP increased at an approximate annual rate of 6.5% in Q4 of 2021, resulting in approximate total growth of 5.6%, year-over-year in 2021.[1] With the continued economic growth came a snowballing of other pandemic-related effects, both good and bad.

As we make our way into this new year, it's important to keep an eye on the various economic factors that occurred in 2021 and carried over into 2022, as they could take effect on your wealth plan.

The economic elements

How they could impact your plan

Supply chain breakdown

A series of pandemic-related manufacturing and shipping issues caused shortages, stoppages, and delays in supplying goods. Then, as consumers started to shift activity back to "normal", demand boomed, and the already damaged supply chain had trouble keeping up.[2]

If you're a current business owner, you may be feeling the lasting effects of pandemic-related issues with the supply chain. Demands for higher wages, employees quitting their jobs, and shortages in raw materials have all exacerbated the issue.

Higher inflation

From December 2020 through December 2021, we saw a 7.0% increase in the CPI-U before seasonal adjustment.[3] Energy prices shot up in correlation with the booming economy, and supply/demand imbalances drove prices of goods in certain sectors higher than usual.

Besides having a direct impact on your daily life at the gas tank, restaurants, and at the store, inflation also erodes purchasing power in relation to your assets. It naturally reduces the value of your savings and directly impacts certain types of investments.

You can explore a few strategies for protecting your purchasing power in your wealth plan, such as properly positioning your debt, diversifying as needed, and owning quality assets (vs. cash/cash alternatives).

Read the results of Umpqua Bank's nationwide survey of nearly 1,200 small and middle market business owners on their mood, mindset, and plans for growth.

READ REPORT

Fed tapering

After the pandemic-induced recession, the central bank took action to stimulate the economy by nearly doubling the amount of bonds it purchased monthly – the Fed's balance sheet ballooned from $4.3 trillion in March 2020 to $8.5 trillion by September 2021.[4] We're now in the midst of the systematic decrease in the amount of assets purchased by the central bank on a monthly basis, a technique known as Fed tapering.

Along with indicating the end of a stimulus period, tapering is historically an indication of an interest rate hike. And with the continuing levels of high inflation, the Fed has predicted multiple interest rate hikes in 2022.[5]

Rising interest rates will directly impact bond yields and can cause imbalance in your overall portfolio, so it's important to stay in touch with your trusted financial professionals and diversify, if necessary.

Sources: 1) "The Conference Board Economic Forecast for the US Economy," The Conference Board. 15 December 2021. 2) "How the Supply Chain Broke, and Why It Won't Be Fixed Anytime Soon," Peter S. Goodman. New York Times. 31 October 2021. 3) "Consumer Price Index Summary", U.S. Bureau of Labor Statistics. 12 January 2022. 4) "What does the Federal Reserve mean when it talks about tapering?" Eric Milstein, Tyler Powell, and David Wessel. Brookings. 15 July 2021 5) "Why the Fed will raise interest rates in 2022, and how soon consumers will feel hikes", PBS. 15 December 2021.

Beware the "Portfolio Drift"

Since U.S. indices have pushed higher over the last several years, many investors who have not reallocated their portfolios have likely strayed from their target allocation. As a result, many find themselves overexposed to equities and increasingly vulnerable to market downturns. This "portfolio drift" phenomenon can keep investors from reaching the goals they established in their overall wealth plan.

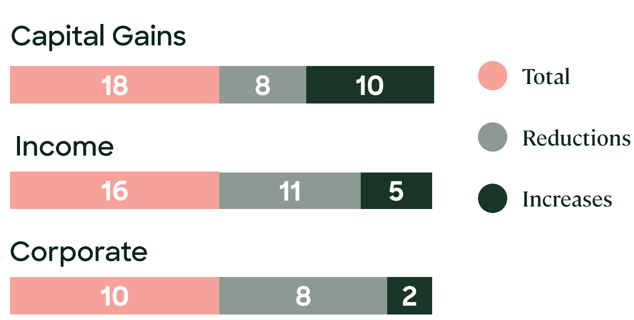
As your wealth plan continues to unfold in 2022, keep in mind that your Private Bank Relationship Manager is here to support you and help you leverage Umpqua Private Bank's financial planning capabilities through our relationship with Steward Partners Investment Solutions. Together, we'll work to ensure your financial plan is adjusted appropriately to address and potentially mitigate the impacts of these current economic issues.

Tax law changes are stalling in Washington

It appears the Build Back Better Act won't be moving forward right away

Despite what any of us may think of the tax-related actions taken by the previous administration or the current one, tax law changes and adjustments to tax rates are nothing new. In fact, over the past 60 years, some tax rates have been adjusted more than a dozen times. The graph on the right provides a quick breakdown.[1]

Tax Rate Changes



And as with any change related to your wealth, it will be important to keep yourself aware of any proposed changes so that you can properly prepare. However, because there has yet to be an agreement across the aisle regarding the Build Back Better (BBB) Act, any notions you have about these pending tax law changes can likely be set aside for now.

What is causing the delay?

President Biden's administration has proposed $4 trillion in spending to take place over the course of a decade, and this would be, in part, funded by higher taxes on individuals and businesses. Additionally, members of both the House and Senate submitted bills that include increases to capital gains and corporate income taxes.

Conversely, Senator Joe Manchin has expressed concerns since Q3 2021 that the BBB Act is simply too costly. He has directly referenced increased inflation, the child tax credit extension, and the national debt as reasons he has yet to support the act.

For your consideration

Though the BBB Act is stalling, there are still certain tax planning-related considerations you can make now. For instance, the sunset clause for estate tax is still in effect, and that sunset clause does not go into action until the first day of 2026.

Current tax law states that the estate tax basic exclusion amount for an individual (aka the gift and estate tax exemption) is $11.4 million – a sizeable increase from the previous $5.45 million. If the sunset clause goes into effect roughly four years from now, the exempt threshold will return to $5 million, adjusted for inflation.

So what action can you take now?

Well, you may want to consider using the exemption to make tax-free lifetime gifts or as bequests upon your death. Doing so would keep this money from being hit with the federal estate and gift tax (not including state estate tax, as applicable).

If your estate is smaller, holding onto your assets until death may be worth considering, as your heirs would receive assets based on their value at the time of your death. This is referred to as a step-up in basis, and if your heir sells the asset, they will not have to pay any capital gains taxes.

Due to the nature of these complex matters, as always, we encourage you to meet with your financial professional at Umpqua Private Bank. This can be a great benefit to your future tax planning strategies and any questions you have surrounding them. While there's still a lot of uncertainty, it's important for you to start the discussion so you can better understand how tax changes could impact your wealth goals. After all, the BBB Act may come into play in the future, and you'll want to have familiarity with its potential impact on you, your family, and your wealth.

Additionally, you may want to begin the search for a high-quality, well-trusted estate attorney now. When the initial details of the BBB Act were announced in September 2021, this was more difficult than many imagined.

Our team of professionals is here for you if you need help understanding pending tax changes, their impact on your plan, what you can do to maximize current tax benefits, and how you can minimize negative outcomes from any future changes.

Sources: 1 “Prepare now for continued tax changes,” Columba Threadneedle Investments, 24 August 2021.

Article continued on following page

THE

13 Connected Wealth Conversations

- Stay connected with your financial professional by discussing the 13 most important topics surrounding your financial health.
- Stay tuned for our future newsletters as we address each of the other 12 topics and how to get the conversation started.

3 Things to Remember About Your Retirement Accounts[1]

It can be easy to get caught up in the hype of labor shortages and interest rate hikes, but it's vital to keep your personal plan top of mind amidst the noise. Let's go back to some basics… what's the word on your retirement plan?

With increasing inflation levels, the IRS released 2022 changes to retirement account deferrals and contributions to keep up with the cost of living. So, we want to outline those updates and encourage you to keep a few things in mind about your retirement account(s).

1 Tax-Deferred vs. Tax-Exempt Plans

Tax-Deferred: You pay taxes upon withdrawal in retirement but save on taxes when you make contributions to the account.

Common types: Traditional IRAs and 401(k)s

Tax-Exempt: You pay taxes upon contributing to the account but withdrawals are tax-free in retirement.

Common types: Roth IRAs and Roth 401(k)s

Your ideal tax-optimization strategy could rely on contributions to both types of accounts or prioritizing one over the other. Within the context of your overall wealth plan, your Relationship Manager can help you decide which approach will best maximize your income tax benefits and mitigate liabilities.

2 Required Minimum Distributions (RMDs)

- Mandated by the IRS, RMDs refer to the minimum amount of money that must be withdrawn from your tax-deferred retirement account each year after the age of 72 (age changed in 2020) to avoid tax consequences.
- Retirees often withdraw more than the minimum amount – this is allowed.
- If you have multiple tax-deferred accounts, keep in mind that an RMD must be calculated for each account. You can visit the IRS website to calculate your RMD(s) or work with your Relationship Manager to determine and manage these amounts.

3 2022 changes to retirement savings contribution limits[2]

Deferral/Contribution Limits: 2022 vs. 2021

	2022	2021	Change
401(k) Deferral Limit	$20,500	$19,500	+$1,000
403(b) Deferral Limit	$20,500	$19,500	+$1,000
457 Deferral Limit	$20,500	$19,500	+$1,000
401(k), 403(b), 457 Catch-up Contribution Limit	$6,500	$6,500	No change
IRA Contribution Limit (Traditional and Roth)	$6,000	$6,000	No change
SIMPLE	$14,000	$13,500	+$500
Defined Contribution 415 Limit	$61,000	$58,000	+$3,000
Supplemental Executive Retirement Plans (SERPs)	No limit	No limit	N/A
Health Savings Accounts (HSAs)	Self-only: $3,650 Family: $7,300	Self-only: $3,600 Family: $7,200	Self-only: +$50 Family: +$100

Dollar Limit Qualification Changes: 2022 vs. 2021

	2022	2021	Change
Max Annual Compensation for Qualified Retirement Plans	$305,000	$290,000	+$15,000
Highly Compensated Employees (HCEs)	$135,000	$130,000	+$5,000
Key Employees	$200,000	$185,000	+$15,000

Questions about these changes or your plan for retirement?
Work with your Private Bank Relationship Manager and Umpqua's Wealth Planning team to help ensure you are maximizing your retirement plan contributions while minimizing income taxes.

Sources: 1) "Annual Retirement Plan Limits", The Retirement Plan Company, LLC. https://www.trpcweb.com/education/annual-limits/
2) "IRS announces changes to retirement plans for 2022", Internal Revenue Service. 17 November 2021.

Life is Uncertain
Be Certain You're Protected

As the past few years have taught us, life and health are both valuable and volatile. On the global level, we've become more familiar with the fact that nothing is guaranteed. So why not factor uncertainty into your wealth plan, too? It's impossible to predict, but it's always within your reach to protect yourself.

Life Insurance as an Asset

Though insurance policies are generally not considered asset classes, permanent life insurance can be used as an asset to mitigate some headwinds produced by market volatility.

With a universal or whole life insurance policy, your premiums play two roles:

1. *to pay for your insurance*
2. *to fund a savings component known as cash value*

Permanent life insurance can play a unique role in reducing overall portfolio risk, as it not only provides a **death benefit** (like any life insurance policy), but it also accumulates **cash value** on a tax-deferred basis as you make regular payments. Although cash value accumulation shouldn't be the primary reason for purchasing an insurance policy, it's good to know that once you've met pre-determined balance requirements, you can withdraw funds, take loans against it, or use proceeds to purchase a different policy. Making withdrawals may lower your death benefit.

A Less Volatile Rate of Return

Permanent life insurance is a contract, and prior to purchase, you can understand the return expectations within the framework of the policy. The primary purpose of viewing life insurance as an asset class is that the internal rate of return can be linked to life expectancy. Generally speaking, and depending on the type of life insurance policy you own, the premiums paid into the policy versus the death benefit will yield a given rate of return to life expectancy. If you die earlier, the rate of return will be higher. Having this less volatile rate of return in your life insurance policy (as opposed to stocks and bonds that come with more volatility) helps you plan for the future – you know your premiums and you know your death benefit.

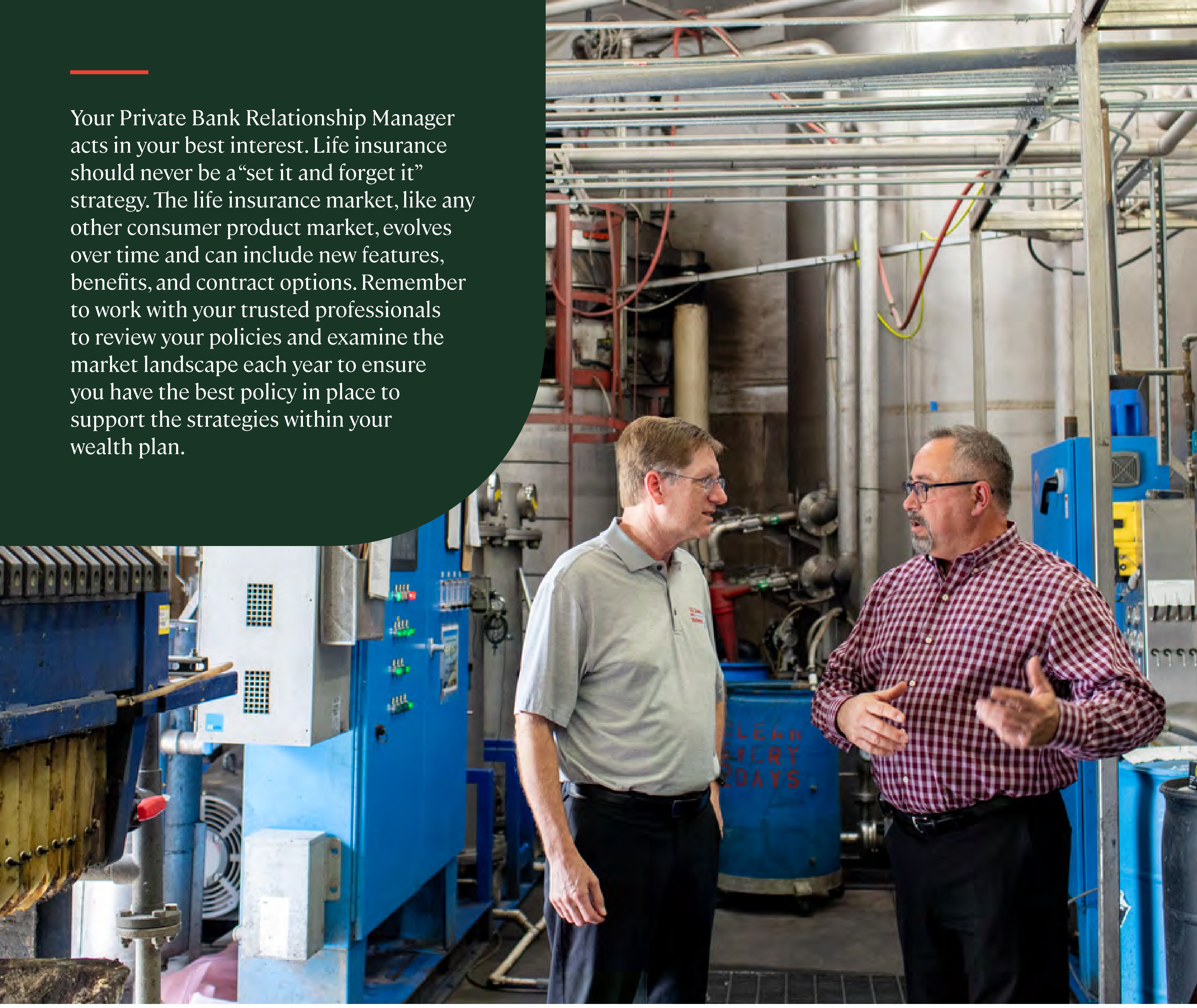
It's not an exercise in morbidity – it's one of preparedness.

An unexpected death or health event can so often be the cause for financial stress and precarious situations. That's why it's so important to protect yourself, your loved ones, and your heirs so that there are security nets in place when unexpected events happen.

Ways your loved ones could use your life insurance policy

- ✓ Paying funeral costs
- ✓ Making mortgage payments
- ✓ Paying off student loans
- ✓ Paying medical bills
- ✓ Setting aside college funds for children/grandchildren
- ✓ Long-term care costs
- ✓ Starting a business
- ✓ Making charitable donations
- ✓ Creating an estate
- ✓ Paying estate taxes
- ✓ Paying credit card debt
- ✓ Buying a new home
- ✓ Retirement income
- ✓ Investing in the stock market
- ✓ Equalizing inheritances

Your Private Bank Relationship Manager acts in your best interest. Life insurance should never be a "set it and forget it" strategy. The life insurance market, like any other consumer product market, evolves over time and can include new features, benefits, and contract options. Remember to work with your trusted professionals to review your policies and examine the market landscape each year to ensure you have the best policy in place to support the strategies within your wealth plan.



Since life insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

Guarantees and contractual obligations are backed by the claims-paying ability of the issuing insurance company.

For more information, contact your Umpqua Private Bank Relationship Manager or reach out to us at:

(833) 898-0973

UmpquaBank.com/Private-Bank

PrivateBank@UmpquaBank.com

Follow us

UMPQUA

Private Bank