Trust Company *of* Vermont Quarterly Update

October 2022

Brattleboro ◆ Burlington ◆ Rutland ◆ Manchester

Employee-owned & Vermont-based www.tcvermont.com

Chris Cassidy, CEO

My life changed dramatically in January with the birth of my daughter. Despite a few sleepless nights and some messy diapers, I absolutely love being a dad.

One night while lying awake in bed, after changing a diaper, I decided to grab my computer and go to the 529 Plan College Savings Network website (collegesavings.org). On the website, I discovered a College Cost Calculator whereby an individual can input their child's age, an assumption for college cost inflation (the site recommended 6%), the type of college and whether the cost calculation should include tuition only or also room and board. I decided to do the calculator for my daughter to estimate what college might cost for her in the future. I was stunned.

According to the cost calculator, a private college would cost $498,329 for tuition and fees only. When room and board was included, the cost jumped to $671,983.

Estimated 4-Year College Cost for a Newborn

Type of College	Tuition & Fees Only	Tuition, Fees & Room/Board
Private College	$498,329	$671,983
Out of State Public	$357,632	$511,433
In-State Public	$139,770	$293,571

** Assumes a 6% cost inflation, which has been the historical average*

If I was having difficulty sleeping before knowing this information, now I was really in trouble!

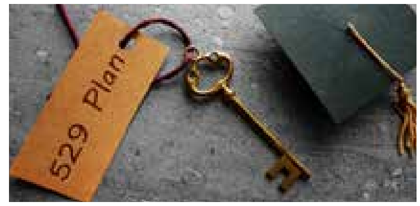
Thankfully, in 1996, Congress enacted Section 529 of the Internal Revenue Code, which established federal tax rules for 529 College Plans. According to the 529 Plan College Savings Network, over 12 million families have used these plans to save more than $250 billion. People use these plans because of the significant tax benefits that they provide. For example, 529 Plans grow tax-free assuming the withdrawals are used for approved education purposes. Furthermore, more than 30 states offer tax credits or deductions on deposits made to 529 Plans.

Based on these benefits, I recently set up a 529 Plan for my daughter and will do my best to fund it over the next twenty years. My colleague, Livia DeMarchis, having three children of her own, also has 529 Plans.

Livia is a very knowledgeable estate planning attorney by trade, and she has been a wonderful addition to Trust Company of Vermont. She understands complex estate planning documents and has extensive fiduciary tax knowledge. Livia has written an article this month on 529 Plans, which can be an important financial planning and estate planning tool. Although Trust Company of Vermont does not manage 529 Plans, we can help clients to understand their benefits and can assist with transactions and reviews.

Saving for College

Livia DeMarchis, Esq. Trust Counsel



As everyone knows, college is expensive. While it can be helpful to think of a college degree as an investment in your child or grandchild's future, rather than as an expense, it can still be difficult to fathom how to finance the cost.

529 plans are one powerful, tax-advantaged tool that families can use to help with education-savings. There are a number of advantages to 529 plan savings.

Federal tax benefits

Investments in a 529 plan grow on a tax-deferred basis, and distributions from the account, if used for a qualifying education expense, are tax-free.

State tax benefits

529 plan earnings are generally also excluded from state and local income tax if used to pay for qualifying education expenses. In addition, a number of states provide a tax credit or deduction for some or all of the contribution made to their program in a given year. For example, Vermont's official 529 college savings plan, VT529 (formerly VHEIP), offers any Vermont taxpayer a state income tax credit of 10% of the first $2,500 contributed to VT529 per beneficiary, per tax year. A married couple filing jointly, can get a tax credit of 10% of the first $5,000 contributed per beneficiary per year. Rollovers into VT529 from another state's 529 plan are also eligible for the tax credit on the contributions portion of the rollover, as long as the funds remain in VT529 for the remainder of the tax year.

Gift and estate tax benefits

Gifts to a 529 plan qualify for the annual gift-tax exclusion, which is currently $16,000 per recipient. As such, you can remove up to $16,000 per recipient per year from your taxable estate without using any of your lifetime federal gift and estate tax exemption amount.

Section 529 also permits an election that allows the grantor to "superfund" a 529 plan by treating a contribution of more than the annual exclusion amount as being gifted over five years for gift tax purposes. Electing to superfund a 529 plan will allow a grantor to contribute as much as $80,000 in 2022 to an account for one beneficiary without triggering a taxable gift, assuming that no additional gifts are made to the same beneficiary from the same grantor during the five-year period from 2022 through 2026. The election to superfund a 529 plan can be made on the grantor's federal gift tax return for the year of the contribution. Unless the grantor dies during the five-year period encompassed by the election, the value of the entire $80,000 contribution is excluded from his or her gross estate.

Investment and savings benefits

States usually try to keep the fees and expenses associated with investing in a 529 plan as low as possible, and the plans themselves generally offer a wide range of investment options. Numerous 529 programs, including VT529, offer automatic contribution options through payroll deduction or electronic funds transfer, which can help encourage regular saving.

Availability and control

529 plans are not limited to those under a certain income threshold, so high-income grantors can utilize them. And while a grantor's contributions are treated as completed gifts, allowing them to qualify for the annual gift-tax exclusion, the grantor still retains ownership and control over the account they establish for a beneficiary. The account owner can change the beneficiary of the account, and the owner—not the beneficiary—decides when and why to take distributions.

Asset protection

Some states, though not Vermont, provide specific protection for 529 plans against the claims of creditors. Qualifying assets in a 529 plan should also be protected in the event of bankruptcy.

As our CEO, Chris Cassidy, mentioned in his introduction, Trust Company of Vermont does not manage 529 plans, but we can help our clients better understand their 529 plan options and can assist in opening and reviewing these important accounts.

Statements Piling Up?

Consider Online Statements or Eliminating All Paper Statements

Your E-Statements are accessed via a secure website and available for up to 18 months for you to view or download. As well as statements, clients will have the ability to review their portfolio holdings and transactions for an individual account or as a consolidation for multiple accounts. If you would like to consider this avenue, please reach out to your account administrator or portfolio manager to setup your online access or to setup your E-Statements.

E-Statements offer the benefit of:

- Quicker access to your account information
- More eco-friendly (Save a tree)
- Less clutter
- Eliminates the security issue of mailed statements or the need to shred older ones.

Our clients can also opt to discontinue paper statements in favor of just online or "E-Statements". This option includes those clients who already access online statements but still receive an annual printed statement as of yearend. You can now opt for no paper statements at all. Again, please reach out to your account administrator or portfolio manager to complete the one-time paperwork.

Dancin' in September

Chris Cassidy, CEO and Portfolio Manager

I love the month of September. The weather in Vermont is beautiful, foliage is beginning to turn, and delicious local apple treats abound. September is also the month of my wedding anniversary, so I tend to associate the month with happy memories of family and friends. Furthermore, who doesn't like the Earth, Wind and Fire song?

As a Portfolio Manager, however, I'm not a big fan because it brings back memories of the crash of 2008. In September of that year, the S&P 500 fell by 20 percent in a single month as investors grappled with the Lehman Brother's bankruptcy, American International Group (AIG) bailout and credit market illiquidity. It was a difficult month for managing assets.

Calendar year 2008's record is just one example of poor market performance in September. In fact, September is historically, by far, generally the worst month for equity performance. From 1928-2022, the S&P 500 has lost an average of 1% every September. Furthermore, September is the only month with more negative return years (51) than positive return years (42) over that time period. Why is this?

S&P 500 AVERAGE PERCENT CHANGE 1928-2022

Month	Return	Month	Return
July	1.7%	June	0.7%
December	1.4%	March	0.5%
April	1.4%	October	0.5%
January	1.2%	February	(0.1%)
November	0.8%	May	(0.1%)
August	0.7%	September	(1.0%)

**Yardeni Research, Inc.*

There are many theories out there as to why September is such a poor month for equity performance. Some blame it on seasonal behavioral bias. Some blame it on lower trading volumes in the summer months that then increase in September. Others note that many large mutual funds have a fiscal year that ends in September, and those funds often reposition their portfolios during the month. Whatever the reason, September has not been kind to investors despite the gorgeous weather.

In contrast, I tend to dread December and January, personally. Despite being a lifelong Vermonter, I am not a skier nor a snowboarder, I do not enjoy shoveling snow, and I am not a fan of sub-zero temperatures.

However, for a Portfolio Manager the months of December and January are historically two of the best months for stock market performance. In fact, since 1928, the S&P 500 has returned an average 1.4% in December and 1.2% in January. Further, December has the greatest ratio of positive return years (69) to negative return years (25) of any month.

December has been such a good month for equity returns that many pundits use the phrase "Santa Clause Rally" to describe the phenomenon. Some attribute this market strength to holiday investor optimism. Some claim it is due to the end-of-year investment of bonuses and retirement plan contributions. Others believe that it's attributable to investors wanting to commit funds ahead of the month of January, which is historically a strong month for returns.

As you can see, historically, it has made sense to hold onto high-quality securities throughout September, rather than sell on the potential seasonal weakness, in order to take advantage of the higher possibility of good returns in the wintertime.

Similarly, this year I am going to freeze a couple of locally made Vermont apple pies to enjoy in the winter months. This way I can savor the sweet taste of September during the winter period that is historically more positive for equity market performance. Who says that you can't have your apple pie and eat it too?