Digest

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

BAIRD

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Talking to Your Family About Wealth

A Vital Step Toward Securing Your Legacy

Award-Winning Global Expertise, Delivered to You

Leveraging Strategas for the benefit of your plan

WHEREVER YOU GET your news, you are likely inundated with the latest headlines about the market, economy, and policy – it may feel overwhelming to try and separate the news from the noise. It's one of the many reasons we are grateful for our partners at **Strategas, a Baird company**, who provide award-winning global macroeconomic research and U.S. government policy insights.

Strategas joined Baird in 2019 and has long been a trusted expert on Wall Street. Whether from their regular interviews on national news outlets, their commentary within each *Digest* issue, or their research delivered directly to our advisors, they cut through the noise and provide insights that are highly valuable to our clients over the short and long term.

You can see their expertise in action on the following pages as Strategas weighs in on one of the hottest topics – the debt ceiling debate – and the political and economic implications of this standoff. And to help make sense of the crisis, Vice Chairman John Taft offers perspectives on how it should inform your plan.

These are just two of the many resources we offer to our advisors – and to you, our clients. We hope you find them thought-provoking and useful.

Michael J Schroeder

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Chairman
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Access weekly commentary from Strategas and our planning team through the Baird Online Mobile app. Simply scroll to the My Updates section of the home screen. Don't have the mobile app? Scan the QR code to download.

In this issue...

The Flexibility in 529 Plans

Recent changes have made the college savings vehicle even more attractive

FOR DECADES 529 plans have been a mainstay of college savings, but recent changes have made them even more flexible and accessible for all kinds of families. Many parents have been concerned about what might happen to their investment if their child ends up not going to college, or not needing all the funds, but that shouldn't be a worry.
You have options:

TRANSFER TO A ROTH

The recently passed SECURE 2.0 Act may allow you to transfer unused funds from an existing 529 college savings account to a Roth IRA beginning in 2024, as long as the 529 has existed for at least 15 years and the Roth IRA has the same beneficiary as the 529 plan. The maximum rollover amount in any year is limited to the IRA contribution limit for that year ($6,500 for 2023) reduced by any actual Traditional or Roth IRA contributions made that year. There are other limitations as well, so check with your Baird Financial Advisor.

EXTEND TO FAMILY MEMBERS

Probably the most common way that families handle excess funds in a 529 plan is to transfer the assets to a sibling's plan. But that's not your only option: the family of a beneficiary can roll that money over to stepsiblings, parents, nieces, nephews, cousins, in-laws and spouses.

PAY DOWN LOANS

The original SECURE Act, passed in 2019, allows 529 plan holders to use up to $10,000 for paying down student debt during the beneficiary's lifetime.

COVER MORE THAN TUITION

The Bipartisan Budget Act of 2015 allowed the funds in a 529 to be used for computer equipment including tablets and related expenses such as Internet service. Previously, these were only permitted if they were required by the school or a specific class, but that is no longer the case. You can also pay for room and board and even off-campus living expenses with your 529. And the SECURE Act made distributions for fees, books, supplies and equipment required by federally approved apprenticeship programs federally tax-free.

A WIDE RANGE OF INVESTMENT OPTIONS

Finally, don't forget that a 529 is an investment vehicle and that you should be strategic how you invest the money. Since 2015, 529 account owners have been able to change the investment option in an account twice per calendar year. Your Baird Financial Advisor can help you find the investment option that is right for you and guide your education funding strategy.

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits such as financial aid, scholarships and creditor protection that are not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax advisor.

Riding Out the Debt Ceiling Crisis

How investors can make sense of the standoff

John Taft

Vice Chairman

As Vice Chairman of Baird and member of the firm's Executive Committee, John Taft has been providing investors with trusted perspective on the financial industry for more than 35 years.

IF YOU FOLLOW the financial news, you've undoubtedly seen a lot of consternation over the debt ceiling fight in Washington. In the coming pages our friends at Strategas will parse the political and economic tea leaves around this showdown – here's what you need to know as you think about your own finances.

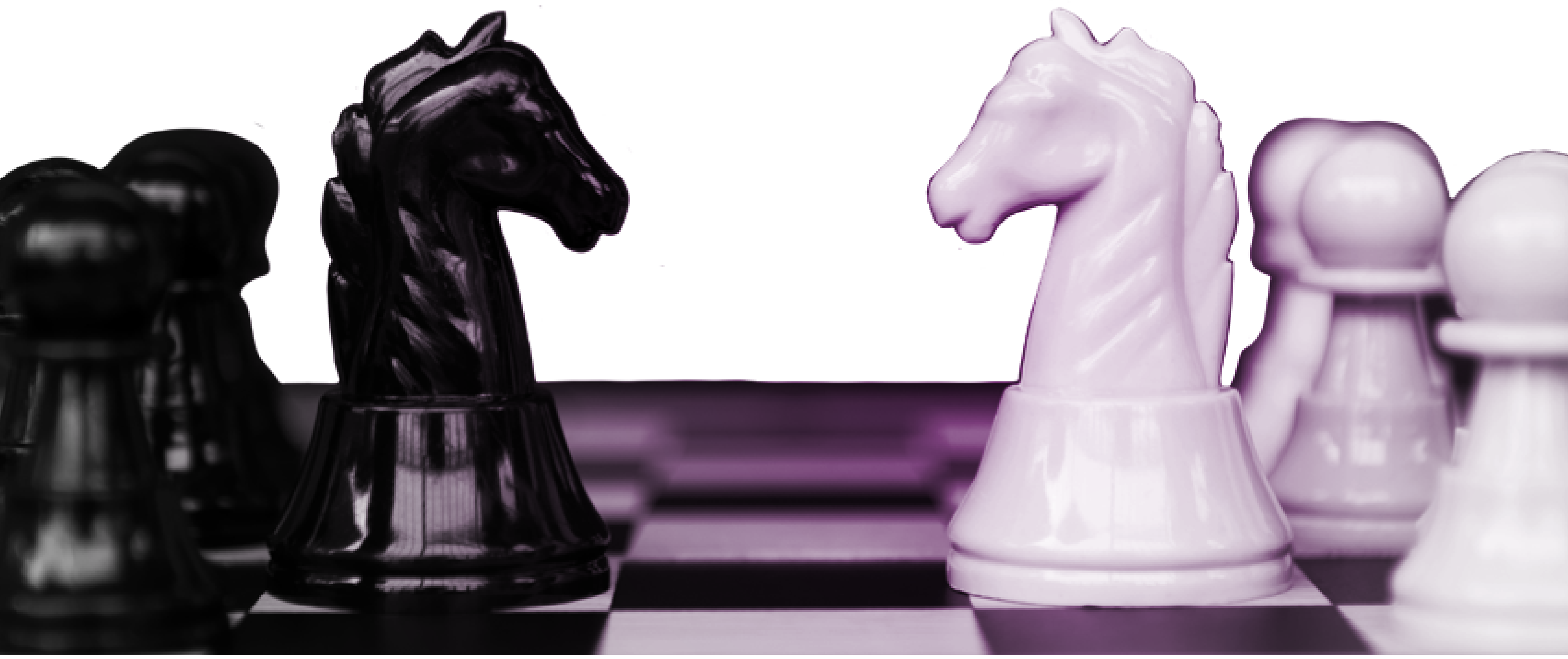
Keep it in context. We've been here before. In 2011, a debt ceiling standoff between House Republicans and President Obama caused Warren Buffett to liken the threat of default to nuclear war – "basically too horrible to use." But then, as before and since, these fights have proved to be short-term events – grey swans hiding in plain sight rather than true black swans. While the economic implications can be significant, they haven't led to long-term changes in the investing landscape.

Expect short-term volatility to increase. In one three-week stretch during the 2011 crisis, the S&P 500 fell nearly 17%. White knuckle roller-coaster rides can be hard to stomach, but investor panic could create investing opportunities.

Have cash on hand. While the chances of default are remote, the consequences of default would be highly destabilizing. To survive a crisis, you need to get to the other side of it – that means having cash on hand to cover six months (or more) of living expenses.

Perhaps this standoff will resolve itself peacefully, like it did in 2008 and 2010. Or it could shut down the government, like it did in 1995. But investors and the U.S. economy have survived previous debt ceiling standoffs – and we will this time too.

For more of John's insights, subscribe to his blog, Finance for the Greater Good, by scanning the QR code below.



Showdown Over the Debt Ceiling

What is the debt ceiling, and what happens if the government defaults?

CONGRESS MANDATES how much debt the U.S. government can hold through a statutory debt ceiling. The current debt limit is $31.4 trillion, which was hit in January. Treasury is now employing "extraordinary measures" to keep the government functioning, but these measures will run out over the next few months and Congress will need to raise the debt ceiling. Should Congress fail to do so, the federal government will not have enough money to pay its bills, which could cut off more than $1 trillion of federal spending immediately. Should Treasury not use its existing cash flow to pay interest on U.S. debt, the government would default.

A BRIEF HISTORY OF THE DEBT LIMIT

Since 1960, Congress has acted 78 times to raise, temporarily extend, or revise the definition of the debt limit. In most cases, these debt ceiling increases were not controversial. But raising the debt ceiling gets more difficult with ▶

"Current estimates suggest that the debt ceiling will need to be raised sometime between July and September, setting up a summer fight between Republicans and Democrats."

SHOWDOWN OVER THE DEBT CEILING

Continued from page 3

divided government and when the U.S. fiscal situation is deteriorating. Both variables are in play today.

Historically, when federal spending increases above its long-term average, the debt ceiling becomes a catalyst for deficit reduction. This was true in the mid-'80s, mid-'90s and early-'10s. Today, federal spending is 24% of GDP, well above the 20% long-term average. As such, there will likely be an effort to add deficit reduction to the debt ceiling debate, making the process more difficult politically and the outcomes more significant for markets. Ultimately, policymakers are trying to balance two objectives: ensuring the U.S. does not default on its debt, while also using the "must-pass" catalyst of raising the debt ceiling to put the country on a better fiscal trajectory.

WHERE WE ARE TODAY

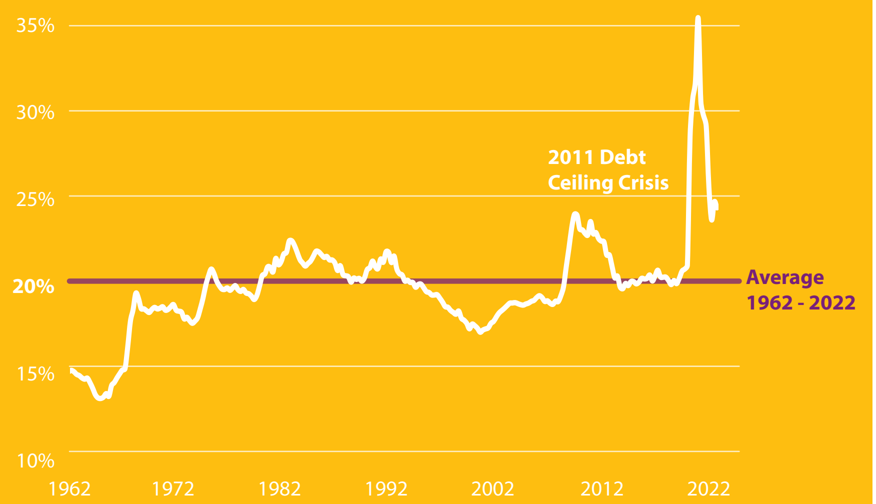
Current estimates suggest that the debt ceiling will need to be raised sometime between July and September, setting up a summer fight between Republicans and Democrats. This process is likely to be bitter, as there are no easy ways to raise the debt ceiling politically. There will be a real fight over spending cuts, and even if Republicans are not successful in cutting spending, a clean debt ceiling increase will be difficult to muscle through a divided Congress.

We believe House Republicans will follow a similar path to 2011, the last time federal spending was significantly above its long-term average. Then, a Republican House passed a bill seeking to cut spending by capping discretionary spending. That legislative effort became the basis of negotiations with a Democratic Senate and President Obama. This episode taught us that leverage in a debt ceiling fight comes from the ability of the House to pass legislation and force a negotiation. Should Republicans fail to pass a bill out of the House, the party will lose its leverage and a clean(er) debt ceiling becomes the most likely outcome.

Over the course of the next few months, we expect volatility around the issue. House Republicans are likely to vote down a clean debt ceiling increase to prove to the Biden administration that some spending cuts are needed. It is also possible that Republicans pass a short-term debt ceiling increase with modest spending cuts to buy time for a larger package.

Ultimately, we believe the U.S. is unlikely to default. The debate is really a fight over the level of budget reforms that will be enacted. Financial markets will have to evaluate the impact of those reforms on economic growth and the risk to Treasurys should Congress fail to act. We expect some volatility this summer, but ultimately believe Congress – after a heated debate – will get the job done.

FEDERAL SPENDING AS A PERCENT OF GDP



A House Divided

Buying a vacation home with a family member? First, consider these ground rules.

IF YOU'RE LOOKING into a vacation home, you may be tempted to ask your parents, siblings or adult children if they want to purchase it with you. After all, these are people you know, people you may want to spend vacation time with – and people with whom you can split all the costs. Before you sign anything, though, here are some things to consider:

HAVE A DETAILED PLAN
Spell out how basic housekeeping, expenses and upkeep will be shared. As members of the ownership group get older, keep in mind that their responsibilities might change over time, and anticipate these issues arising.

MAKE IT LEGAL
Have a lawyer draw up a contract about how the ownership will be divided, what happens if someone exits the agreement, etc.

PUT IT IN AN ENTITY
You may want to own the property through an entity structure such as a limited liability company (LLC), family limited partnership (FLP) or a trust. These can provide a convenient way to deal with the property's finances, outline everyone's rights and responsibilities, and protect your other assets from liability in case of a lawsuit. And the entity structure makes it much easier to transfer partial ownership to another family member or other buyer.

CREATE A SEPARATE BANK ACCOUNT
The easiest way to keep track of the property's finances is to create a bank account dedicated to it. This can be titled jointly in the names of the property owners, or in the name of the entity that owns it if you choose to create one. The mortgage payment, property taxes, insurance, and any other recurring fees should all be paid from that account so it's easy to track expenses.

KNOW WHO PLANS TO USE IT
Some members of the family will inevitably want to use the vacation home more than others, or they may all want to use it at the same time over the summer or during holidays. Make sure this is addressed ahead of time so that it won't cause any hurt feelings. You should also consider what happens if a family member wants to make this a permanent home.

HAVE AN EXIT STRATEGY
Before you get into a joint ownership situation, know how you're going to get out. If one party wants to sell, does the other party have the right to buy their half? If so, how will the property be valued? It's not an easy conversation to have, but it's important to have that strategy in place before it becomes necessary. Again, going back to step one, it's important to identify any future obstacles and to plan accordingly. As always, your Baird Financial Advisor is available to assist in these discussions and offer their insight.

Talking With Family About Wealth

It's one of the most difficult – but necessary – conversations you will have

FOR A VARIETY OF REASONS, conversations around money are considered taboo for most American families. Maybe these discussions remind us we won't always be self-sufficient, or we're afraid we could damage family relationships when the topic turns to how and which assets are passed on. Or maybe we're afraid of being judged by the people we're closest to. Whatever the rationale, these fears and misgivings could lead to hurt feelings and interfere with how our wealth is passed on.

There are several good reasons why these discussions need to be had:

To protect your family's financial future. Arguably the most fundamental reason to have open discussions about family wealth is to preserve it. By making your wishes clear and openly engaging with your family, you can eliminate assumptions family members might have and prevent highly charged animosity down the road.

To prepare for unanticipated health emergencies. Conversations around wealth can – and should – involve more than the division of assets. Making decisions about your wealth and health now, while you can be thoughtful about it, will yield far sounder outcomes than those hastily made in a time of crisis.

To establish your legacy. What do you want to be remembered for? An estate plan is more than a list of assets and dispersal instructions – it's an expression of your values and feelings for the people and causes you cared about most. Talking about your wishes with your family is a first step to making your legacy a reality.

To lessen anxiety. Perhaps the most important reason to have these conversations is peace of mind – both for yourself and your family. There's comfort in knowing the details have all been addressed and everyone is on the same page.

WHAT TO TALK ABOUT

It's okay if you're unsure of how to broach these conversations with the family – this is where a little planning can go a long way.

Start with the basics. Provide an overview of your wealth plans – your various financial accounts, insurance policies and what different investments are intended for. This summary can ensure everyone understands what expenses you've prepared for and what you want your wealth to achieve. You can also make sure your family knows how to access your accounts in an emergency and where important documents are located.

Identify who will play what role in administering your estate. Managing an estate can involve a wide range of voices, both inside and outside the family. If you haven't already, this could be a good time to have your family meet your wealth team, such as your financial advisor, accountant, legal counsel and insurance agent.

Talk about your family's history. What do your children know about your ancestors? What obstacles have they overcome? This could be an opportunity to share stories of where your family's wealth came from, why it's so important and how you see your wealth continuing that legacy.

Plan for the future. These conversations are meant to be an open dialogue. What are your ▶

According to a recent Harris poll, only 31% of baby boomers feel comfortable talking with family members about their finances.

children's values and aspirations, and how do they mesh with your own? Is there a way the family wealth can be used strategically to meet their goals? If you have a family business, what role do you envision for your children?

The most important takeaway when planning a family wealth meeting is that these conversations don't have to be all-encompassing, and they don't have to be perfect. If you can build trust and transparency around your wishes and open a dialogue around the responsibilities and opportunities your family wealth has created, this initial meeting will have been a success. If you prefer this meeting be facilitated by a financial professional already familiar with your family's dynamics, your Baird Financial Advisor is only a phone call away.

Melanie Schmieding, CTFA

Director of Baird Family Wealth

Melanie has been helping high-net-worth families bring meaning to their family wealth for more than 25 years.

Jacqueline K. Russell, CFP®, CTFA

Trust Officer, Baird Trust

Jackie has been implementing and educating clients on estate and financial planning strategies for more than 25 years.

A Brave New World

The U.S. economy is evolving – and investors need to pivot accordingly.

AT *DIGEST*, we regularly challenge investors to "separate the news from the noise" – to put aside the trivial distractions of the day and take note of meaningful shifts in the economic landscape. But in an increasingly noisy world, it'd be easy to miss that the economic landscape has changed – we no longer live in a time of quantitative easing and 0% interest rates, nor do we foresee that era soon returning.

This is what we believe investors should expect going forward:

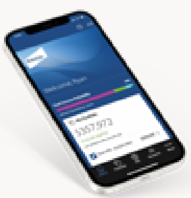
Inflation that's higher and stickier. Robust jobs reports and elevated monthly indicators like the Consumer Price Index suggest that, to quote our friends at Strategas, "inflation has become sticky." The last time we saw inflation spike to this degree was May 1980, and it took three years for it to recede to even 3%. (The Federal Reserve has a stated inflation target of 2%.)

Elevated interest rates. The Fed is expected to continue combating higher inflation with higher interest rates. Respondents to a February 2023 Strategas survey expect the Fed Funds rate – which informs rates on deposits, loans, credit cards and mortgages – to remain above 4% for "years to come."

Weakened growth. The U.S. government spent a record $213 billion on interest payments on its debt in the fourth quarter of 2022. A rise in federal interest costs would likely result in lower spending, higher taxes or more debt – each of which could lead to diminished economic growth.

A continuing trend toward de-globalization. In response to China's increasing global influence and an increase in geopolitical tension, the U.S. is moving from supply chain efficiency to supply chain resiliency. This "Cold War 2.0" and increased focus on domestic manufacturing will likely result in higher inflation and interest rates.

Planning Calendar

April's Wealth Strategies webinar: Baird Online Mobile App 	**May** IRA owners who made a 2022 IRA contribution early in 2023 will be issued an updated Form 5498.	**May 29** Celebrate 529 College Savings Day by reviewing your education savings plans.	
	May's Wealth Strategies webinar: Retirement Planning		

LIVING AND INVESTING IN THIS NEW WORLD

How should investors adjust their attitudes and strategies to meet this new environment?

Revisit the assumptions behind your financial plans. Over the past 20 years – which includes two recessions – the S&P 500 has averaged a robust 9% annual return. A higher-inflation, lower-growth environment could impact the market differently – make sure you adjust your return assumptions accordingly.

Reconsider where your cash sits. Today's higher yields can mitigate some of the sting of inflation. CDs and money market mutual funds, whose interest rates have hovered near 0% for years, are starting to generate yields again. In addition, Baird offers a Cash Sweep program that puts your cash to work by providing you the opportunity to earn income on available cash balances held in your Baird account, as well as offering FDIC Insurance protection on cash balances up to specific limits.*

Consider inflation's knock-on effects. This environment's decreased purchasing power changes the equation when it comes to discretionary spending. Putting your money in interest-bearing accounts, contributing more to your portfolio or paying off variable-rate debt like credit cards might make more sense than paying off a low-interest fixed-rate mortgage.

Maximize liquidity to avoid selling at a discount. Liquidating assets in a down or volatile market can lock in your losses. Refortifying your emergency fund or establishing a securities-based line of credit can give you options for immediate cash needs while leaving your portfolio intact.

Scan this QR code to learn more about Baird's liquidity solutions and Cash Sweep program.

*Any cash balances that are in excess of the aggregate deposit limit are automatically invested in the Dreyfus Government Cash Management Wealth Shares. ERISA plan accounts have all cash invested in the Dreyfus Government Cash Management Wealth Shares. Baird receives compensation on balances in the Cash Sweep program. For more information, including details on the amount Baird receives, visit rwbaird.com/cashsweeps/cashsweeps-disclosures.

June 15	**June 30**	**July 1**	Scan the QR code to access our *Wealth Strategies* webinar series
Second-quarter federal estimated income tax payments for 2023 are due.	The Free Application for Federal Student Aid (FAFSA) for the 2022–2023 academic year must be submitted by midnight CT.	Preparing a projection of your 2023 tax liability at the year's midpoint can help you avoid underpayment penalties.	
June's Wealth Strategies webinar: Social Security			

DOING WELL BY DOING GOOD

Building on Our Associates' Generosity

ONE OF THE MOST SUCCESSFUL avenues of Baird's community involvement continues to be the Baird Foundation Associate Match Program, which experienced a record-setting year in 2022. Nearly three quarters of eligible associates used their Associate Match to make matching gifts. Baird Foundation specifically support nonprofits with a focus on health and human services, education, and the arts, especially organizations where associates are actively involved. In addition to the Associate Match Program, we also hold Baird Gives Back Week, which gives associates a chance to donate their time to local organizations as well.

Discover the *Baird Difference*

Want More?

Additional information is available at bairddigest.com, or contact a Baird Financial Advisor at 800-79-BAIRD.

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