FOUNDATIONS

A TAFT-HARTLEY PUBLICATION | VOLUME ONE 2018

14

TAXES

Tax Reform and Your Wallet

The Tax Cuts and Jobs Act brought sweeping changes to the United States' tax code, but what will it mean for you?

18

INVESTMENTS

Fool Me Once

Bitcoin has made headlines for its meteoric rise and remarkable volatility. It may be premature to draw a conclusion about Bitcoin's future, but we can consider lessons from red-hot investments of the past.

Aaron McGreevy

Managing Director,
Taft-Hartley Services

Tim Willis

Sr. Vice President

Rich Cartier

Vice President

Steve Hanks

Vice President

Our Taft-Hartley Team

The most valuable foundation in any business is a strong relationship. At Manning & Napier, we are grateful to have more than 45 years of experience building valued relationships with the Taft-Hartley industry. As the Managing Director of Taft-Hartley Services, I am very proud of the work we do every day to help union members achieve a more meaningful and secure financial future.

Asset management is about more than just dollars in a pension fund. Prudently managed investments can represent a secure retirement for a member, money set aside for a child's educational needs, or peace of mind in the face of a health concern. With an average tenure of more than 20 years, our Taft-Hartley service team does not take this responsibility lightly. Our experience creating and managing solutions for all types of benefit and investment funds has allowed us to serve the union marketplace and help members achieve their goals.

We have created this inaugural issue of *Foundations* to provide additional resources to you and your members. It is our mission to continue to create and share insight that supports the longstanding success of the Taft-Hartley industry and all of the members, active and retired, who built it.

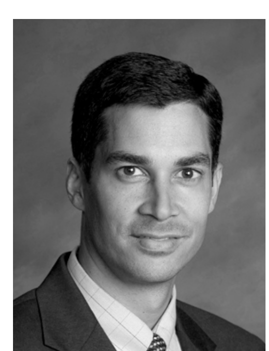
-Aaron T. McGreevy, CRPS, AAMS®
Managing Director, Taft-Hartley Services

Jaime Mears

Services Supervisor

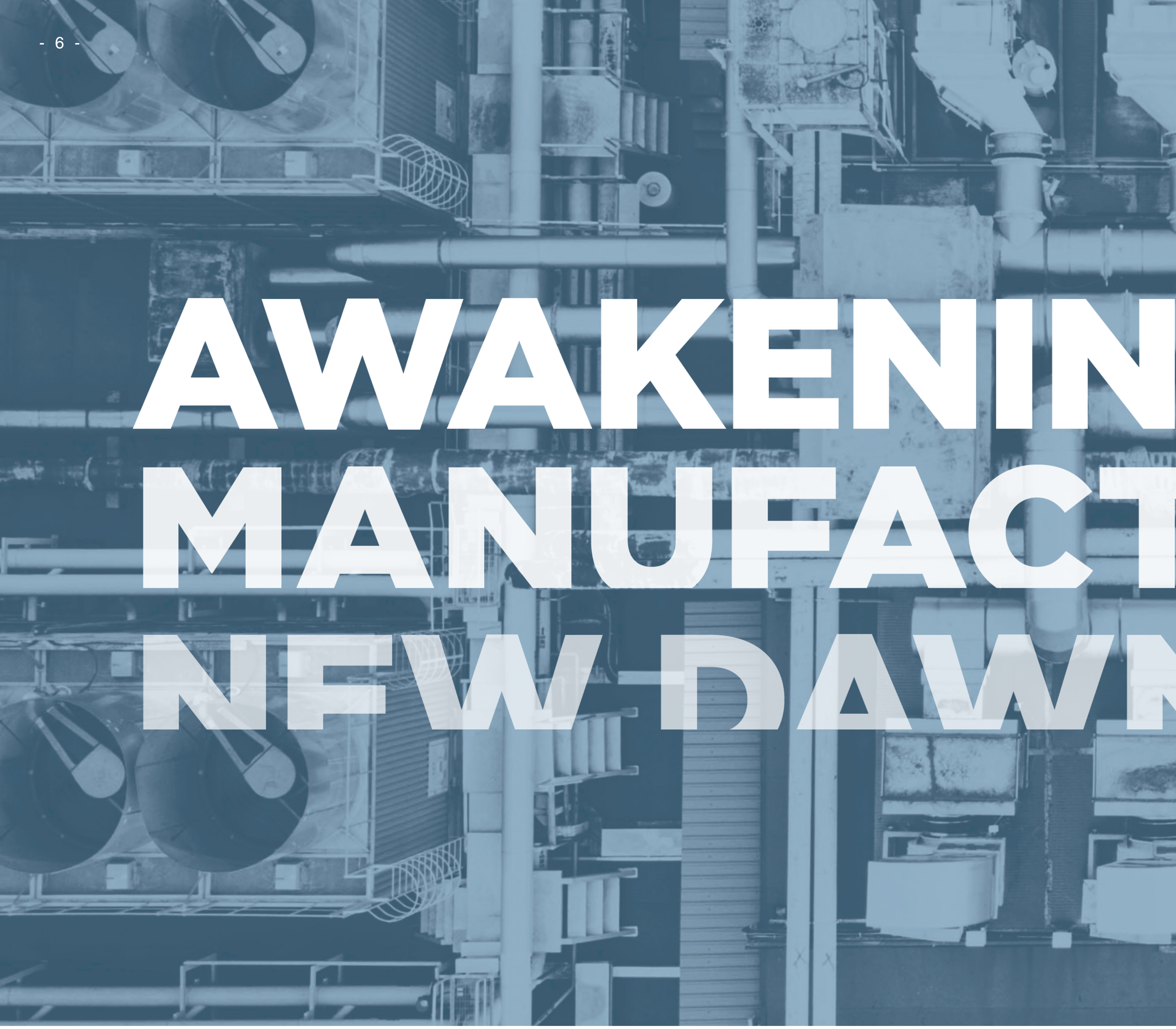
Colby Feane, CFA

Portfolio Strategist



Greg Woodard

Portfolio Strategist

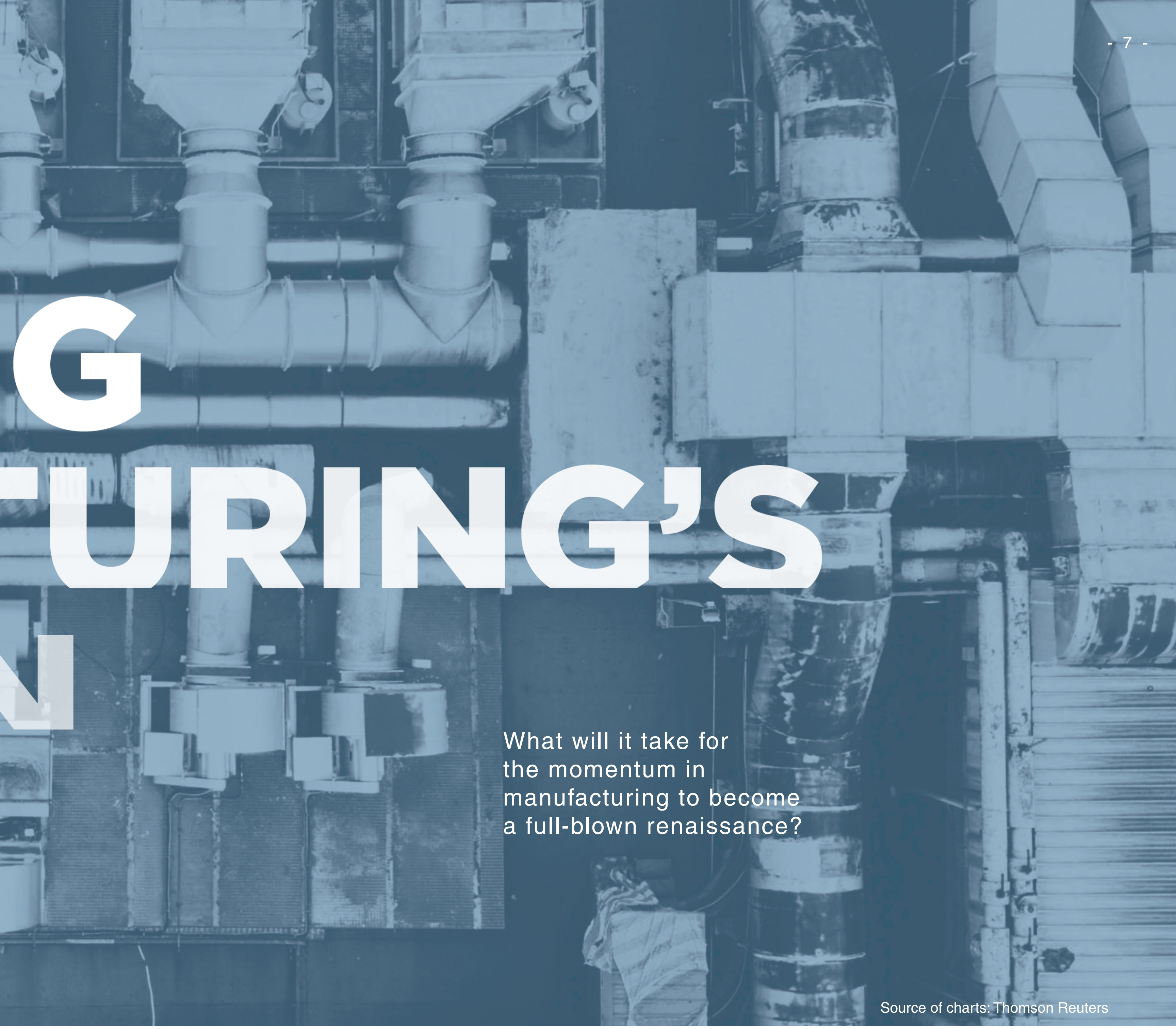


For many years, we have been proclaiming the coming of a renaissance in US manufacturing. As the economy continues its expansion and markets achieve all-time highs, we are seeing momentum in both the US manufacturing and construction sectors. The increase in projects and "man hours" generated by these two sectors is a welcome economic boost to an area of employment that has grown slower than other sectors, and certainly took the brunt of the Great Recession.

Where We're At

The energy sector remains a key employment area for both the manufacturing and construction industries. In addition to the damage done from the 2008 recession, the mid-2014 decline in the cost of oil production created more challenges. It decreased transportation costs for worldwide manufacturing and slowed domestic demand for capital equipment from related oil and gas industries.

Following the price plunge, many energy firms and investors were left with projects that no longer made economic sense. Construction all but grinded to a halt. The charts to the right show the steep, subsequent decline of new orders, unfilled orders, and shipment values.

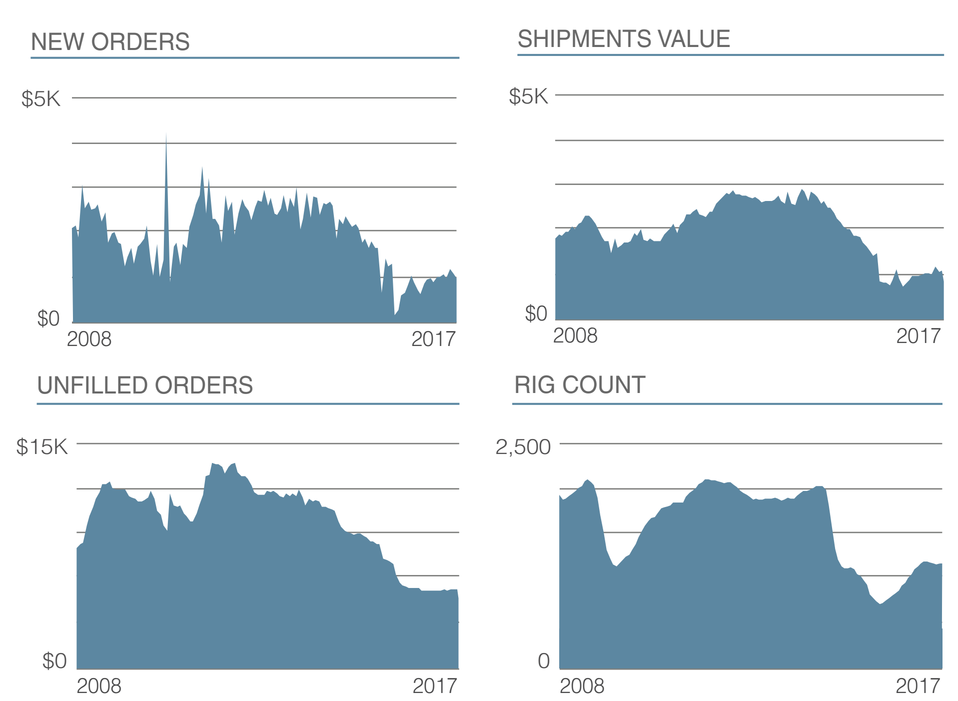


G
TURING'S
N

What will it take for the momentum in manufacturing to become a full-blown renaissance?

Source of charts: Thomson Reuters

This doesn't exactly paint a rosy picture for manufacturing and construction, but we are starting to see a light at the end of the tunnel. As shown in the chart to the right, the dip in rig count has rebounded following the oil price rally that began in early 2016. Rig count is an important indicator of oil and natural gas production. A higher rig count may lead to the return of some jobs lost during the oil price downturn, and it should generate construction and maintenance work.



Where We're Going

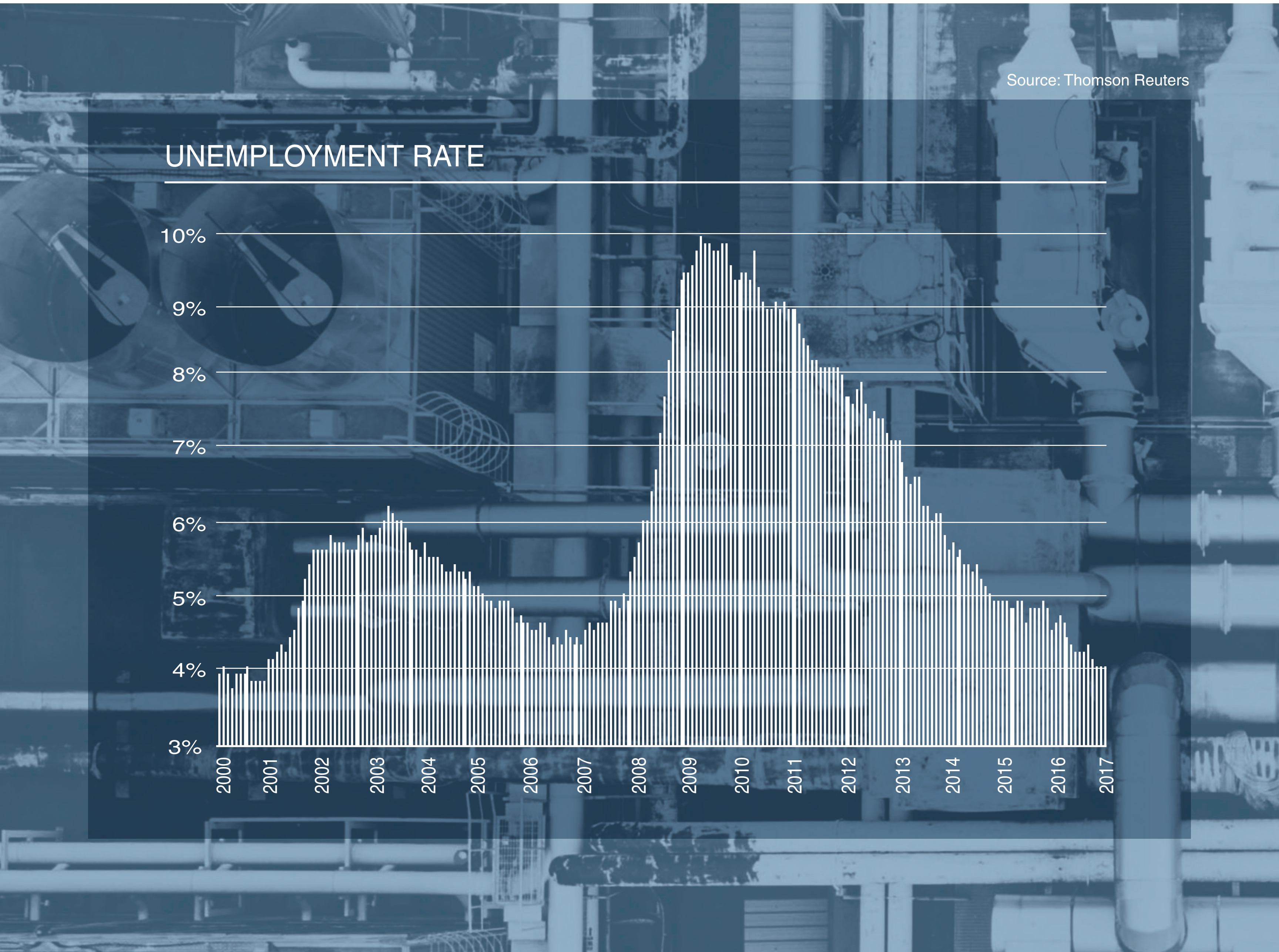
Unemployment is at its lowest levels in 17 years, 4.1% as of December 2017, but there remains a significant concern that could stimy the expansion of the US manufacturing and construction industries. There is a lack of workers with skilled trades education and experience to fill these positions, and a lack of new entrants into vocational careers.

Momentum has shifted to recognize the vast advantages and value of working on skilled trade vocation.

There are many factors contributing to the skilled trades shortage. First, the aging skilled trades journeymen are retiring or preparing for retirement. Second, some positions have become more technical as automation becomes increasingly common. Lastly, jobs may be so specialized that few outside workers would possess the necessary skill set.

We have also seen lower apprentice growth, which can be attributed in part to the cultural elevation of college degrees over the last few decades. Only recently has the momentum shifted to recognize the vast advantages and value of working on skilled trades vocations—meaningful wages and benefits, retirement benefits, gaining a lifelong skill, and essentially a full-ride scholarship as the union and/or company pays for an apprentice to learn on the job while also getting a classroom education. Given the rising cost of college tuition and growing burden of student debt, it is certainly a career package to consider.

Encouragingly though, we are seeing signs of improvement. The chart on the following page shows the number of new apprentices and programs from 2001 to 2016. The increasing number of new apprentices since the Global Financial Crisis demonstrates that the next generation of workers is receiving



the crucial internal education needed to succeed. Recent legislation should also help accelerate the trend. In June 2017, President Trump signed an executive order to double government funding for apprenticeship programs. The expansion of campaigns to join vocational schools, trade schools, and trade unions is ushering in a new generation of American workers.

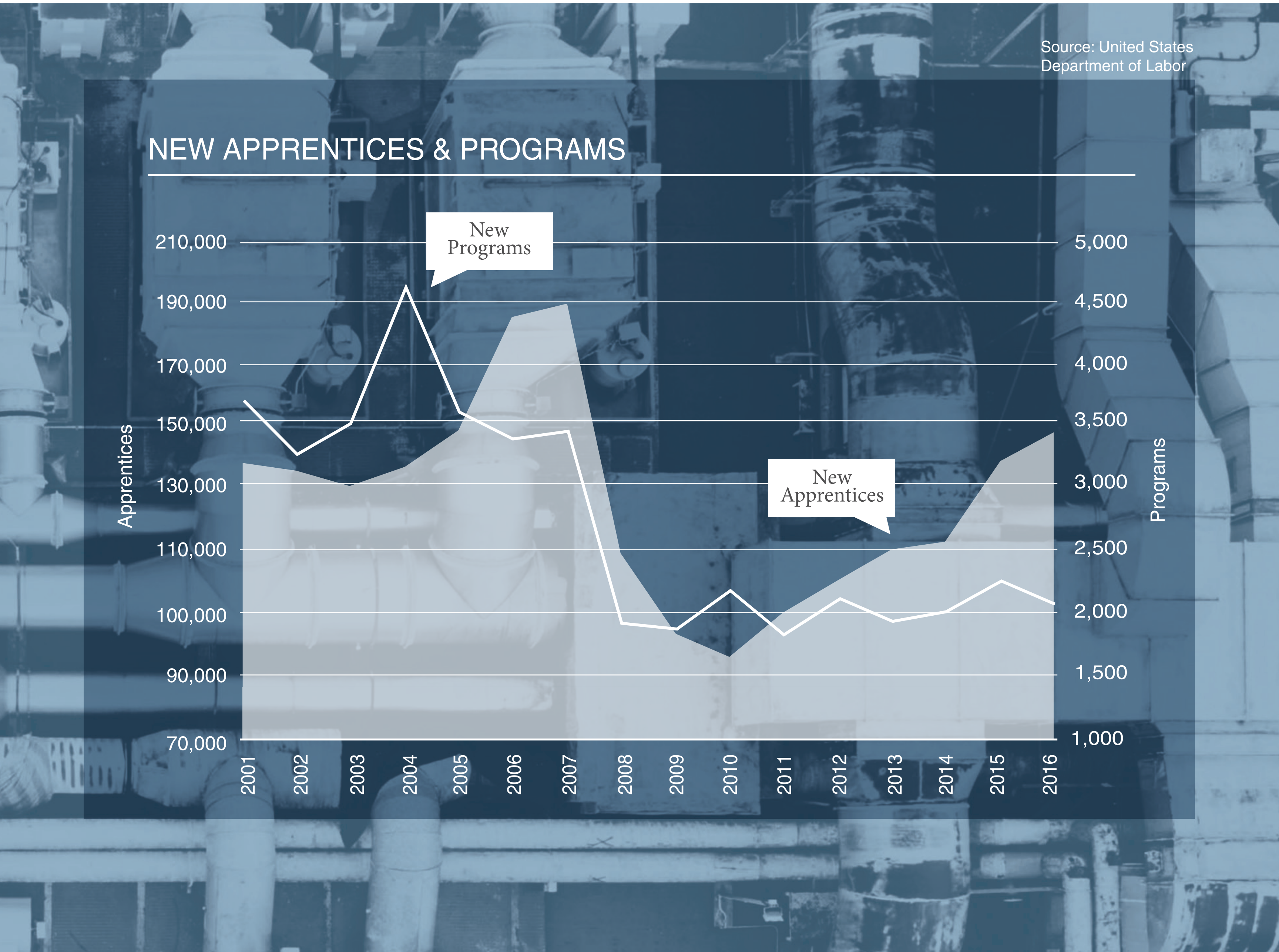
These initiatives are helping to close the gap and address the skilled trades shortage. In addition to creating more jobs and wage growth, which improve national and local economies, the US is also gaining global stature, as evidenced by improved global manufacturing competitiveness. According to the Deloitte Global Manufacturing Competitiveness Index, the United States has risen from the fourth most competitive country in 2010 to the second most competitive country after China as of 2016. It is projected to be #1 in 2020. Although factors like technology and cost are important, manufacturers worldwide continue to rank talent and skill as the most significant contributor to global competitiveness.

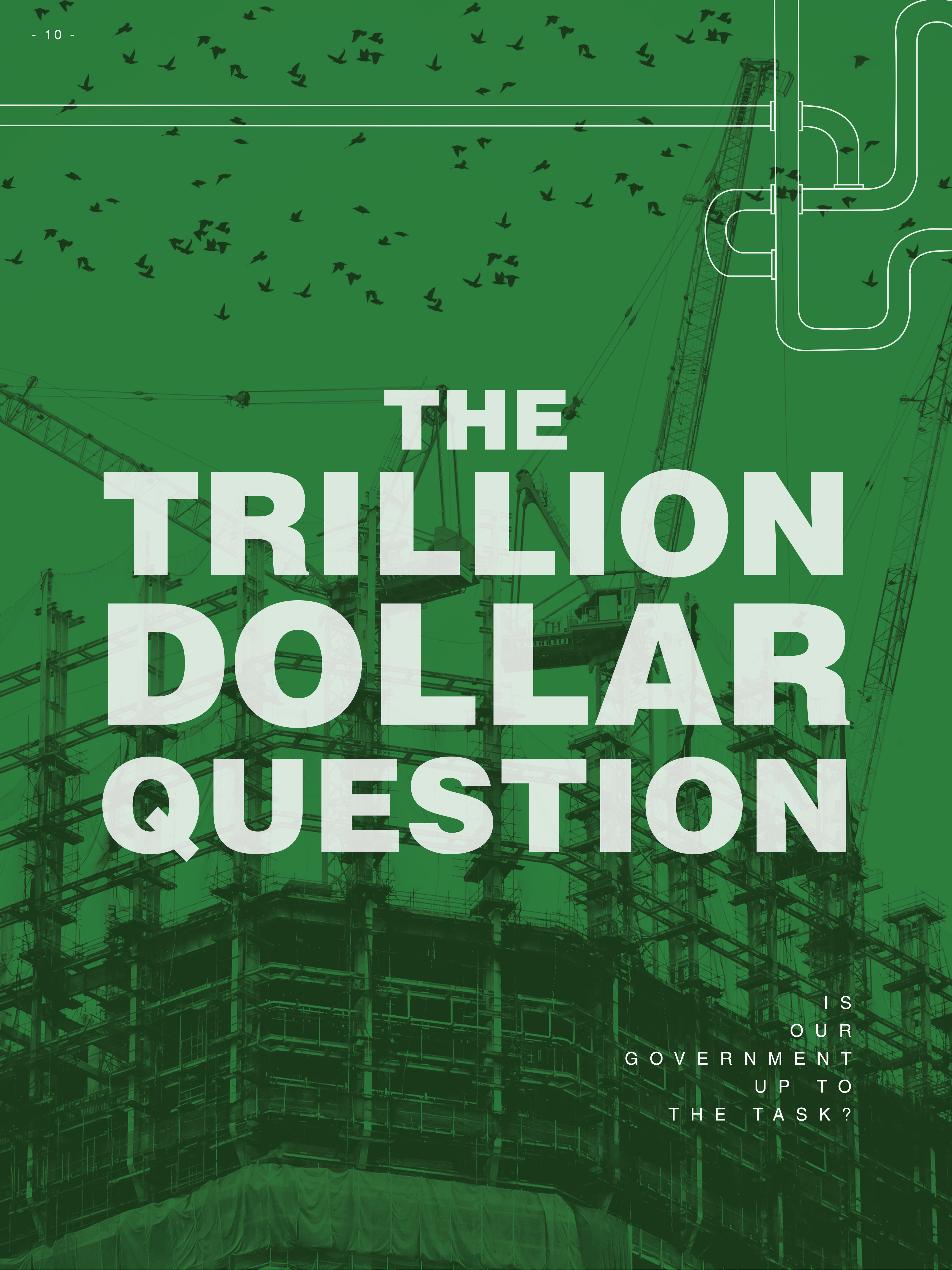
The United States is gaining global manufacturing competitiveness stature.

A New Dawn for Manufacturing?

If the manufacturing and construction industries continue to see expanded projects and investment, along with a growing contingent of new apprentices and younger journeyman-level workers, then the light at the end of the tunnel may turn out to be a full sunrise.

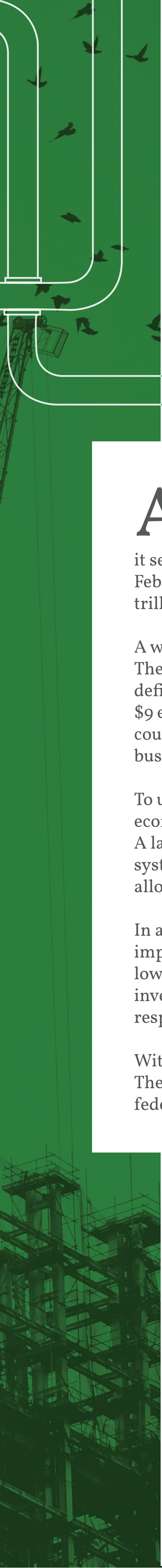
Written by Aaron McGreevy





THE TRILLION DOLLAR QUESTION

IS OUR GOVERNMENT UP TO THE TASK?



Although bipartisan accord is rare in Washington, both parties agree that the United States' infrastructure deficiencies are unsustainable. The issue was a focus of both the Trump and Clinton campaigns, and it seems now could finally be the moment for infrastructure spending. On February 12,2018 President Trump laid out the long-awaited details of his $1.5 trillion infrastructure plan.

A well-executed infrastructure package is imperative for the United States. The American Society of Civil Engineers (ASCE) estimates infrastructure deficiencies cost the average American household $3,400 per year, or about $9 each day. Without a concerted effort on infrastructure, the economy at large could suffer, too — to the tune of $3.9 trillion in GDP losses, $7 trillion in lost business sales, and 2.5 million in lost jobs by 2025.

To understand the positive effects infrastructure spending can have on the economy, one needs to look no further than the Interstate Highway System. A landmark achievement of the Eisenhower administration, the highway system was originally intended to facilitate transcontinental travel while also allowing for quick evacuation in the case of nuclear attacks.

In addition to the aspirational nature of the project, it had a real economic impact. One 1994 study[1] found that the easier transport system led to lower costs in all but three of 35 industries studied (24 cents for every $1 invested). Over the course of the late 1950s, the interstate highway system was responsible for nearly 1/3 of the increase in American productivity growth.

With stakes this high, the current administration is attempting to take action. The White House plan aims to create $1.5 trillion, injecting $200 billion in federal funds over ten years with the rest expected to come from the private sector and state and local governments. The proposal recommends taking the $200 billion from other programs, but leaves Congress to decide exactly what gets cut.

President Trump called his plan a "legislative outline" in a message to Congress. He took a similar approach with his tax reform proposal, laying out the high-level plan and letting lawmakers figure out the details. But Republicans are split on the issue, which will make it more difficult to push a bill through an already-polarized Congress.

Many Republicans came out in support of the new plan. "President Trump hit the nail on the head when constructing this plan to rebuild America's infrastructure," read a statement from the three House Energy and Commerce subcommittee chairs (Reps. Fred Upton, R-MI., John Shimkus, R-IL., and Marsha Blackburn, R-TN). "Improving our country's infrastructure can be a bipartisan effort,

A well-executed infrastructure package is imperative for the United States.

Even if all groups were closer to consensus, politics is always a consideration.

and we stand ready to strap on our work boots and pave the way for success with our colleagues across the aisle."

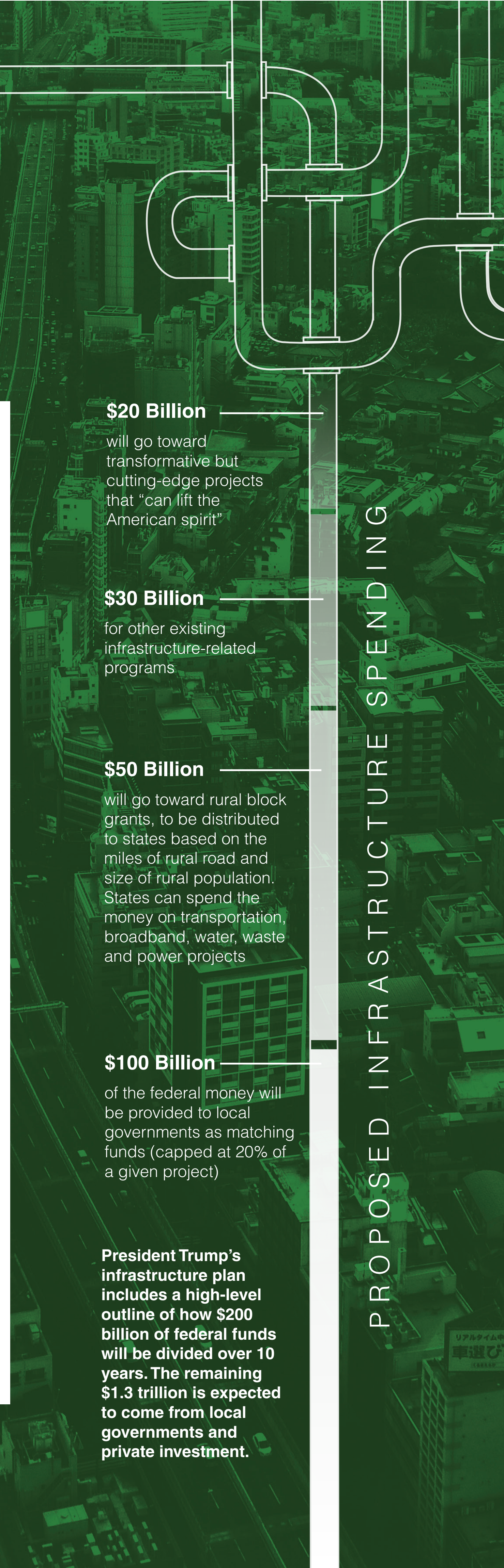
Other Republicans are more wary of new government spending, especially since the deficit is already expected to grow significantly following tax reform. "I think if you're for tax cuts and for increased spending, that's hypocritical," said Senator Rand Paul (R-KY). It's estimated that Trump's proposed budget, including the infrastructure proposal, would raise the US deficit by $1.1 trillion next year. Until Congress is able to decide on a specific funding mechanism for the $200 billion in federal dollars, deficit hawks will likely be unenthusiastic.

There are obstacles on the other side of the aisle, too. Infrastructure spending has long been a goal of the Democratic Party, but party leaders have uniformly been critical of Trump's plan and the relatively low amount of federal funding it provides. The administration believes that the increase in federal funds would lead to a wave of spending from states and cities, but opponents doubt that local governments have the resources to spend without cutting other programs or leaning on taxpayers. There is also concern over private sector interest and the impact it could have on the types of projects funded (i.e., projects that will make more money will be prioritized).

"It's simply another scam," said Oregon Representative Peter DeFazio, the top Democrat on the Transportation Committee. "[It's] an attempt by this administration to privatize critical government functions, and create windfalls for their buddies on Wall Street. This fake proposal will not address the serious infrastructure needs facing this country, so our potholed roads will get worse, our bridges and transit systems will become more dangerous, and our tolls will become higher."

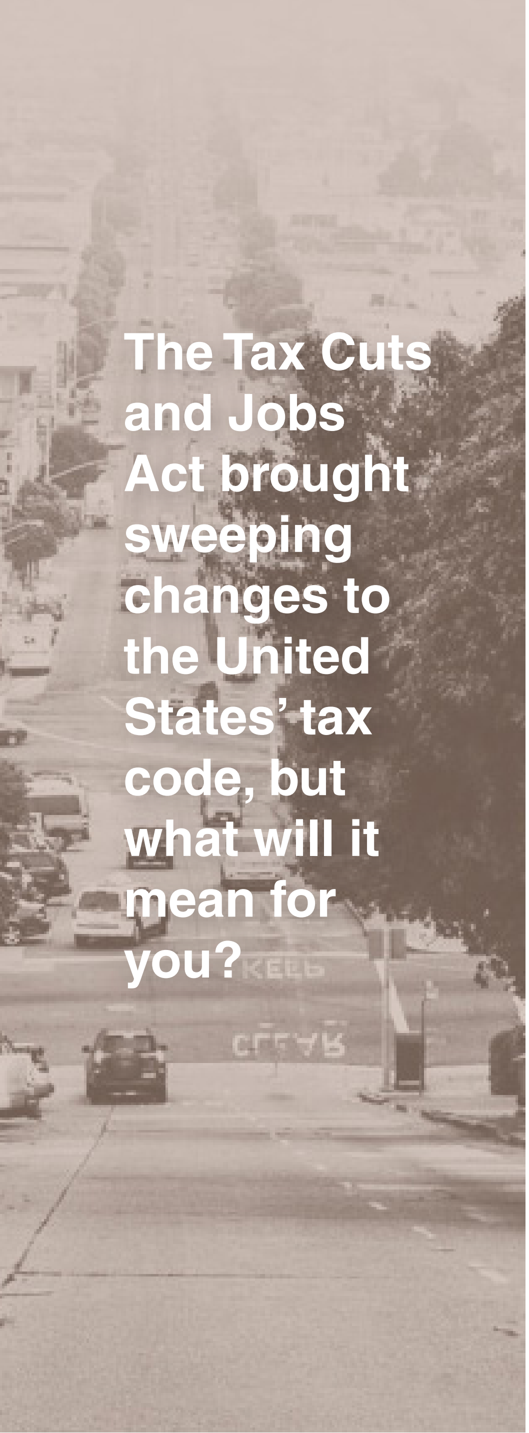
Even if all groups were closer to consensus, politics is always a consideration. The minority party will likely be hesitant to provide the Trump administration with another legislative victory in advance of the 2018 midterm elections.

President Trump has promised that an infrastructure plan would create "millions of jobs." Like many political promises, the "when" and "how" of this outcome remains to be seen. There are many differing opinions, but one thing is for sure: a failure to act increases the costs and risks of an aging infrastructure, and is an outcome the country can no longer afford.




You do all the heavy lifting. Let us pick up the tab.
Annual Manning & Napier Cocktail Party at the IFEBP Conference
Save the Date
Monday, October 15, 2018
6pm to 9pm
Where
Muriel's Jackson Square
801 Chartres Street
New Orleans, LA 70116
&
M
N

TAX REFORM AND YOUR WALLET



The Tax Cuts and Jobs Act brought sweeping changes to the United States' tax code, but what will it mean for you?

When the formal tax reform process began during the second half of 2017 — and even back in 2016 when President Trump campaigned on the importance of tax reform — key goals were to simplify the tax code, eliminate certain unpopular taxes, reduce taxes for the middle class, and significantly reduce the corporate tax rate. In the end, we have the Tax Cuts and Jobs Act (TCJA), which addresses many of those areas to some degree but might not simplify taxes to the extent many were hoping. In addition, many of the provisions are scheduled to expire after 2025, which means that steps may be taken over the coming years to make various tax laws permanent.

Here, we answer a few of the most frequently asked questions we have heard since the legislation's passage.

Q: Will my taxes decrease?

A: Everyone's tax situation is different. Relative to 2017 income tax brackets the new TCJA brackets will likely produce a small marginal tax reduction for most taxpayers. Specifically, if you're a small business owner, filing as an individual with income below $157,000 per year, or filing as a married couple with income below $315,000 per year, then you may be subject to a lower tax rate under the act.

There are a couple of narrow instances where taxpayers may enter a higher marginal income tax rate under the new law. However, due to the new Qualified Business Deduction for pass-through entities (many are small businesses) and increased exemption for the Alternative Minimum Tax (AMT), it's likely that tax situations have improved for many.

Q: Will I still be able to deduct union dues and tax prep fees?

A: Unfortunately, no. The act did away with miscellaneous itemized deductions, of which those were two. That said, the standard deduction was nearly doubled, up to $12,000 for individuals, $18,000 for head of household, and $24,000 for married couples.

Q: Was the personal exemption kept in? What other deductions and credits were changed?

A: In 2018 and beyond, the personal exemption was repealed. However, in addition to the increase of the standard deduction, the child tax credit was also increased-doubled, in fact, to $2,000 per child, and the deduction for state and local taxes was kept, though capped at $10,000. The mortgage interest deduction was also retained, though new mortgages are subject to a maximum loan amount of $750,000. Medical expenses are still deductible in 2017 and 2018 if they exceed 7.5% of Adjusted Gross Income, although this will be increased to a 10% floor in 2019.

Q: Will I still be able to deduct charitable contributions?

A: Charitable contributions are still deductible under the new law; in fact cash gifts to public charities are now deductible up to 60% of Adjusted Gross Income (AGI), up from 50%. Due to the much-increased standard deduction it's possible that the higher charitable deduction limit will encourage larger one-time or periodic donations as opposed to smaller but more frequent donations.

Q: Were any changes made to education savings plans?

A: Students enrolled either part-time or full-time at an accredited institution, or vocational and technical school, are still covered under the new law. Under the new law, 529 plan funds can now be used to fund K-12 education, in addition to higher education. Families can withdraw up to $10,000 per year tax-free for elementary, high school, or home school expenses. The final bill also provides for contributions to Coverdell Education Savings Accounts, which can also be used to fund K-12 education.

Q: Was there any change to unions' tax-exempt status?

A: There was no change to the tax-exempt status of unions under the new law. The filing process for unions also remains the same.

Q: Will this new law actually create more jobs and/or promote higher wages?

A: As with any governmental economic initiative, potential benefits or drawbacks are highlighted, but the result is difficult to predict. The new tax bill provides lower income tax rates, significant business and corporate tax decreases, and further reductions in AMT and the Estate Tax. Furthermore, the new tax law lays the groundwork for increased corporate spending. Companies may choose to spend this additional cash on new projects, which would create jobs to meet that demand, they may choose to increase wages or pay bonuses to their current workforce to keep talented employees satisfied, or they may choose to reward their shareholders directly.

As we mentioned in the answer to the first question, everyone's tax situation is different. There will certainly be both winners and losers under the new tax law. If you have questions about how the new tax law might impact you directly, it will be important to consult with a qualified tax advisor to discuss tax planning strategies.


ON

For a moment, it seemed like bitcoin was on every investor's mind. The cryptocurrency rose more than 13x in 2017, but has since gone through a series of gut-wrenching peaks and valleys. The excitement around bitcoin and its meteoric rise brings to mind other "hot" investments gone awry. While it may be too early to write bitcoin's obituary, we have to consider the lessons history may have to offer.

The New Millennium Starts with a Bang – and a Burst

The rise of the Internet in the '90s dazzled consumers, and investors tripped over themselves to find the next big thing. Suddenly, any stock with "dot com" after the name was hot. Venture capital was easy to come by. Stocks would IPO, and then double or triple within a day. The stock market surged with the NASDAQ Index rising over 500% from 1995 and 2000.

As we now know, these heady days were too good to be true. Many of the new dot com companies had faulty business models and bloated valuations, leading to closures and sinking stocks. Within a few weeks of its peak on March 10th, 2000, the market was down 10% and the bubble started to burst. A global recession soon followed.

There's No Such Thing as a Safe Investment

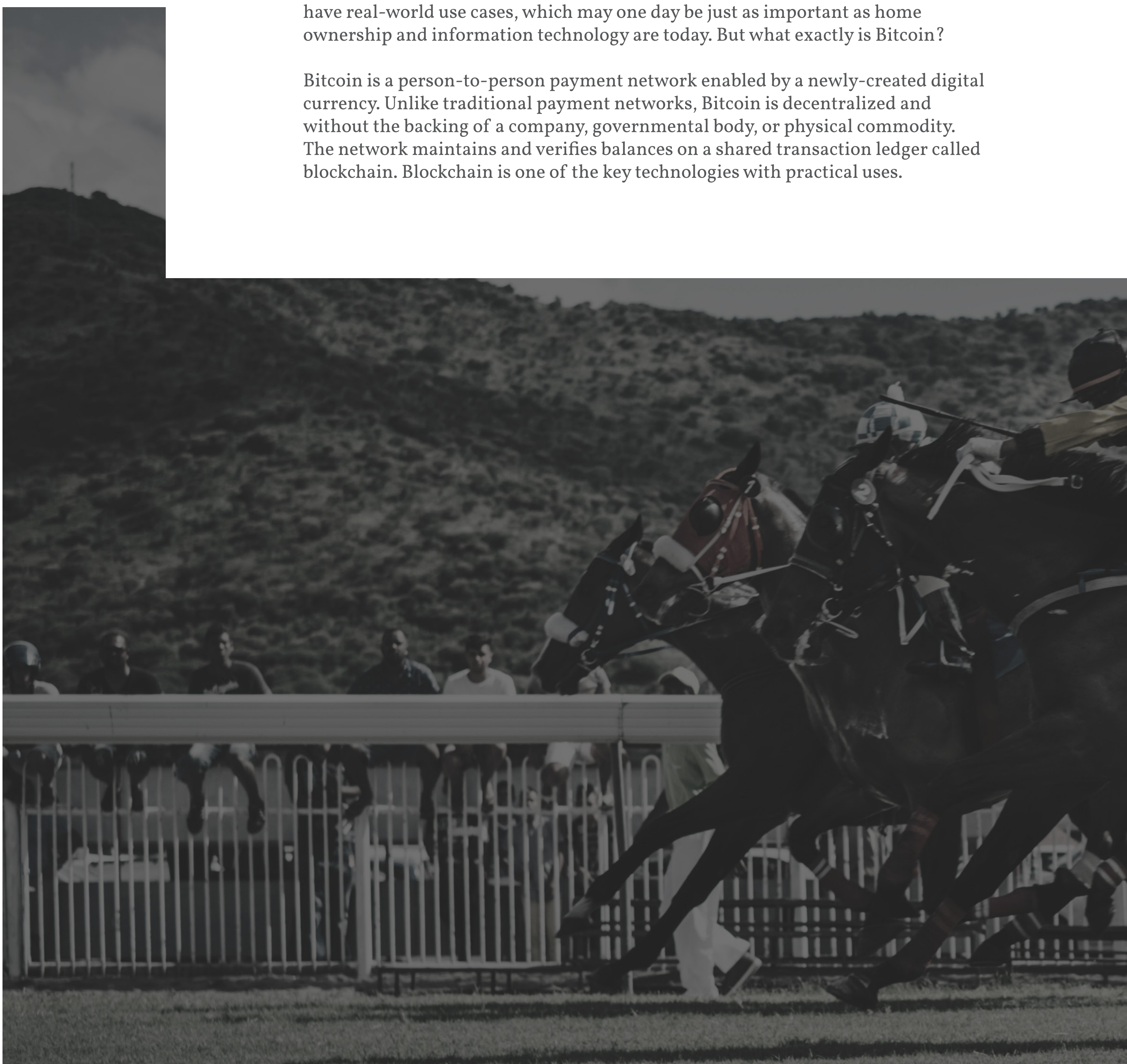
After the dot com bust, confidence in stocks was low. A "safe" investment like real estate seemed much more attractive, and conventional wisdom was that home prices would rarely, if ever, go down. By the mid-2000s housing prices soared, especially in certain regions. From 2004 - 2005 alone, US home prices rose 12.5%; and in places like California, Nevada, and Washington DC, they jumped a staggering 20%.

Rampant speculation ensued, and the combination of loose credit standards and low interest rates encouraged anyone to borrow and buy a home. Unfortunately, this version of the American Dream turned out to be a myth. Home prices began falling in 2006, disproving the long-held belief that homes do not lose value, and with the help of far too much leverage, the Global Financial Crisis began to unfold.

The Basics of Bitcoin

Like the dot com stocks and home mortgages, Bitcoin and its underlying technology have real-world use cases, which may one day be just as important as home ownership and information technology are today. But what exactly is Bitcoin?

Bitcoin is a person-to-person payment network enabled by a newly-created digital currency. Unlike traditional payment networks, Bitcoin is decentralized and without the backing of a company, governmental body, or physical commodity. The network maintains and verifies balances on a shared transaction ledger called blockchain. Blockchain is one of the key technologies with practical uses.



Because Bitcoin is decentralized, transaction verification is essentially crowdsourced to people known as "miners." While there will eventually be a fixed supply of 21 million bitcoins, until the total supply is in circulation, bitcoin "miners" are rewarded with the "new" bitcoins by verifying transactions in an increasingly expensive and difficult computational process.

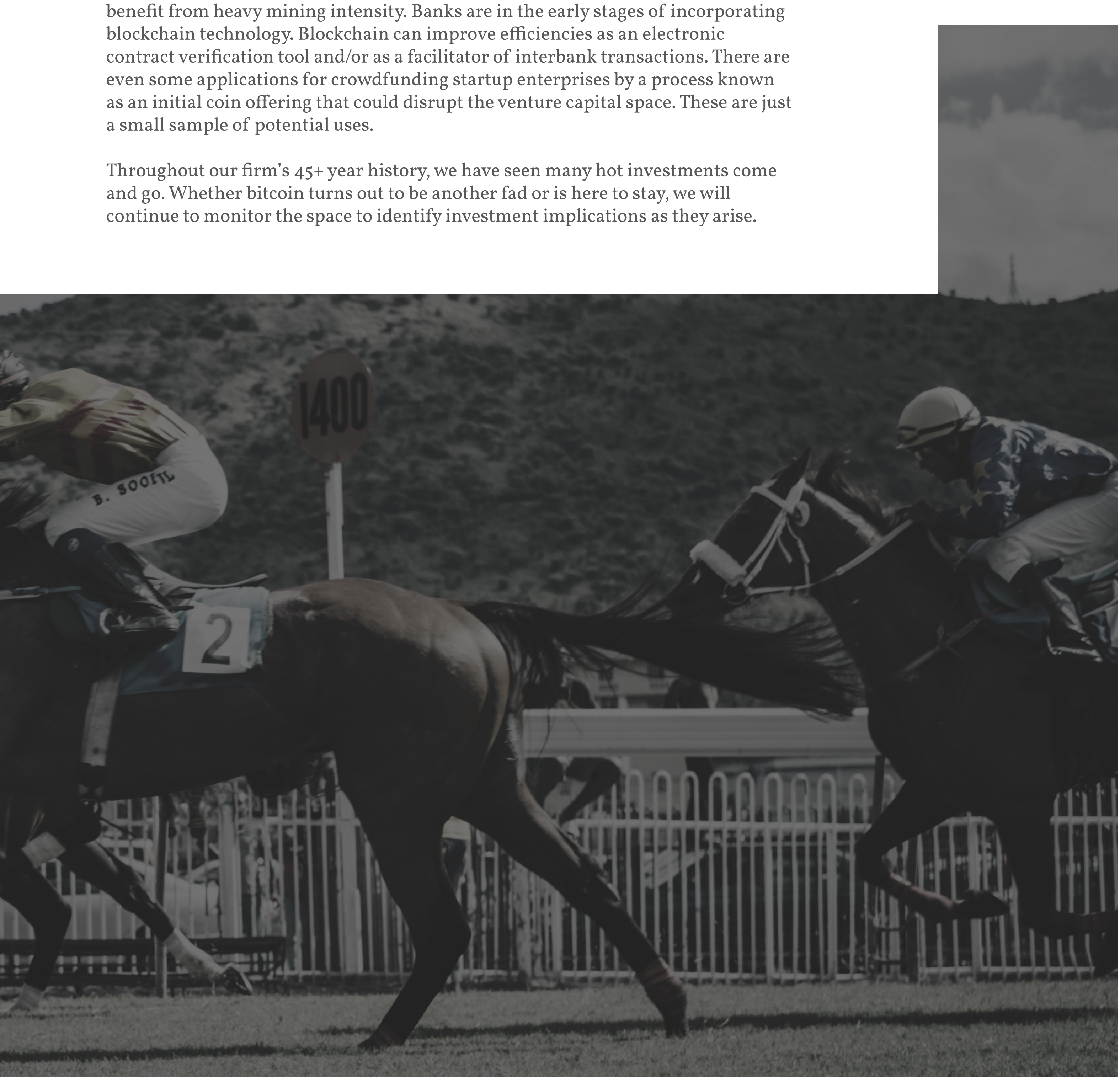
Aside from mining, bitcoins can also be purchased with real currency on internet exchanges. Once acquired, owners get an encryption key that must be stored either digitally or physically. Bitcoins can then be used to purchase various goods, though options are currently limited as there are significant obstacles holding back wider acceptance. High transfer fees, slow transaction processing, and the ease of use in illicit activities are just a few of the challenges facing Bitcoin.

To Invest or Not to Invest?

As history demonstrates, there can be significant risk when investing in something new and potentially misunderstood. At this time, we consider the digital currency a purely speculative purchase, but we are also still analyzing the investment implications to target other potential winners and losers.

For example, the semiconductor industry provides the computer chips used by cryptocurrency miners. They demand significant computational power and benefit from heavy mining intensity. Banks are in the early stages of incorporating blockchain technology. Blockchain can improve efficiencies as an electronic contract verification tool and/or as a facilitator of interbank transactions. There are even some applications for crowdfunding startup enterprises by a process known as an initial coin offering that could disrupt the venture capital space. These are just a small sample of potential uses.

Throughout our firm's 45+ year history, we have seen many hot investments come and go. Whether bitcoin turns out to be another fad or is here to stay, we will continue to monitor the space to identify investment implications as they arise.



Proudly partnering with our Taft-Hartley clients since the 1970s.

Trades We Serve

- Asbestos Workers
- Boilermakers
- Bricklayers
- Carpenters
- Cement & Concrete
- Electrical Workers
- Glaziers & Glassworkers
- Food & Commercial Workers
- Insulators
- Iron Workers
- Laborers
- Laundry, Dry Cleaning & Allied Workers
- Metal Lathers
- Nurses Associations
- Operating Engineers
- Painters and Tapers
- Plasterers & Cement Masons
- Plumbers & Pipefitters
- Police & Firefighter Associations
- Roofers
- Sheet Metal Workers
- Teamsters

Page 11:
[1] Nadiri, M Ishaq & Mamuneas, Theofanis P, 1994. "The Effects of Public Infrastructure and R&D Capital on the Cost Structure and Performance of U.S. Manufacturing Industries," The Review of Economics and Statistics, MIT Press, vol. 76(1), pages 22-37, February.

Pages 19-20:
The NASDAQ Composite Index is a broad-based capitalization-weighted index of domestic and international based common type stocks listed in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The NASDAQ Composite includes over 3,000 companies. The Index returns do not reflect any fees or expenses. Index returns provided by Bloomberg.

MANNING & NAPIER

www.manning-napier.com/tafthartley

SMA-PUB074 (3/18)