

### Administration of Special Needs Trusts

A Special Needs Trust (SNT) is a legal arrangement created to benefit an individual with a disability. The primary purpose of this trust is to supplement – not replace – government assistance programs, allowing the beneficiary to maintain eligibility for public benefits while receiving additional financial support from the trust.

There are three main types of Special Needs Trusts:

**First-Party SNT:** This trust is funded with the beneficiary's own assets, such as a personal injury settlement or inheritance. It can be established by the individual with the disability, a parent, grandparent, legal guardian, or court. Upon the beneficiary's death, any remaining funds in the trust must first be used to reimburse Medicaid for benefits provided during their lifetime.

**Third-Party SNT:** This trust is funded by someone other than the beneficiary, typically family members or friends. This type of trust does not require Medicaid repayment upon the beneficiary's death, making it a popular choice for parents who wish to leave assets to a child with special needs.

**Pooled Trust:** This trust is managed by a non-profit organization that pools funds from multiple beneficiaries, each with their own individual account. This arrangement helps reduce administrative costs while still providing tailored support to each beneficiary.

Administering a Special Needs Trust comes with unique challenges, particularly when it comes to ensuring that the trust funds are used in a way that doesn't jeopardize the beneficiary's eligibility for government benefits. At **LCNB | Wealth**, we are equipped to serve as trustee for both First-Party and Third-Party SNTs. Our best practices include:

**Careful Distribution Planning:** We carefully evaluate each distribution to confirm it will not impact the beneficiary's government benefits.

**Coordination with Government Benefits:** Our team stays well-versed in the specific requirements of public assistance programs that our beneficiaries may rely on. This includes, but is not limited to, Medicaid, Social Security benefits, and housing subsidies.

**Regular Review and Adjustment:** We regularly assess the beneficiary's care plan and financial needs so the trust continues to meet their evolving needs.

**Communication with the Beneficiary:** We place a high priority on maintaining open communication with the beneficiary to fully understand their situation, needs and preferences.

**Ongoing Legal Review:** Given the changing landscape of laws and regulations surrounding SNTs, we consult with disability law experts regularly to guarantee compliance with current legal standards.

The increased risk of mismanaging distributions and inadvertently affecting eligibility for benefits is one of the key reasons a corporate trustee is often recommended for SNTs. At **LCNB | Wealth**, we are always ready to assist with the administration of Special Needs Trusts or any other estate planning needs you may have.



**Izabela Camacho, MBA, CFTA**  
Assistant Vice President  
Trust Officer  
513-228-7675  
icamacho@LCNB.com

## Economic and Market Summary

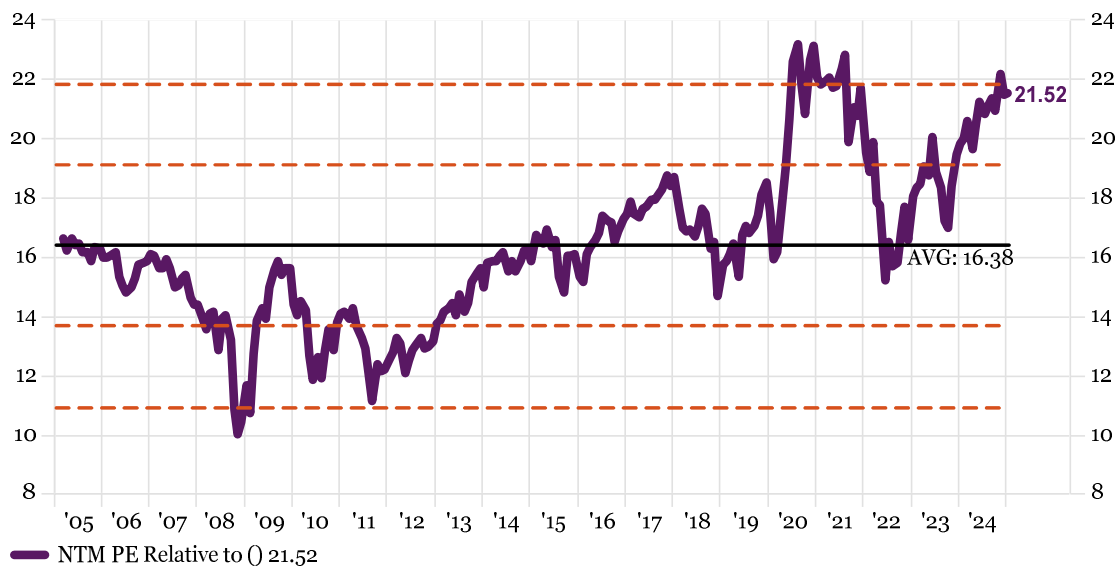
The economic soft-landing scenario is gathering steam based on tame inflation data, a resilient consumer, and a strong labor market.

- Unemployment held steady at 4.1%.
- December jobs number came in at 256,000, well above expectations.
- Inflation continued to come down throughout 2024, but remains sticky at roughly 3% as opposed to the Fed's 2% target. Core CPI is at 3.2% as of the December reading.
- Consumer spending remained robust – this year had record-breaking sales on both “Black Friday” and “Cyber Monday”.

The risk of recession cannot be completely ruled out as we head into a new presidential administration with tariff and immigration discussions being a potential headwind to the growth of the economy moving forward.

Equity markets continued to rally through most of 2024, returning over 20% for the second year in a row. The S&P500 Index finished the quarter higher despite some pullback in the last week of the year. Two weeks into 2024, the market continues to trade within 5% of all-time highs.

- Diversifying sectors such as small/mid-cap and international are still lagging large cap US stocks, but have more reasonable valuations.
- Growth continues to outpace value on expected innovations from AI related investments.
- The S&P500 forward PE remains almost 2 standard deviations above the historical norm, at 21.52 as of this writing. Those who defend these higher PE ratios point to the fact that the return is being driven by growth stocks, which have higher PE ratios versus value stocks.
- In particular, the Magnificent 7 is the overwhelming source of this skew. They are also the largest contributor to the excess returns over the last 2 years. For example, the S&P500 without the Mag7 only returned 4.1% in 2023 and 6.3% in 2024. These S&P500 ex-Mag7 returns trailed other asset classes, such as small and mid-cap.

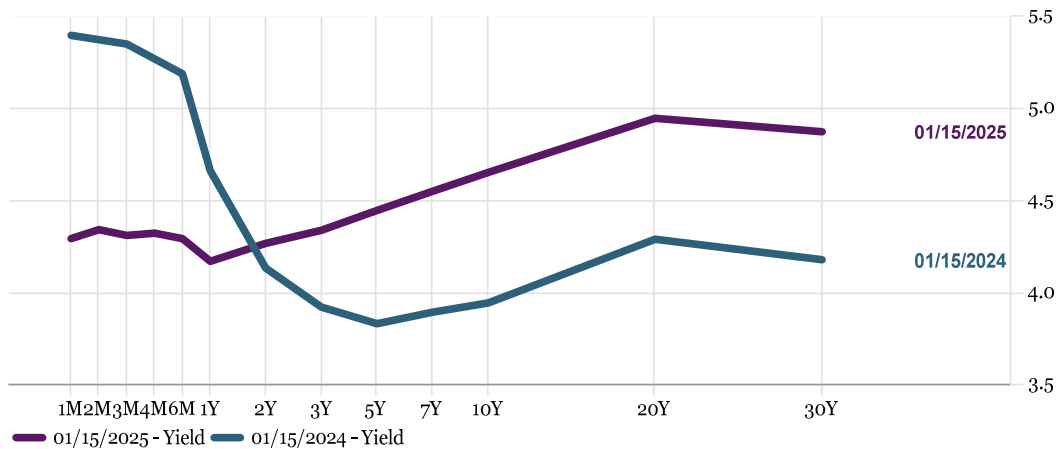


We continue to allocate a portion of portfolios to buffered ETFs that capture most of the upside of equities, but provide some downside protection in the event of a market correction in the large-cap domestic equity sector that returns that asset class's valuations to more normal levels.

The Federal Open Market Committee appears to be winding down the rate cutting cycle, with the Fed Funds target rate currently at 4.25-4.5%. The markets are currently pricing in 1 more rate cut in 2025. This is a decrease from the 4 cuts in 2025 expected at the beginning of the quarter, prior to receiving the strong economic data mentioned above.

- As you can see in the chart below, the yield curve has continued to normalize and steepen. This has been driven not just by Fed Rate cuts and lower rates declining, but long rates have moved up almost 100bps over the last year.
- Credit spreads remain narrow meaning lower quality bonds are not paying significant premiums compared to higher quality bonds. For this reason, we continue to focus on high quality bonds in our portfolios. We will look to add exposure to below investment grade bonds if the credit spread widens back to more normal rates, justifying the additional risk.
- We recently added Inflation Protected bonds (TIPS) to our portfolios. The break-even rate on TIPS, which is the inflation rate at which an investor would earn the same return from a TIPS bond as they would from a nominal Treasury bond of the same maturity, is below the current run rate of 3% inflation.

### US Treasury Yield Curve



As always, we are available to help you meet your financial goals – reach out to any of our [LCNB | Wealth](#) officers for a more detailed discussion.



**Bradley A. Ruppert, CFA®**  
**Executive Vice President**  
**Chief Investment Officer**  
**Director of Wealth Investments**  
 513-228-7658  
 bruppert@LCNB.com



**Chris Robinson, CIMA®**  
**Senior Vice President**  
**Trust Investment Officer**  
 513-932-1414 ext.59106  
 crobinson@lcnb.com



**Erin K. Hawk, CFA®**  
**Assistant Vice President**  
**Wealth Investment Officer**  
 513-228-7668  
 ehawk@LCNB.com



## Celebrating Women In Banking

**LCNB | Wealth** Operations Officer Amanda Luman was recognized as a finalist for the inaugural Ohio Bankers League (OBL) Women in Banking Rising Star Award. This award honors leaders who inspire and support women in banking through mentoring, volunteerism, and continued learning. Amanda attended the OBL

Women in Banking Conference in October, alongside **LCNB | Wealth** Officers Jackie Manley and Angie Crumbley, where the theme "Embrace the Future: Women Leading Banking's Next Era" focused on managing mindset during disruption and featured an Executive Panel of women leaders from diverse banking communities.



## Helping Communities Come Back

**LCNB | Wealth** associates spent Halloween volunteering at Matthew 25 Ministries (M25M), sorting donations at their Blue Ash headquarters to support victims of Hurricane Milton. Since its founding in 1991, M25M has grown into an international relief organization distributing over 20 million pounds of products annually and sending more than 300 million pounds of aid to the U.S. and around 70 countries worldwide.



## Bankers Who LEAD Together

In November, students from the LEAD Training Career Quest Program visited the LCNB National Bank Operations Center to learn about financial literacy, investing, and career opportunities in banking. LEAD Training focuses on preparing young people for life and career success by helping them stay on track after graduation, guiding them toward viable paths such as military service, the workforce, or further education.

### LCNB | Wealth Officers

Erin Hawk and Izabela Camacho discussed Trust and Investments, while Amanda Luman presented on "The 3 Bs of Functional Finance: Budgeting, Banking, and Building Credit." Brittnay Mustard-Smith lead a group of students on a tour of the Operations building, connecting them with others in the LCNB team.



We hope that we are exceeding your expectations. The best compliment we could receive would be a referral of your friends and family. Please contact Josh Shapiro @ 513-228-7659 or [jshapiro@LCNB.com](mailto:jshapiro@LCNB.com) for more information.