



SENTINEL

BUSINESS SUMMIT

The Sentinel Business Summit provides opportunities to interact with influential leaders and foster community growth. This luncheon event will feature insightful presentations from prominent local business executives.



TOPIC & SPEAKER LINEUP

CURRENT TRENDS IN EMPLOYMENT LAW

- Ken Gray, Attorney | Ward and Smith, P.A.

CURRENT MARKET CONDITIONS & STRATEGIES FOR COST CONTAINMENT

- Rob Krieg, Managing Director, Employee Benefits | Sentinel

STATE OF THE BANKING INDUSTRY

- J. Stewart Patch, Regional President | Dogwood State Bank

LEGISLATIVE AND TAX UPDATES

- B. Davis Horne, Jr., Attorney | Smith Anderson
- William W. Nelson, Attorney | Smith Anderson

TAX UPDATES: LOOKING BACK & FORWARD

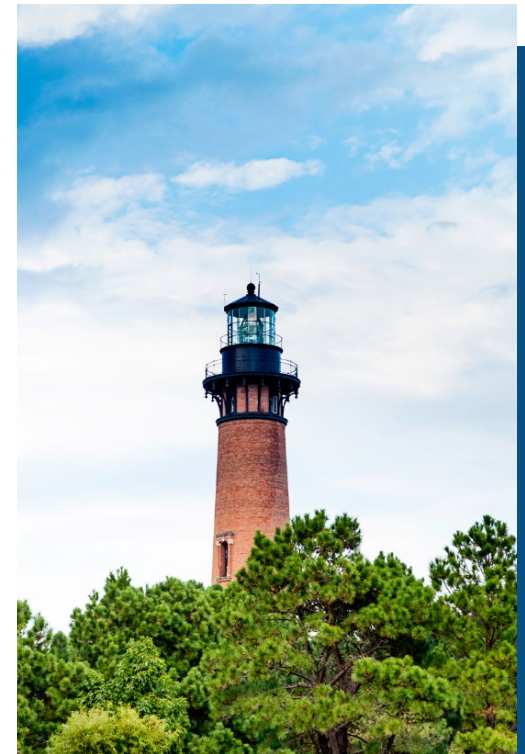
- Gail Lail, Tax Partner | Thomas, Judy, & Tucker, P.A.

BEST TACTICS TO ATTRACT & RETAIN TALENT

- Doug Blizzard, Chief Solutions Officer | Catapult

STATE OF THE ECONOMY

- Dr. Michael Walden, Ph.D. | NC State University



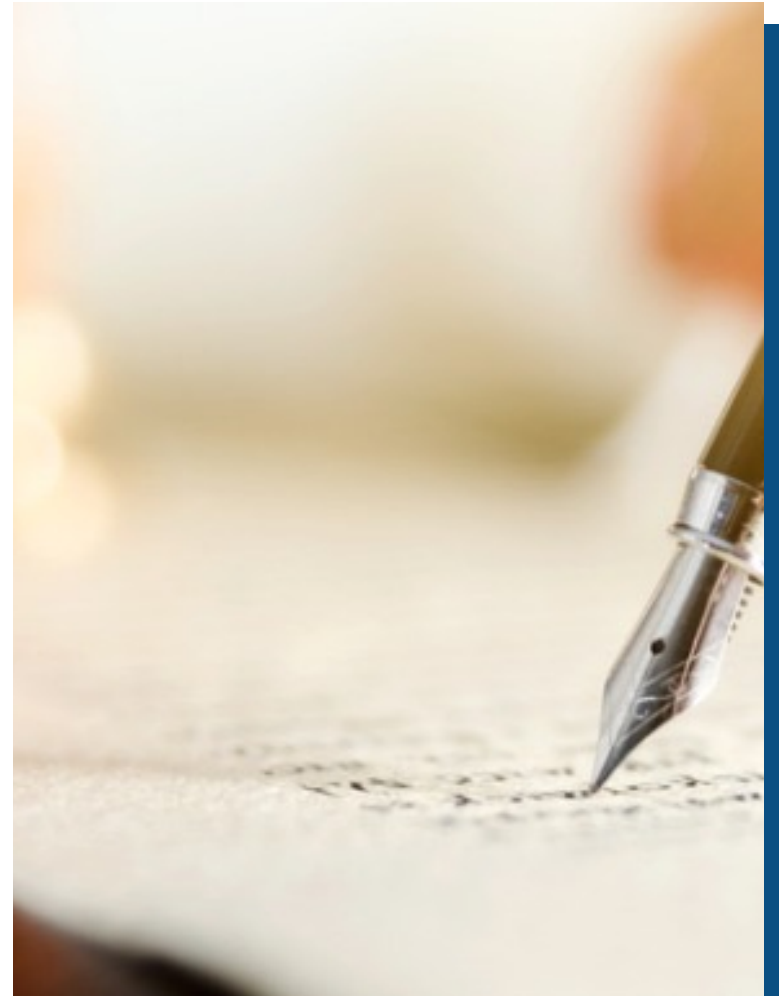
CURRENT TRENDS IN EMPLOYMENT LAW



Ken Gray
Attorney
Ward and Smith, P.A.

Title VII of the Civil Rights Act of 1964

- Title VII prohibits employment discrimination based on race, color, religion, sex and national origin.
 - Applies to employers, as defined by Title VII.
 - The term "employer" means a person engaged in an industry affecting commerce who has fifteen or more employees for each working day in each of twenty or more calendar weeks in the current or preceding calendar year, and any agent of such a person.



Groff v. Dejoy (U.S. 2023)



Groff worked for the U.S. Postal Service as a mail carrier and had a religious objection to working on Sundays. When he was hired, that was no big deal because the USPS did not deliver on Sunday. Then the USPS started making deliveries for Amazon on Sundays and expected Groff to work. Various accommodations were attempted, and some worked for a while. However, accommodating Sundays off became increasingly difficult. Mr. Groff ultimately quit after he was told he would have to work on Sundays, in violation of his beliefs.

U.S. Supreme Court held that rather than the de minimis standard that has controlled for the last 46 years, a standard similar to accommodations under the ADA and USERRA should apply.



What Is The New Standard?

- An employer must accommodate an employee's request for reasonable accommodation for a religious practice or belief, unless it would constitute an undue hardship
- Undue hardship is shown when a burden is substantial in the overall context of an employer's business, taking into account all relevant factors in the case at hand, including the particular accommodations at issue and their practical impact in light of the nature, size and operating cost of an employer.

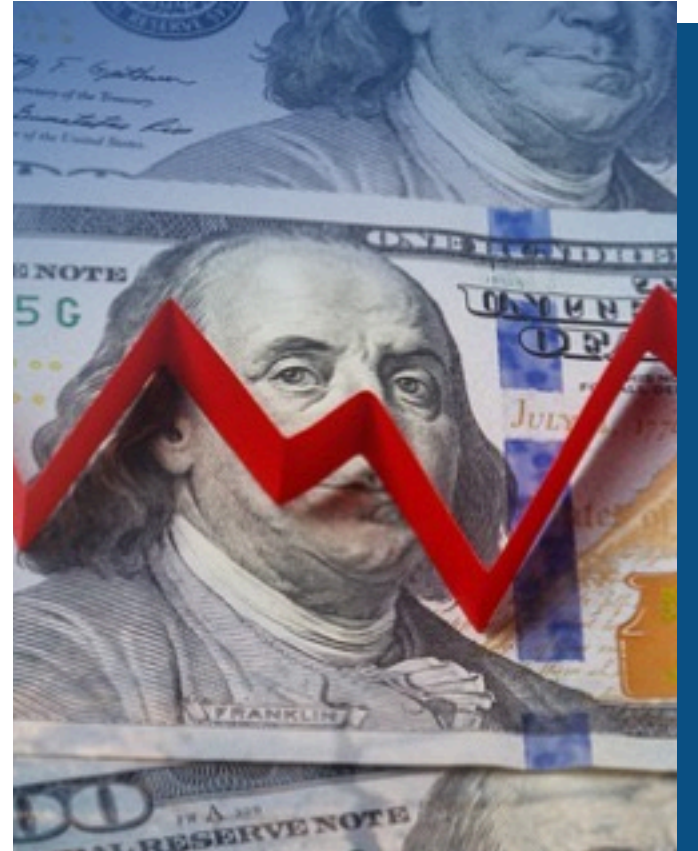


Why Does This Matter?

- More religious accommodation requests will need to be accommodated

Why?

- Previously employer had to show the accommodation would have minimal cost or inconvenience for its operations
- Now must show that the accommodation will constitute a true undue hardship
- Undue hardship = action requiring significant difficulty or expense



What Should Employers Do To Prepare?



- Get ready to accommodate more religion
- Establish a process for employees who wish to make a request
 - Submit request in writing with an explanation of which policy conflicts with the employee's religious belief or practice and how
 - Review the request and make sure it is religious in nature
 - When in doubt, conclude it is a sincerely held religious belief
- If the request is religious in nature and you determine it is sincerely held, then grant the accommodation or engage in the ADA interactive process

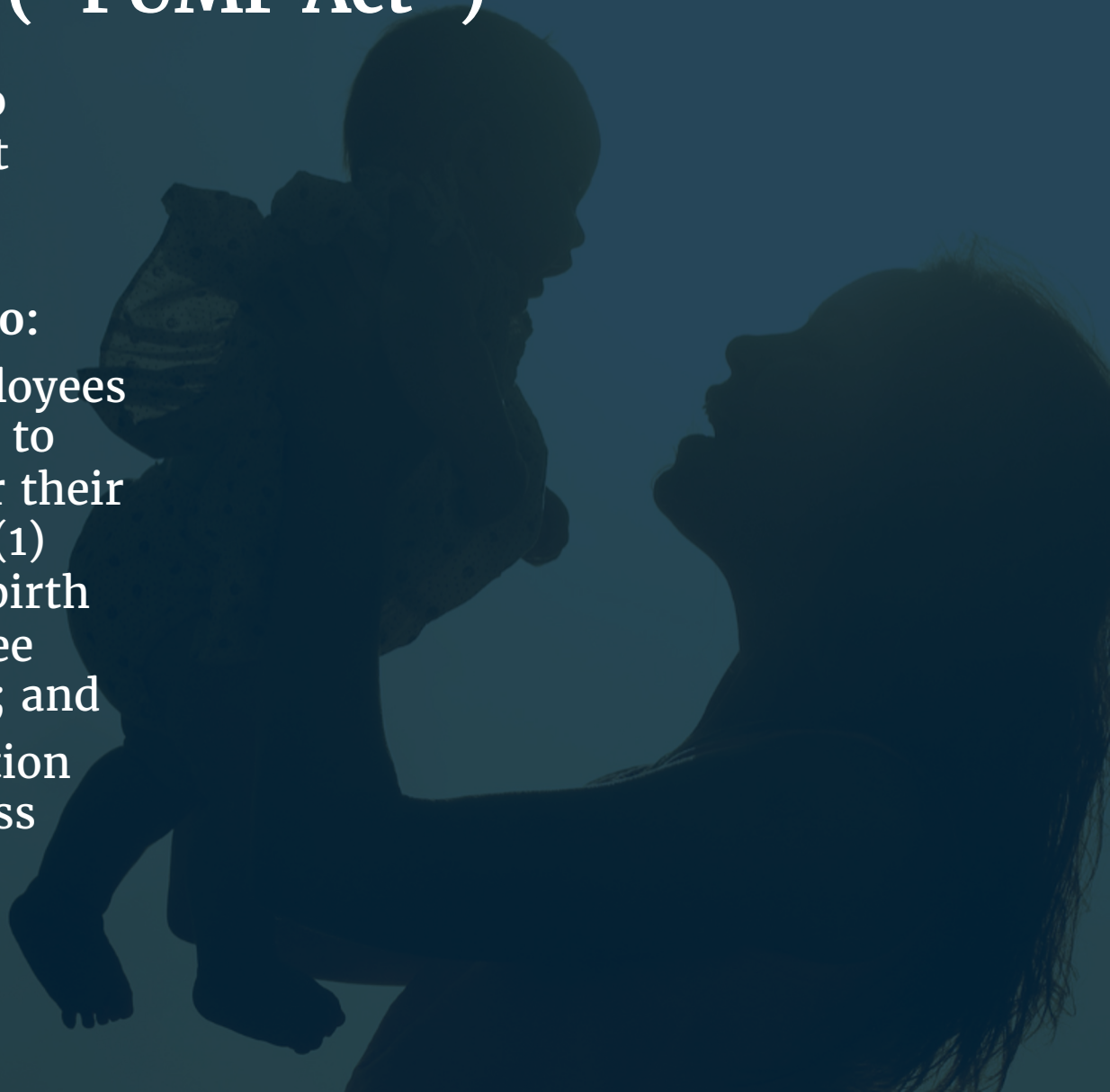


PUMP For Nursing Mothers Act (“PUMP Act”)

- Extends protections to all employees, not just non-exempt workers.

Employers are required to:

- Provide lactating employees reasonable break time to express breastmilk for their nursing child for one (1) year after the child's birth each time the employee needs to express milk; and
- Provide a private location for employee to express breastmilk.



PUMP Act: Compensation For Break Time

- Employers are not required to provide compensated break time.
- As with other breaks under the Fair Labor Standards Act, the employee must be completely relieved from duty, or the break time must be compensated as work time.
- If the employer already provides paid break time and if an employee chooses to use that time to express breast milk, the employee must be compensated for that time.



PUMP Act Key Provisions

- The frequency and duration of the break will vary depending on factors related to the nursing employee and the child.

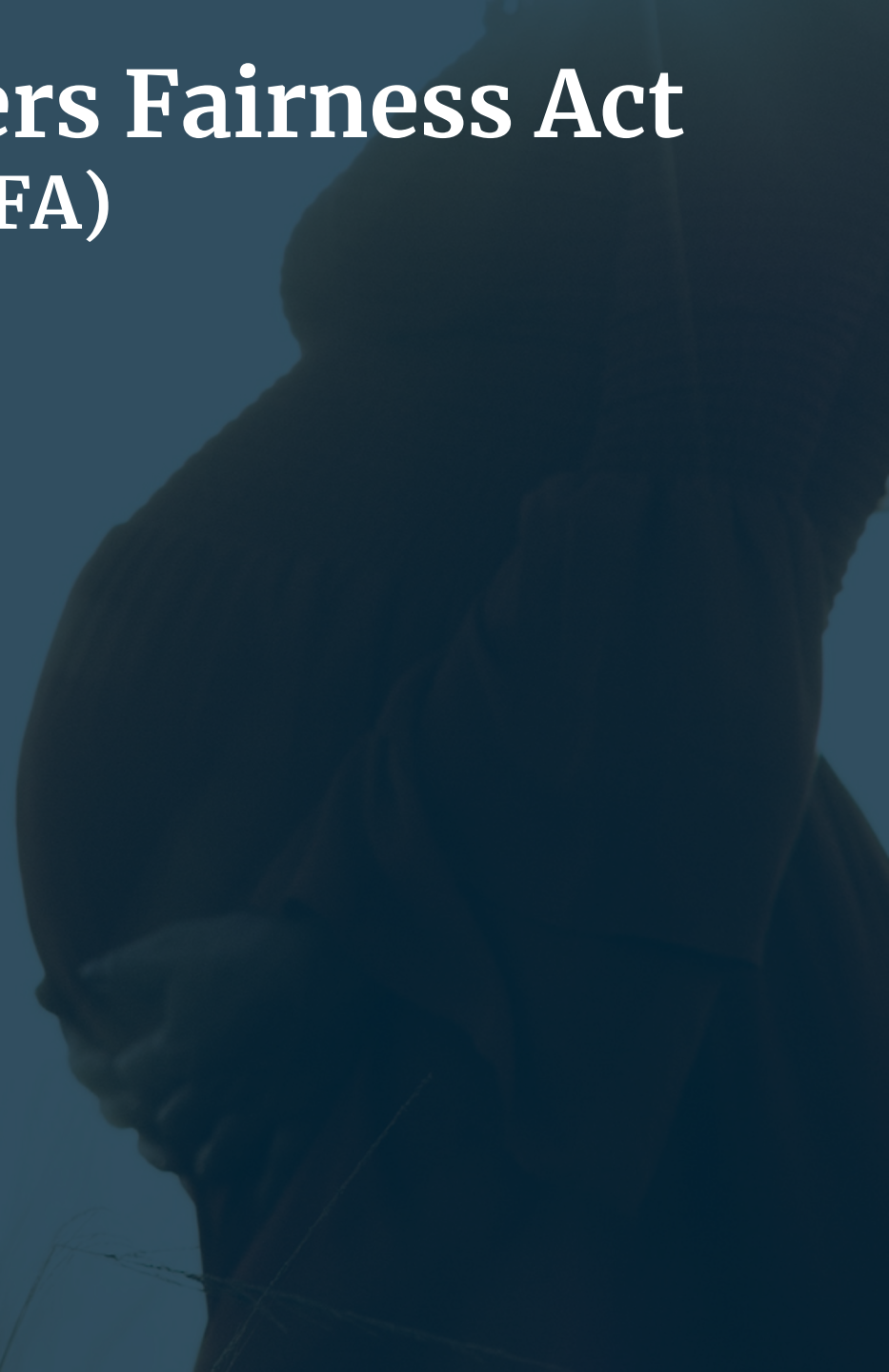
Private Location:

- Must be: (1) a space other than a bathroom; (2) shielded from view; **and** (3) free from intrusion from coworkers and the public.
- The location does not need to be permanent.



Pregnant Workers Fairness Act (PWFA)

- In effect as of June 27, 2023
- PWFA requires "covered employers" to provide "reasonable accommodations" to a worker's known limitations related to pregnancy, childbirth, or related medical conditions unless it would cause an undue hardship
- "Covered employer" includes private and public sector employers with 15 or more employees



PWFA: Reasonable Accommodations

Examples of a reasonable accommodation:

- The ability to sit or drink water;
- Receive close parking;
- Flexible hours; or
- Take leave or time off to recover from childbirth.

Employers must engage in the "interactive process."



What Does PWFA Prohibit?



Covered employers cannot:

- Require an employee to accept an accommodation without a discussion between the employer and the employee.
- Deny a job or other employment opportunity based on their need for a reasonable accommodation.
- Require the employee to take leave if another reasonable accommodation could be provided.
- Retaliate against the employee for reporting or opposing unlawful discrimination under the PWFA.



On August 30, 2023, the Wage and Hour Division of the U.S. Department of Labor (DOL) released a **Notice of Proposed rulemaking** to revise the "white collar" overtime exemption regulations applicable to executive, administrative, and professional employees.

The exact salary level that will be included in a final rule is not yet known; it is expected that the salary level will be at least \$1,059 per week (\$55,068 annualized).

The DOL proposes to set the new salary level at the 35th percentile of weekly earnings of full-time salaried workers in the lowest-wage Census Region (currently the South). The \$684 per week (\$35,568 annualized) salary level established in 2019 was based on a much lower metric – the 20th percentile of weekly earnings of full-time salaried workers in the lowest-wage Census Region and in the retail industry nationally.

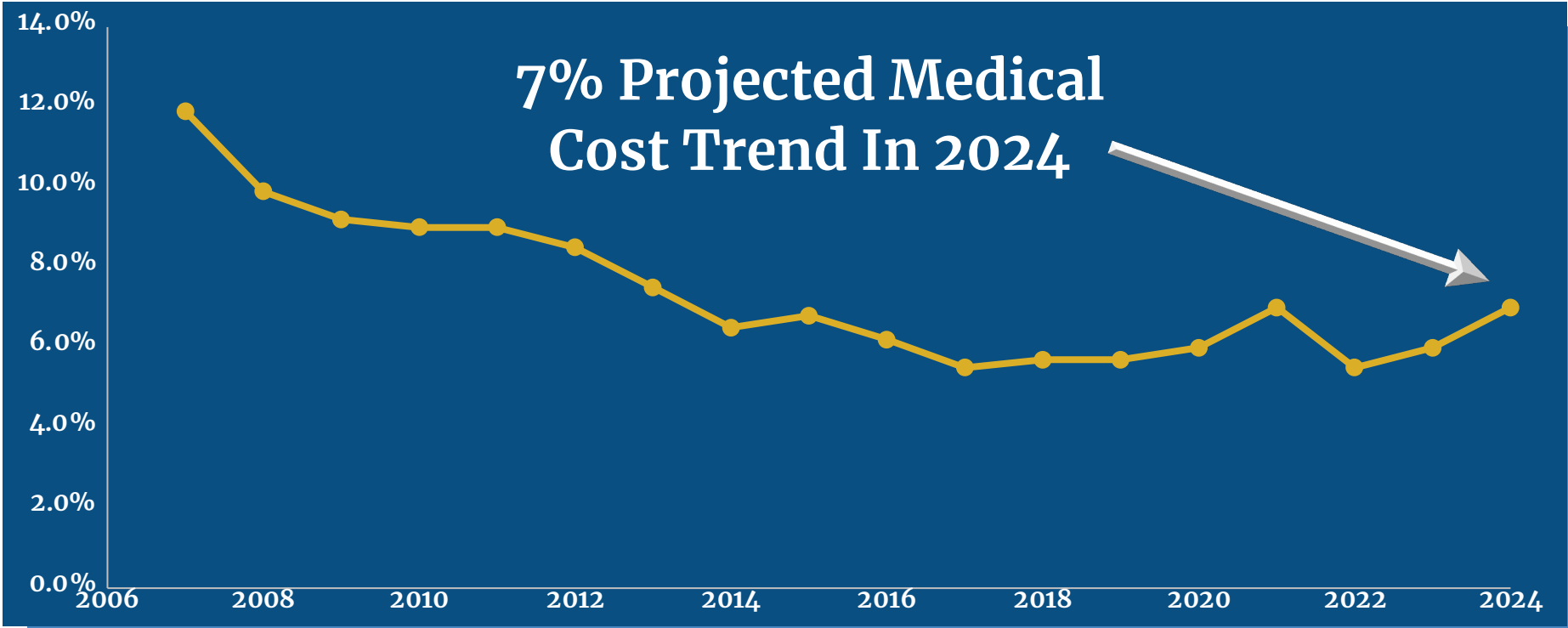
It is also expected that the new salary rule will contain automatic periodic updates to the salary level. Once the proposed rule is published, public comment will be accepted for 60 days.

CURRENT MARKET CONDITIONS & STRATEGIES FOR COST CONTAINMENT



Rob Krieg, JD, CEBS
Managing Director, Employee Benefits
Sentinel

Rising Medical Costs Continue



19.6%

Projected GDP in 2031 (from 18.3% in 2021)



Factors Influencing Trends

Pharmacy

- \$222,000 median annual price of a new FDA approved drug in 2022
- New drugs have a 10-to-15-year market lifecycle before new competition in the form of generics can become available
- Roughly 30 gene therapies in late-stage development

Glucagon-Like Peptide-1 (GLP-1) Medications

- 130 million adults may become eligible in the next year
- Can treat diabetes and obesity
- Cost is north of \$10,000 per year

Increased Catastrophic Claims (Both Chronic & Acute)

- Aging population in the workforce leads to higher cost conditions
- Nearly 25% of large claims were related to cancer treatment
 - Nearly half can be detected early through preventative screenings

Factors Influencing Trends

Inflationary Impact of the Greater Economy

Negotiations for Higher Reimbursement Rates from Hospitals and Physicians

Continued Clinical Workforce Shortage

Recent Physician Practice M&A Activity

Cost Containment Strategies



- Value-based care contracts with insurers
 - Aligning incentives for payers and providers
- Moving into flexible self-funded programs that leverage direct contracting with top providers and hospital groups
 - Coupled with zero-dollar member cost share plan design structures to incentivize behaviors and consumption
- Implementation of third-party vendors onto a health plan
 - Member advocacy, high quality providers, and lower price points
- Improving effective communication of your benefits to your workforce
- Consideration of narrow networks and tighter drug formularies to battle the increased factors within utilization
- Encouragement of telemedicine for primary care and behavioral health services through plan design and third-party vendors

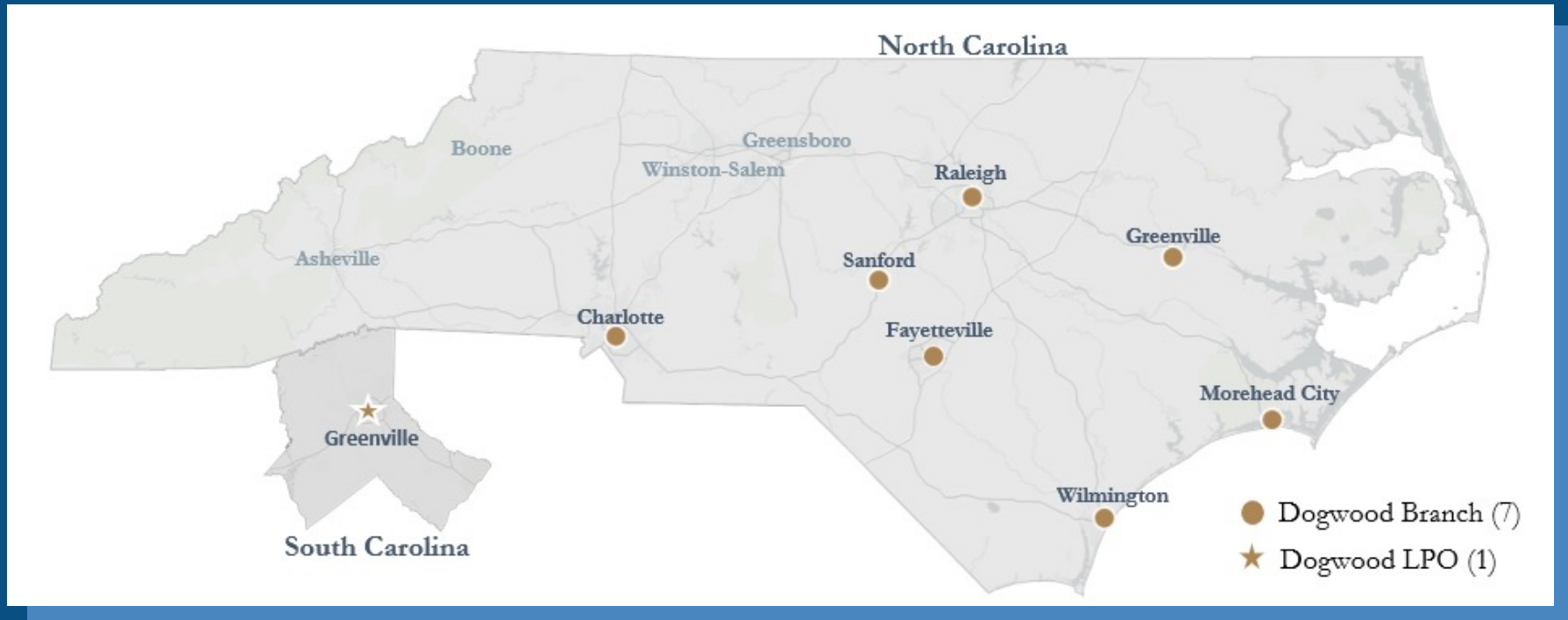


STATE OF THE BANKING INDUSTRY



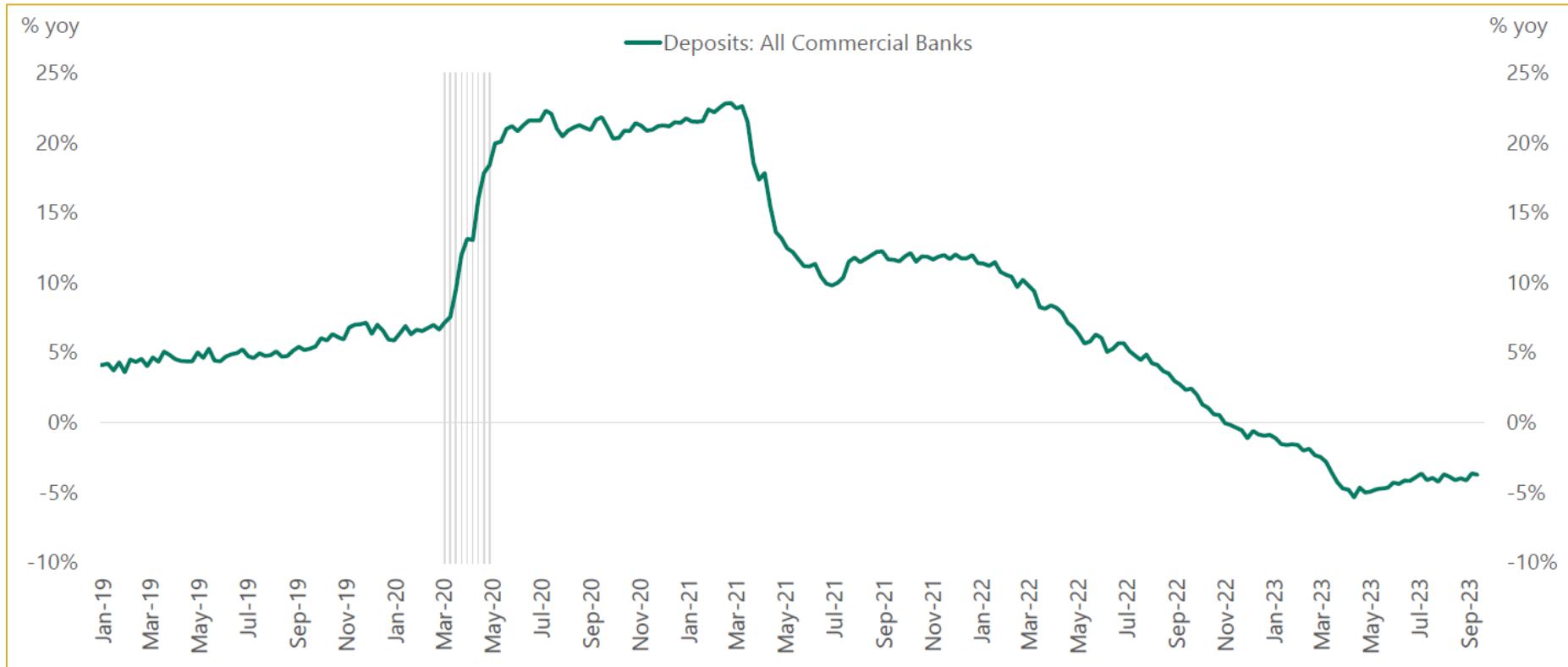
J. Stewart Patch
Regional President
Dogwood State Bank

Dogwood State Bank Overview



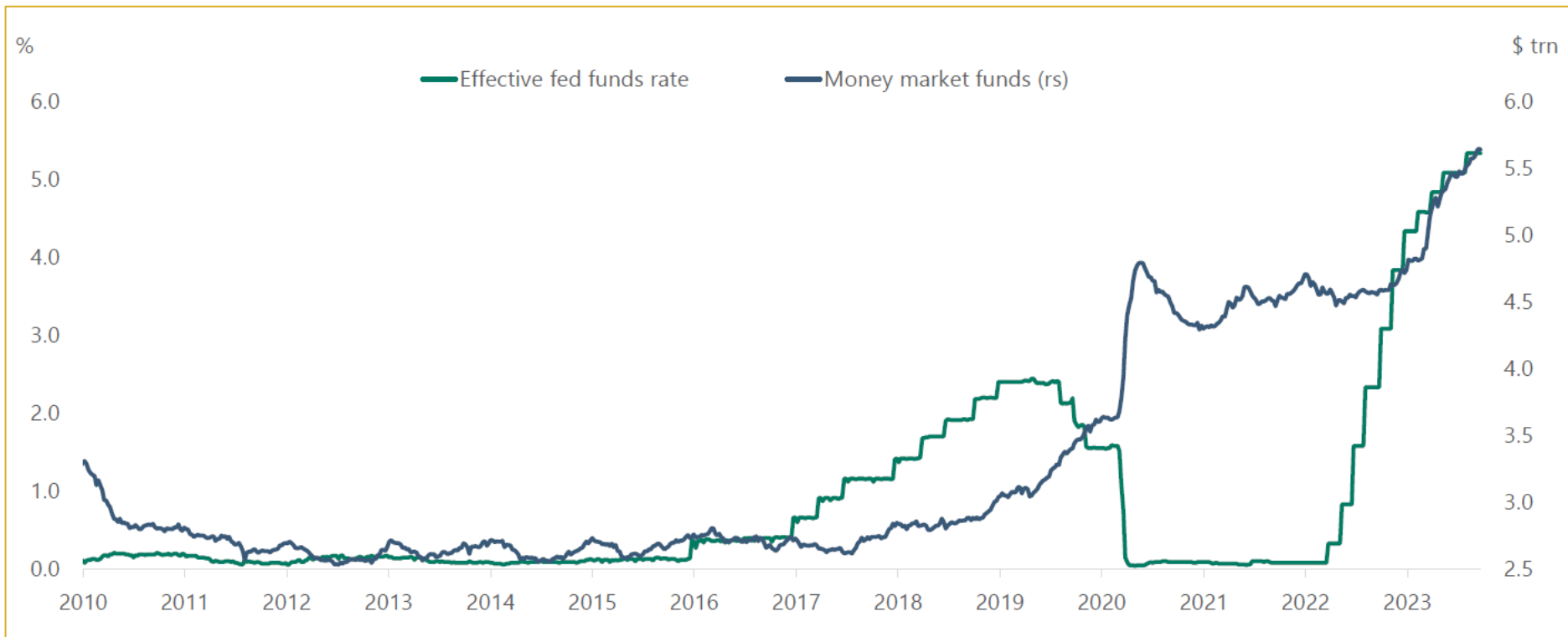
- Established in 2019
- 9 Markets in NC and SC
- Boutique Commercial Focus
- 2nd Largest SBA lender in NC
- Grown to \$1.4B in assets
- Completed 2.0x TBV capital raise in 2023
- Recently entered SC geography
- Experienced senior management

Bank Funding Pressures: Negative Growth in Deposits



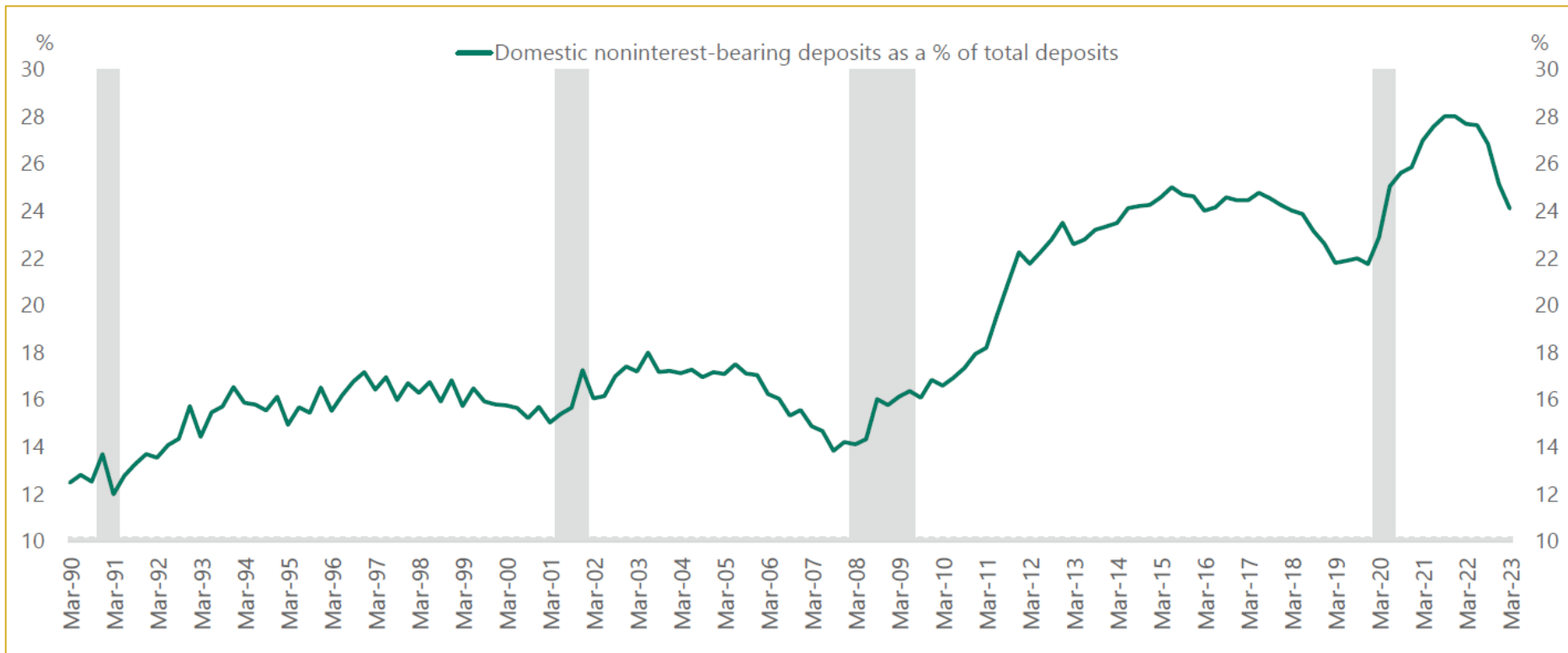
Bank Funding Pressures: Rise in Deposit Costs

Money market funds during the current tightening cycle



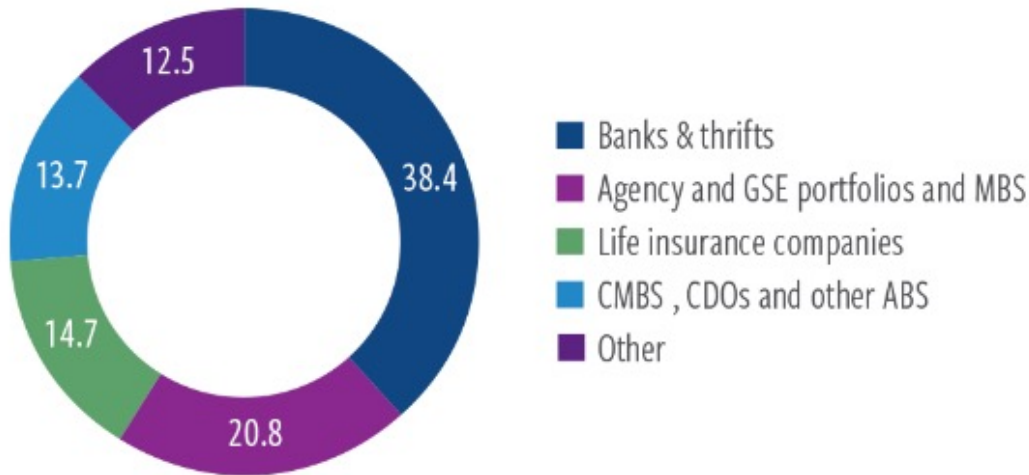
Bank Funding Pressures: Rise in Deposit Costs

The share of bank deposits paying zero interest rate is declining

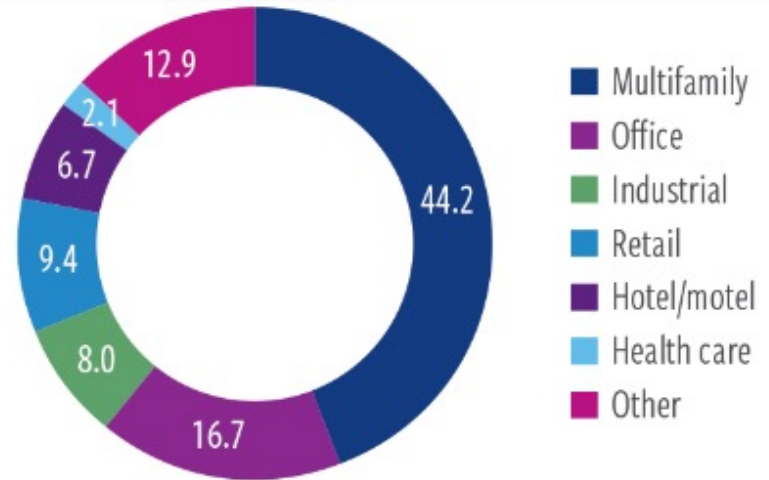


Commercial Real Estate Exposure: Bank CRE Lending & Concentrations

Loan Exposure By Lender (%)

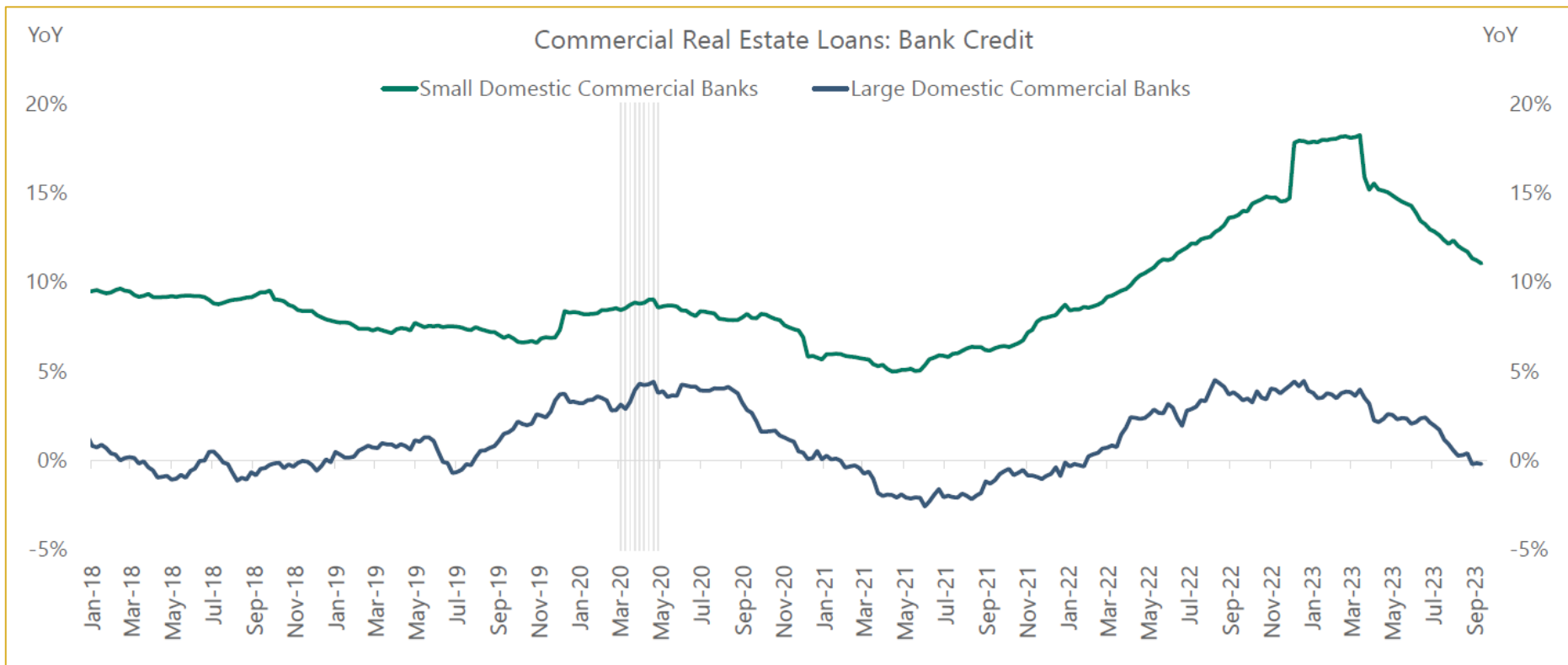


Loan Exposure By Property Type (%)



Commercial Real Estate Exposure: CRE Lending Slowing

CRE lending is slowing for both small and large banks



Commercial Real Estate Exposure: Current Banking Industry Trends



Rising deposit costs leads to net interest margin compression

- Stock price declines
- Fixed rate asset affect balance sheets

Banks have become highly focused on deposits

- Focus on C&I and deposit-only customers
- Relationships are more important than ever
- Transactional lending scare

CRE credit showing signs of cracks

- Office financing non-existent
- Covenant defaults
- Maturity/Refinance issues





Break for Lunch



LEGISLATIVE & TAX UPDATES

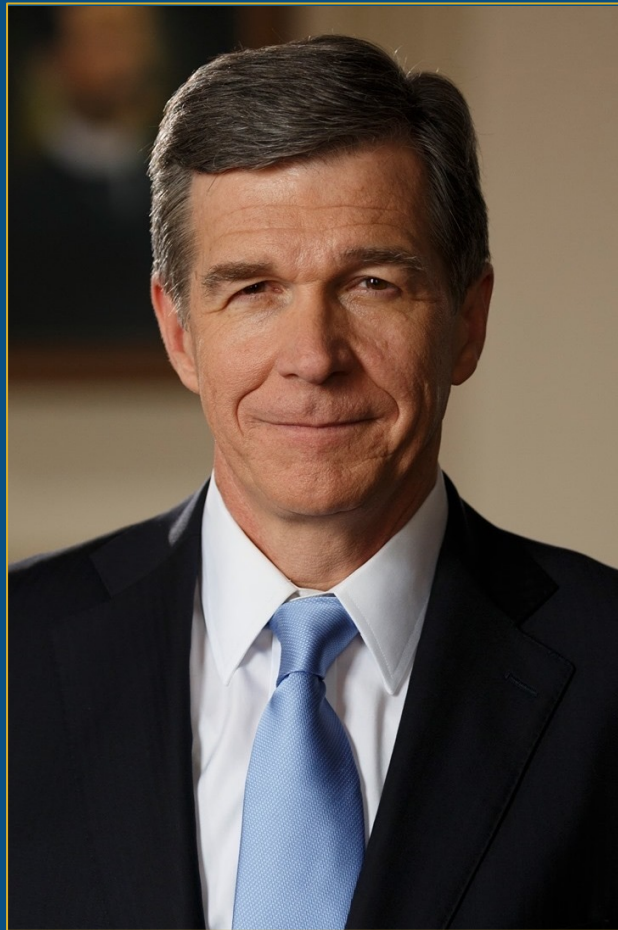


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Attorney
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THE RULES & REGULATIONS

REGULATIONS



ENVIRONMENTAL

E



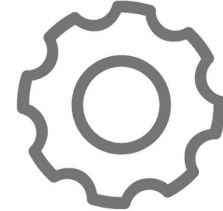
SOCIAL

S



GOVERNANCE

G



Insurance



TAXES

TAX UPDATES: LOOKING BACK & FORWARD



Geri Lail
Tax Partner
Thomas, Judy, & Tucker, P.A.

Looking Back

➤ Employee Retention Tax Credits: IRS Moratorium Issued 9/14/2023



The screenshot shows the IRS website's news release page. At the top left is the IRS logo. The top right navigation bar includes links for Help, News, English (with a dropdown arrow), Charities & Nonprofits, and Tax Pros. Below this is a secondary navigation bar with links for File, Pay, Refunds, Credits & Deductions, and Forms & Instructions, along with a search bar. The main content area features a breadcrumb trail: Home / News / News Releases. Below the breadcrumb is a sub-headline: / To protect taxpayers from scams, IRS orders immediate stop to new Employee Retention Credit processing amid surge of questionable claims; concerns from tax pros. The main headline is: **To protect taxpayers from scams, IRS orders immediate stop to new Employee Retention Credit processing amid surge of questionable claims; concerns from tax pros**



Looking Back



Advice for Taxpayers:

- What to do as IRS works to help businesses facing questionable ERC claims

For those currently awaiting an ERC claim:

- For those who currently have an ERC claim on file, the IRS will continue processing these claims during the moratorium period but at a greatly reduced speed due to the complex nature of these filings and the need to protect businesses from being improperly paid.

For those who haven't filed a claim yet:

- Consider reviewing the guidelines and waiting to file: For those considering filing a claim, the IRS urges businesses to carefully review the ERC guidelines during the processing moratorium period.



Looking Back



IRS Enforcement & Service: Are You Ready For An IRS Audit?

Partnership Audits

- Updated Operating Agreements with amendments of ownership changes
- History of capital accounts
- Valid Notes in place for member loans

S Corporation Audits

- Valid S Corporation election
- Only one class of stock
- Reasonable compensation

Individual Audits

- Foreign asset reporting
- Digital asset reporting
- Claiming a hobby as a business
- Home office deduction
- IRS matching of tax forms



Looking Back



IRS Enforcement & Service: Are You Ready For An IRS Audit?

Common Landmines For Business Deductions:

- Business Meals & Entertainment
 - Entertainment NOT deductible
 - Meals 50%
- Vehicles
 - Personal Use of Vehicles
 - Actual expense vs. Mileage methods
- Employee Benefits
 - Retirement plans
 - Employee Fringe Benefits
 - Health Insurance payments
- 1099s Issued For Contractors



Looking Forward

New Energy Credits Under Inflation Reduction Act: Residential Credits

Energy-Efficient Home Improvement Credit (\$1,200 Annual Limit)

- \$250 Limit for an exterior door and \$500 for all exterior doors
- \$600 limit for windows, skylights, central AC, natural gas, propane, or oil furnaces or hot water boilers
- Exception to the \$1,200 limit – \$2,000 for electric or natural gas heat pump water heaters
- Not limited to primary home
 - Includes improvements to second residence in US
 - Does NOT include rental properties

Residential Clean Energy Tax Credit (Federal Solar Tax Credit)

- 30% credit for overall cost of installation with no limit for primary or secondary US residences
- System must generate electricity for the home and applies to new or existing homes

Looking Forward

New Energy Credits Under Inflation Reduction Act: Clean Vehicle Credits

Maximum Credit Per Clean Vehicle = \$7,500

- \$3,750 if CV meets critical materials requirement
- \$3,750 if CV meets battery components requirement
- Qualifying CVs: final assembly must occur in North America
- After 2023, CVs will not qualify for the credit if battery components are made or assembled in a foreign entity of concern
- Sellers required to provide taxpayers with information to take the credit
- Income limits apply for the credit (\$300K MFJ, \$225K HH, \$150K single)
 - In 2024, you can transfer the credit to the dealer
- MSRP ceilings on CV qualifying for the credit
 - \$55,000 passenger vehicles; \$80,000 Vans, SUV, trucks
- Credit for Previously owned CVs but much lower income phaseouts

Looking Forward



Depreciation Changes

Bonus Depreciation Phaseouts

- 100% for property placed in service before January 1, 2023
- 80% for property placed in service in 2023
- 60% for property placed in service in 2024
- 40% for property placed in service in 2025
- 20% for property placed in service in 2026 and
- 0% for property placed in service after December 31, 2026

Section 179 Deduction Dollar Limits (2023)

- Max Section 179 is \$1,160,000. Phase out when total eligible property placed in service exceeds \$2,890,000. Maximum section 179 expense deduction for sport utility vehicles \$28,900.
- Trusts are ineligible; must have trade or business income

State Conformity: Most States Don't Conform. NC Addback of 85%.

Looking Forward



TCJA Provisions That Sunset In 2025

Individual Income Tax Rates Will Revert To Their 2017 Levels

- Top individual, trust and estate bracket increases to 39.6 from 37%
- More taxpayers in AMT

Deductions

- Standard Deduction (\$27,700 MFJ for 2023) will be cut roughly in half
- Personal exemption will return
- SALT cap lifted from \$10K
- Mortgage deduction indebtedness increases back to \$1.0M
- Charitable deduction limit decreased to 50% of AGI from 60%.
- 2% Misc. itemized deductions return
- 199A QBI deduction (20% business income) sunsets

Estate & Gift Tax Considerations That Will Sunset

- Lifetime exemptions 2023- \$12.92M Individual and \$25.84M Married
 - TAX PLANNING: Use Annual exclusion gifts of \$17K per person

Looking Forward



Plan For The Future

Succession Planning Tips

- Internal Transactions
 - Revisit Buy-Sell Agreements
- External Transactions
 - Talk to M&A Specialist Before You Get An LOI
 - Tax Structures Are Complex & Can Be Costly If Not Done Correctly
- Get A Business Valuation
- Engage Your Team
 - Attorneys, Financial Advisors, Insurance Brokers
- Meet With Your Estate Planning Team
 - Update Wills & Trust Agreements

BEST TACTICS TO ATTRACT & RETAIN TALENT



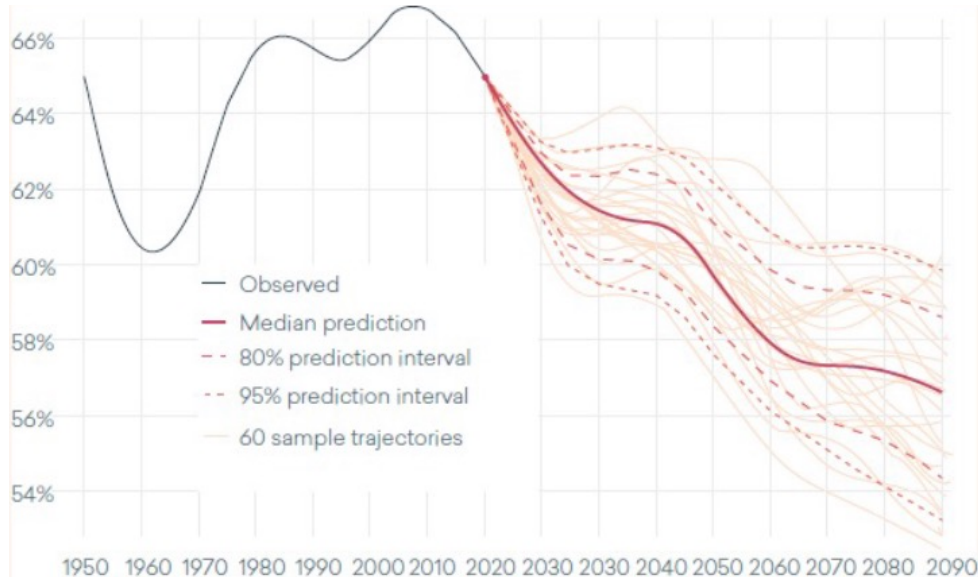
Doug Blizzard, MBA, SPHR, SHRM-SCP
Chief Solutions Officer
Catapult

The Talent Shortage

Talent shortages in U.S. have more than quintupled in the last ten years¹

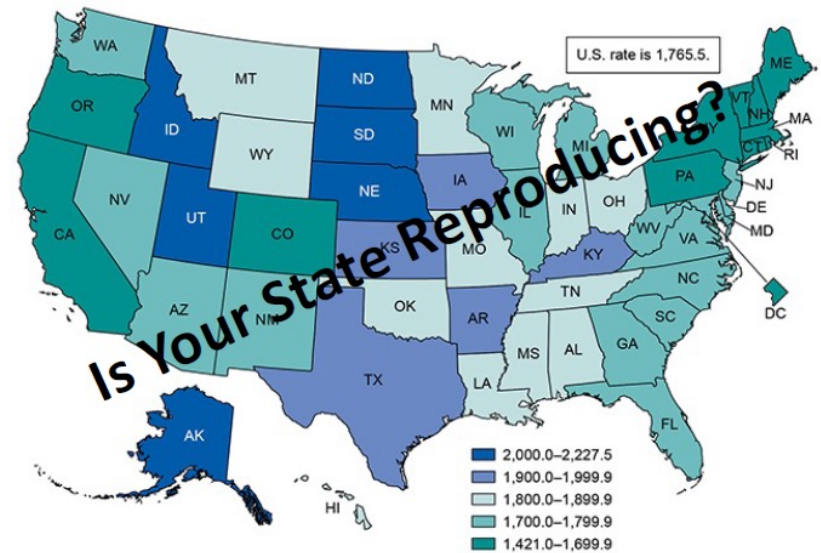
- 75% of employers struggling to fill positions, up from 14% in 2010

U.S. Population 15-64



Source: United Nations, DESA, Population Division

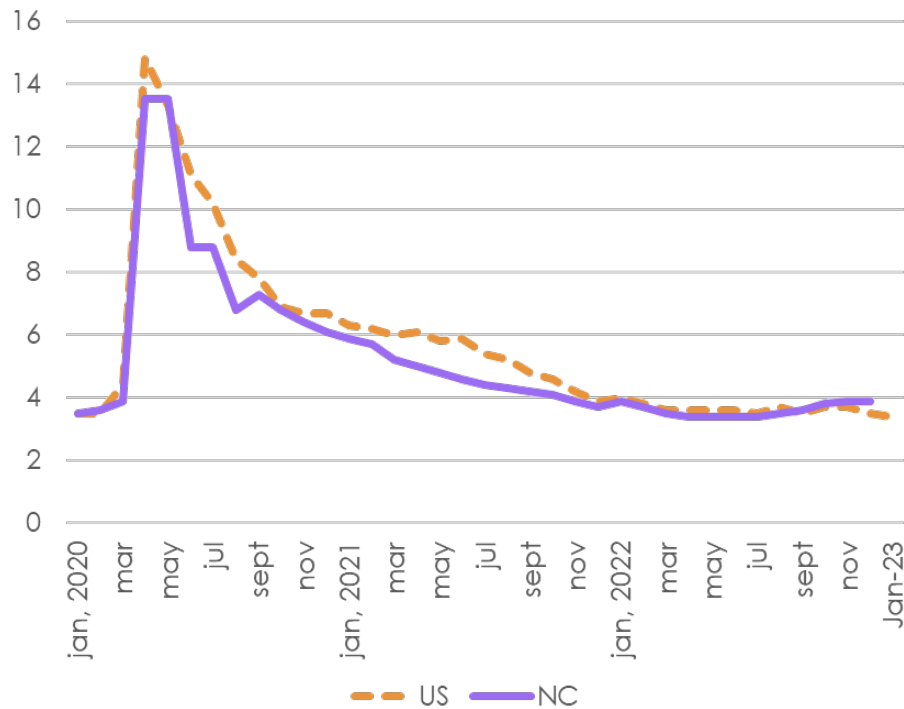
Fertility



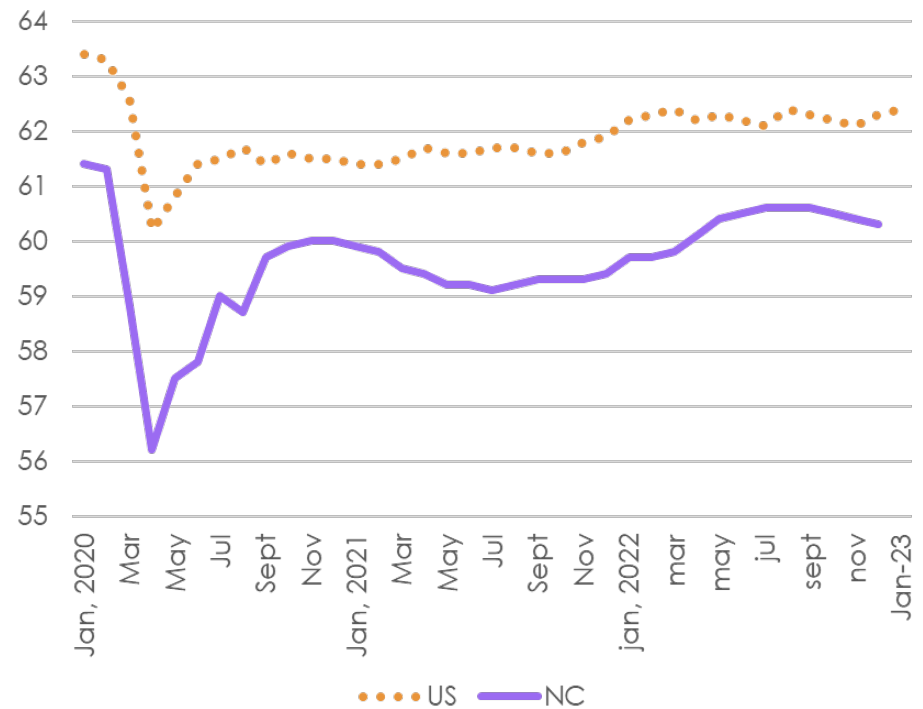
49 of the last 50 years BELOW replacement level

Labor Force Data

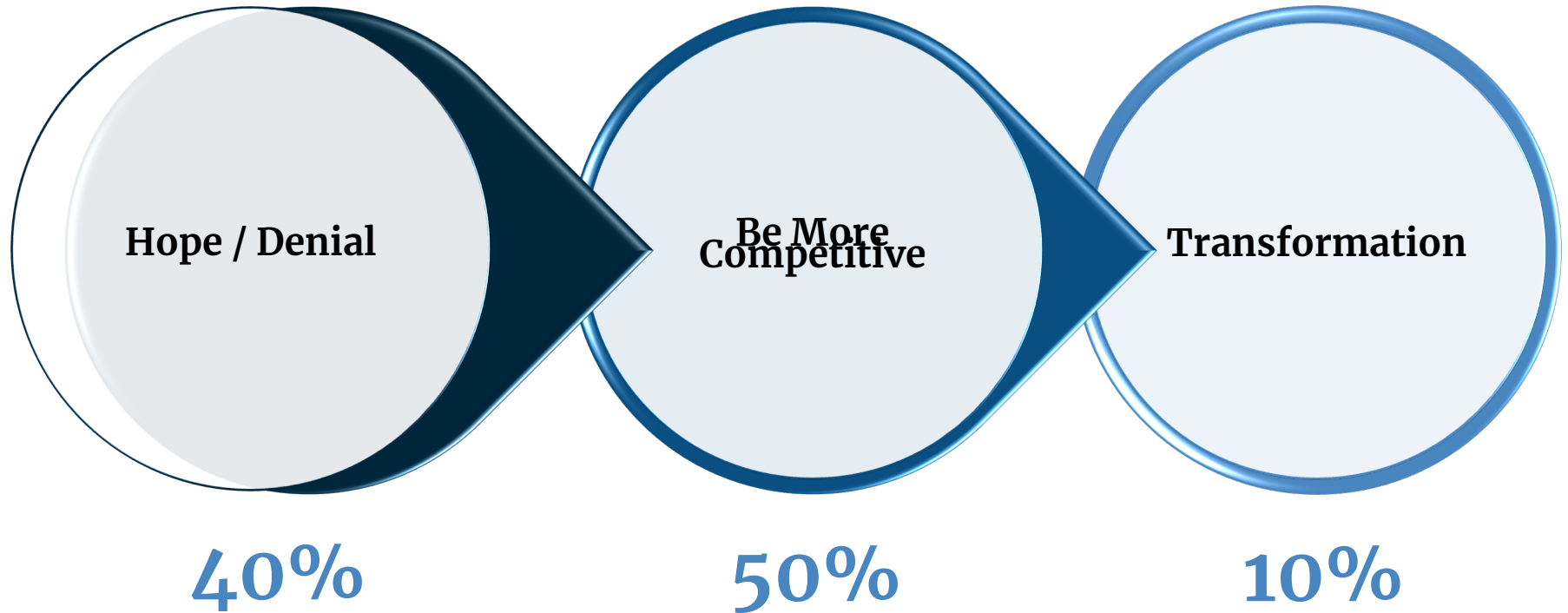
Unemployment Rate %



Labor Force Participate Rate %



Our Response Options



Top Talent Strategies



Key Talent Retention Strategies

- View talent as a scarce resource
- Equip leaders with skills to lead/manage
- Offer flexibility



Key Talent Attraction Strategies

- Examine job requirements
- Look in different places for values / move up the talent chain
- Offer schedule flexibility



Competitive Total Rewards

- Regularly benchmark compensation
- Benefits at least at market
- Get creative with voluntary offerings



STATE OF THE ECONOMY



Dr. Michael Walden, Ph.D.
Professor
NC State University

Review Of The Covid Recession



Resulted from nationwide shut-down policies



14% unemployment



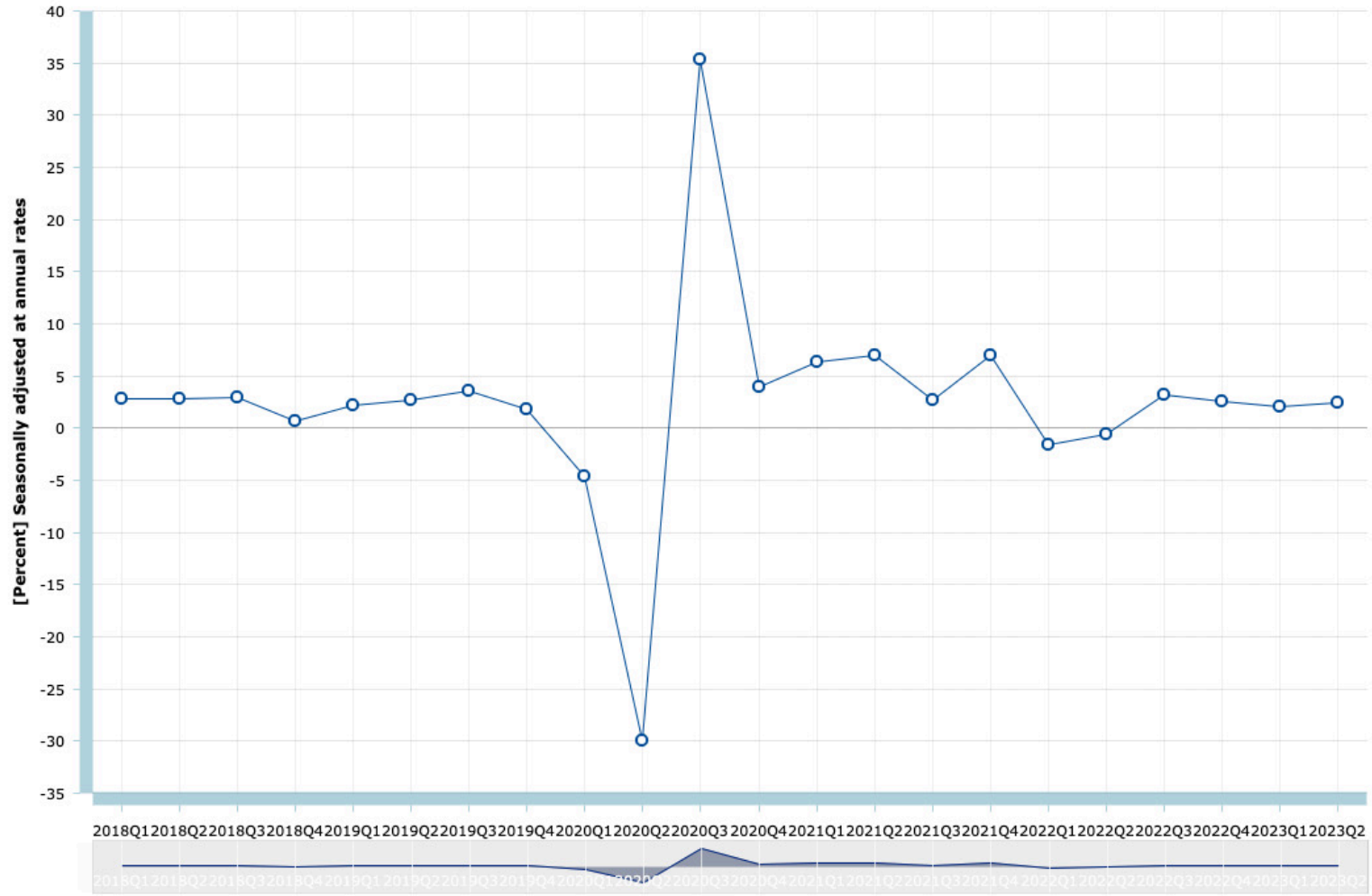
Economy (GDP) dropped 33% on annualized basis



Good news – short lived, rebound began in May 2020

Quarterly Real GDP Growth Rate (2018-2023)

Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

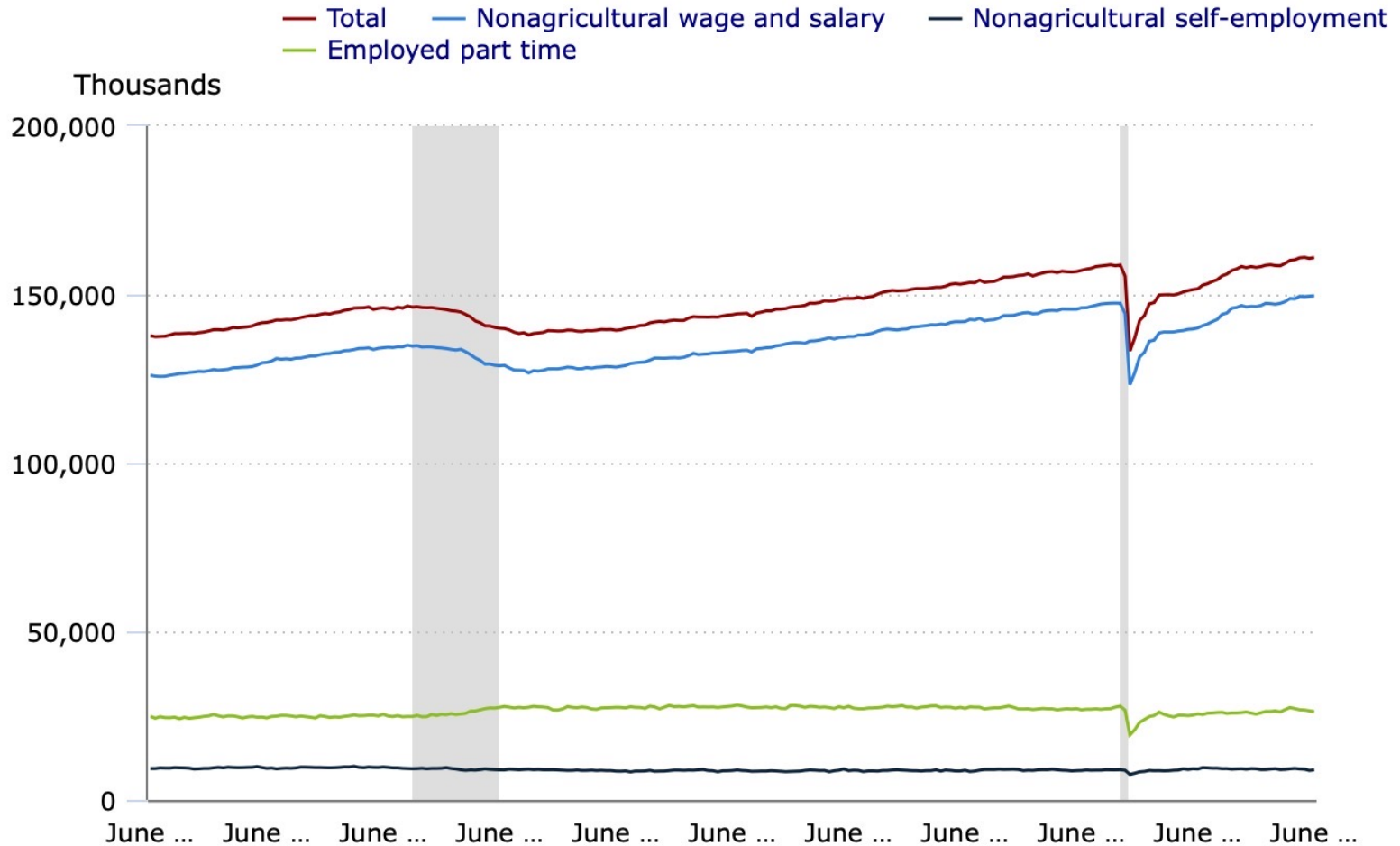
Gross domestic product



Employment Trends (2003-2023)

Civilian employment, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Source: U.S. Bureau of Labor Statistics.

Challenges During The Recovery



Labor Shortages

- Fear of personal interaction
- Substantial government support
- Workers “upskilled” and took better jobs

Rising Inflation Rate

- Supply chain problems
- Massive federal spending

Economy Has Recovered



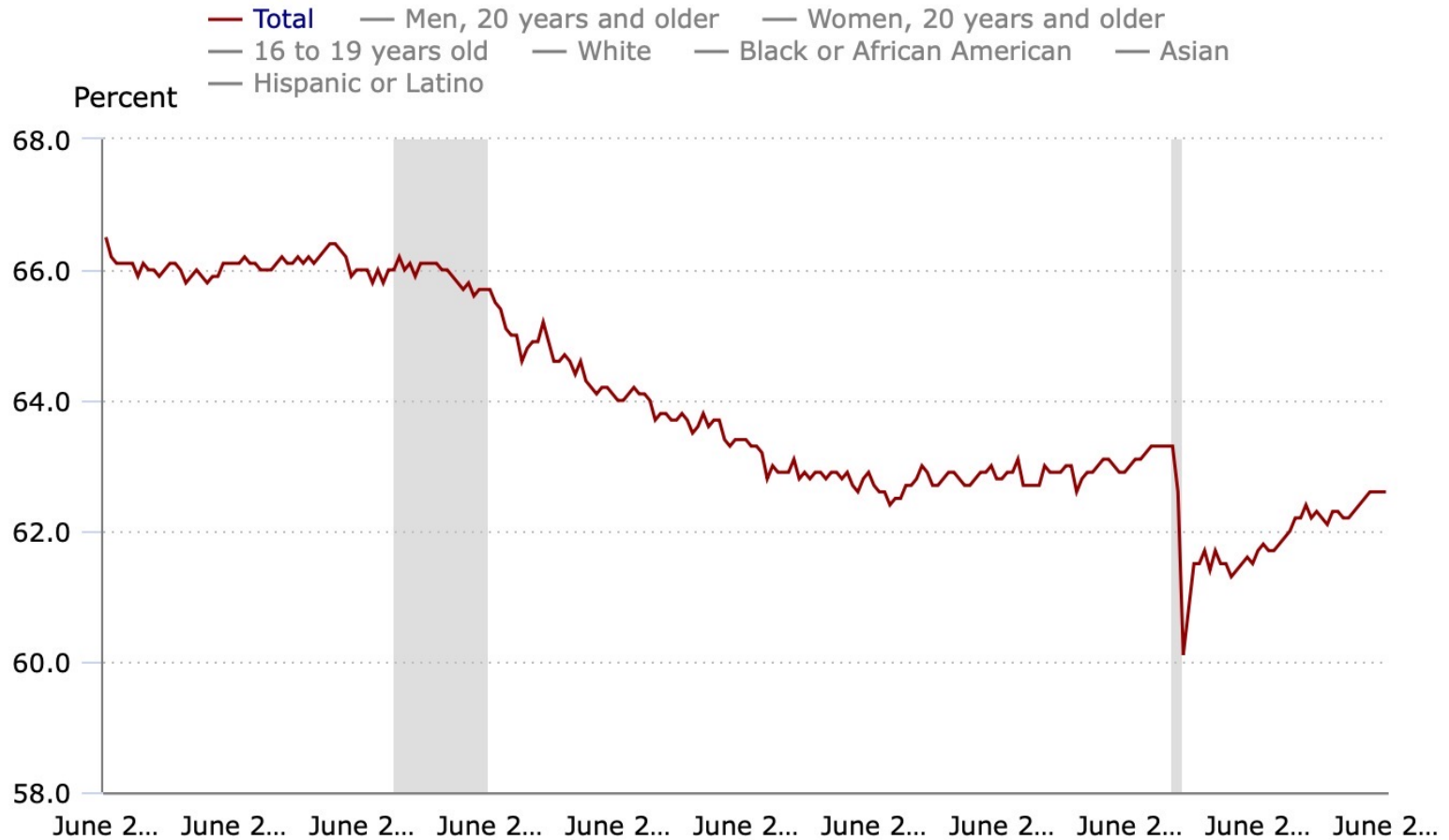
**MOST MAJOR MEASURES ARE NEAR
OR BEYOND PRE-COVID LEVELS**

- Total jobs above pre-pandemic level
- Unemployment rate under 4%
- Labor force participation rate increasing

Labor Force Participation Rate (2003-2023)

Civilian labor force participation rate, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Source: U.S. Bureau of Labor Statistics.

One Exception: Worker's "Real" Earnings



- Real Earnings: earnings adjusted for inflation (purchasing power)
- Down 9% from spring 2020 to spring 2022
- Up 1.7% in latest year
- Implies will take 4 more years to totally recover
- Interestingly, lower-paying jobs have received the highest raises

Speaking of Inflation: Any Improvement?

2.4%

2019

9%

2022

3-4%

Now

(ALL YEAR-OVER-YEAR)

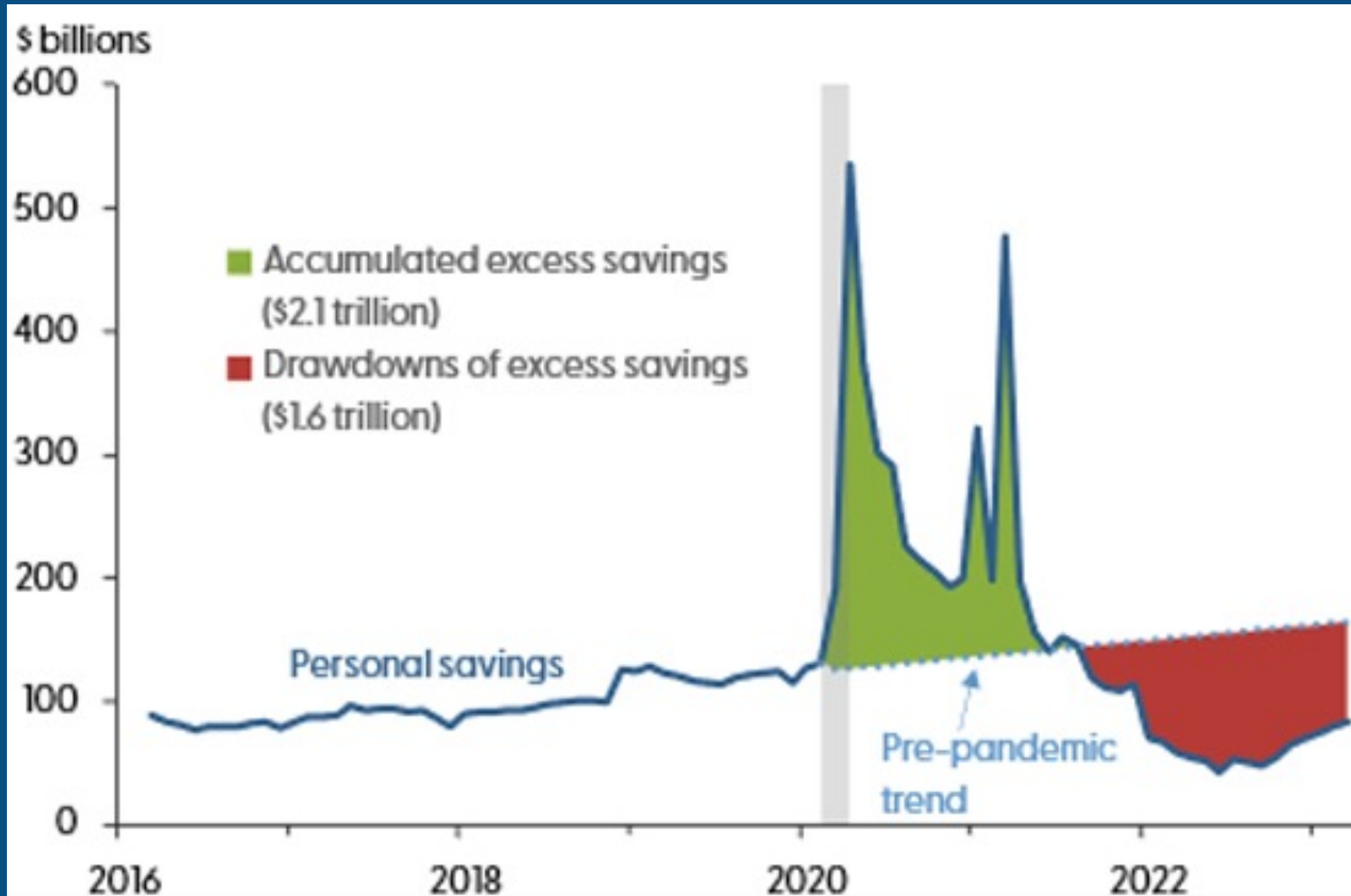
Why the Jump?

Massive federal covid spending, combined with supply-chain problems

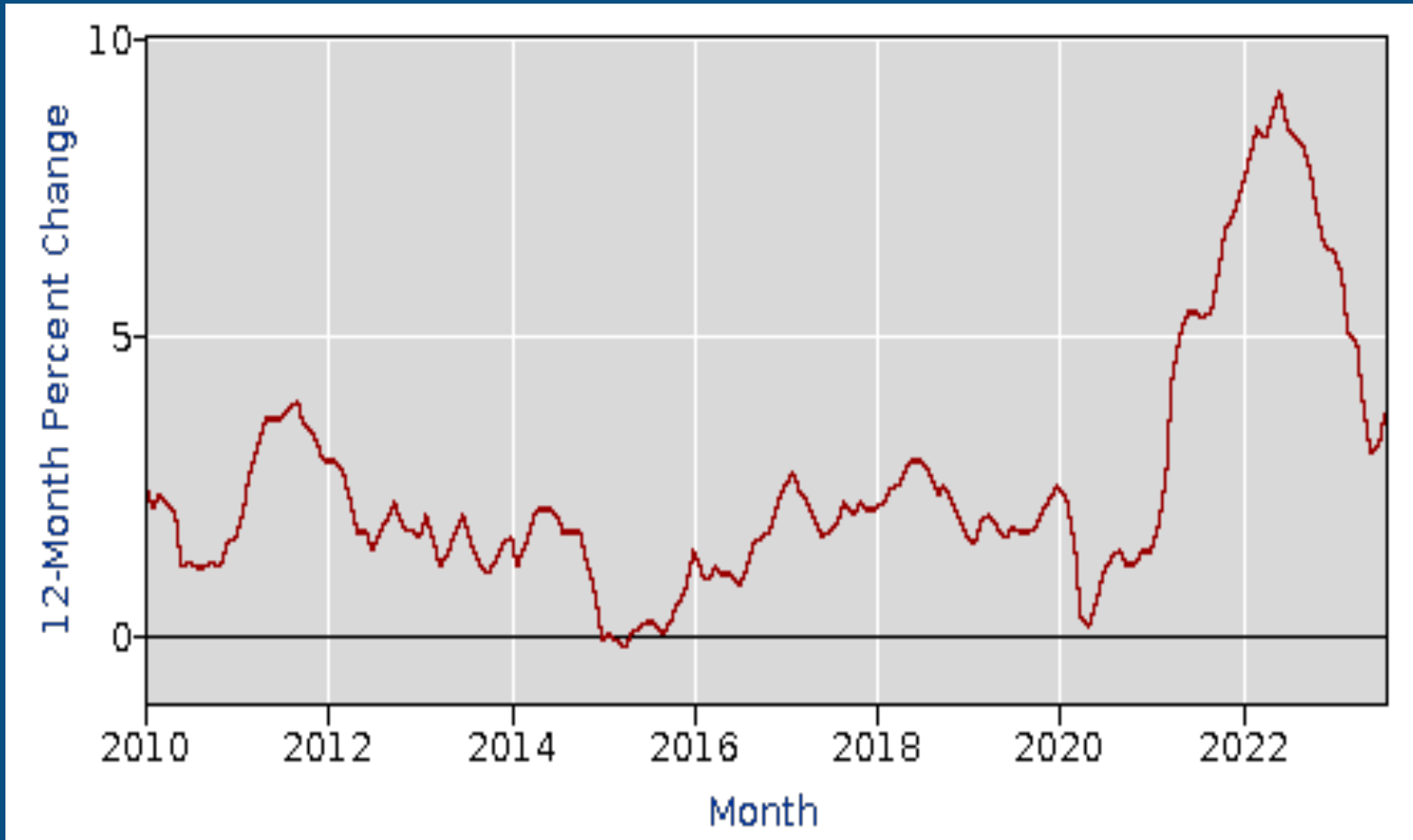
Why the Improvement?

Improved supply-chains, federal reserve's anti-inflation actions, and households' excess savings are reduced

Jump In Household Savings, & Subsequent Drawdown



Year-Over-Year CPI Percentage Change



What's The Fed Doing?

- Taking the punch bowl away
- Control over interest rates
- During covid, pushed interest rates to record lows to encourage spending
- Now, pushed interest rates up to slow spending and take pressure off prices



Federal Funds Rate (1955-2023)



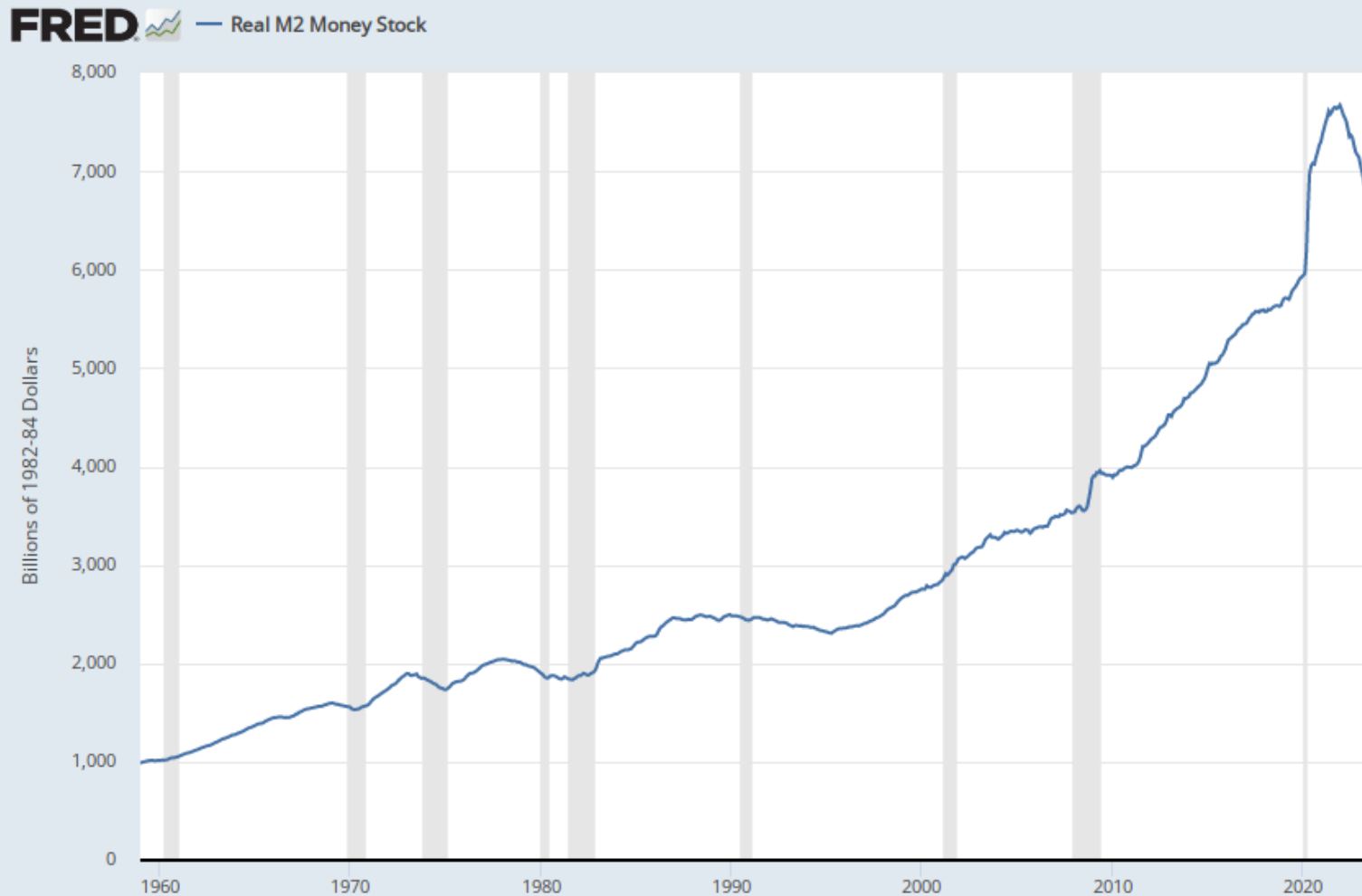
Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org



Fed Is Also Reducing The Money Supply (M2 Money Supply Adjusted For Inflation)



Source: Federal Reserve Bank of St. Louis

myf.red/g/184hc

What's The Worry?

**THAT FED'S EFFORTS
WILL CAUSE A RECESSION**



Recession is a “broad based decline in economic activity for a sustained period of time”



Recessions are common when fed raises interest rates

Are We Headed To A Recession?

SENTIMENT HAS MOVED TO “NOT”

- The “Covid Recovery Cycle” is opposing the “Traditional Business Cycle”
- Still “Making up” for lost spending during the pandemic



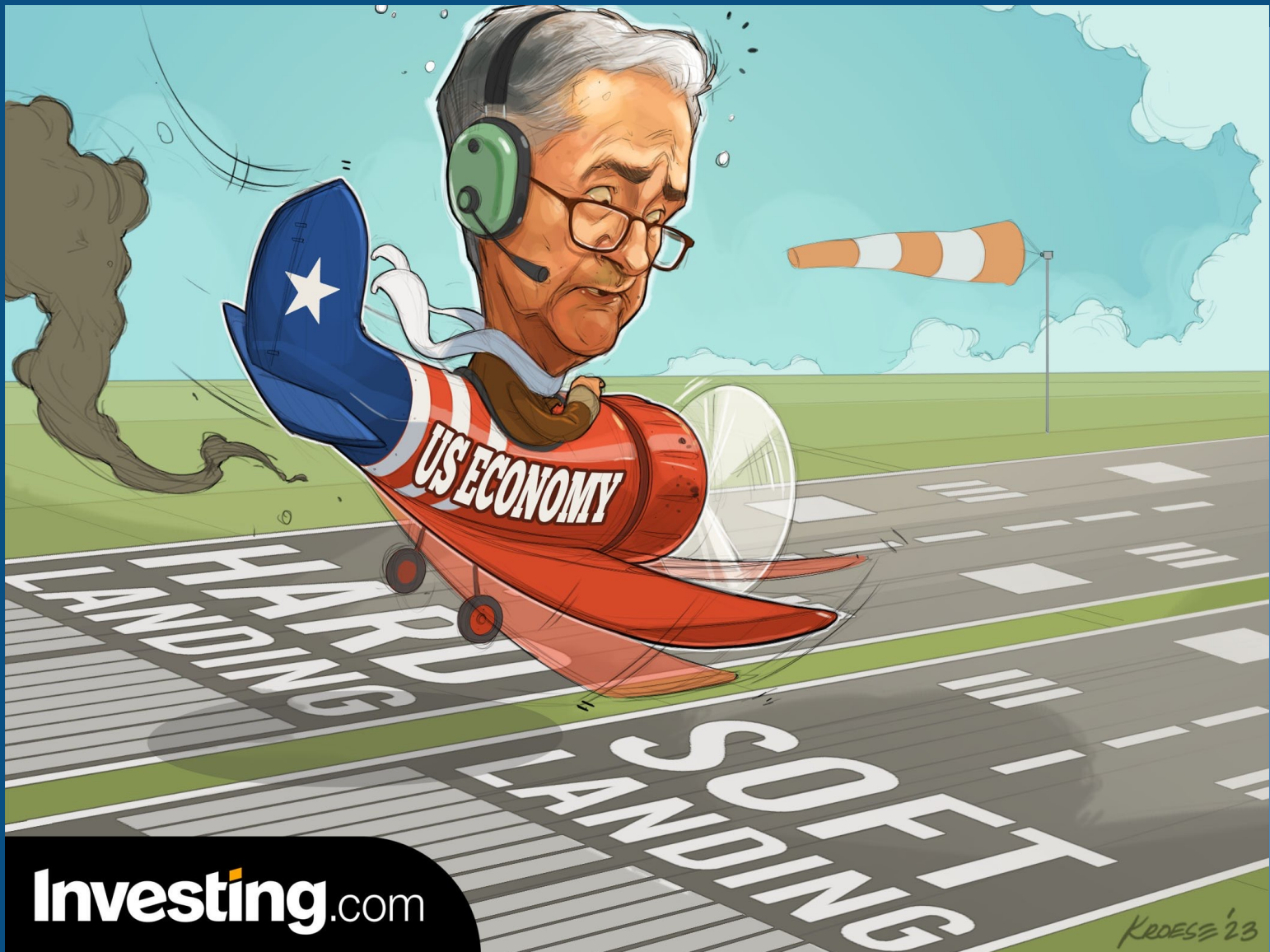
Alternatives



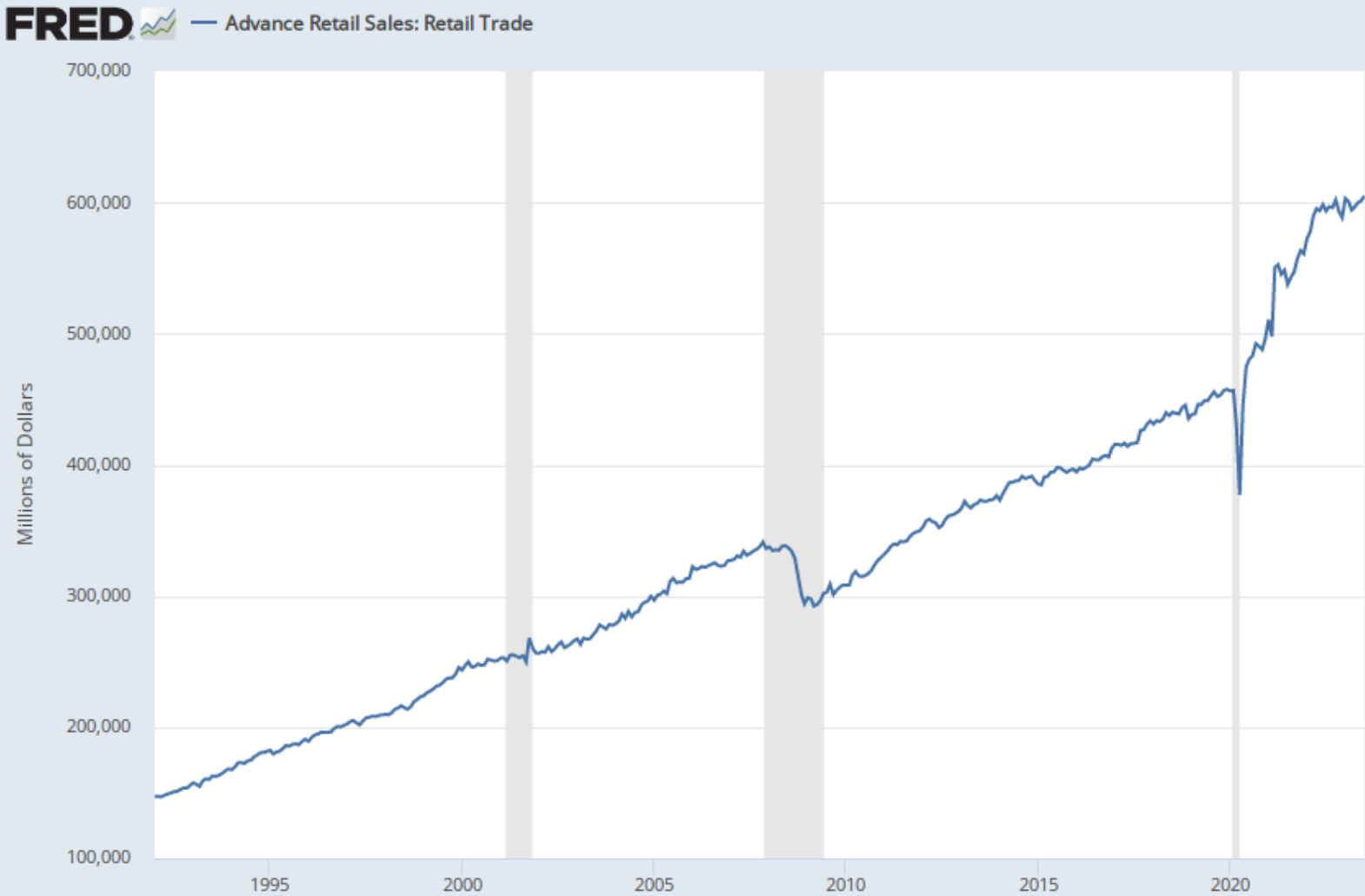
Soft Landing

**Full Employment
Recession**

Evidence For A Soft Landing



Consumer Spending Is Still Strong, But Slowing



Source: U.S. Census Bureau

myf.red/g/18t62



Jobs Are Still Being Added, But Growth Is Moderating

Average Monthly Net Job Gain:

\$1,346,000

\$667,000

\$369,000

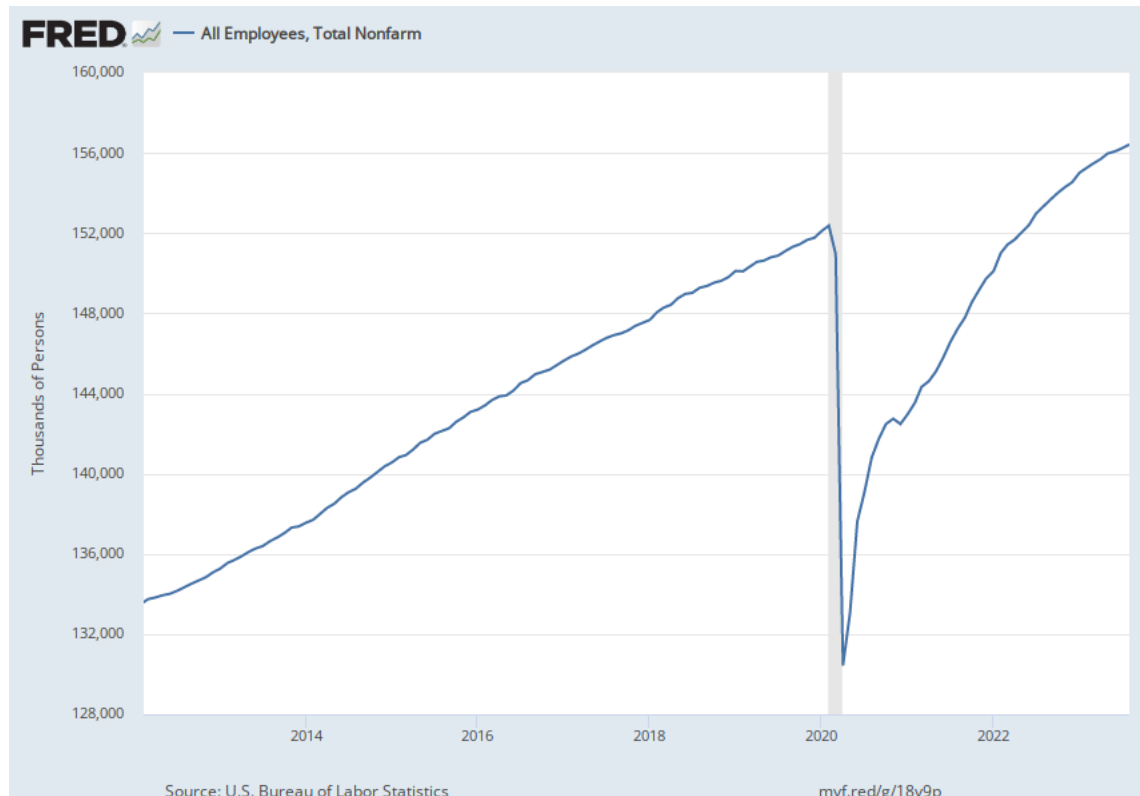
\$204,000

2nd Half of 2020

2021

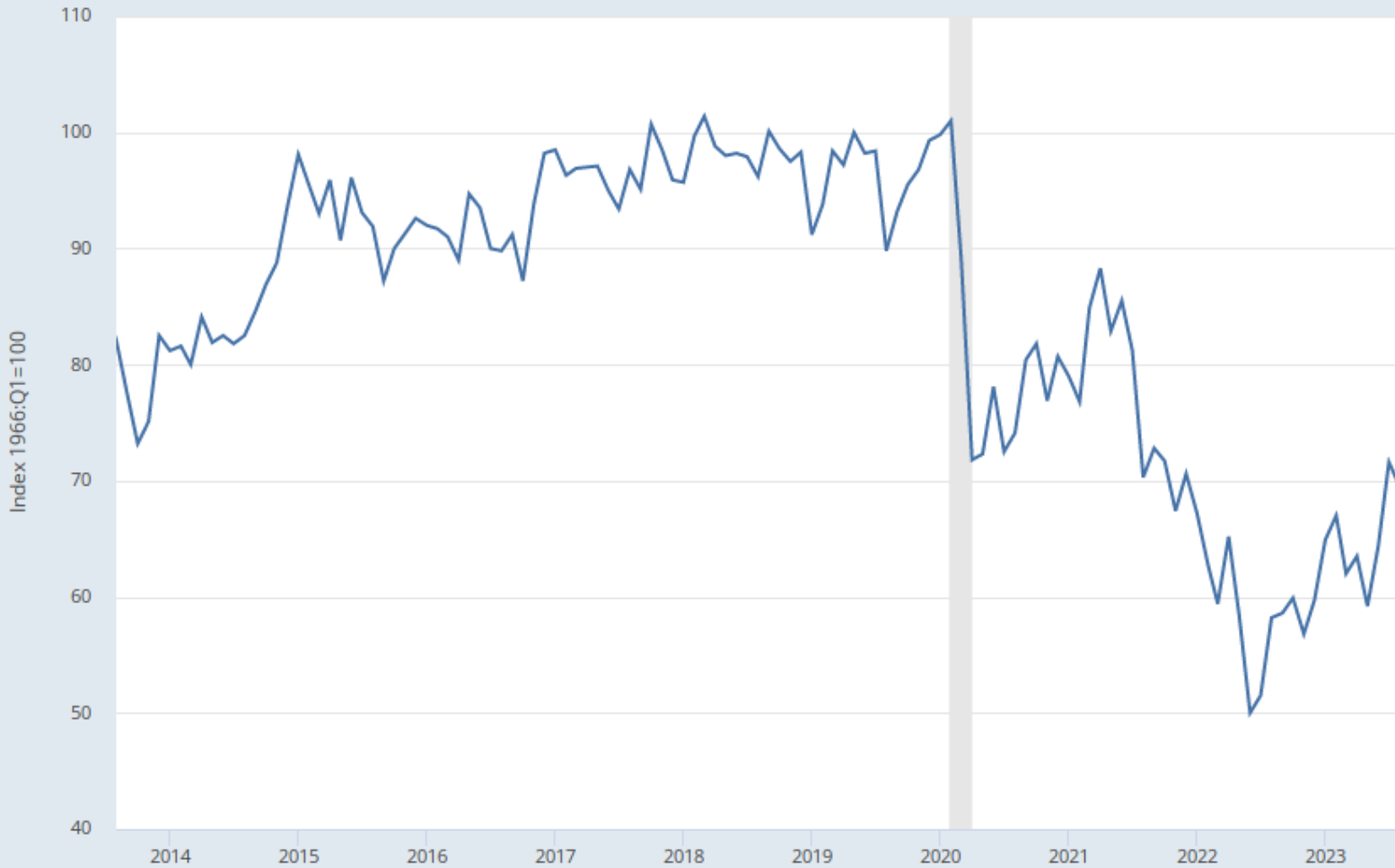
2022

2023 (Jan.–Sept.)



Consumer Confidence Has Trended Upward

FRED — University of Michigan: Consumer Sentiment



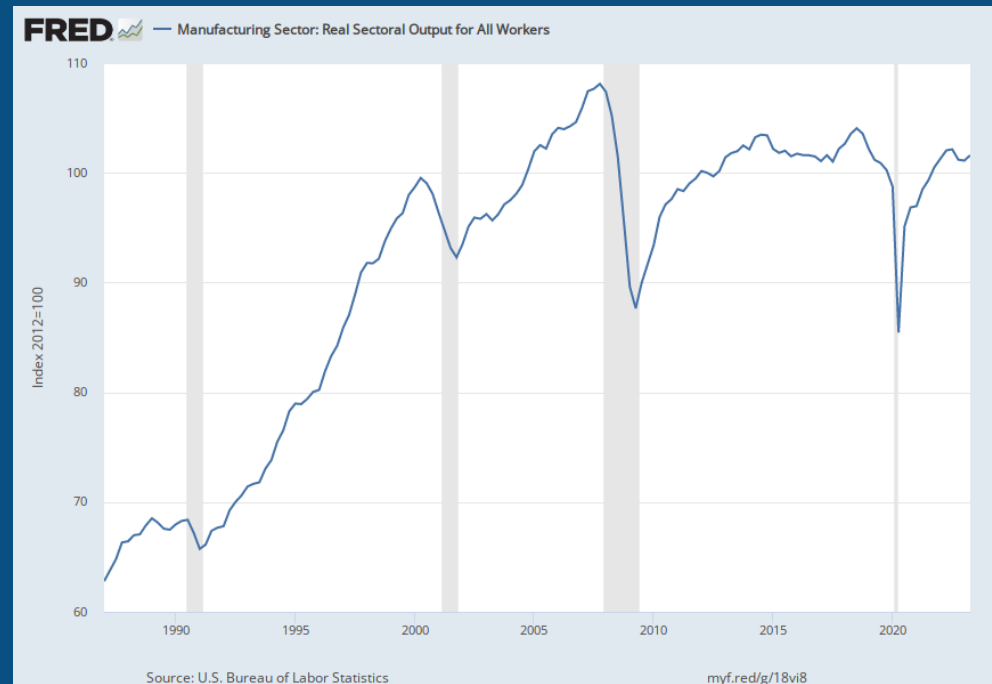
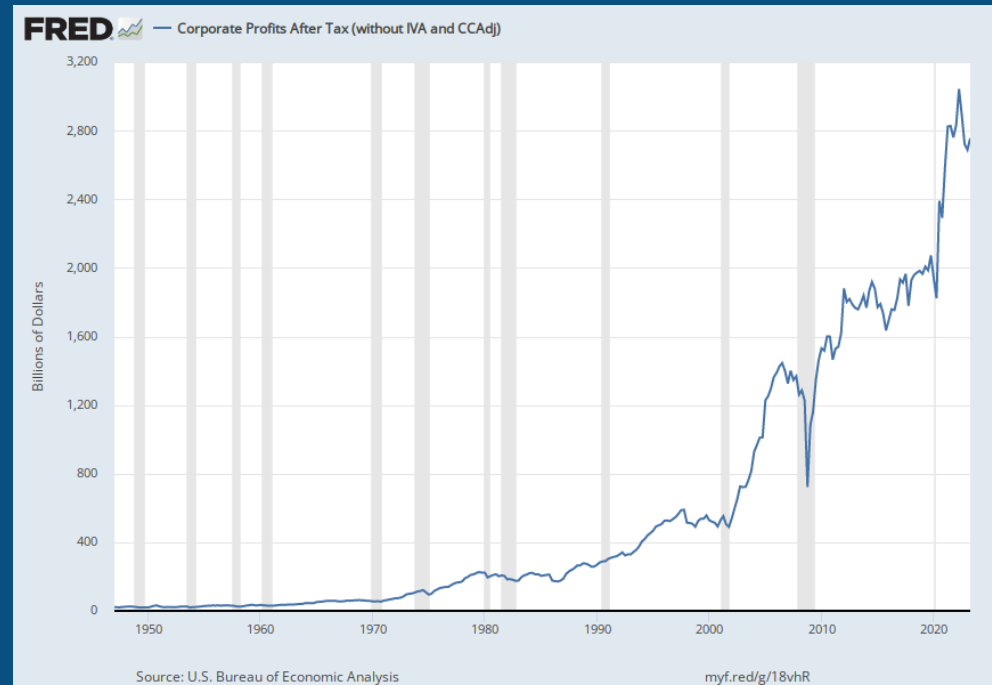
Source: University of Michigan

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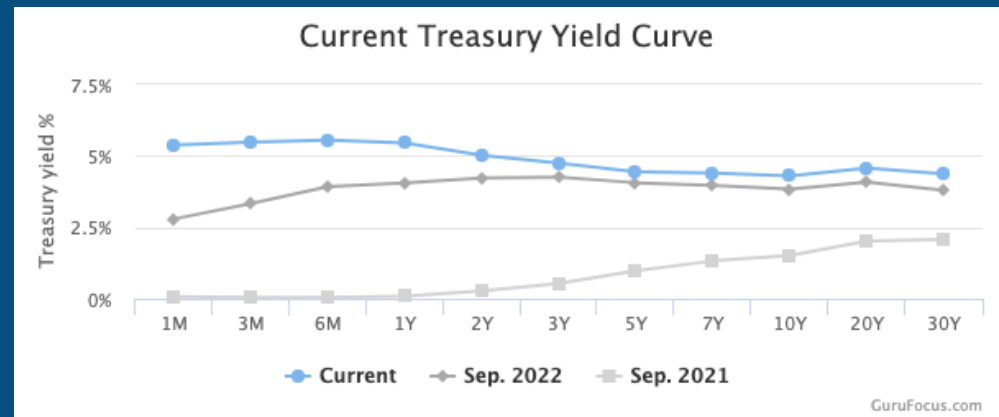
Evidence For A Full-Employment Recession



Corporate Profits Are Down And Manufacturing Output Has Stalled

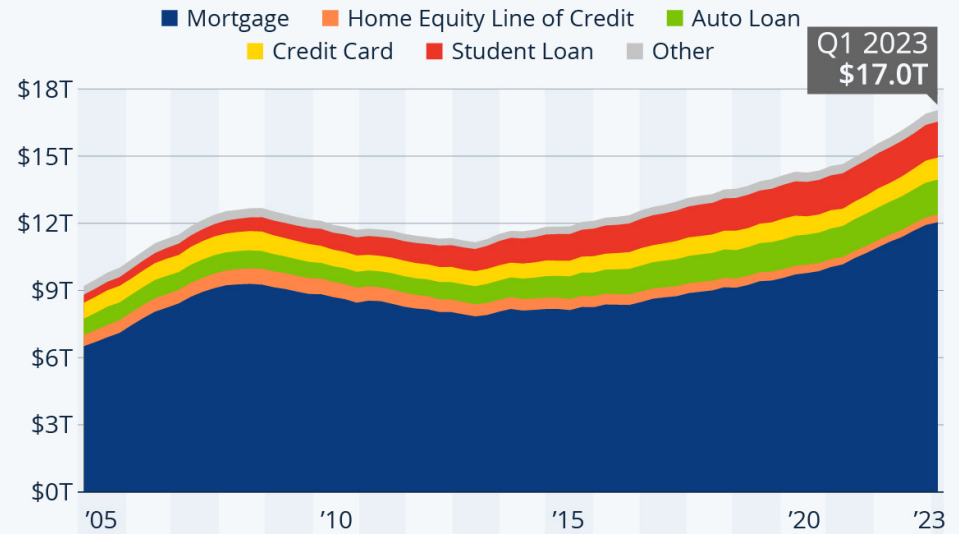


Inverted Yield Curve And Rising Debt



U.S. Consumer Debt Piles Up to \$17 Trillion

Total household debt balance in the United States, by category



Source: New York Fed Consumer Credit Panel/Equifax

Walden's Forecast



- Fed will not reduce its key interest rate until mid-2024
- Inflation rate will continue to moderate and reach 2.5% by 2024, IV
- Rise in “Real Interest Rate” will cause slower economic growth
 - Maybe mildly negative – and a rise in unemployment to 4.5% in mid-2024
- Not enough to cause an “official” recession
- End of 2024: inflation at 2.5%; unemployment between 3.5-4%
- “Wild card” if Mid-East war becomes regional, oil prices could go to \$120/gallon and cause a worldwide recession

Any National Recession Will Be Milder In NC Due To State's Rapid Growth

U.S. Migration Trends

Where are people moving to and from?

Top 5 states people are moving to

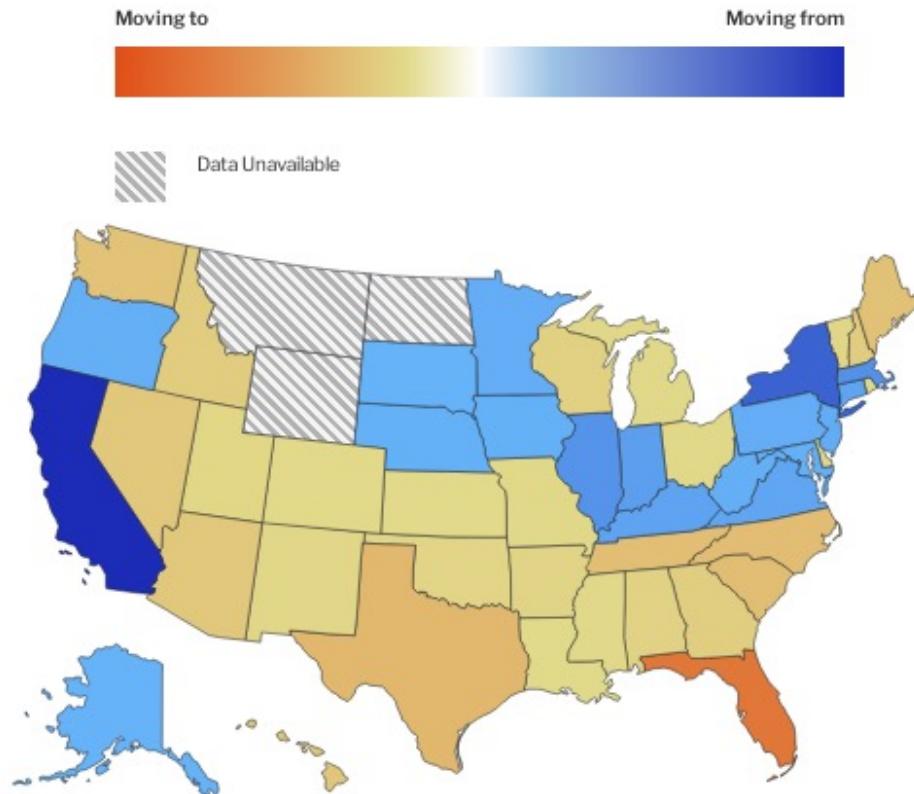
By Net Search Flow

- 1 Florida 29K
- 2 Texas 10K
- 3 North Carolina 8K
- 4 South Carolina 8K
- 5 Tennessee 8K

Top 5 states people are moving from

By Net Search Flow

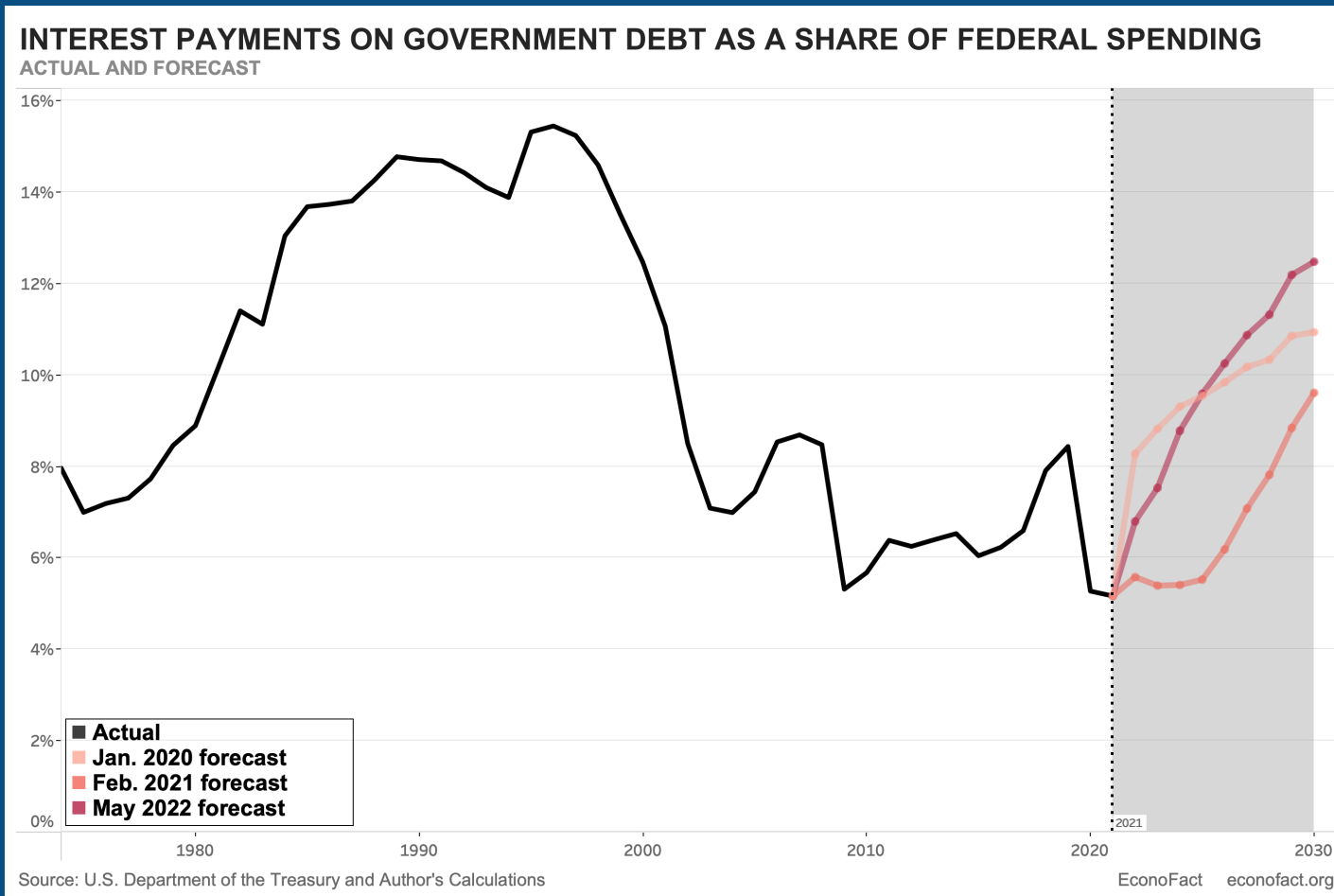
- 1 California 41K
- 2 New York 24K
- 3 Massachusetts 10K
- 4 Illinois 9K
- 5 District Of Columbia 8K



This data does not reflect actual moves. The latest migration analysis is based on a sample of about two million Redfin.com users who searched for homes across more than 100 metro areas. To be included in this dataset, a Redfin.com user must have viewed at least 10 homes in a three month period. This dataset excludes all rentals data.

Big Issue #1: National Debt

Puts upward pressure on interest rates. Crowds out private borrowing.
One approach: divide federal spending into a
“current budget” and “capital budget”



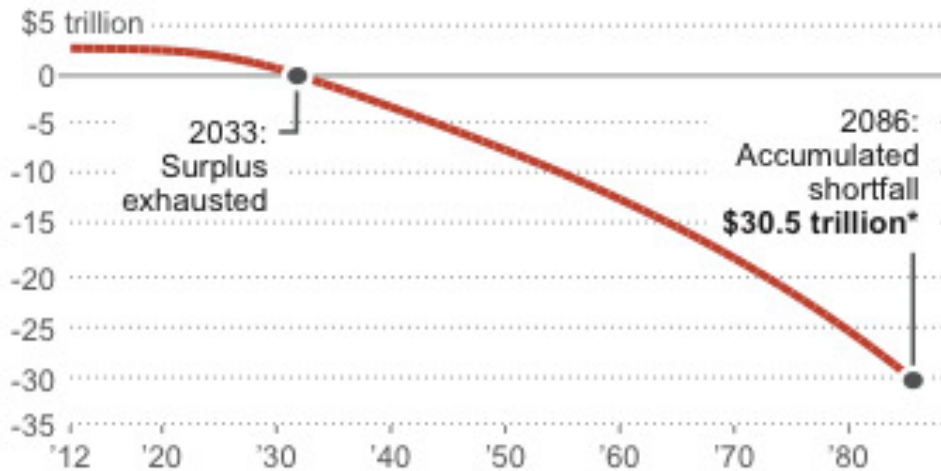
Big Issue #2: Social Security

Estimated that by 2033 will only be able to pay 75% of what promised.
Gets worse as time progresses.
Look for a commission in early 2030s to address the problem.

Social Security's declining fortunes

The federal program for the elderly and disabled faces a future in which benefits grow much faster than revenues.

Projected Social Security shortfall over the next 75 years



*Adjusted for inflation to 2012 dollars

SOURCE: Social Security Administration

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Thank you for attending!

