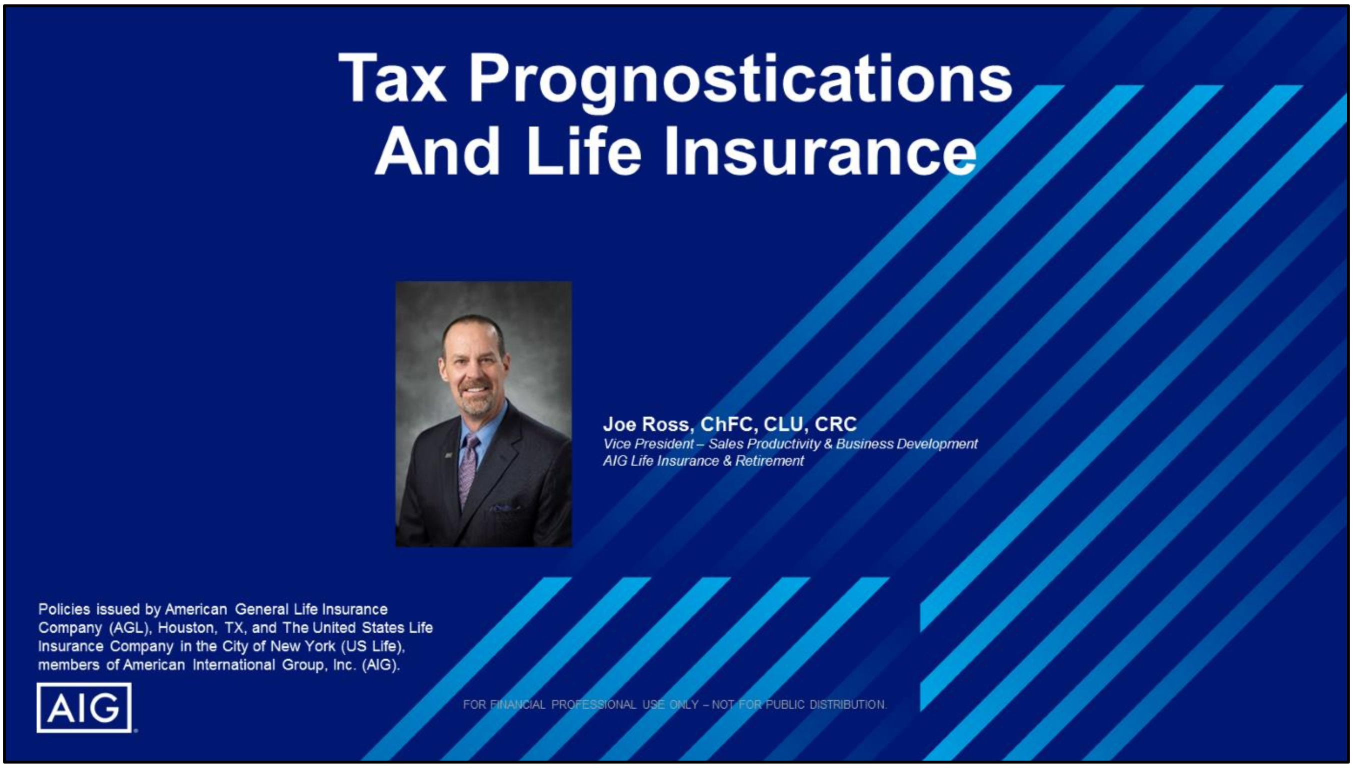


Hello, and welcome to today's discussion about ***Tax Prognostications and Life Insurance***.

This is the type of knowledge that can put you on the forefront of thought leadership.

Important Disclosures

This presentation is almost entirely founded in speculation based on statements made by politicians, articles and prognostications by people in the media that provide their best insights into what they believe ***could happen*** in the foreseeable future.

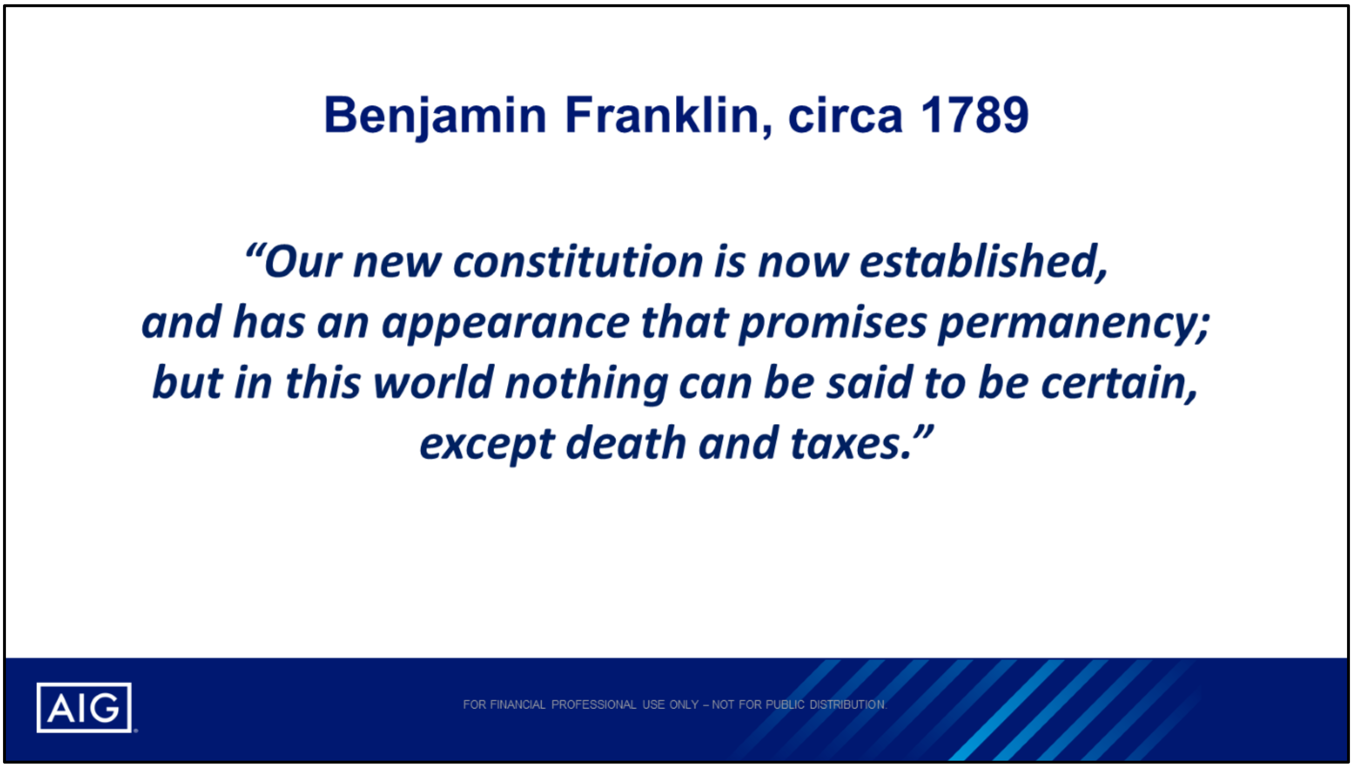
Nothing in this presentation attempts to imply that any of the issues discussed will actually happen. Rather, it's a dialogue about *what **might** happen*, and what the consequences could be ***IF*** they happen.

This presentation does not constitute any form of legal, tax or accounting advice from any company affiliated or associated with AIG, its employees, financial professionals or other representatives; and nothing in this presentation should be relied upon for rendering advice to clients.

And here are some additional important disclosures about today's presentation. We cannot overemphasize the importance of these particular disclosures, especially since the preponderance of this presentation is based on speculation about ***what could happen***. But none of what is discussed in this presentation is an actual reflection of any current or proposed tax legislation.

Please be extra careful with how you use any of this information. It's designed to give you insights into possible changes and potential consequences. But by no means is anything in this presentation to be construed as legal, tax or accounting advice from AIG, or from any company or employee, financial professional or other representative affiliated or associated with AIG.

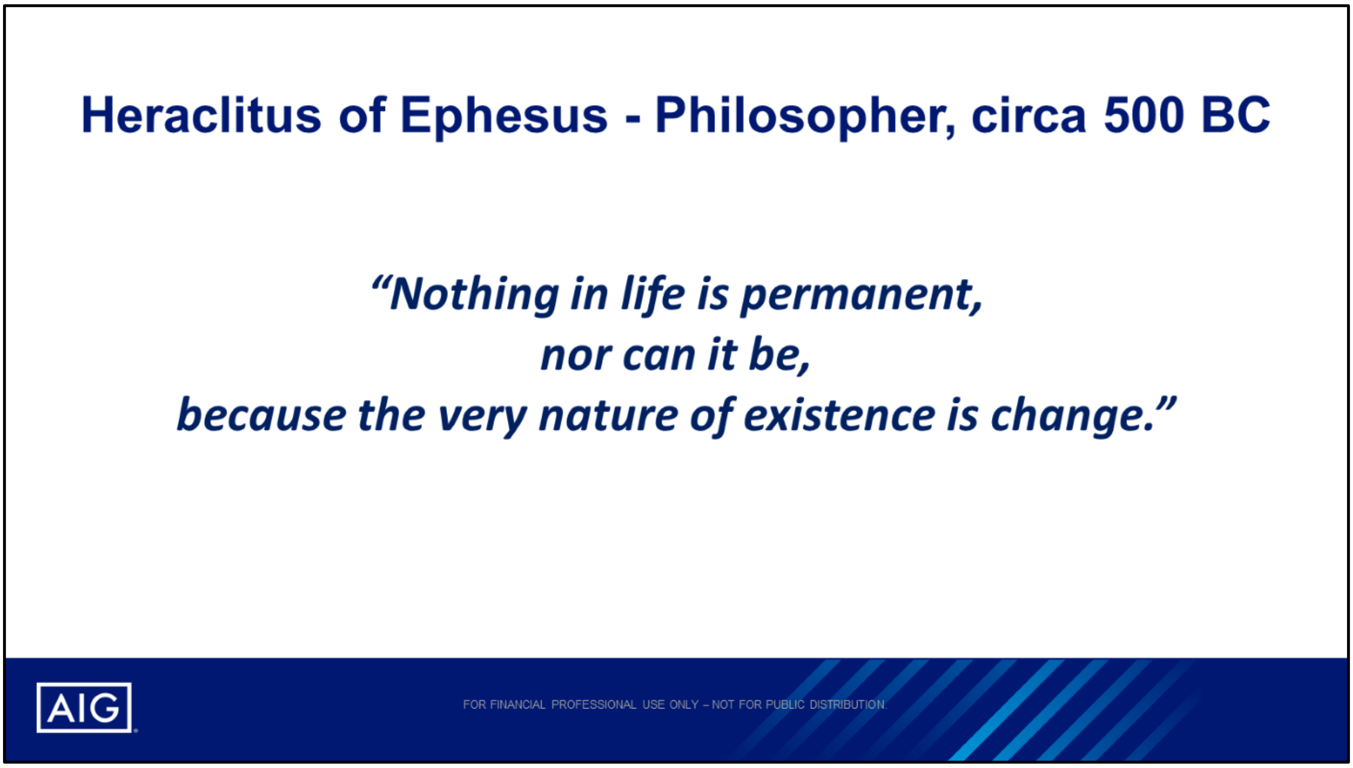
Most importantly, nothing in this presentation should be relied upon for rendering advice to clients.



As I was thinking about today's discussion and taxes, it had me thinking about something we've all heard quoted many times in our lives.
It comes from a famous phrase written by Benjamin Franklin in the late 1700s that said:

"Our new constitution is now established,
and has an appearance that promises permanency;
but in this world nothing can be said to be certain,
except death and taxes."

As a result of this famous phrase, many of us have uttered things like:
"The only two certainties in life are death and taxes."



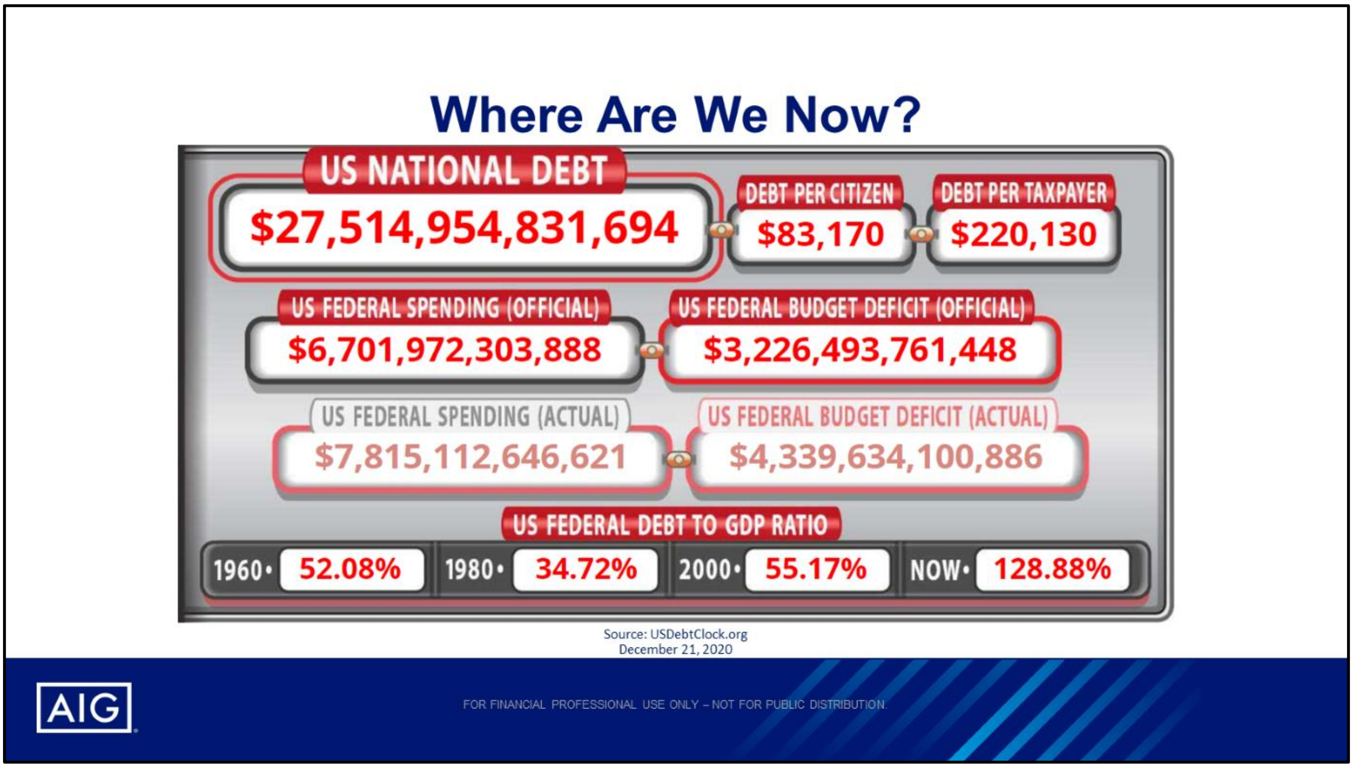
And that led me to think about another phrase that many of us have used, in a modified form, over the years.
This phrase came from a famous philosopher named Heraclitus of Ephesus around the year 500 BC.
He's purported to have said:

"Nothing in life is permanent, nor can it be, because the very nature of existence is change."

Today we often rephrase that to say, simply, *"The only constant in life is change."*

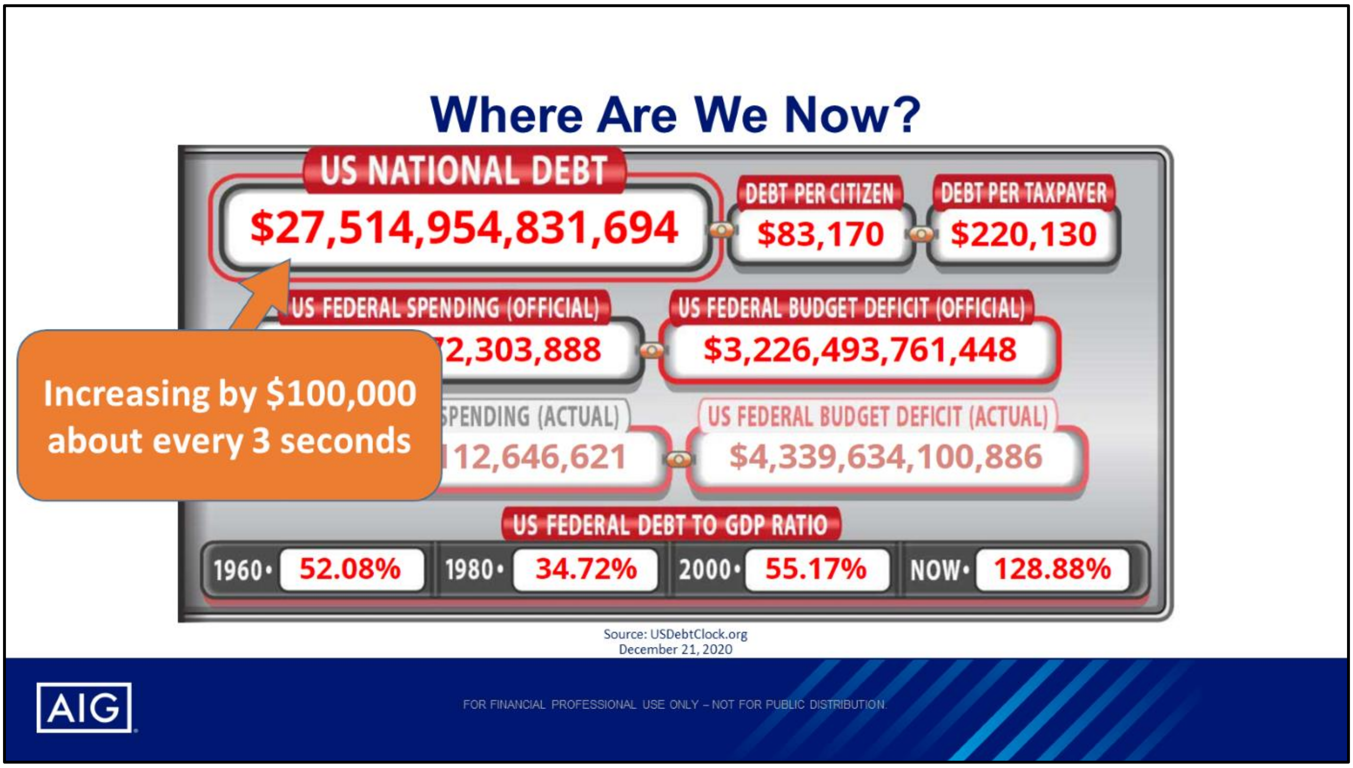
It's with these two famous phrases in-mind that we discuss what possible tax changes may lie ahead on the horizon.

So let's get started.



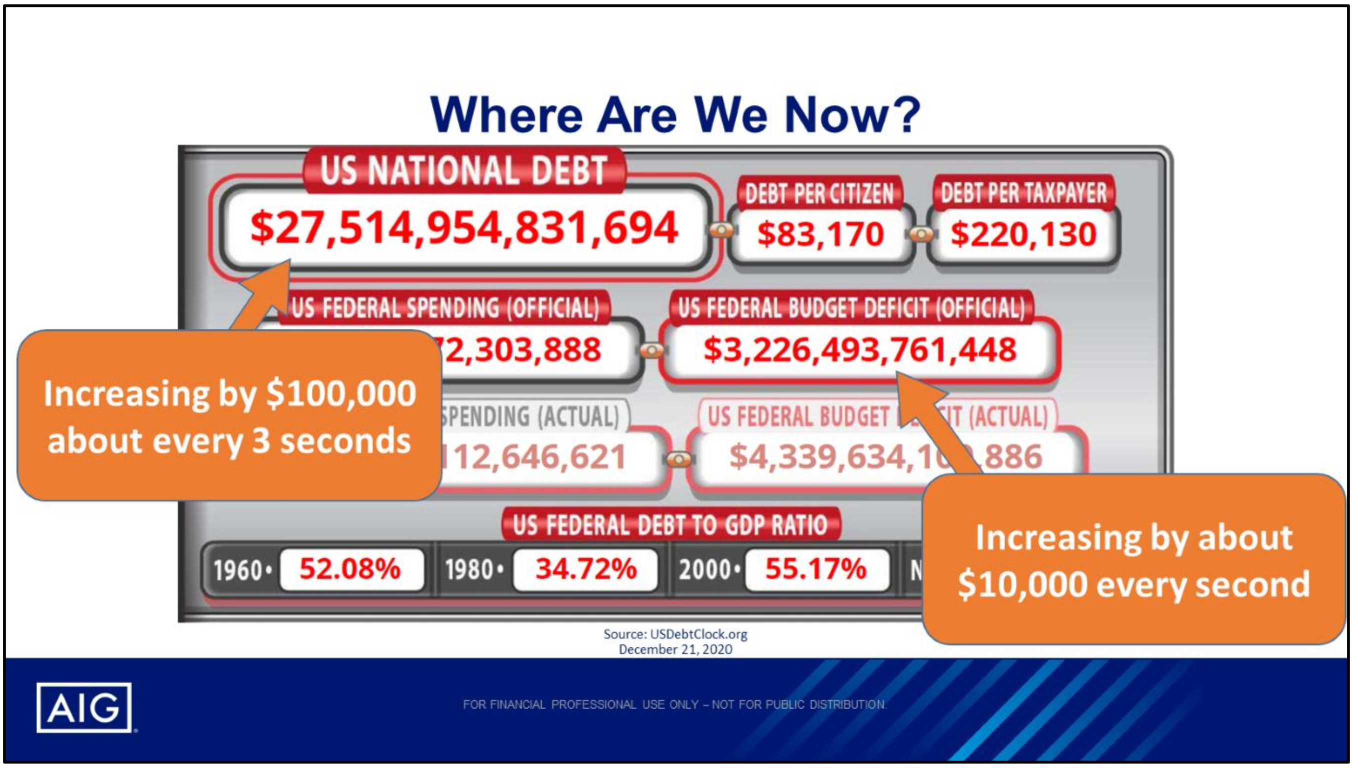
Let’s begin with something that I’ve been watching for a long, long time, and has been kind-of bothering me lately.

This is a screen capture from the website USDebtClock.org, which gets its information from the US Treasury.



The first thing I want you to notice is the National Debt, hovering at about $27.5 Trillion as of December 21, 2020.

If you were to go to the USDebtClock.org website, you'd see that the National Debt is increasing at a rate of about $100,000 every 3 seconds.



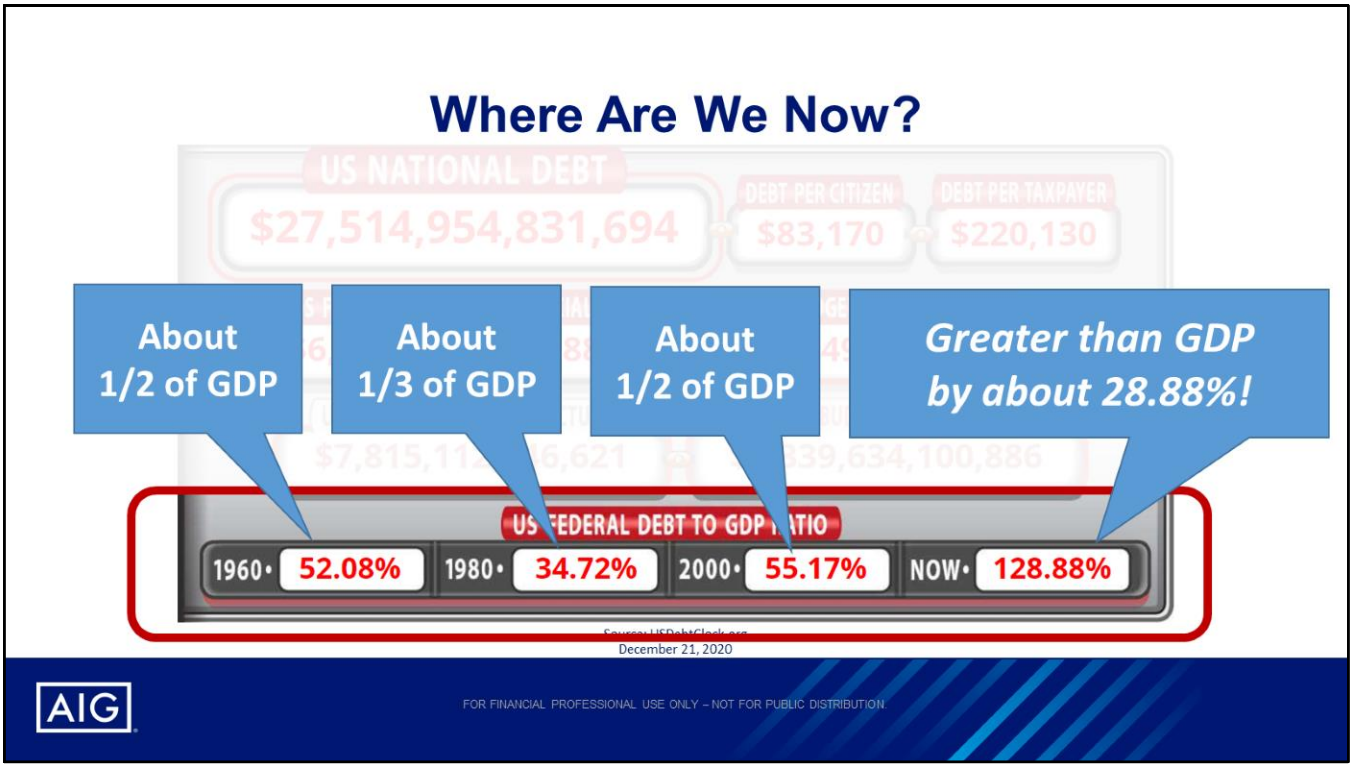
The second thing I want you to notice is the Federal Budget Deficit.
As of December 21, 2020 it was at about $3.2 Trillion.
(You might find it interesting to note that in March of 2018… just 2 ½ years earlier… it was less than $800 Billion.)

What is the Budget Deficit?
It's the amount Congress spends in excess of the revenue received by the Internal Revenue Service… the IRS.

Also, if you went to the website, you'd see that the Budget Deficit is also increasing rapidly… by about $10,000 per second.

So what does that mean?
Well, if Congress spends $3.2 Trillion more than the IRS takes-in as revenue, where did that money come from?
It gets added to the National Debt.

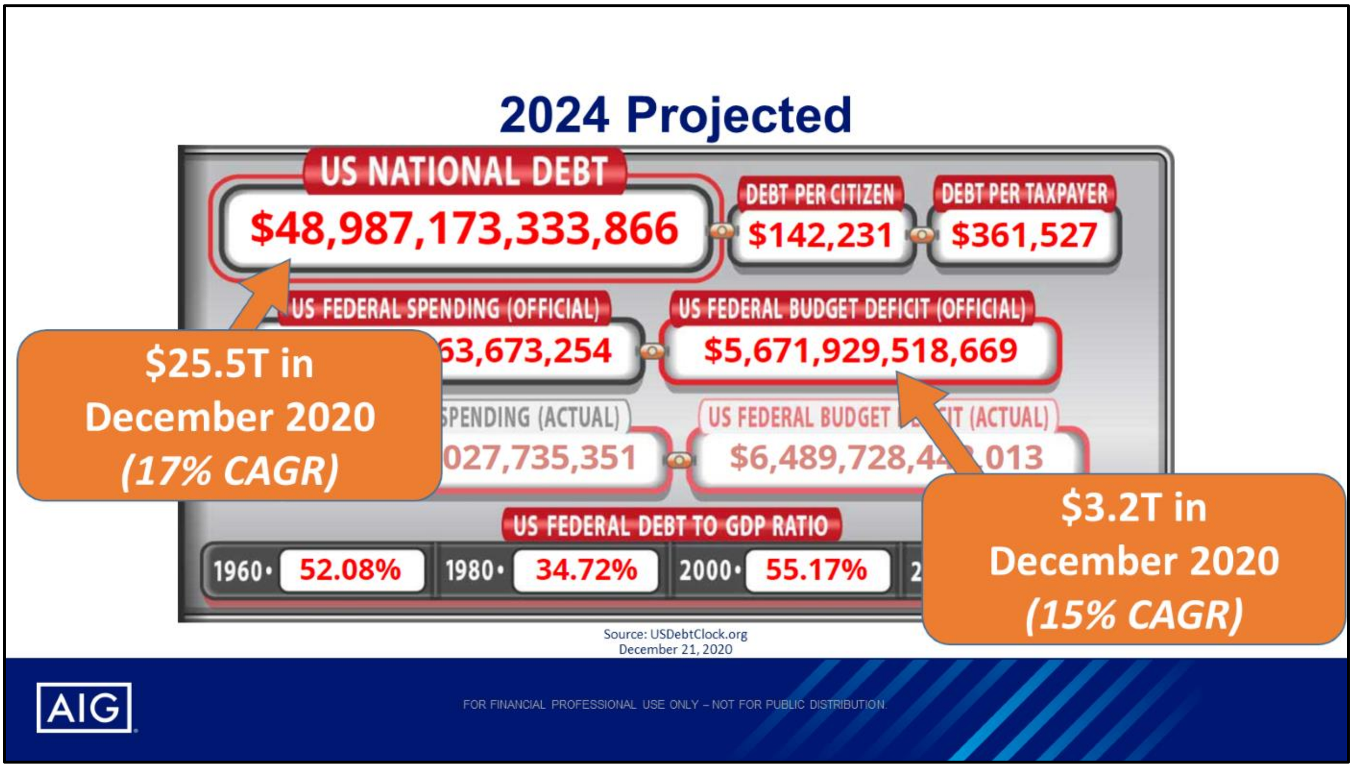
Every year we spend more than we take in, the National Debt goes up.
Every year we spend less than we take in, the National Debt goes down.



But something the USDebtClock.org site shows me that also bothers me is the ratio of Federal Debt to GDP.

You can see that, back in 1960 the National Debt was at about ½ of the GDP.
In 1980 debt was at about 1/3 of the GDP.
In 2000 it was back to about ½ of the GDP.

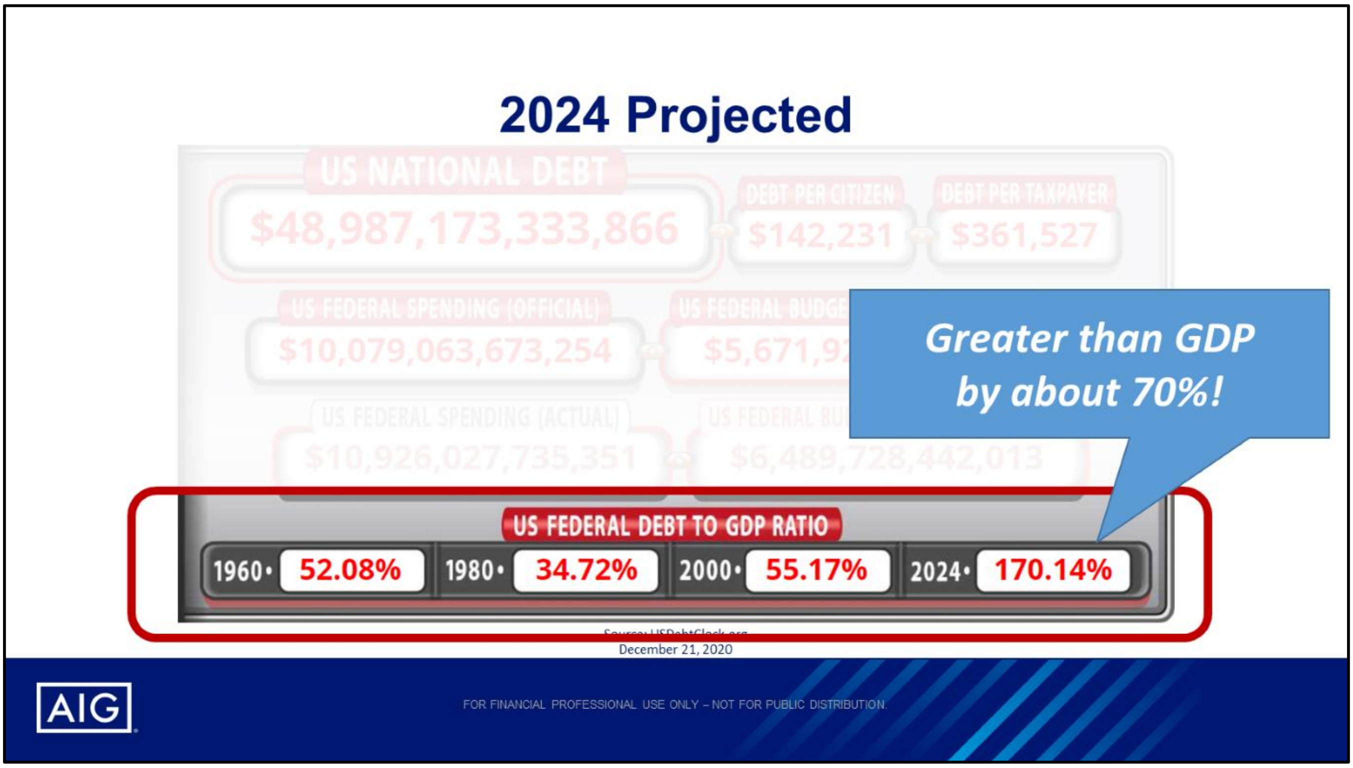
But look at the difference now, in 2020.
Our National Debt now exceeds our GDP by over 28%.



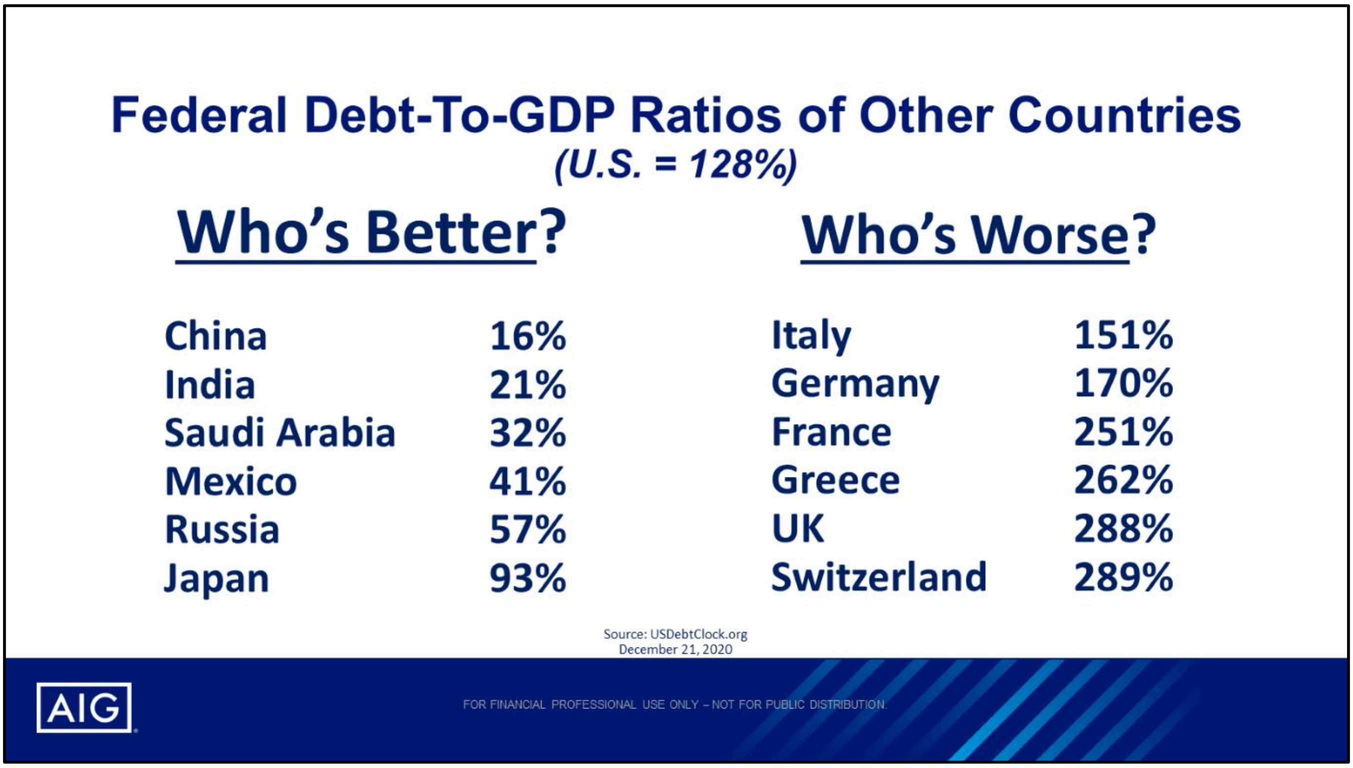
And one of the cool things about USDebtClock.org is that it can project into the future based on some assumptions and what we know today.
Here's what they're projecting for the year 2024:

The National Debt is predicted to increase to almost $49 Trillion from today's $25.5 Trillion… that's a compound annual growth rate of 17%.

And the Budget Deficit is predicted increase from today's $3.2 Trillion to over $5.6 Trillion, which represents a 15% compound annual growth rate.



And when you look at the bottom, they predict that the ratio of Debt to GDP will increase from 128% to 170%!



So how do we compare with other countries around the world regarding Federal Debt-To-GDP Ratios?
Who's better and who's worse than the US?

Well, here's your list of who's better…

And here's your list of who's worse.

Just glancing over the list, the economies that the US strives to compete with are primarily in the "Who's Better" list.
While the countries we don't necessarily envy economically are generally in the "Who's Worse" column.

Here's the last thing I'd like to look at regarding the National Debt.

Here I've charted the National Debt since 1970. You can see that, although it increased, it didn't change much for the 30 years from 1970 to 2000.

But in 2000 the National Debt really began to take-off.

If you look at the summary numbers you'd see that, over the 50-year period from 1970 to 2020:

- The National Debt increased 67-fold!

- In the last 20 years from 2000 to 2020 the National Debt has increased by a 16% compound annual growth rate *(CAGR)*.

Here you can see that I've overlayed on-top of the National Debt, the level of the S&P 500 Index since 1970.

What you notice is that, for the first 30 years, from 1970 to 2000, the increase in the National Debt and the increase in the S&P 500 index tracked pretty closely.

But from 2000 to 2020 the growth of the National Debt outpaced the growth of the S&P 500 rather dramatically.

In fact, while the National Debt experienced 16% compound annual growth from 2000 to 2020, the S&P 500 only experienced 5.3% compound annual growth during that same time frame.

I point this out to give you somewhat of a proxy with which to compare the growth of the National Debt with the growth of the overall economy.

And WHY do I bring this up?

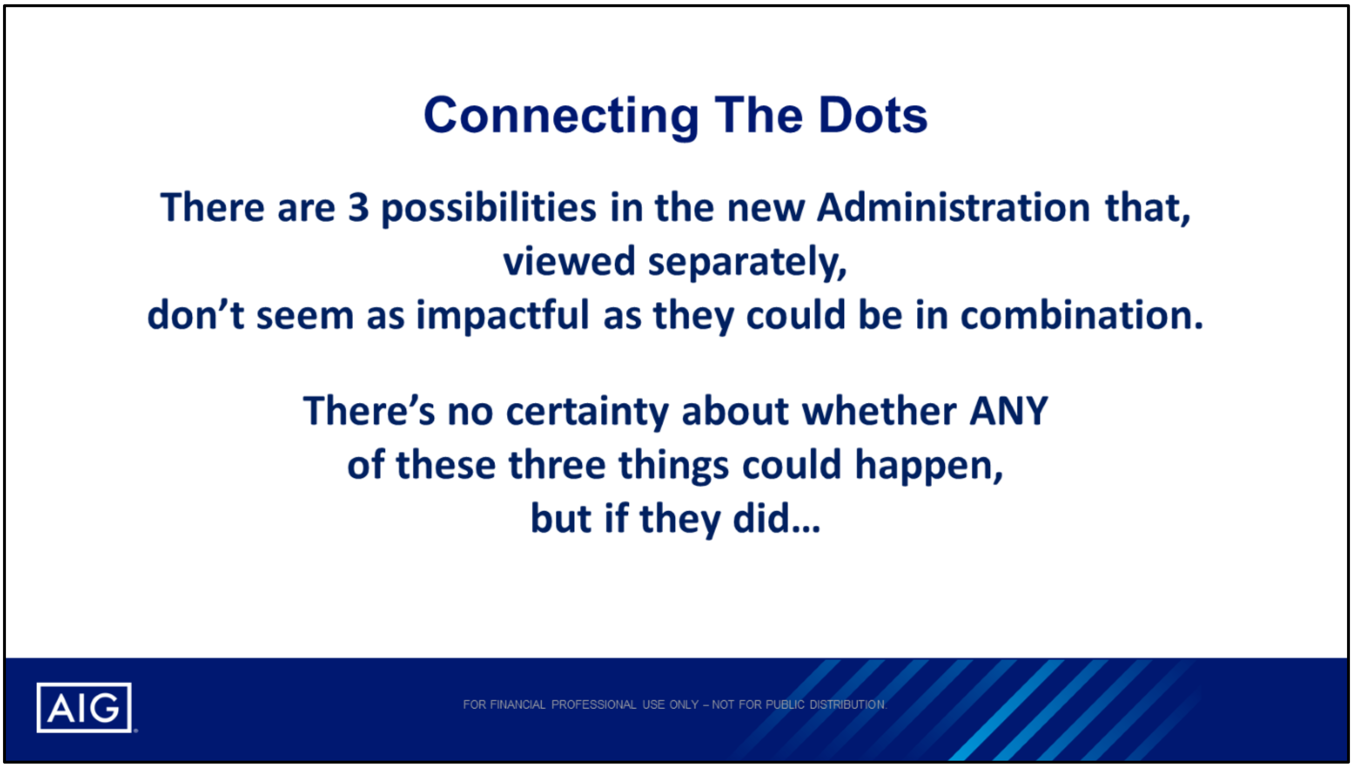
To give you something to think about.
Consider a few questions:

Do we need to get this National Debt under control?

How do you think we can reduce… or at least slow the growth… of the National Debt?

Many of you may be thinking: MORE TAXES!

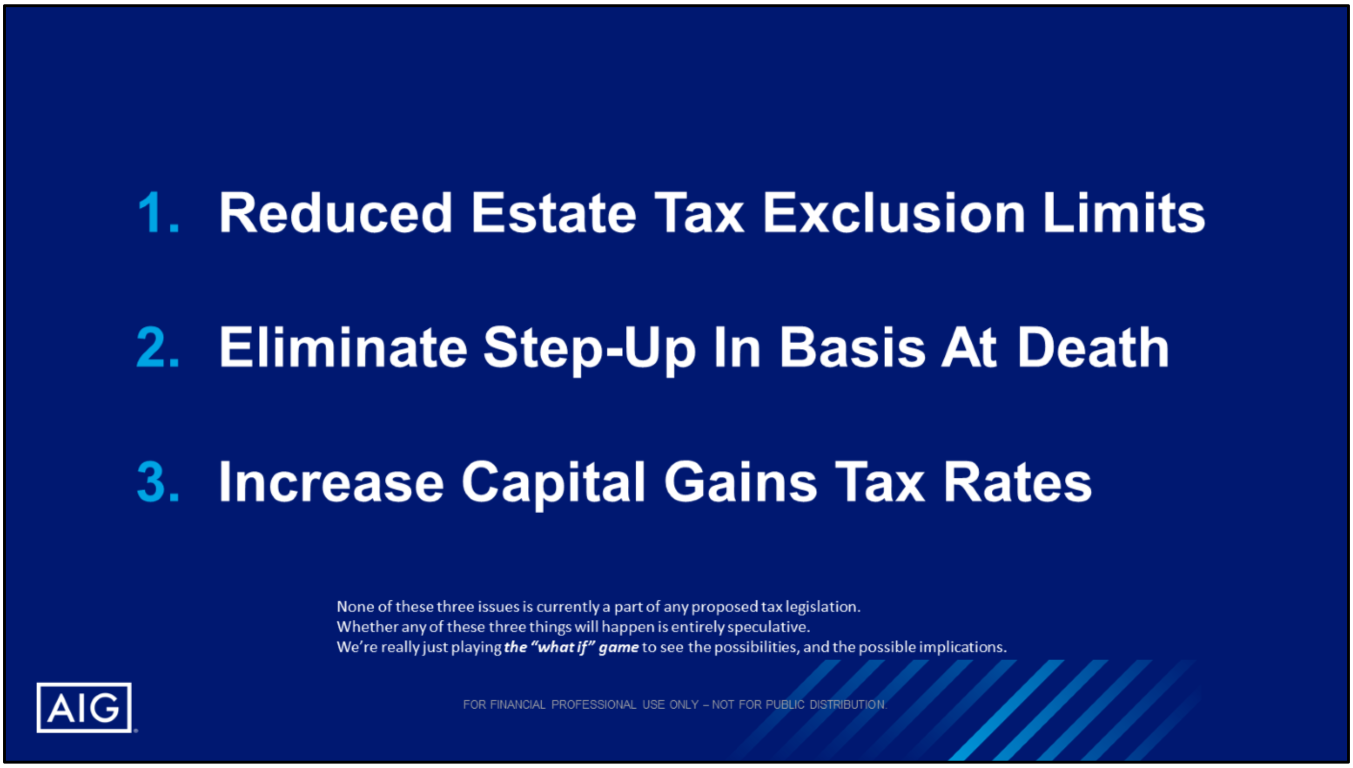
If that's what your thinking, that's the perfect set-up for the rest of our conversation.



My concern about what I'm hearing is not as much the impact of each individual aspect, but rather what happens when you connect the dots.

You see, there are three possibilities in the new Administration that, viewed separately, don't seem to be particularly impactful.
But when you view these three things in combination, the impact has the potential to be pretty significant.

I remind you that there's no certainty about whether ANY of these three things could happen…
But if they did…
Then what?
Let's think about it a little more.



So what are these three things I'm thinking about?

The first is the potential impact of "***reducing the Estate Tax Exclusion limits***."

The second is the potential impact of "***eliminating step-up-in-basis at death***."

The third thing we'll talk about is: what happens if the favorable ***capital gains tax rates*** are eliminated?

Again, I remind you. None of these three issues is currently a part of any proposed tax legislation.
Whether any of these three things will happen is entirely speculative.
We're really just playing ***the "what if" game*** to see the possibilities, and the possible implications.

Let's begin our conversation by talking about the ***estate tax exclusion limits***.

The Current Status Of Estate Taxes

According to the ***Tax Policy Center***,
less than 0.1% of the people
expected to die in 2020
would have "*a taxable estate*."

Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020.
(https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax)

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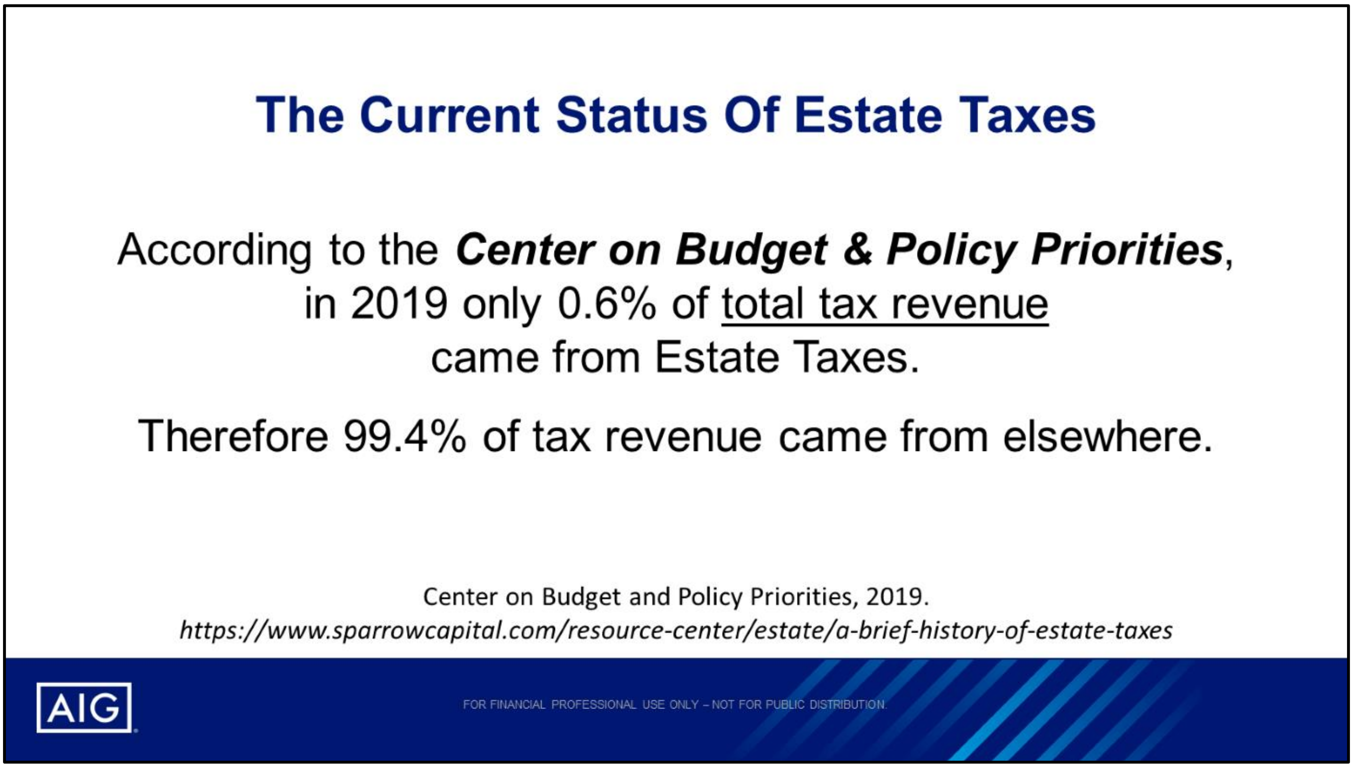
So let's talk about the current status of Estate Taxes, and some relevant facts that you may find interesting.

For example, do you have a guess at *"what percent of the people that die each year will actually owe Estate Taxes"*?
(Let the audience take a few guesses.)

You might find it interesting to hear that, according to the Tax Policy Center, less than one-tenth of one-percent of the people expected to die in the year 2020 were expected to have what's referred to as "*a taxable estate*."

Footnotes:
Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020.
(https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax)



And now for another question: ***What percent of tax revenue each year comes from Estate Taxes?***

You may be surprised to learn that, in 2019, only six-tenths of one-percent of total tax revenue came from Estate Taxes.

By subtraction, that implies that 99.4% of all tax revenue came from somewhere <u>other than Estate Taxes</u>.

It kinda makes you wonder why there's an Estate Tax in the first place… after all, the government spends that 6-tenths of one-percent of the tax revenue in a matter of days!

Footnotes:
Center on Budget and Policy Priorities, 2019.
(https://www.sparrowcapital.com/resource-center/estate/a-brief-history-of-estate-taxes)

History of Estate Tax Exclusion Limits

Year	Estate Tax Exclusion Amount
1987 – 1997	$600,000

Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020.
https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax.com

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Let's take a minute-or-two to look back on the history of the Estate Tax Exclusion limits over the last 30 – 35 years.

For 10 years, from 1987 to 1997, we had a stable, constant Estate Tax Exclusion amount. Life seemed pretty predictable, and no changes were anticipated from year-to-year.

It made estate planning pretty easy.

Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020. https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax.com

History of Estate Tax Exclusion Limits

Year	Estate Tax Exclusion Amount
1987 – 1997	$600,000
1998	$625,000
1999	$650,000
2000 – 2001	$675,000
2002 -2003	$1,000,000
2004 – 2005	$1,500,000

Year	Estate Tax Exclusion Amount
2006 – 2008	$2,000,000
2009	$3,500,000
2010	$0

Technically the Estate Tax Exclusion Amount was not reduced to zero in 2010. Estate Tax was repealed in 2010.

Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020. https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax.com

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But then, in 1998, things started to change.
Do you see the trend from 1998 through 2005?
That's right… the Estate Tax Exclusion limits were being consistently increased… increasing by two-and-a-half-times during that period of about 7 years!

From 2006 through 2009 the increases continued.
Then came an unusual year… 2010… the year when Estate Taxes were repealed.

Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020. https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax.com

History of Estate Tax Exclusion Limits

Year	Estate Tax Exclusion Amount
1987 – 1997	$600,000
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2000 – 2001	$675,000
2002 -2003	$1,000,000
2004 – 2005	$1,500,000
2006 – 2008	$2,000,000
2009	$3,500,000
2010	$0
2011 – 2017	$5,000,000 indexed
2018	$11,180,000
2019	$11,400,000
2020	$11,580,000

Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020.
https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax.com

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In 2011 the Estate Taxes came roaring back, but with an Exclusion of $5 million per person, indexed for inflation.
And in 2018 the limits were essentially doubled to over $11 million per person.

So, after 10 years of no changes from 1987 to 1997, from 1997 to 2018… a period of just 11 years... the Estate Tax Exclusion was increased to more than 18-times the 1997 level!

So you might ask yourself: "Is there a reason for these increases? Was it just tax policy? Or was something else happening at the same time?"

The answer is: Something else was happening at the same time… let's explore what ***that*** was.

Tax Policy Center. "Briefing Book: Key Elements of the U.S. Tax System." Accessed Nov. 1, 2020.
https://www.TaxPolicyCenter.org/briefing-book/how-many-people-pay-estate-tax.com

Why Did Estate Tax Exclusion Limits Increase?

- IRAs: First available in 1975
- 401ks: First available in 1978
- In the 1980s and 1990s corporations began shifting their retirement benefit programs from pension plans to 401k plans
- Wealth shifted from the corporate coffers to the employees
- If exclusion limits hadn't increased as individual wealth increased, estate taxes would have become significant.

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As we look back over the history of Estate Tax Exclusion limits, you might also notice that IRAs were first introduced in 1975; followed by 401k's that first became available in 1978.

Neither of them took-off right-away.

Prior to that, most people retired on their company pension and Social Security.
They really didn't care that the Estate Tax Exclusion limits were so low, because the employees didn't really have any meaningful savings or investments.
So when they died – even if they had a substantial pension – they were unlikely to owe any estate taxes.

But as the economy began booming in the 1980s, and continuing through the 1990s, corporate America began to compete for employees in a different way…. Paychecks.

Corporate America realized that younger employees were more motivated by larger paychecks than they were by pension plans.
So corporations began discontinuing their pension plans.
Instead, they offered 401k plans.
What's the difference?

- The corporations fund the pension plans.
- The individual employee funds the 401k plan.

So employers were able to eliminate pension plans, and use the money they freed-up to increase salaries.

Employees loved this shift because they felt like they were getting paid more.
But were they?
Maybe not… because the increase in pay they received needed to be contributed to their 401k plan and retirement savings.

As this shift away from pension plans and into 401k plans continued, we watched the assets shift **away** from the corporate coffers that supported the pension plans, and **into** the retirement accounts of the employees.
And employee wealth grew.

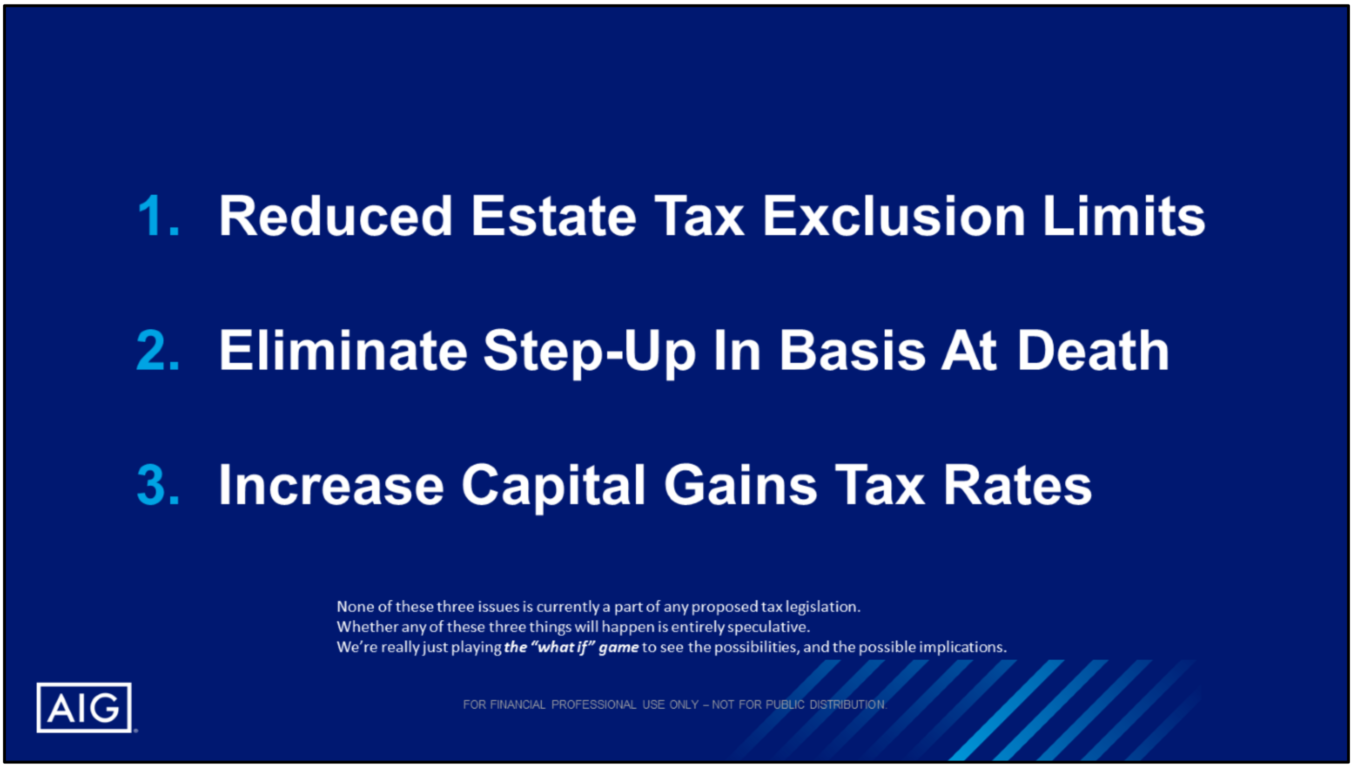
So think about it. Back in the days when people primarily retired with a pension and social security, they owned very little – relatively speaking – in the way of investment assets.
When they died, they didn't own a whole lot other than their house.
Therefore, even though the Estate Tax Exclusion Limit was very low *(by today's standards)*, very few people were subject to Estate Tax.

But during the 1980s and 1990s – and ever since – the retirement assets have landed in the hands of the employees, and employees started becoming quite wealthy.
Suddenly people were realizing that their home values, combined with their retirement resources, were pushing them over the Estate Tax Exclusion limits, and suddenly a lot more people were facing estate tax problems… even people of modest means.

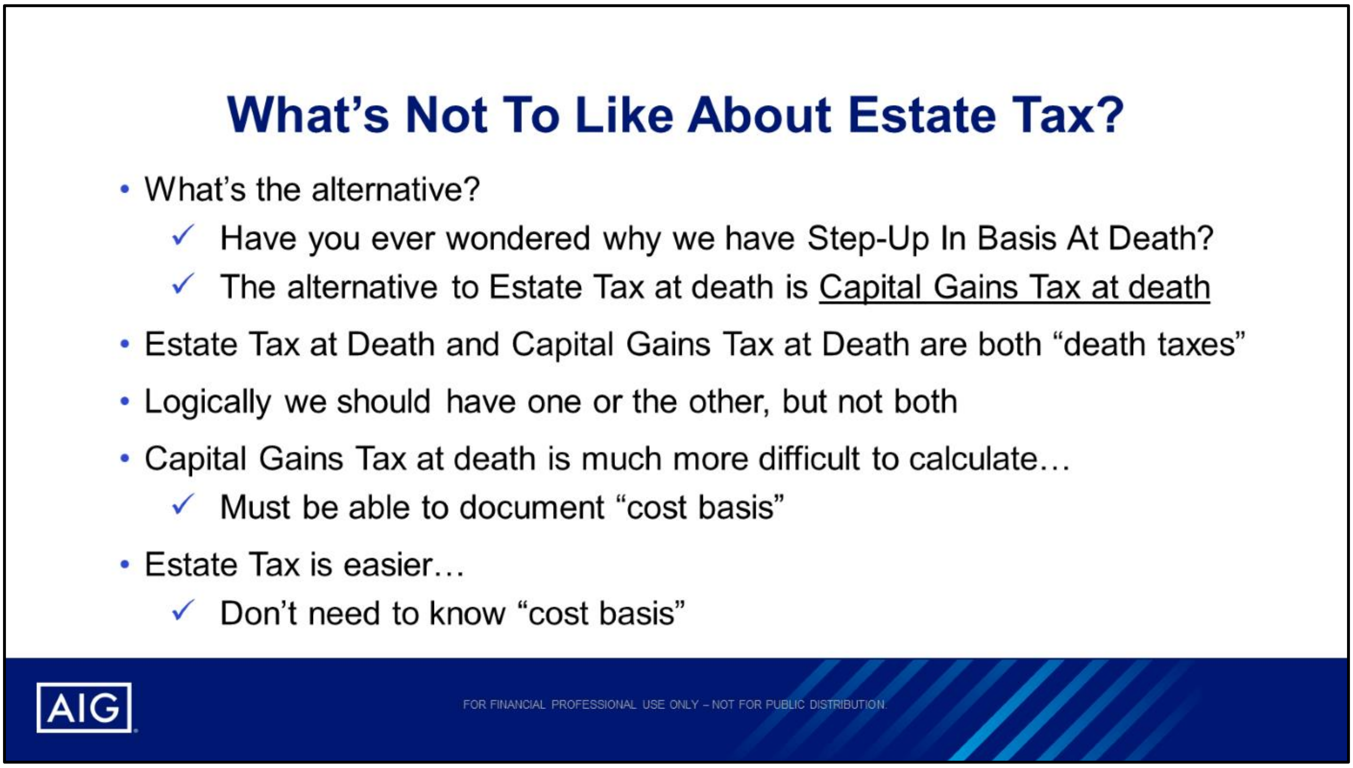
The only way to stem that problem was to increase the Estate Tax Exclusion limits.

I believe that had a lot to do with the increase in the Estate Tax Exclusion limits since the mid-1980s.
If those Exclusion limits hadn't increased to reflect the increasing wealth of individual employees, just imagine how many people would be facing Estate Taxes!

So there are many reasons why Estate Tax Exclusion limits may have increased since the mid-1980s, but I believe this transition of wealth from the corporate coffers to the employee's individual investment accounts had a hand in influencing the increases.



Now let's talk about the second issue: Step-Up In Basis At Death, and the potential elimination thereof.



I begin by asking: "***What's not to like about Estate Taxes?***"

Many investors think Estate Taxes are a horrible idea.
They think: "***Why should the government be able to tax everything I own just because I'm giving it to my kids?"***

At first that might seem like a valid point.
But before we jump to that conclusion, we need to think about it a little bit more.

After all, if we didn't have an Estate Tax, what would the alternative be?
Have you ever wondered ***"Why is there a Step-Up In Basis at Death?"***
It's because the alternative to Estate Tax is "Capital Gains Tax at death."

Think about it.
You're an investor.
You have investments that have appreciated in value during your lifetime, and you've never paid tax on that growth.
If you sell them, you pay the tax on the growth.
Doesn't it make sense that, if you die, you should pay the taxes on the growth?

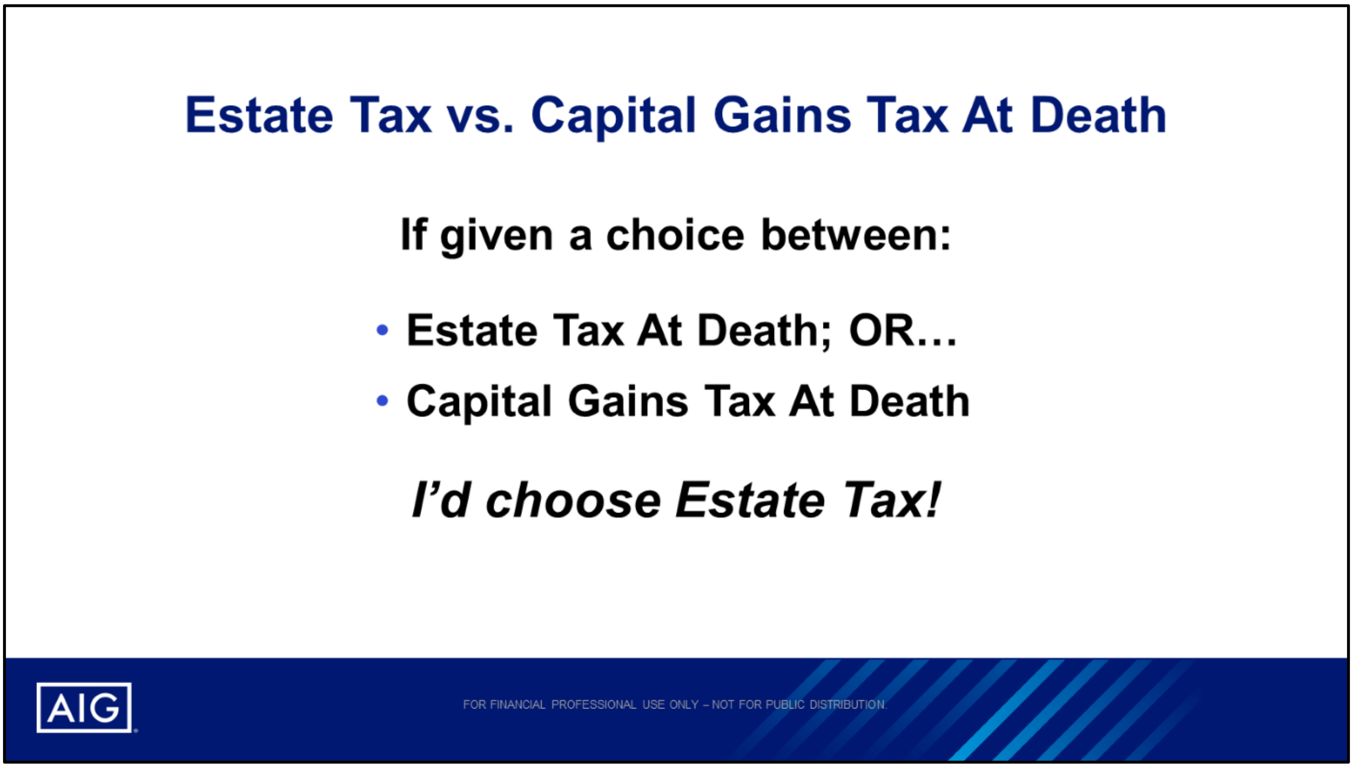
It seems logical, right?

So you can see that Estate Tax at death, and Capital Gains Tax at Death are both forms of "death taxes."

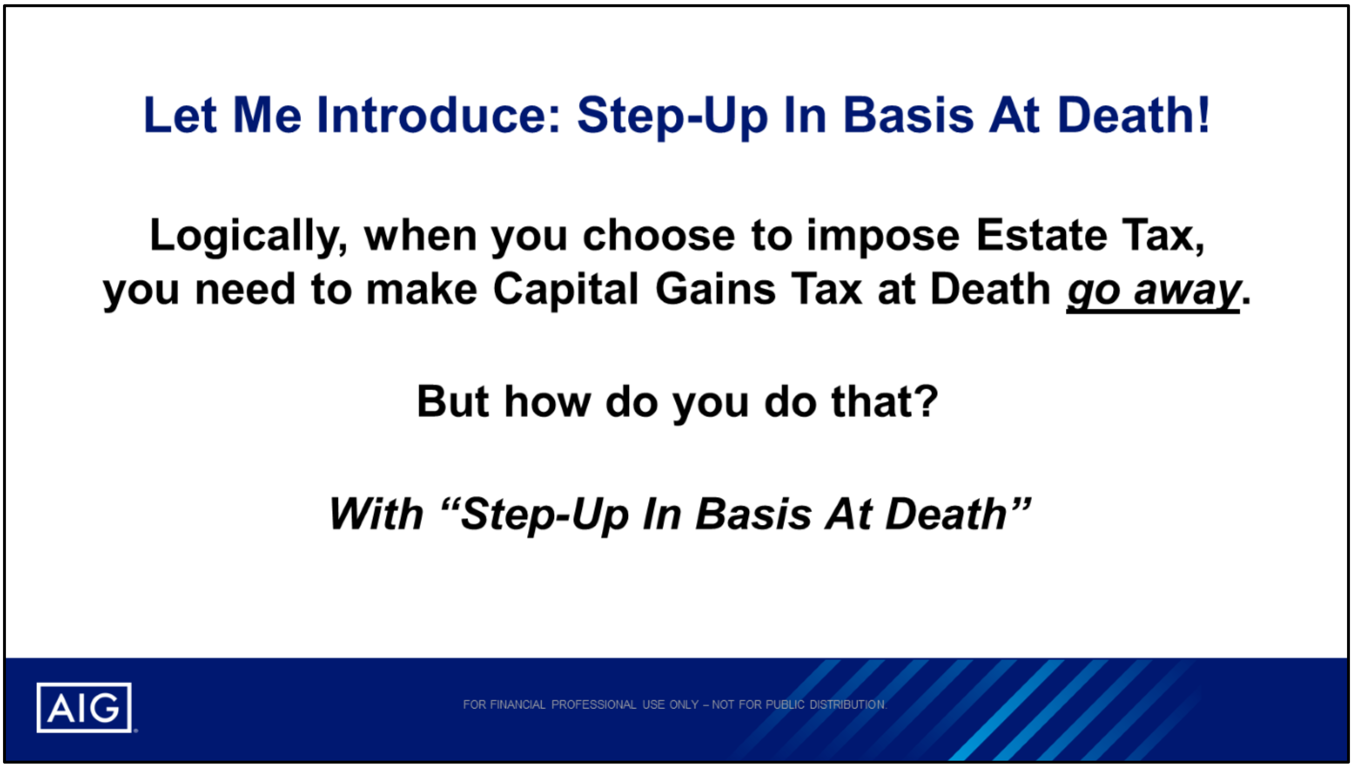
Logically we should have one death tax or the other, but not both.
So which would you choose?

Generally speaking, Capital Gains Tax at death is much more difficult to calculate.
Why?
Because the Executor needs to figure-out the value of the assets ***AND*** document the cost basis of every asset the decedent owned.
That's typically very difficult to do.

Estate Tax is actually much easier to calculate.
All you need to know is the value of the asset.
You don't need to know the cost basis.



So, when I think about Estate Tax at death vs. Capital Gains Tax at death,
If I was given a choice between the two…
I'd choose the Estate Tax!

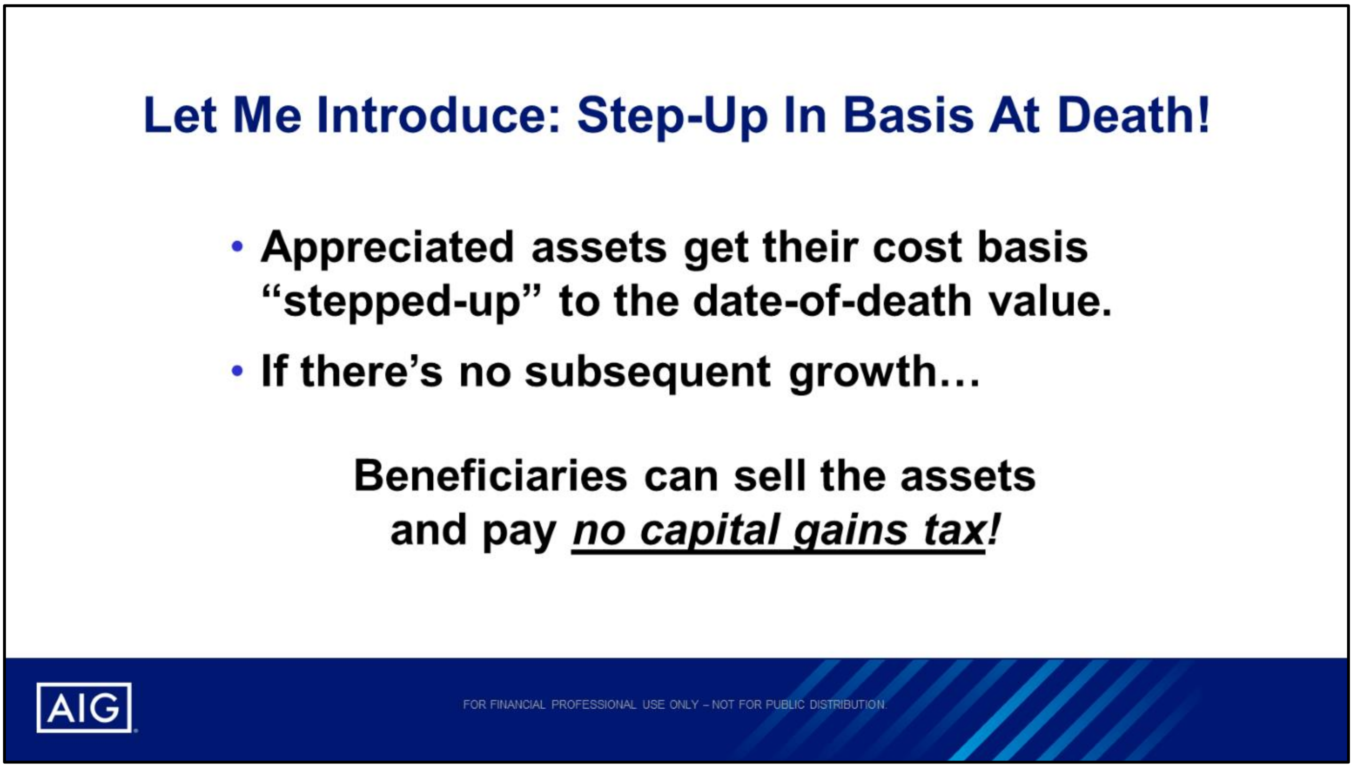


So let's dive a little deeper into the interaction between Estate Tax and Capital Gains Tax.

Logically, when you choose to impose Estate Tax, you need to make Capital Gains Tax at Death go away.

But how do you do ***THAT***?

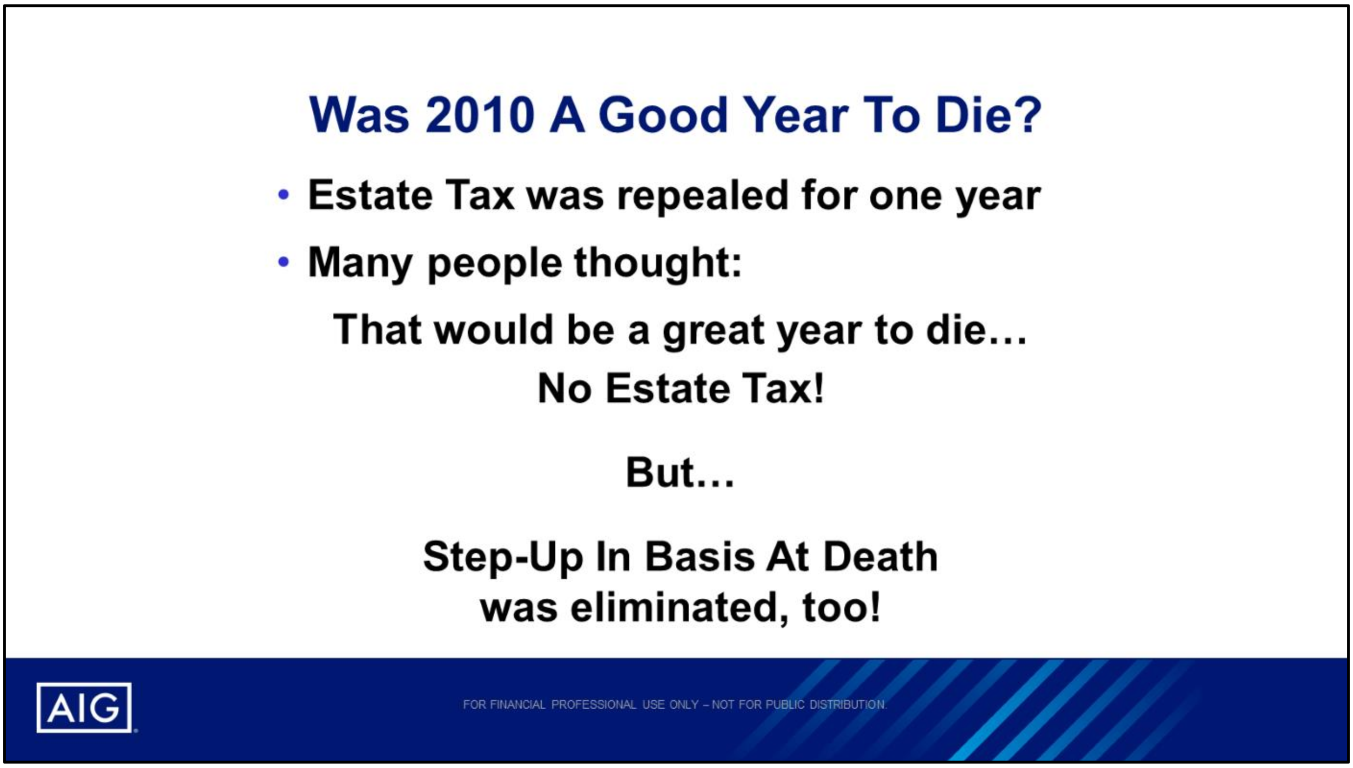
With Step-Up In Basis At Death, of course!



When you have a Step-Up In Basis At Death, then appreciated assets get their cost basis "stepped-up" to the date-of-death value.

What does that mean?

If there's no subsequent growth after the date of death, the beneficiaries can sell the assets and pay ***no capital gains tax!***



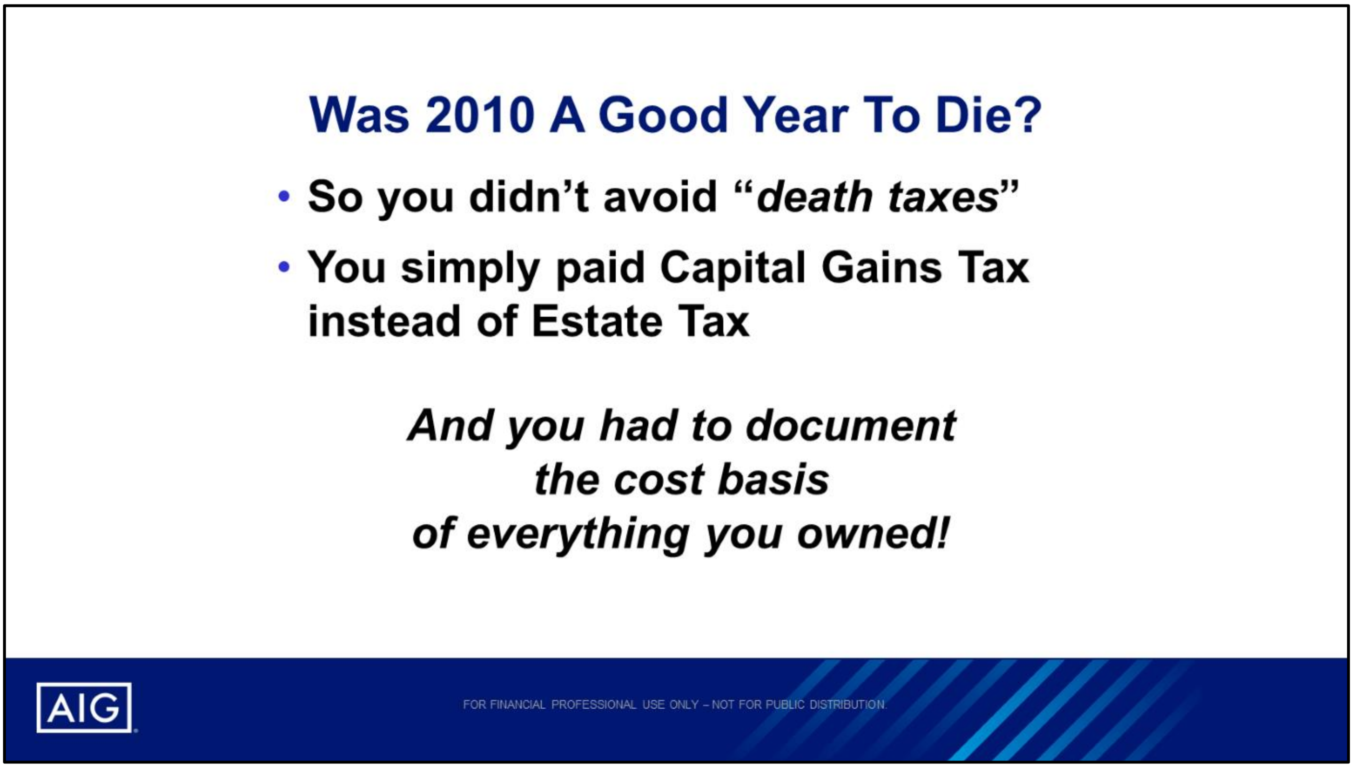
So as we contemplate the differences between Estate Tax and Step-Up In Basis at Death, let's think back to the year 2010.
Estate Tax was repealed for one year.

I remember attending presentations in 2009 where the presenter would say something like:
"*If you have a wealthy client that looks like they might die in 2009, you might want to put them on life support to get them to 2010 so they won't owe any Estate Tax!*"

So I ask you… was 2010 ***really*** a good year to die, from an Estate Tax perspective?

The real answer is "***Not necessarily.***"

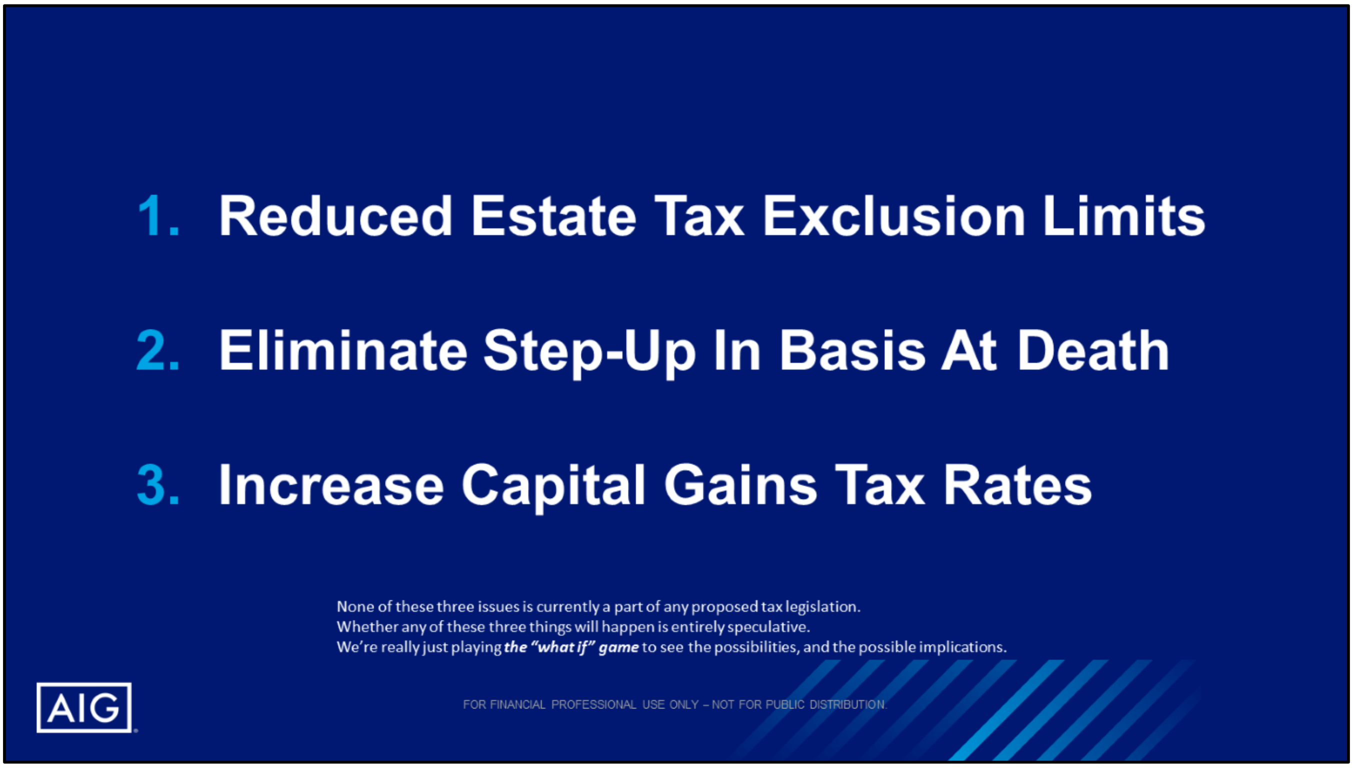
Why?
Because in 2010, when the Estate Tax was repealed… so was Step-Up In Basis At Death!



So you didn't actually avoid "death taxes" in 2010…

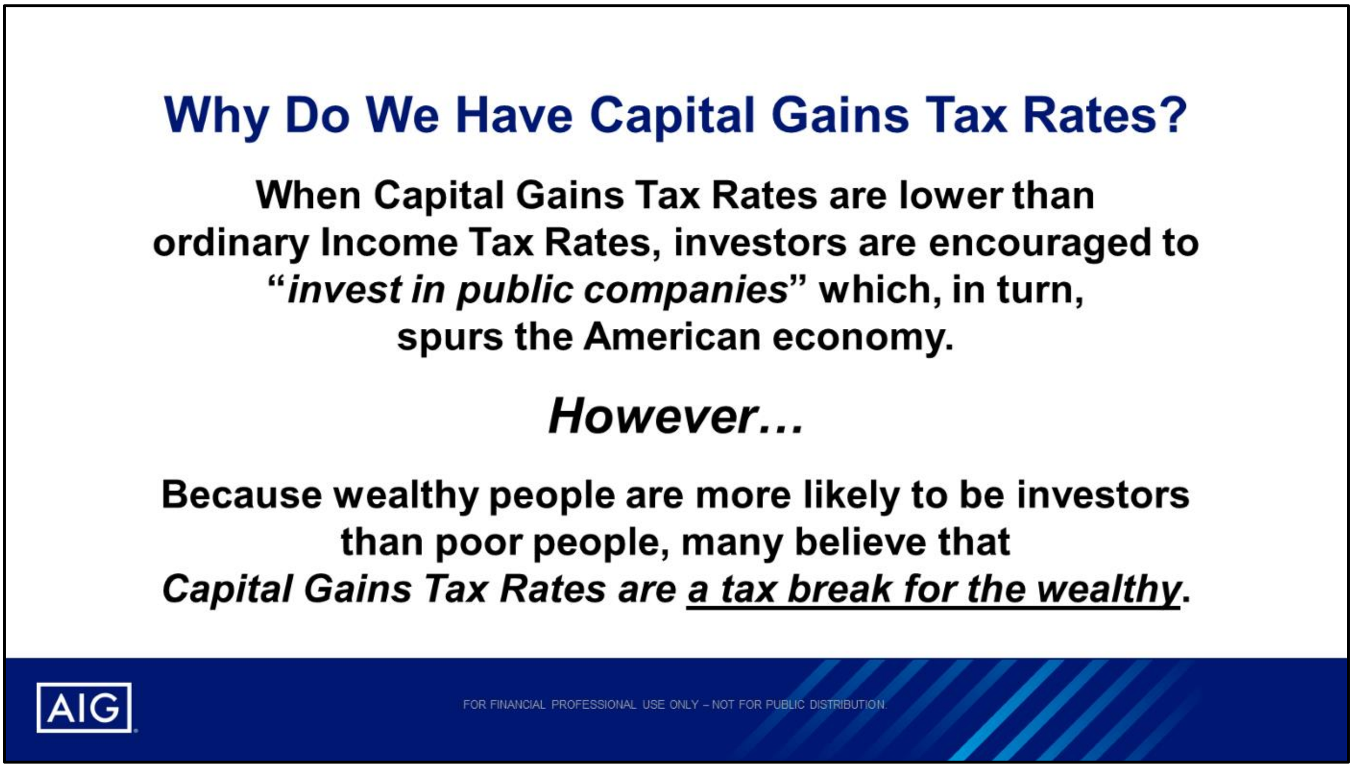
You simply paid Capital Gains Tax instead of Estate Tax.

AND you had the burden of documenting the cost basis of everything you own!



Hopefully you're learning some good stuff so far.

Let's move on to our third concern:
Increased Capital Gains Tax Rates.



We need to start by asking: "***Why do we have Capital Gains Tax Rates in the first place?***"

It's because when Capital Gains Tax Rates are lower than ordinary Income Tax rates, investors are encouraged to *"invest in public companies"* which, in turn, spurs the American economy.

But there's another perspective that we need to consider as well. Because wealthy people are more likely to be investors than poor people, many believe that Capital Gains Tax Rates are ***a tax break for the wealthy***.

And in today's political economy, many are calling for the wealthy to pick-up a larger share of the tax burden.

Why Do We Have Capital Gains Tax Rates?

The Biden Administration has suggested that they would like to increase Capital Gains Tax Rates…

Maybe to 28%...

Possibly equal to Ordinary Income Tax Rates.

From an investor standpoint, this appears to eliminate a "*tax preference for the wealthy*."

Please note that, as of this writing, there is no current tax proposal to increase Capital Gains Tax Rates.

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In light of that intention, rumors have surfaced that Capital Gains Tax Rates ***could be*** "adjusted" to a higher level…
Some articles are saying 28%, whilie others cite the possibility of increasing Capital Gains Tax rates to a level equal to Ordinary Income Tax Rates.

Many people believe that raising the Capital Gains Tax Rate eliminates a "***tax preference for the wealthy***."
In a manner of speaking, it does. But…

We also have to consider what that may do to "*investment in corporate America*."
Will investors reduce the amount they're willing to invest into appreciating stocks?

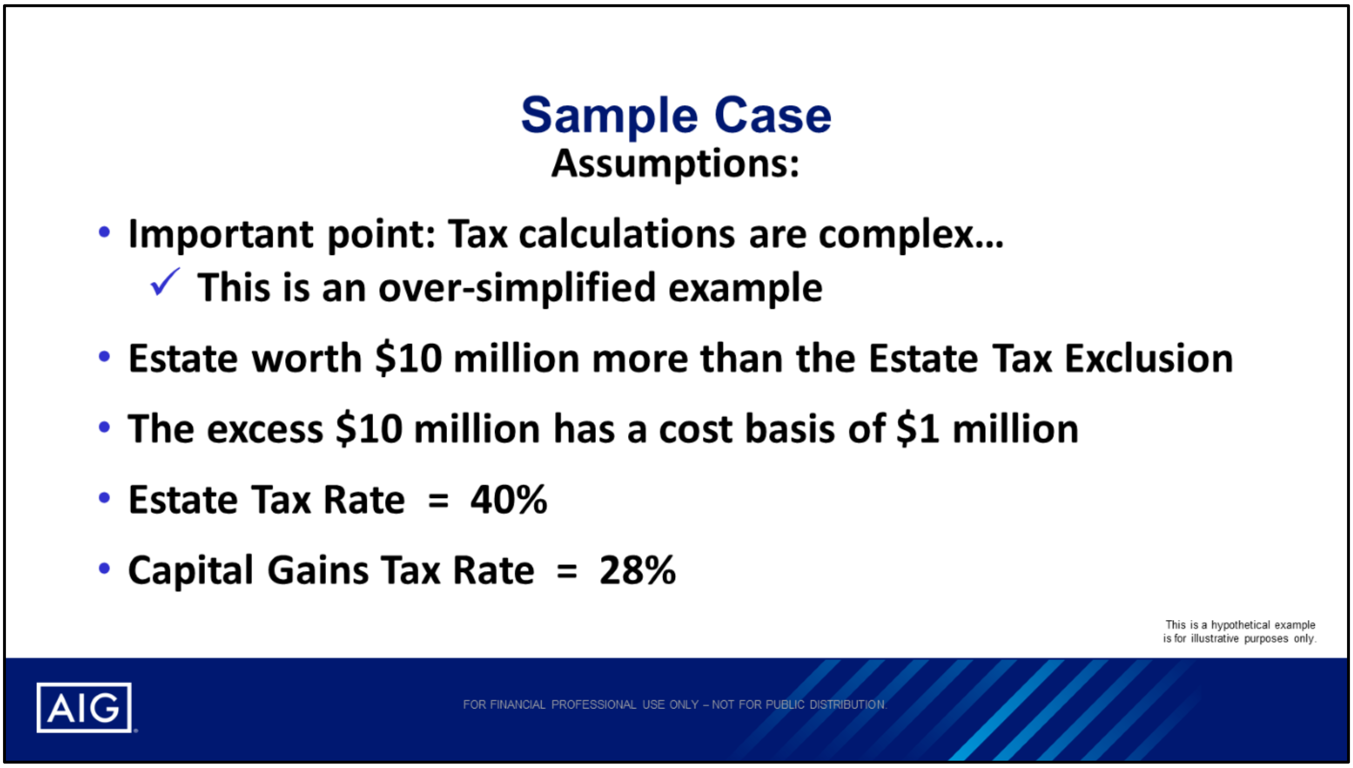
It would be interesting to see how investor behavior might change.
Nonetheless, raising the Capital Gains Tax Rates would theoretically increase the taxes paid by the wealthier investors.

So there you have the three issues.

Each one, on their own merits, has curious implications.

But the picture looks dramatically different if all three were to happen.

As unlikely as it is that all three could be implemented, let's just play around with what the consequences could be.



Let’s evaluate the impact with a simple case study.
But before we begin, let me emphasize that tax calculations are complex, and that this is an intentionally over-simplified example.
My intent here is NOT to examine every detail of how taxes are calculated, but rather to give you a “***big-picture perspective***” of the general calculations, from a 10,000-foot-view. Therefore, this example is intentionally over-simplified.

Let’s assume our client has sufficient assets that the estate is worth $10 million more than the Estate Tax Exclusion Limit, whatever that limit might be.
So they have $10 million of their assets exposed to estate taxes.

Let’s further assume that the $10 million of assets in excess of the Estate Tax Exclusion Limit have a cost basis of $1 million… they have $9 million of untaxed Capital Gains.

Finally, for tax rates, let’s assume an Estate Tax Rate of 40% and a Capital Gains Tax Rate of 28%.
These tax rates are rounded and estimated for simplicity, and don’t exactly replicate any particular situation.

All right… let’s do some math!

Sample Case: Current Scenario = Estate Tax Only

$10,000,000 exposed to Estate Tax
x 40%
$4,000,000 of Estate Tax

This is a hypothetical example is for illustrative purposes only.

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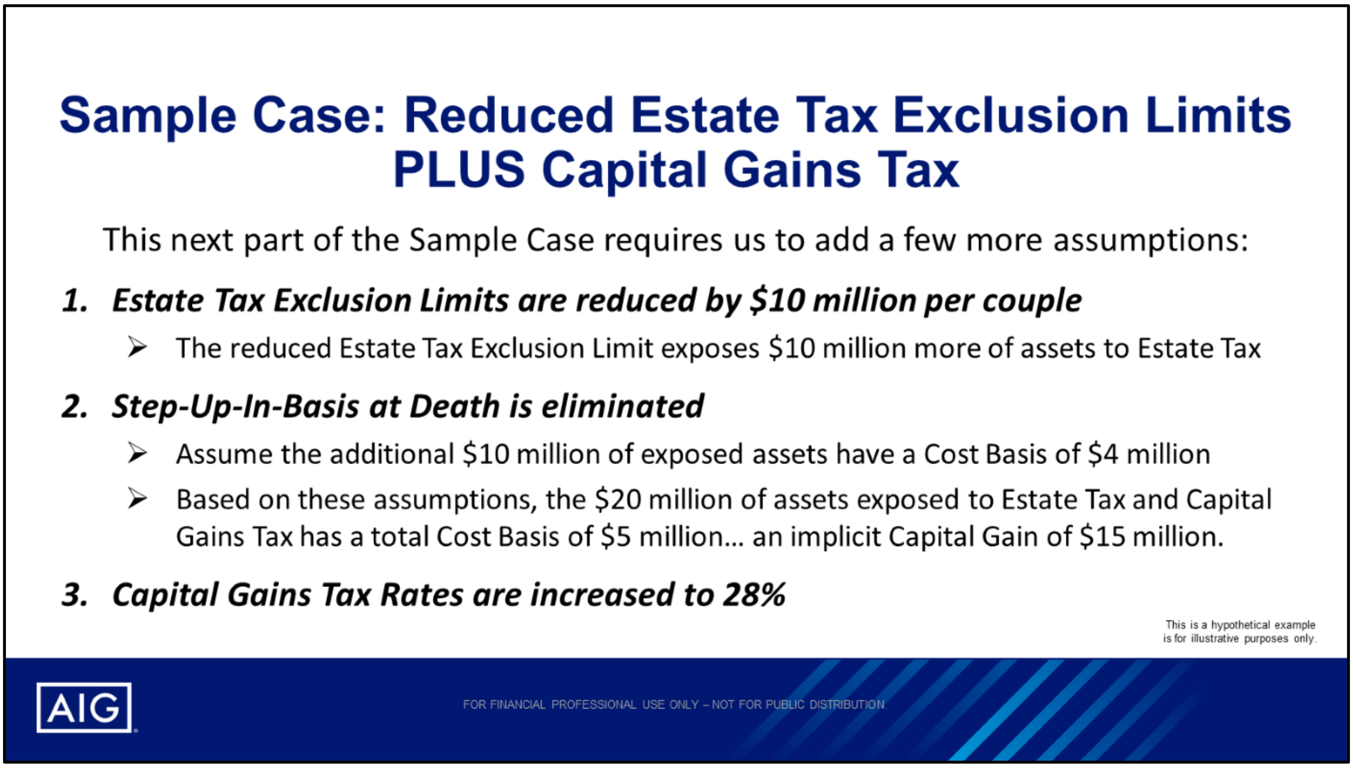
In my first example, let's assume that Estate Taxes are being applied, but that Step-Up In Basis At Death still applies.
Therefore, there will only be Estate Tax at death… and there will be no Capital Gains tax.

This is similar to the situation we're in today.

So we have $10 million of assets above-and-beyond the Estate Tax Exclusion Limits, being taxed at 40%, which results in $4 million of Estate Tax.

That seems like a lot of tax.
But think about it… this isn't ***that bad*** of a deal.
After all, $9 million of that $10 million is represented by <u>growth that has never been taxed</u>.

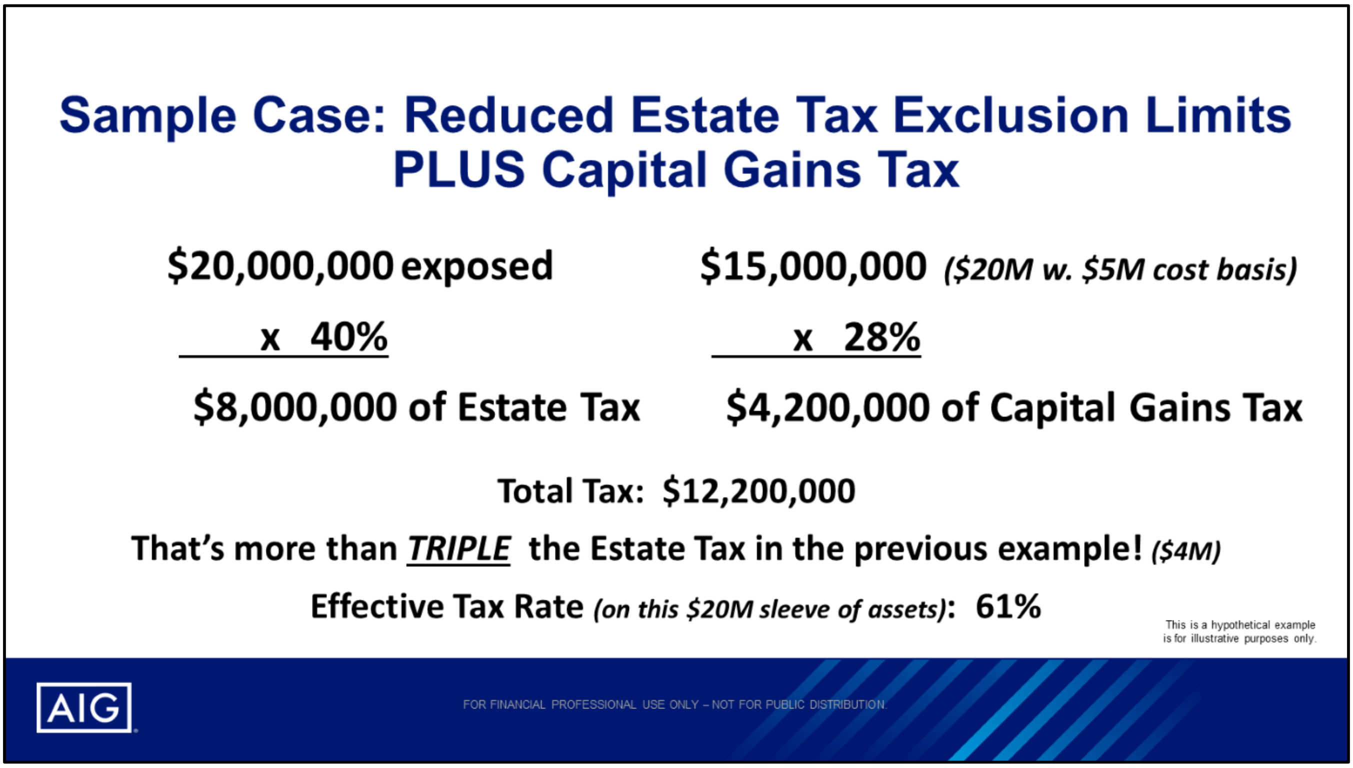


Now let's make some changes to create our second part of the example.

First we'll assume that the Estate Tax Exclusion Limits are reduced by $10 million per couple.
For this change to make sense in our example, we need to add a few more details.

1. The reduced Estate Tax Exclusion Limit exposes more assets to Estate Taxes… $10 million more per couple.
2. Step-Up-In-Basis At Death is eliminated
   - Let's assume that the additional $10 million of exposed assets have a Cost Basis of $4 million.
   - Therefore, the now $20 million of assets exposed to both Estate Tax and Capital Gains Tax has a total Cost Basis of $5 million… so for purposes of calculating the Capital Gains Tax, the exposed $20 million has a Capital Gain of $15 million. *(remember that the first $10 million had a $1 million cost basis; now the additional $10 million has another $4 million of Cost Basis. The total Cost Basis is now $5 million.)*
3. Capital Gains Tax Rates are increased to 28%

Let's see what happens when we apply "The Perfect Storm" to our example.



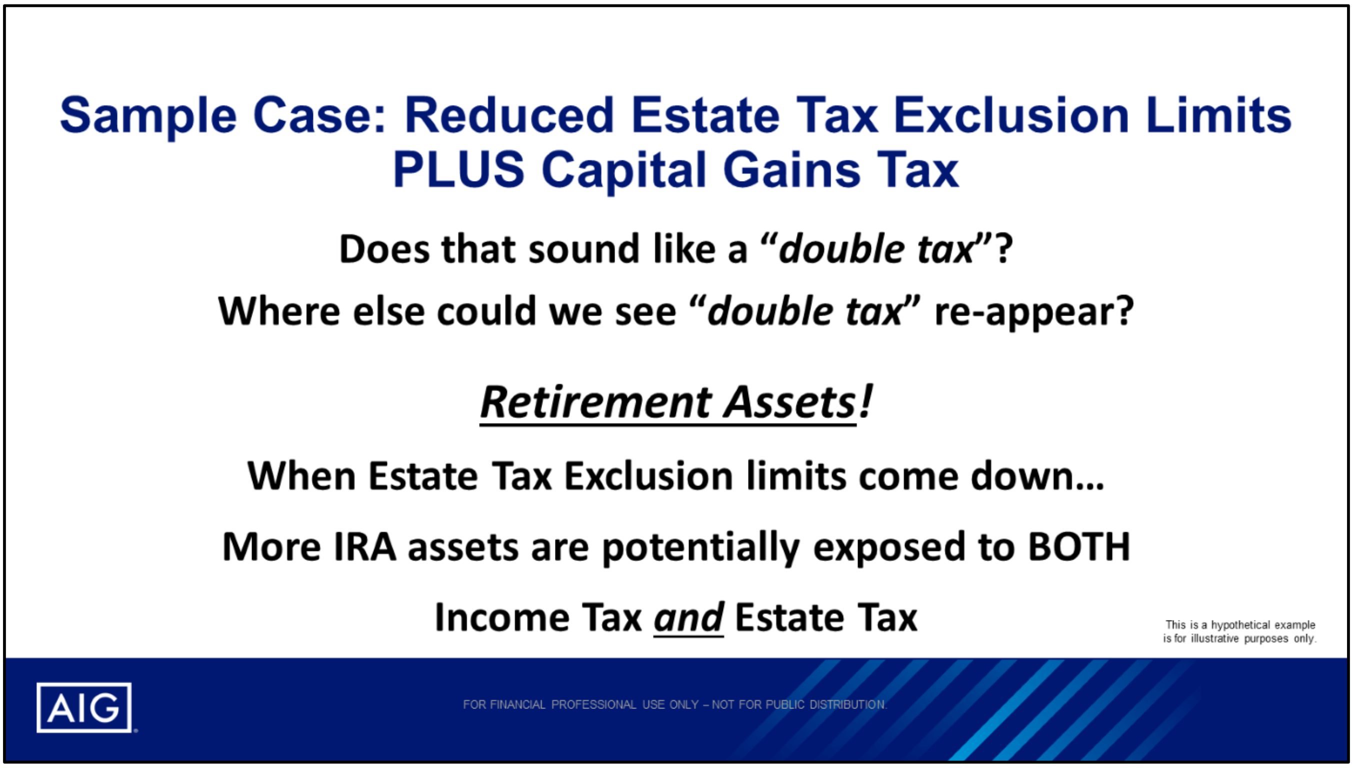
In our second case we're assuming all three things in our "Perfect Storm" happen.
We'll assume:

A. The Estate Tax Exclusion reduces by $10 million… now exposing $20 million to Estate Tax.
B. The Step-Up In Basis At Death is removed, so all growth is subject to Capital Gains Tax.
    - Remember… we now have $20 million exposed. Let's pretend this $20 million has a cost basis of $5 million… implying untaxed growth of $15 million.
C. The Capital Gains Tax Rate increases to 28%.

Our Estate Tax calculations are similar to our previous example, except now we apply the tax to the $20 million of excess assets:
$20 million times a 40% Estate Tax Rate equals $8 million of Estate Tax. *(Compare that to the $4 million of Estate Tax in our previous calculation!)*

In addition to that, we have $15 million of untaxed Capital Gains in this $20 million sleeve of assets.
When that's taxed at 28% it generates an additional $4.2 million of Capital Gains Tax.

The total tax in this scenario would be $12.2 million.
That's more than <u>TRIPLE</u> the Estate Tax we calculated in the previous example!
$12.2 million of tax on this $20 million sleeve of assets represents an overall effective death tax rate of 61%.
That's obviously significantly higher than the 40% effective tax rate in our first example.



Is anyone thinking to themselves: ***"This combination of Estate Tax and Capital Gains Tax sounds like double tax!" ???***

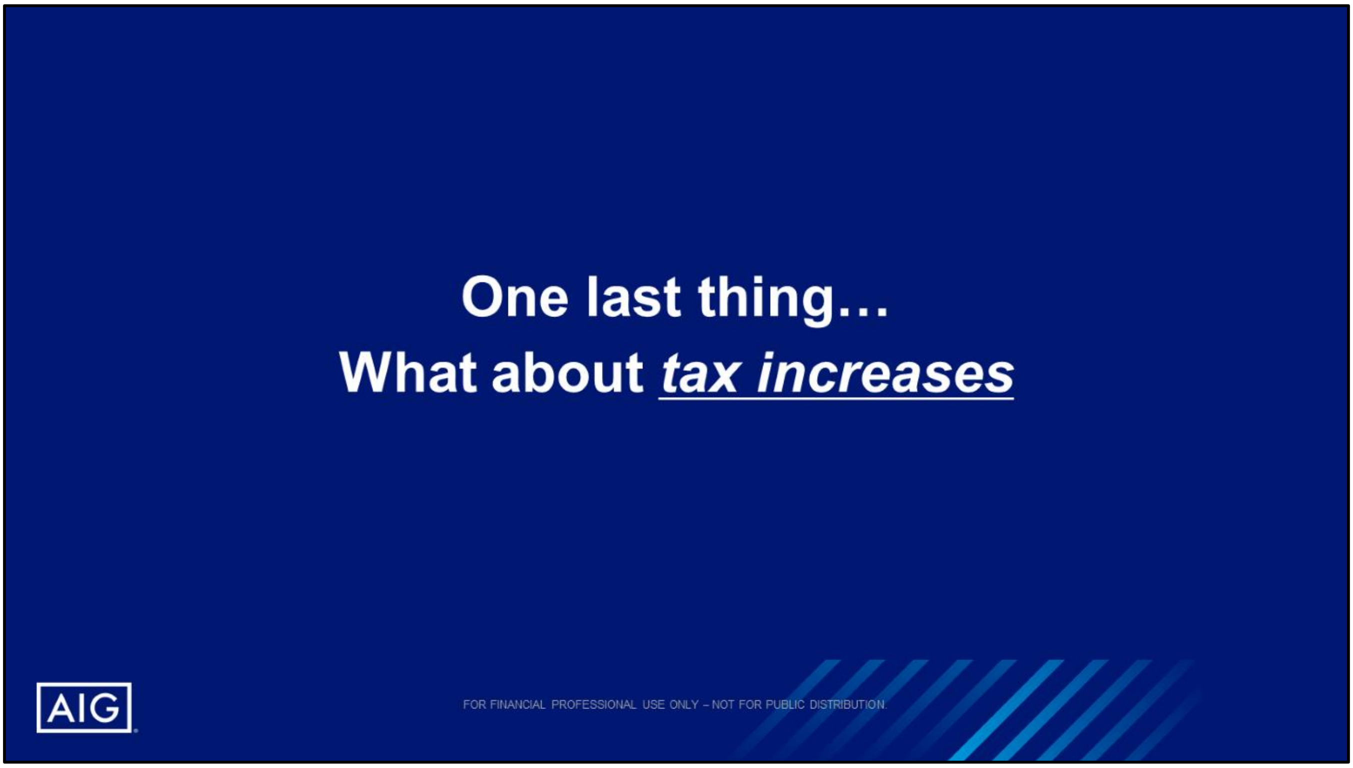
That's certainly what it feels like.

But this wouldn't be the first time we've talked about the concept of "***double tax***," is it?

Where else could we see the concept of "***double tax***" re-appear if Estate Tax Exclusion Limits are reduced significantly?

That's right… in Retirement Assets like IRAs and 401k's!

In fact, if the Estate Tax Exclusion Limits come down…
More IRA assets are potentially exposed to ***BOTH*** Income Tax ***and*** Estate Tax.



And one last thought…

We've spent our time talking about Estate Taxes and Capital Gains Taxes…
But when it comes to tax increases, in general…

Will Tax Laws Stay The Same?

- **The 2017 Tax Cuts are set to expire at the end of 2025**
  - Who knows what might happen then?
- **Will the 2017 Tax Cuts be *repealed* before end of 2025?**
- **Does the level of National Debt imply tax increases?**

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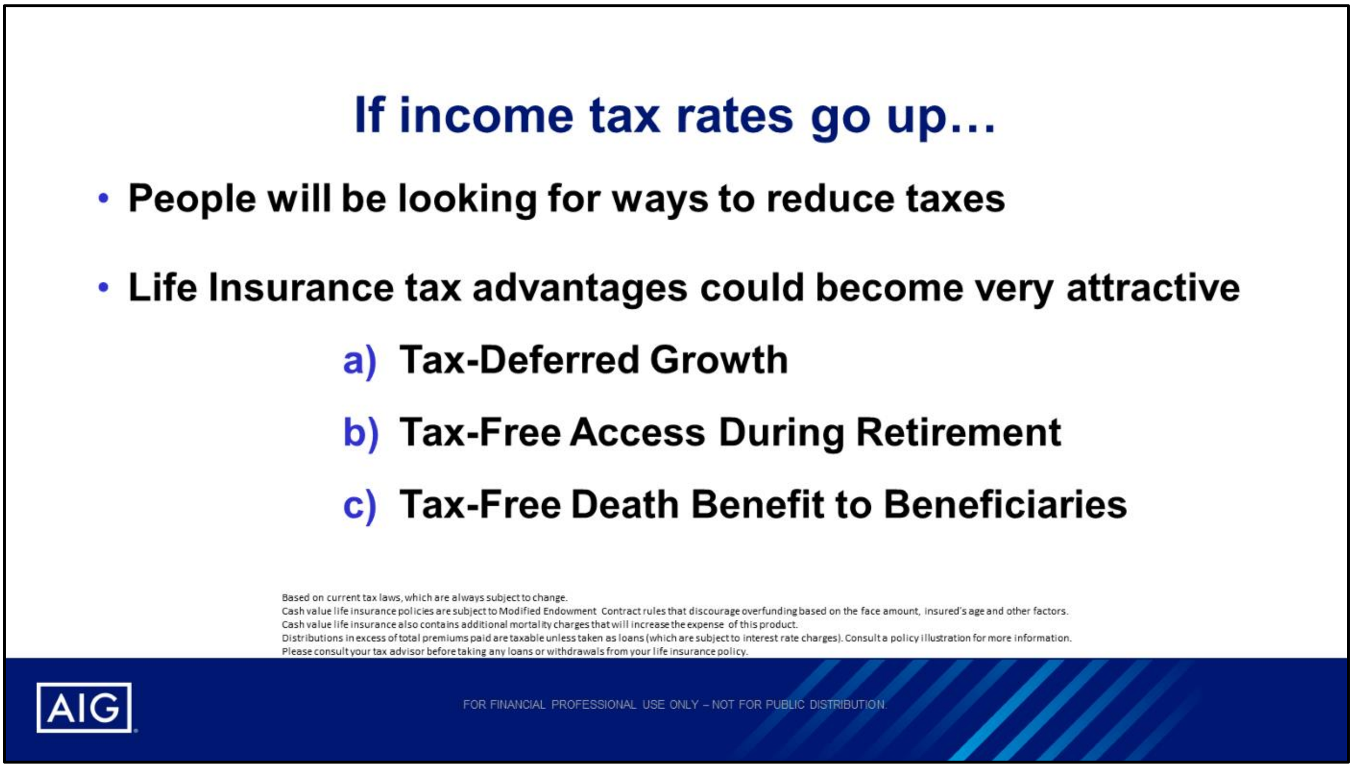
First of all, the tax cuts of 2017 are all set to expire at the end of 2025… who knows what might happen then.

But even before that, there are rumors that the Biden Administration is interested in repealing those tax cuts.
(see: https://www.bloomberg.com/news/articles/2020-11-07/stimulus-and-mcconnell-will-likely-inhibit-biden-s-tax-hike-plan)

We've also seen dramatic increases in the national debt since the beginning of the pandemic.
Will tax rates need to be increased to pay-down some of that debt?

These are questions we all ponder from time-to-time.



My suspicion is that, if ordinary income tax rates increase,

1. People will be looking for ways to reduce taxes; and

2. Life Insurance tax advantages could become very attractive, including:
    - Tax-Deferred Growth;
    - Tax-Free Access during retirement; and
    - Tax-Free death benefits to beneficiaries

So you can ask yourself…. ***"Will 'The Perfect Storm' Happen?"***

Today we've talked about ideas that are completely speculative… nobody has a crystal ball, and nobody knows what the future holds.

Is it possible that "***The Perfect Storm***" can happen… that all three things we discussed today could become part of the tax law in the near future?

Let's give that some thought…

There are a lot of headwinds, and a lot of stars would need to align for all three things to happen:

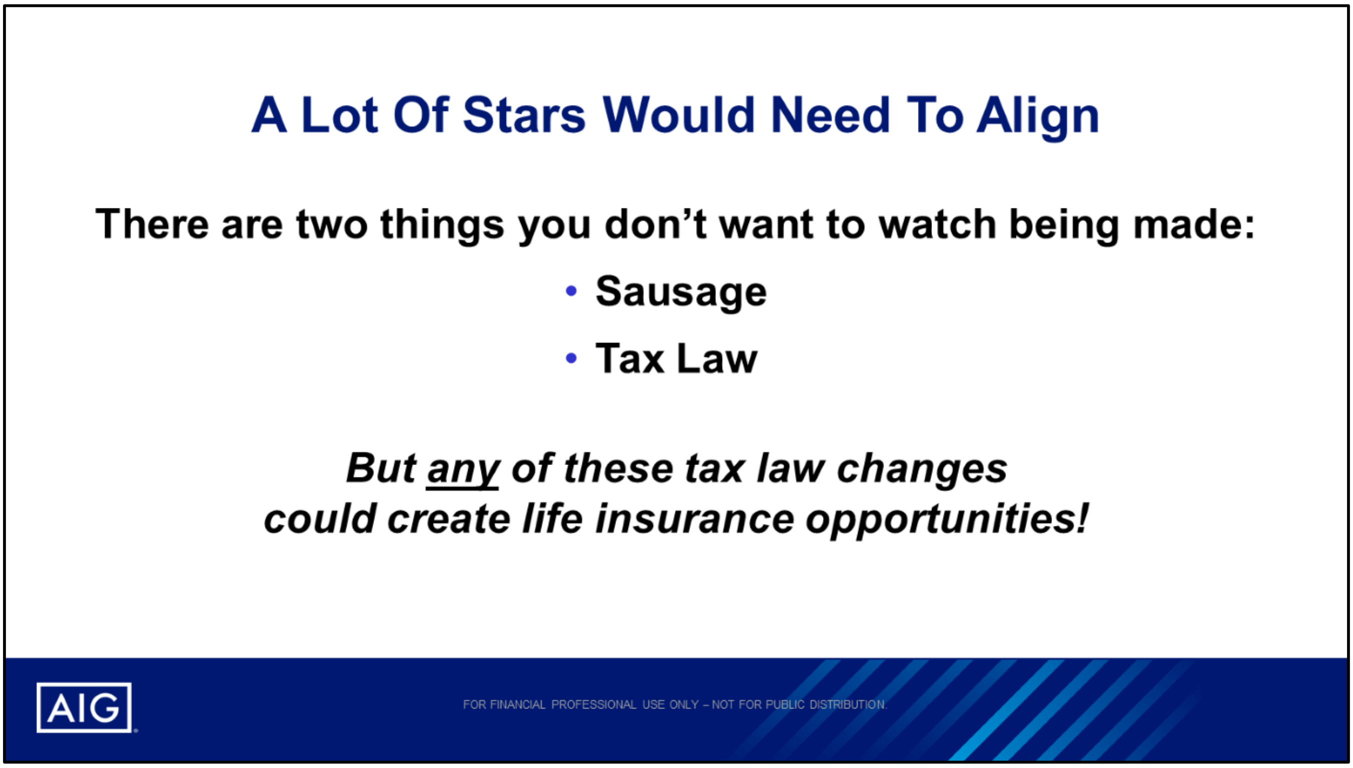
First, we have politics as usual. The party affiliation of the President, the House and the Senate will have a lot to do with where things go from here.

Secondly, these are pretty dramatic changes with a lot of economic implications other than what we see in Estate Tax Planning.
These changes affect investor attitudes, financial strategies for wealthy individuals, corporate financing, and so many other things.

So one question becomes: Can the economy handle it?

- Can the economy handle investors being less interested in investing their money in corporate America?
- Can the economy handle the reduced spending that typically results from tax increases?
- Can the American public tolerate more taxes at a time when the economy seems quite fragile?

There's likely to be a lot of push-back from politicians, investors, corporations, small businesses, and individual taxpayers.



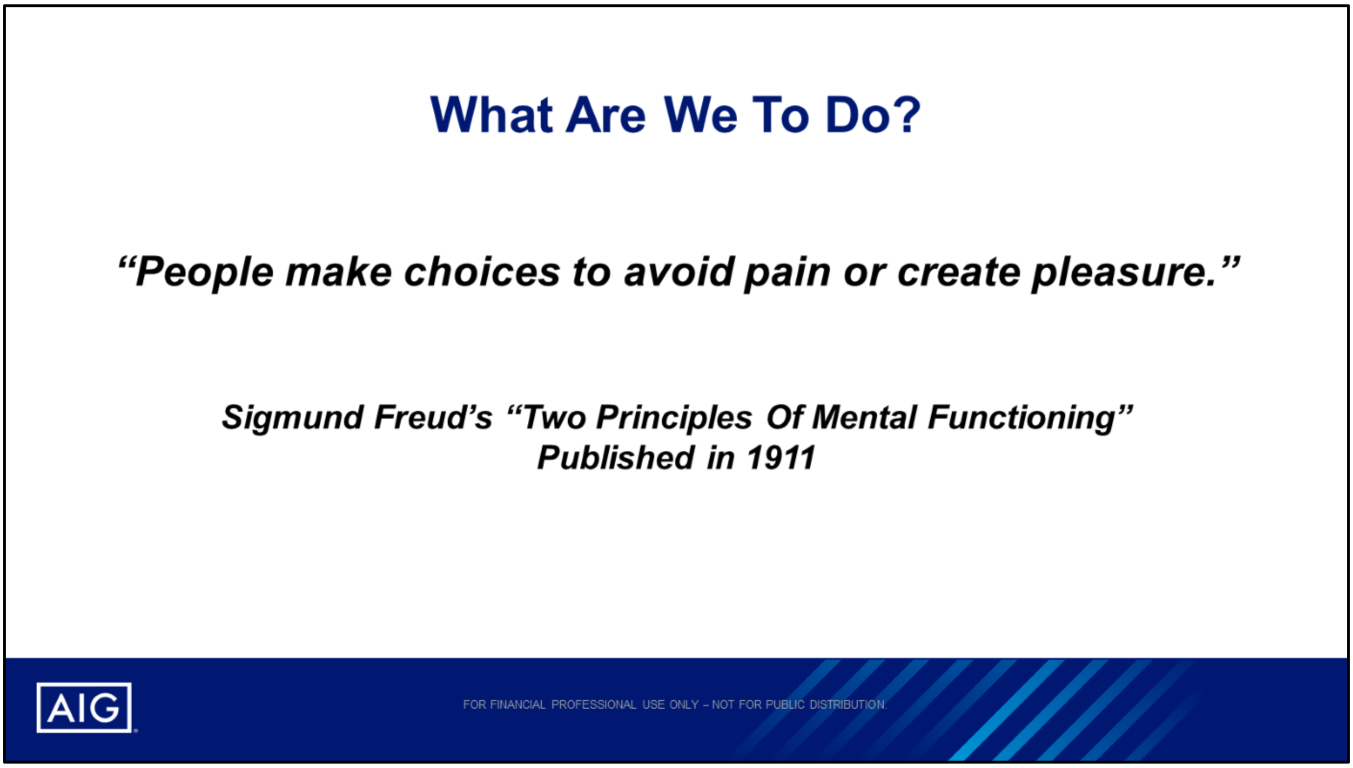
Ya know, there's an old saying that I heard many, many years ago, that there are two things you don't want to watch being made: Sausage, and Tax Law.

I love sausage, but I don't really care to know how it's made. I just want to enjoy the finished product.

And I love tax law, but I don't really care to know how it's made either… I just want to enjoy the finished product!

We'll leave it in the capable hands of the people in Washington to chart our future.

But we can go forward with some confidence that <u>any</u> of these tax law changes, if implemented, could create additional life insurance opportunities.



So as you think about today’s conversation, you might be thinking to yourself: ***“What do we do about all of this?”***
You might also be thinking: ***“Is this good news or bad news?”***

To that I suggest a few quotes.
The first is:

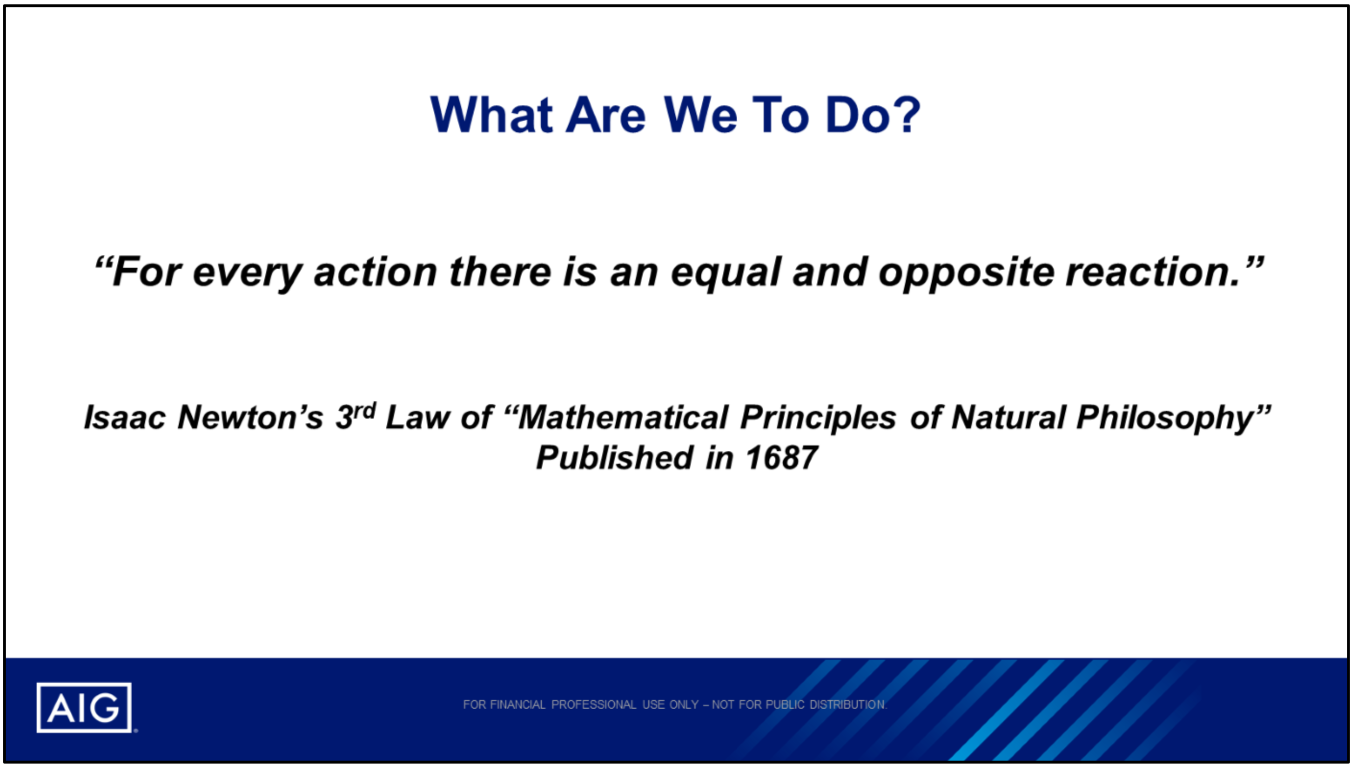
“People make choices to avoid pain or create pleasure.”

This was a principle espoused by Sigmund Freud in his 1911 book “*Two Principles Of Mental Functioning.*”

Well, the same thoughts apply to the possibilities of just about any tax law change:

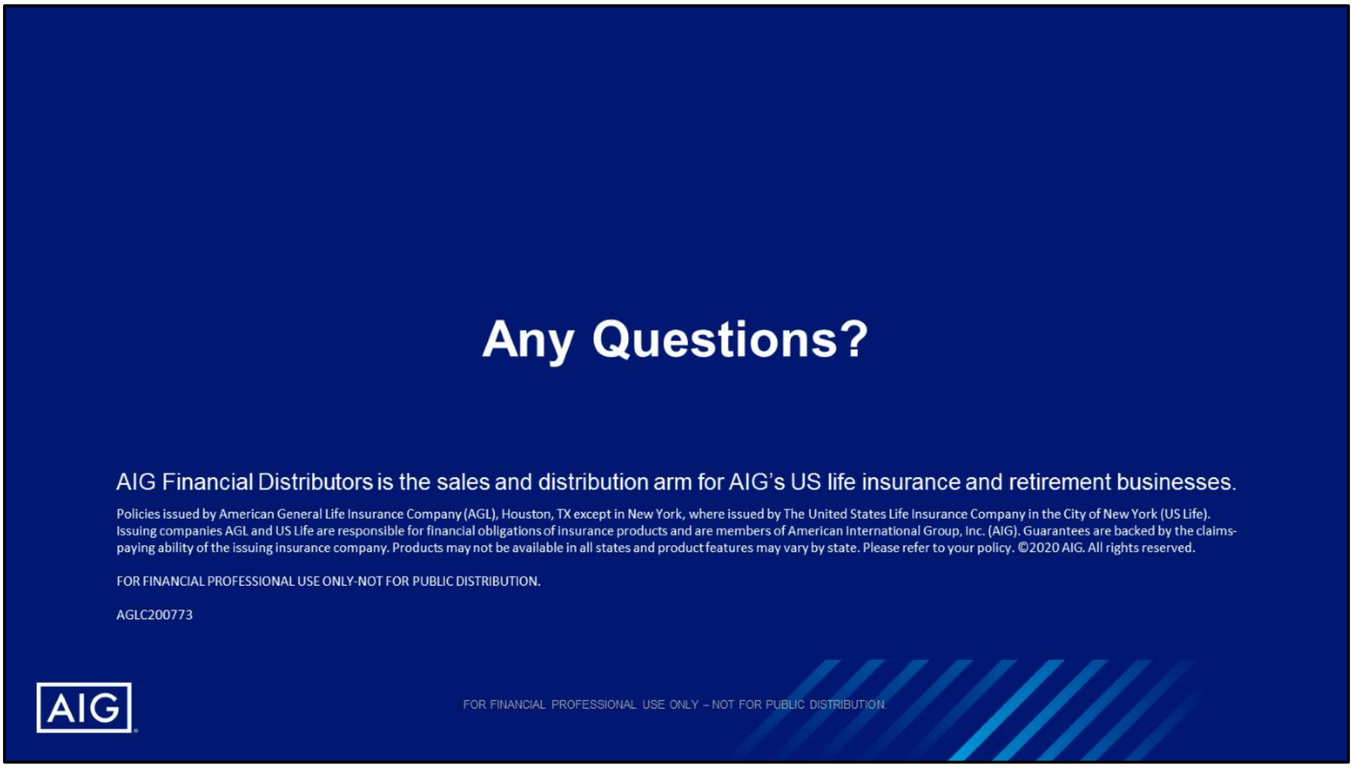
1. There will always be <u>pain and pleasure</u>; and
2. There will always be <u>reactions</u> to the changes.

So we can move forward with certainty that the future is uncertain.
We can also move forward knowing that human nature drives us to avoid pain or create pleasure.
And when we combine these two principles, we know that our mission is to continuously move with the changes, adapting to the environment so that we're positioned to help our clients achieve their financial goals.

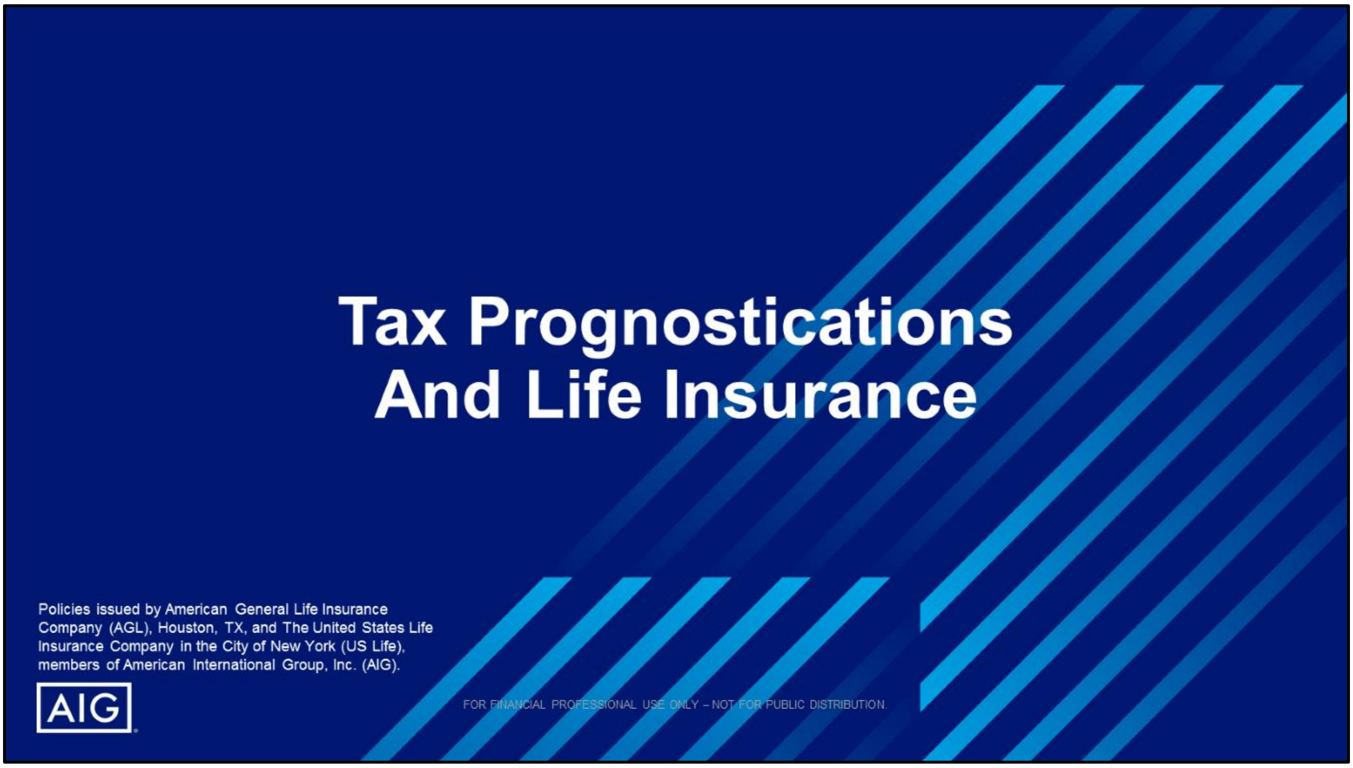


Another quote that comes to mind is:
"For every action there is an equal and opposite reaction."
That's from Isaac Newton's 3rd Law of ***Mathematical Principles of Natural Philosophy***, published in 1687.

You can rest assured that, as the tax laws change, we will react.



If anyone has any questions about anything we discussed today, let's surface those questions and have some fun.



Thanks for joining us today, and I hope you learned something new that you can immediately apply to your practice.

Here at AIG we look forward to providing you with the products, the services and the people that are the hallmark of AIG's reputation.

And we thank ***<u>you</u>*** for everything you do to help your clients achieve and protect their lifetime of financial security.