Tax diversify your retirement income

Use the power of tax diversification along with portfolio diversification to create tax-free income in retirement

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Economic and Market Update

July 2022

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EVP and Chief Investment Officer

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Executive Summary

- Financial markets continue to be under pressure, reflecting investor concerns about inflation, rising interest rates, the shift in monetary policy, and a potential recession

Inflation remains high

- Inflation continues to be broad based and running at historical highs, with the Ukrainian war putting further pressure on global food and energy supplies
- However, future inflation expectations have remained reasonably anchored, keeping the 10Y Treasury rate hovering near 3%

Fed committed to raising rates to tame inflation even if economy slows

- Late to act, the Fed has been raising rates, and is poised to shrink its asset portfolio
- The Fed increased the Fed Funds rate by 75 bps at its June meeting to a target range of 1.50-1.75%, the largest increase since 1994
- Fed's actions represent most aggressive pace of policy tightening since the late 1980s

Consumers are in good shape, but starting to fade

- Consumer sentiment has plummeted to the lowest levels on record and spending has begun to slow
- Consumer balance sheets remain strong, but inflation is eating into excess savings accumulated during the pandemic, with the personal savings rate falling to below pre-pandemic levels

Can Fed tame inflation without triggering a recession?

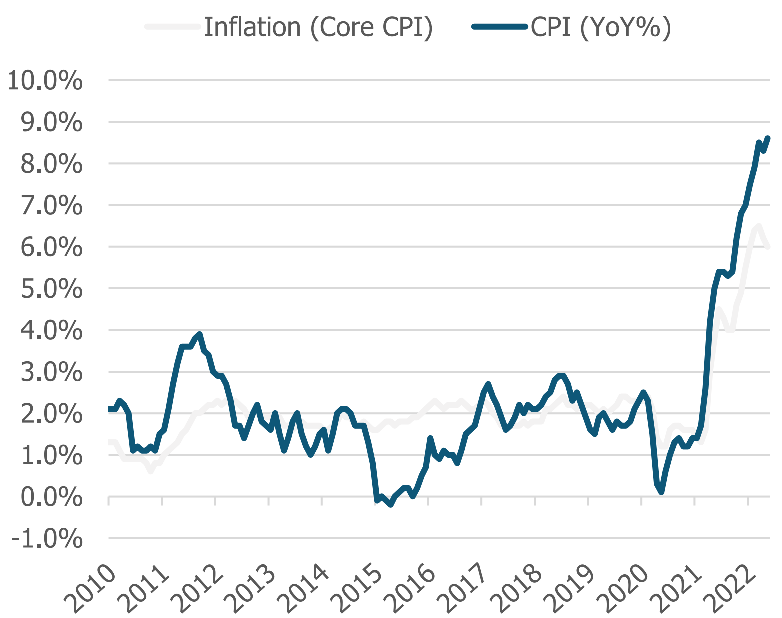
- The risk of a recession has increased significantly
- The pivot point between inflation vs. growth is the consumer
- Plummeting confidence could result in less spending, which reduces inflation, but hurts growth
- The Fed would appear to have some room to maneuver, but with a high degree of difficulty

- High degree of uncertainty has led to increased volatility, a flattening yield curve, wider credit spreads, and sharp declines in equity markets

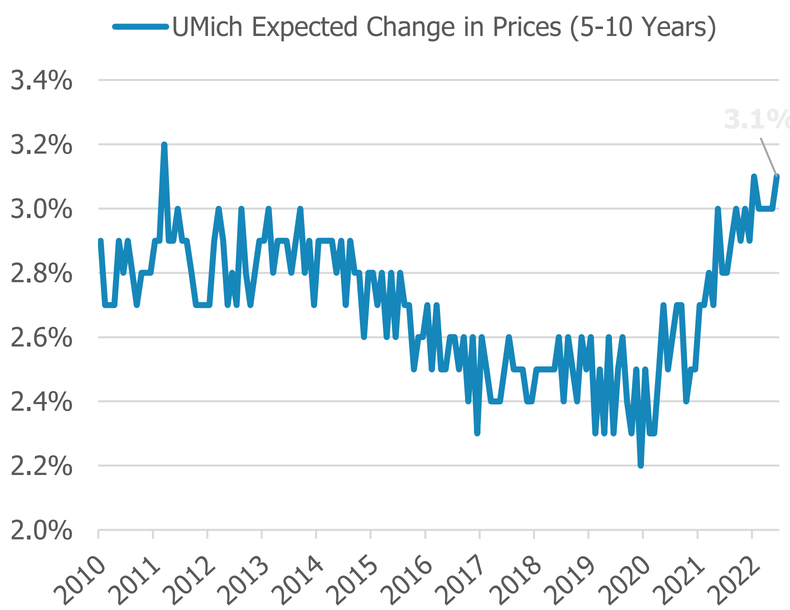
U.S. inflation remains at the highest level in four decades

- Supply and labor shortages, strong consumer demand, and the war in Ukraine continue to drive prices higher
- Inflation expectations have also begun to move higher, a critical barometer, but remain reasonably anchored

Inflation



Expectations

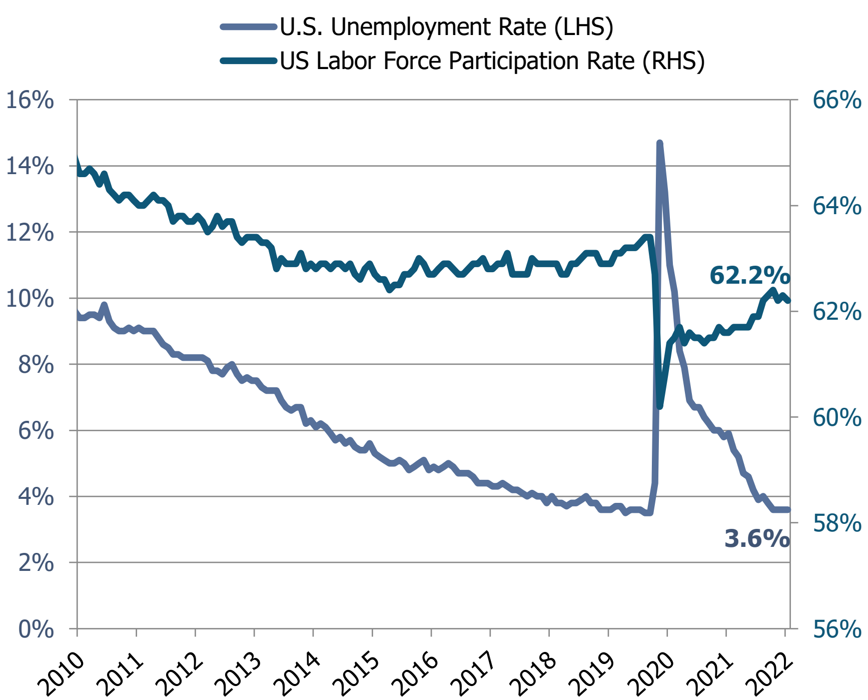


Source: Bloomberg, July 2022

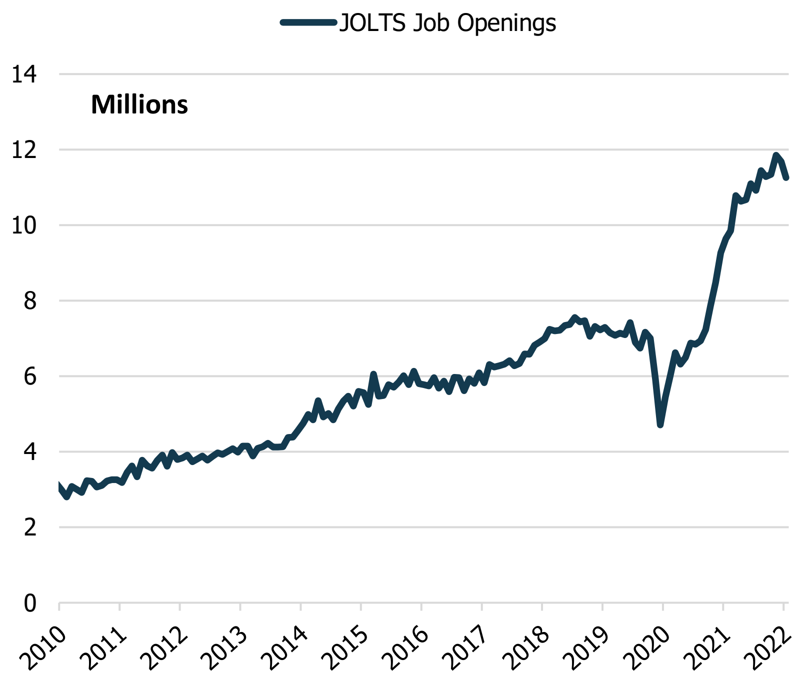
Tight labor market is driving wages higher, but wage gains are not keeping pace with inflation

- Unemployment rate has held steady at 3.6% through June, but could begin to tick upwards as companies, and in particular the tech industry, have announced layoffs and hiring freezes
- The June jobs report highlighted a resilient and stronger than expected labor market, clouding the economic outlook and lowering fears of an imminent recession

Unemployment Rate



Job Openings

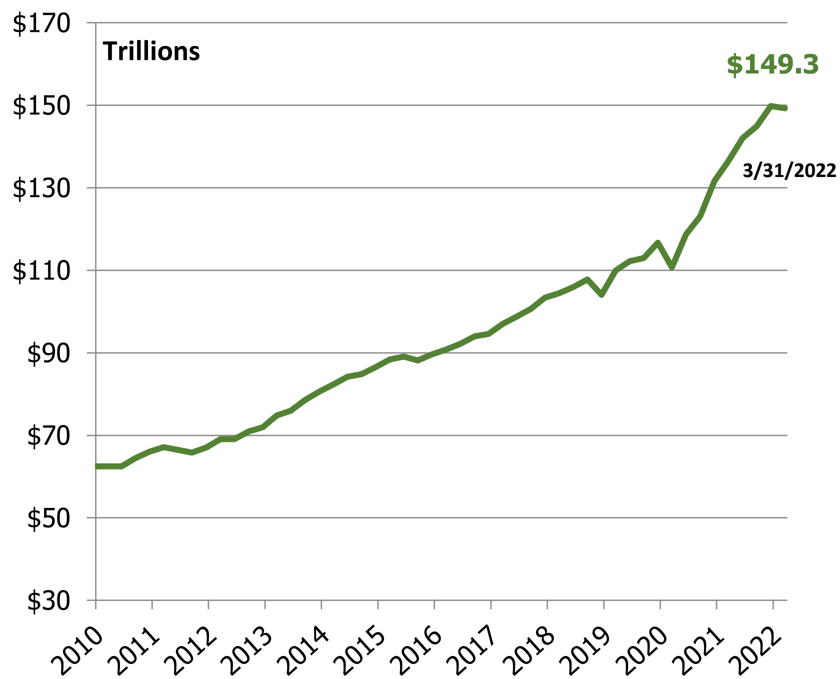


Source: Bloomberg, July 2022

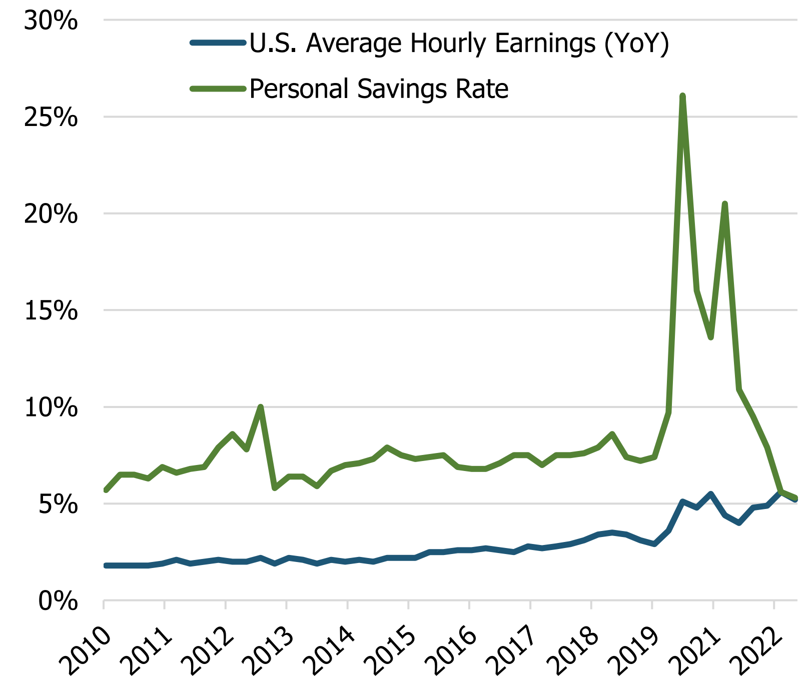
Consumers are still in good shape, with healthy balance sheets and rising wages, but inflation is eating into excess savings

- Household wealth remains near record high, but fell for the first time in two years during the first quarter of 2022
- Substantial excess savings from the pandemic have allowed consumers to weather higher inflation, but the personal savings rate is now below pre-pandemic levels

Household Net Worth



Wage Growth and Savings

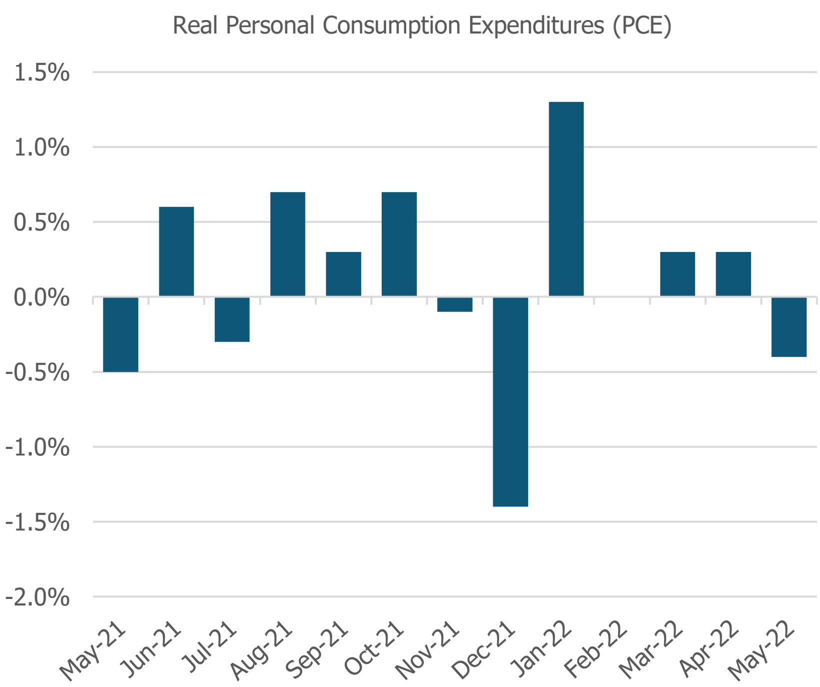


Source: Bloomberg, July 2022

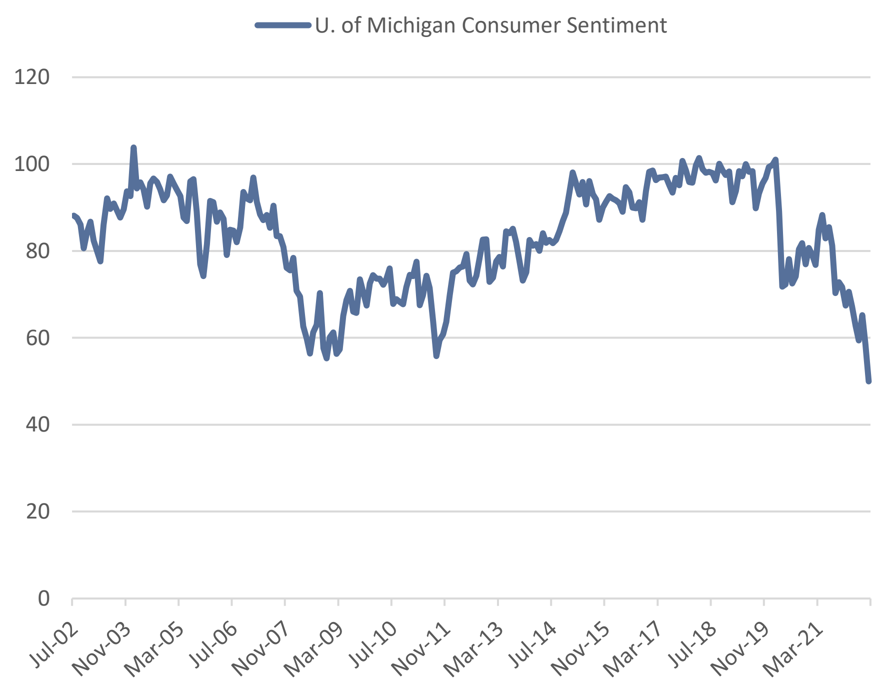
Consumer spending and sentiment is starting to fade

- The University of Michigan's gauge of consumer sentiment reached the lowest level on record going back to 1952
- A slowdown in consumer spending, the main driver of the US economy, adds to growing concerns about the economic outlook

Consumer Spending



Consumer Sentiment

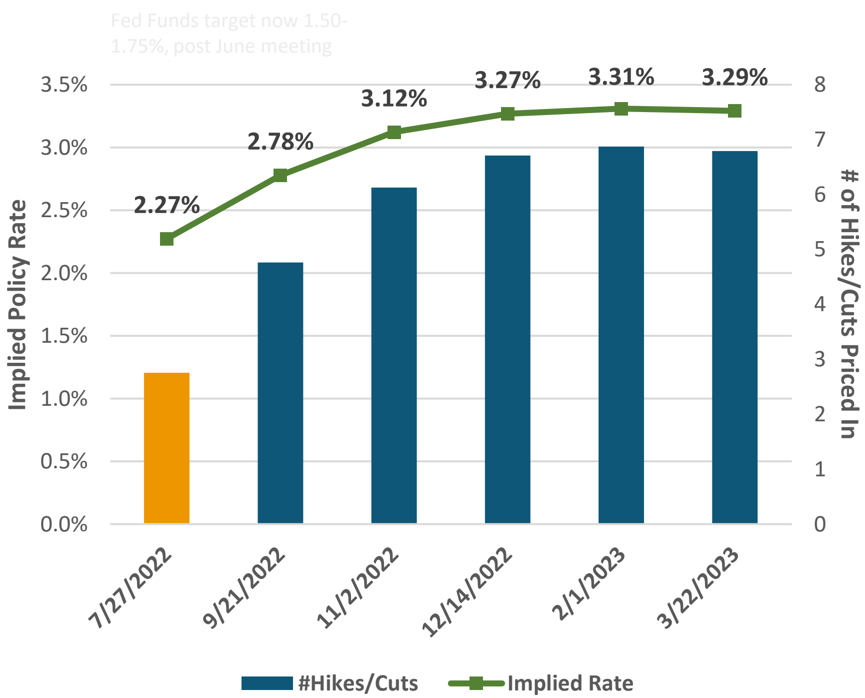


Source: Bloomberg, July 2022

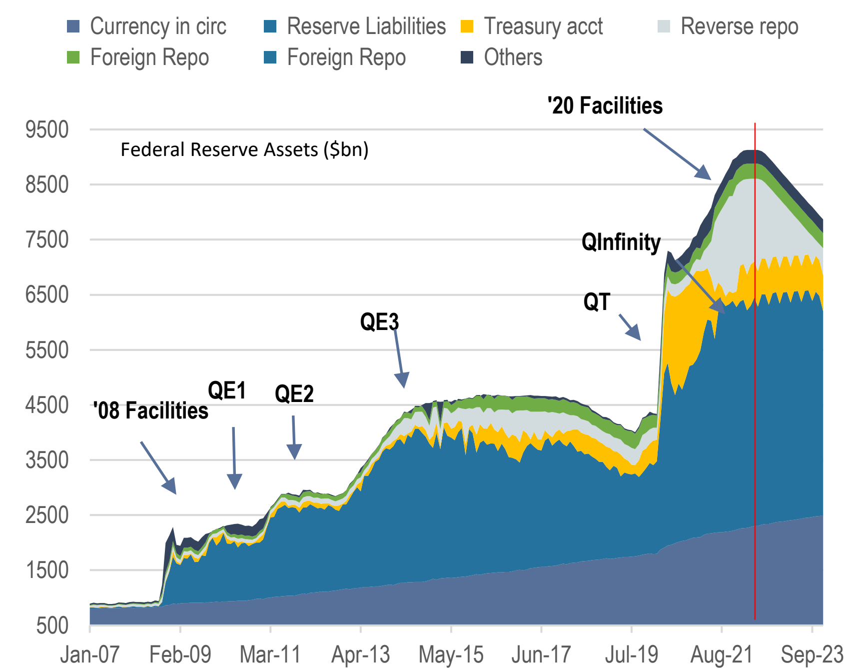
Late to act, the Fed has been raising rates, and is poised to shrink its asset portfolio

- The Fed increased the Fed Funds rate by 75 bps at its June meeting to a target range of 1.50-1.75%, the largest increase since 1994
- Fed's actions represent the most aggressive pace of policy tightening since the late 1980s
- The question is whether the Fed can tame inflation without triggering a recession

Implied Overnight Rate & Number of Hikes/Cuts



Fed Balance Sheet

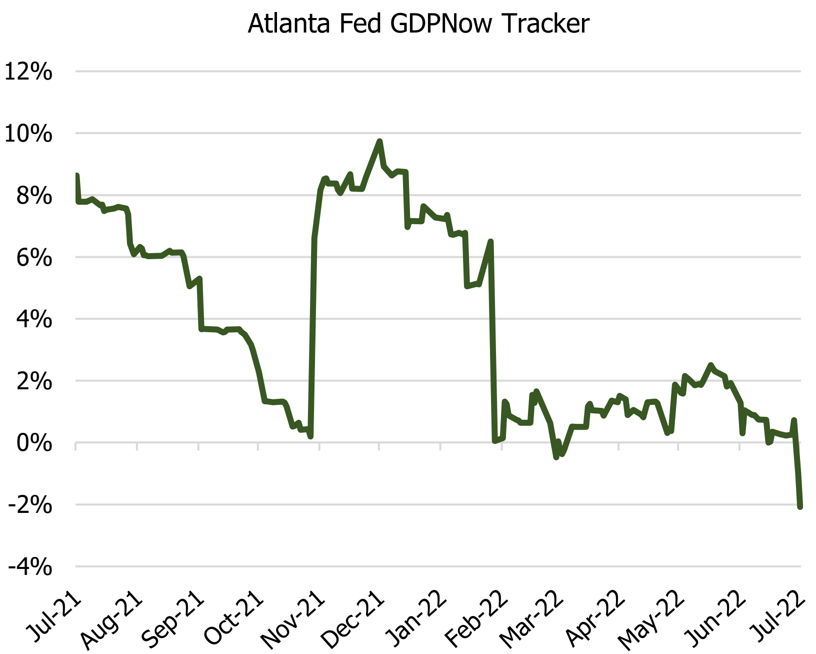


Source: Bloomberg, July 2022

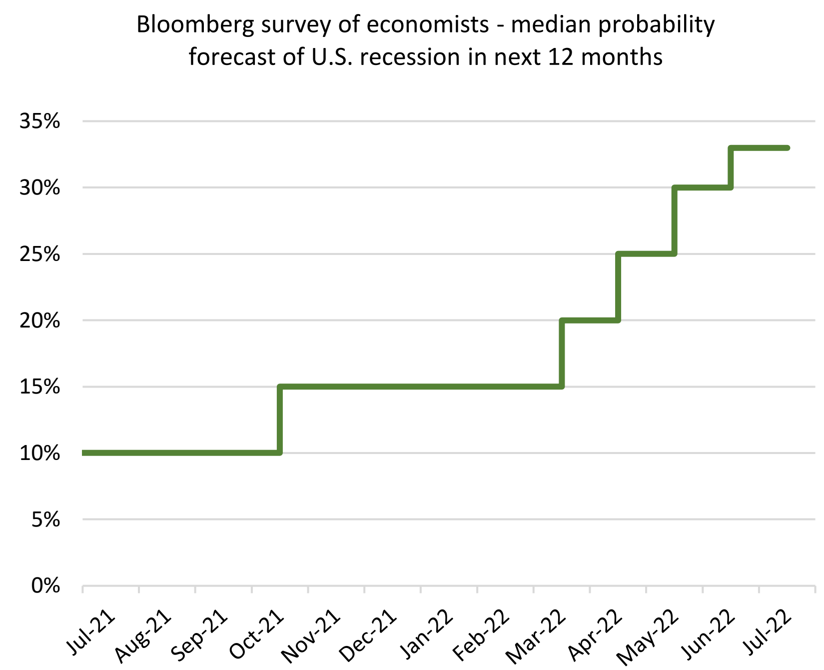
The risk of a recession is increasing

- Recession odds have increased significantly, driven by the deterioration of consumer sentiment and moderation of corporate profit outlook
- Federal Reserve officials have solidified their resolve to keep raising interest rates to prevent higher inflation, even if this slows the US economy

U.S. GDP Forecast



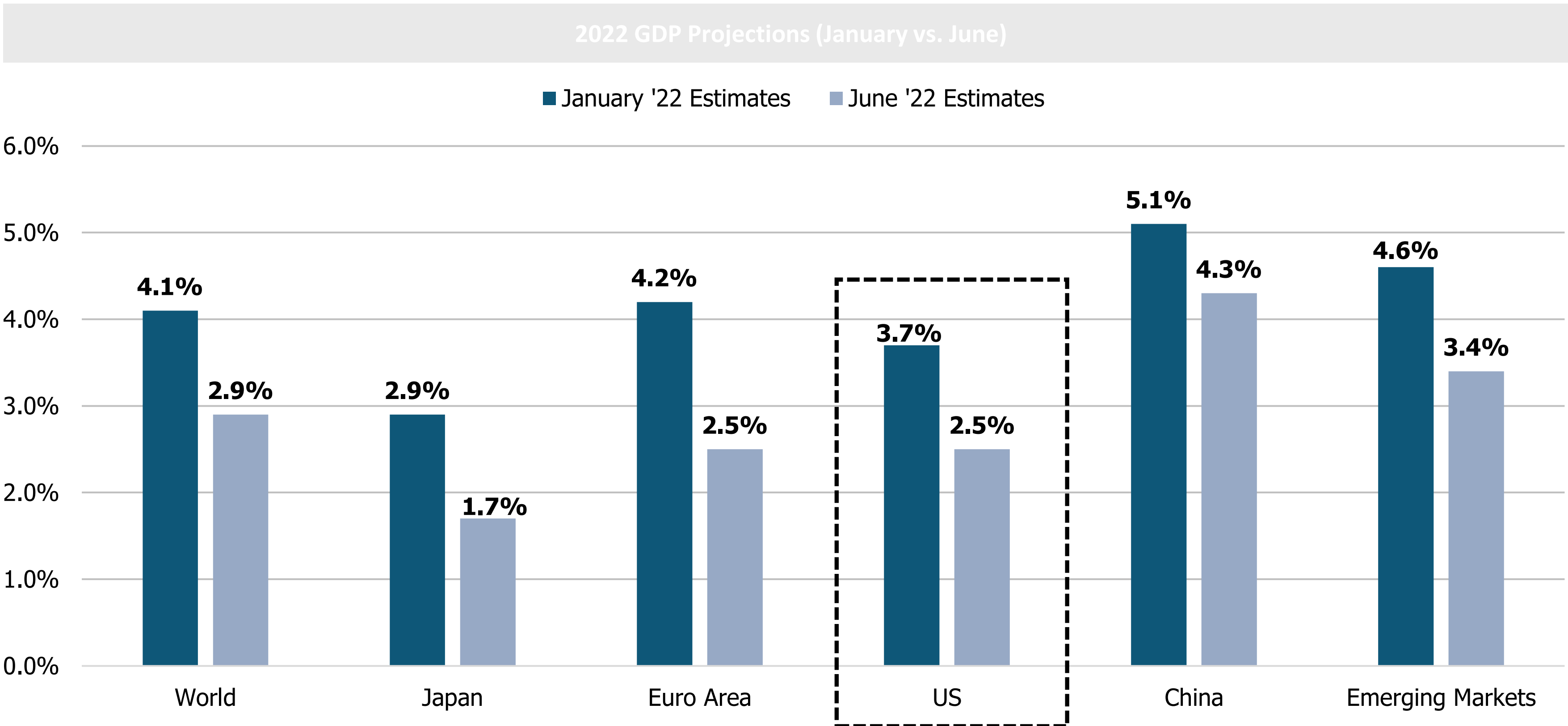
Recession Probability Forecast



Source: Bloomberg, July 2022

Global growth forecasts lowered on Ukraine war, China Covid-19 lockdowns

- The simultaneous withdrawal of fiscal and monetary stimulus that bridged the economy through the pandemic is dampening the U.S. growth outlook
- War contributing to higher commodity prices and supply chain disruptions
- U.S. economy contracted in 1Q22, with the risk of a recession increasing in the past few months

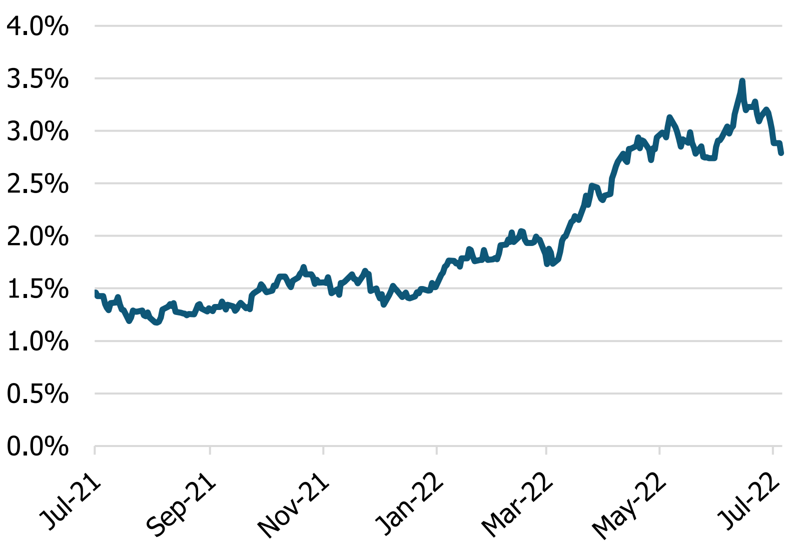


Source: World Bank, Global Economics Prospects Report, June 2022

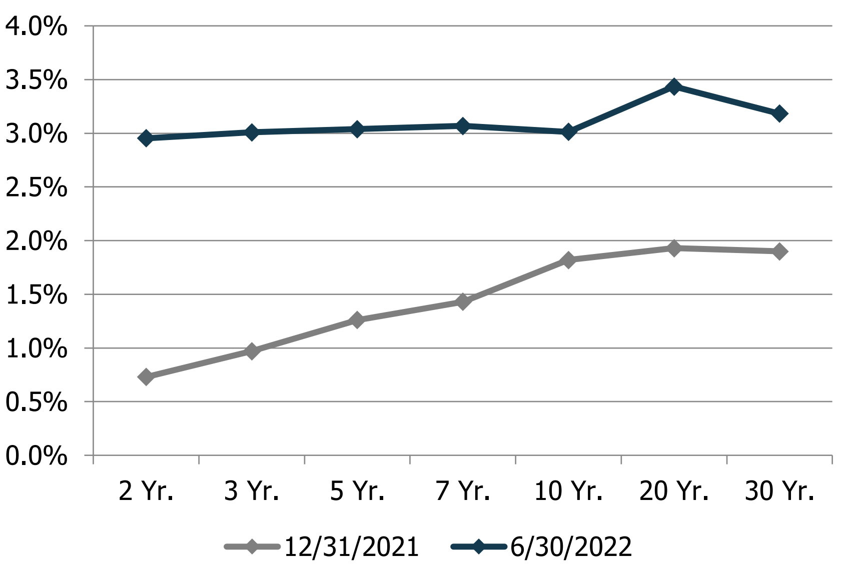
Interest rates have increased to highest levels in a decade

- The yield curve has flattened YTD in anticipation of an aggressive hiking campaign
- Relatively well anchored inflation expectations have kept 10Y Treasury yield hovering around 3%
- An inverted yield curve is a leading indicator of future recessions (within 12 months)

U.S. Treasury 10Y Yield



U.S. Treasury Yield Curve



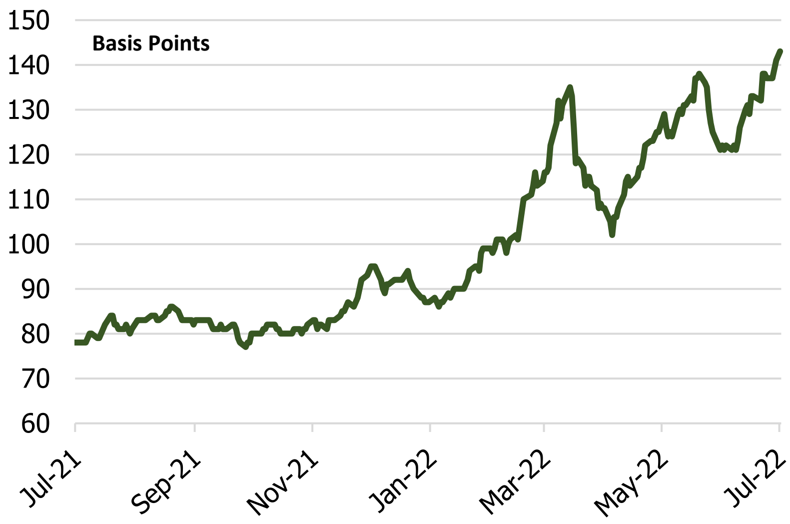
Past performance is no guarantee of future results.

Source: Bloomberg, July 2022

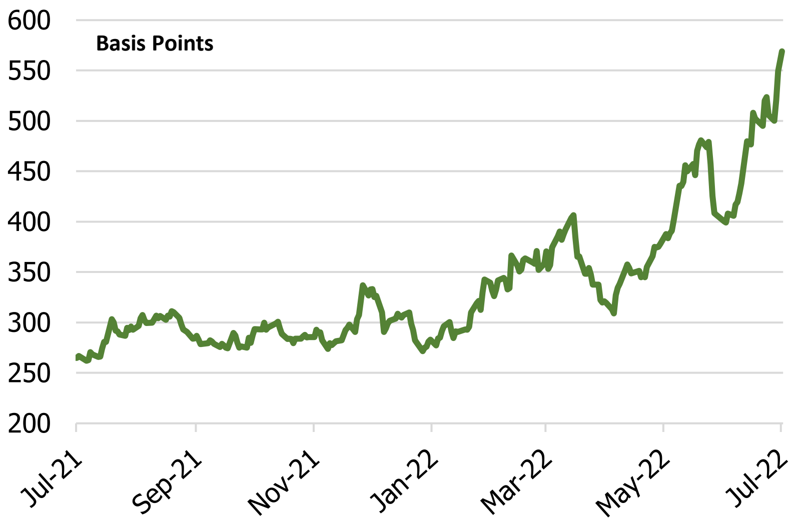
Credit spreads have widened and are now above long-term averages

- YTD total returns for bonds are negative, with IG and HY indices both down 14%, mostly due to the increase in interest rates; however, credit spreads are beginning to widen
- Markets remain orderly but High Yield issuance is down 76% YTD compared to the prior year

Bloomberg US Agg Credit Avg. OAS



Bloomberg US Corporate High Yield Index - OAS

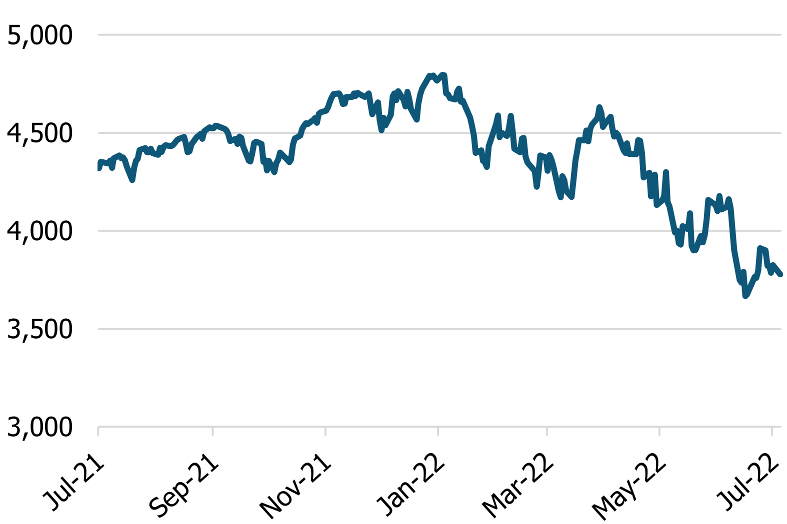


Past performance is no guarantee of future results. An investor cannot invest directly in an index.
See appendix in the back for important information.

Equity markets have sold-off sharply on fears of inflation, rising rates, Ukraine, and China

- Since 1960, the S&P 500 has had just two first-half losses greater than this year's 21% decline through Q2
- The NASDAQ entered a bear market – a drop of more than 30% from recent highs
  - Many formerly highflying tech companies have reported disappointing earnings
  - Multiples are contracting, reflecting higher discount rates
- Equity valuations have compressed but are near their longer-term average

S&P 500 Index



Nasdaq Composite Index

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See appendix in the back for important information.

Appendix

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States.

The S&P 500 Bond Index is designed to be a corporate-bond counterpart to the S&P 500, which is widely regarded as the best single gauge of large-cap U.S. equities. Market value-weighted
than 3,700 stocks listed on the Nasdaq stock exchange. It is a broad index heavily weighted toward the technology sector.

The Bloomberg US Agg Credit Average OAS is a publicly issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.
Name change consequences: The US Credit Index is the same as the former US Corporate Investment Grade Index, which has been renamed as the US Credit Index. The name change is effective as of 6/1/00 (for statistics) and as of 7/1/00 (for returns).
Sectors: The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance which include US and non-US corporations.

The Bloomberg US High Yield Index covers the universe of fixed-rate, non-investment grade debt. Eurobonds and debt issues from countries rated designated as emerging markets are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included.
Sectors: The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both US and non-US corporations.

People Need Help when it comes to retirement planning

39% of today's workers are less than confident they'll have enough to retire comfortably.*

Help in managing risk and taxes for a better lifestyle

*Issue Brief, Employee Benefits Research Institute, March 21, 2017.

If you could predict the future.

If you knew…

You would live a long time…

Buy a guaranteed lifetime-income product so you don't outlive your money.

You would die next week…

Buy the biggest block of term insurance you can qualify for.

That an investment would turn out "golden"…

Pile every nickel into it.

Challenge…

We don't know what will happen.

We need to find the right financial tools to cover as many contingencies as possible:

- Without losing control.
- Without losing principal.
- Without losing sleep!

There is no "perfect place" to put money:

- There are trade-offs.
  - Depending on your goals, time horizon, risk tolerance, etc.

Challenge…

There is no "perfect place" to put money

Two “kinds” of money.

Money to **protect** what matters most:

- “Safe” money.
- Legacy money.

Money to help **grow** and support your lifestyle:

- Investments.

What will your future retirement hold?

- More time for yourself?
- Family time?
- Hobbies?
- Travel?

Challenges to consider

Social Security benefits may replace a smaller portion of pre-retirement earnings

Many people may live 30 years or more as retirees and need to prepare for that length of retirement

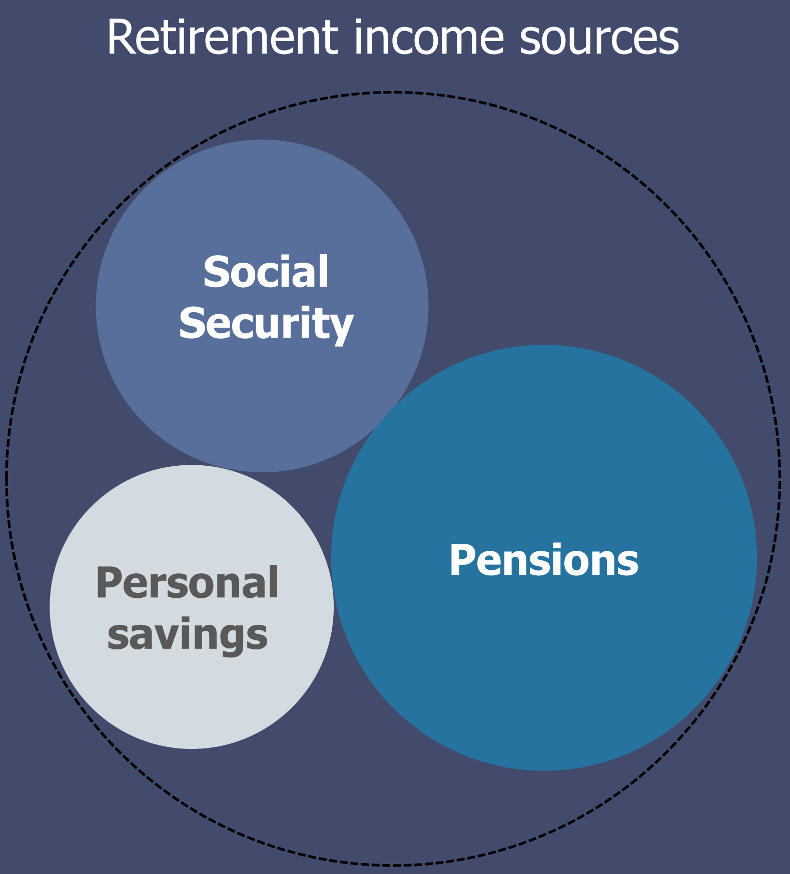
Many who are approaching or preparing for retirement may not be able to generate supplemental retirement income on their own

Market volatility adds a layer of uncertainty

Retirement income sources have also changed.

In the past:

- Retirees counted on Social Security and company pensions.
- As a result, individuals didn't need as much in personal savings.



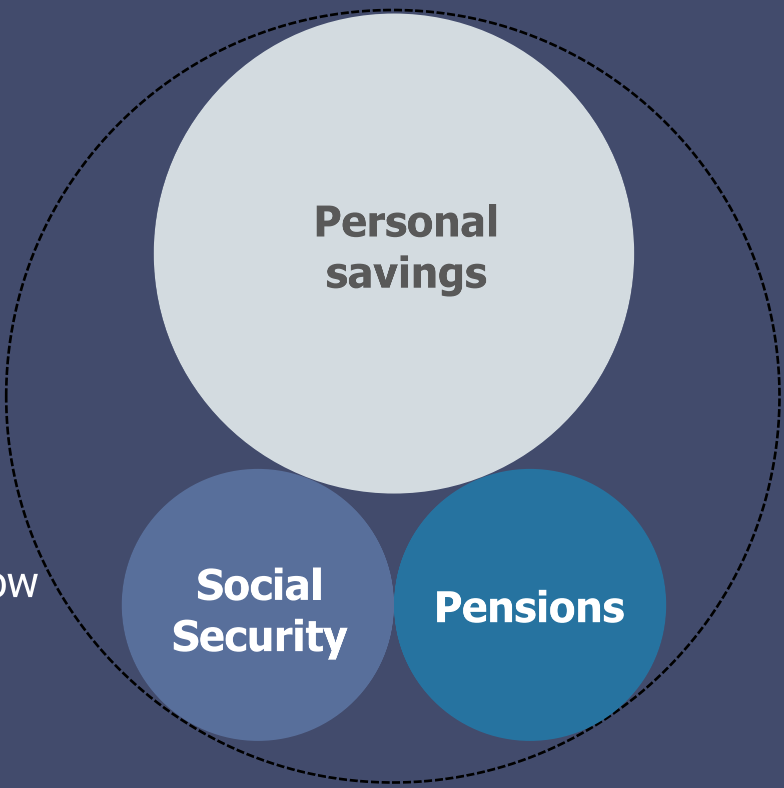
Retirement income sources have also changed.

Now:

- Social Security faces a potentially uncertain future.
- Fewer companies are offering pension plans, choosing instead to shift the costs to employees with 401(k) plans and other defined contribution plans.

People will likely need to rely more on personal savings and assets, so they need to consider how their savings vehicles will be affected by taxes.

Retirement income sources



Personal assets are critical.

Most people have more questions than answers when it comes to planning for retirement:

- How much will I need?
- How much will I have?
- How much do I need to save to cover the shortfall?

For personal savings, people want to know:

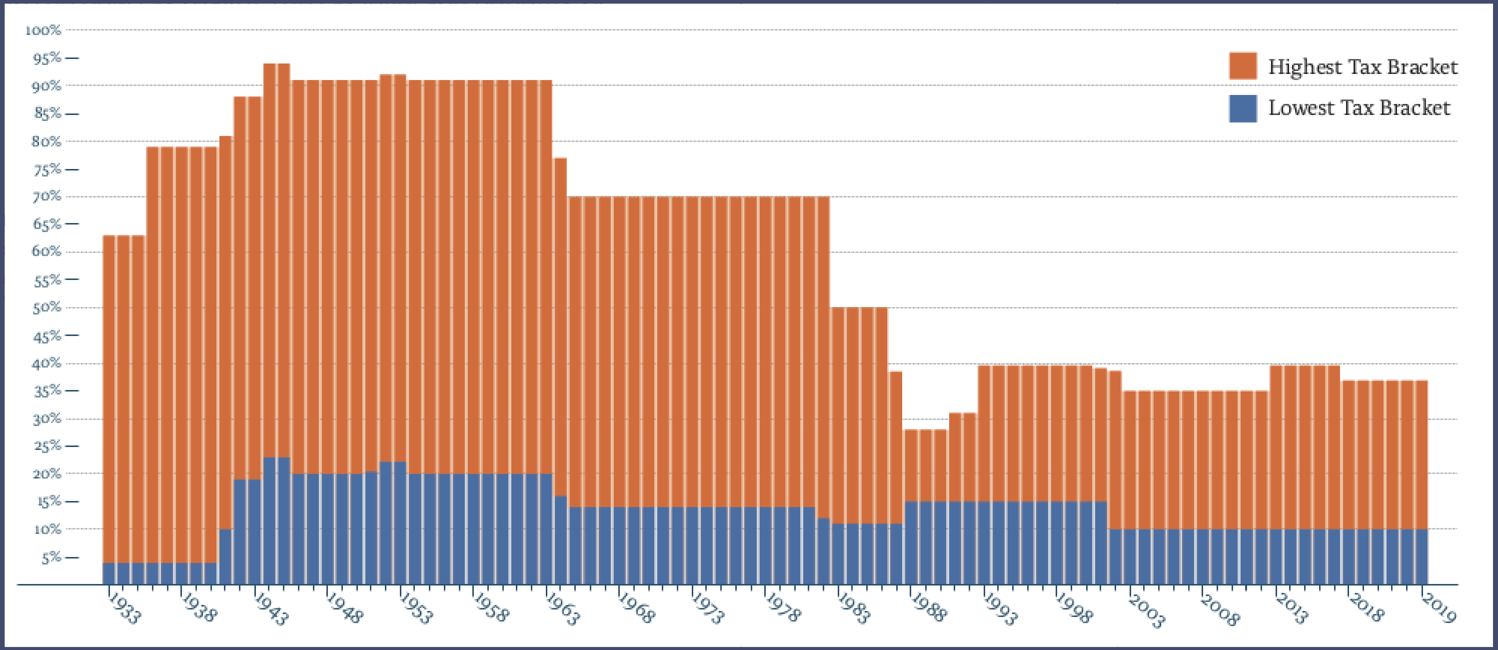
- Where should I put my money?
- How will I be affected by taxes?

A key question…

Have you factored in the effects of taxes on your future retirement income?

Where do you think tax rates are going?

- Tax rates are currently at historically low levels.
- Tax rates may be higher by the time you reach retirement



This graph illustrates the high and low marginal tax rates over history. Exemptions, deductions, and state and local taxes are not taken into account when illustrating these marginal tax rates. Your actual tax rates may vary from those shown on the graph. Remember that historical rates are not a guarantee of future rates.

Is tax deferral the best strategy?

- Decades ago, tax rates were so high and there were so many tax brackets that deferring income generally reduced the tax burden.
- In the new tax reality, the tax-leverage benefits of deferring income may not be as compelling.
- Lower tax rates and fewer tax brackets call for a smarter strategy.

* The taxable income amounts in the tax brackets are adjusted annually for inflation.

Source: http://taxfoundation.org/article/2020-tax-brackets

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Individual Income Tax Brackets* (Married, Filing Jointly)

1979–1980		2020	
Taxable Income	Rate	Taxable Income	Rate
$0 - $3,400	0%	$0 - $19, 749	10%
$3,401 - $5,500	14%		
$5,501 - $7,600	16%	$19,750 - $80,249	12%
$7,601 - $11,900	18%		
$11,901 - $16,000	21%	$80,250 - $171,049	22%
$16,001 - $20,200	24%		
$20,201 - $24,600	28%		
$24,601 - $29,900	32%	$171,050 - $326,599	24%
$29,901 - $35,200	37%		
$35,201 - $45,800	43%	$326,600 - $414,699	32%
$45,801 - $60,000	49%		
$60,001 - $85,600	54%	$414,700 - $622,049	35%
$85,601 - $109,400	59%		
$109,401 - $162,400	64%	$622,050 and higher	37%
$162,401 - $215,400	68%		
$215,401 +	70%		

How much retirement income will you get? How much will you get *to use*?

Retirement income falls into three categories when it comes to taxes. And taxes affect how much of your income you'll be able to enjoy.

Taxable

Tax Deferred

Tax-free Income

If I don't tell you anything more, where do you want most of your money?

[4] Certain interest, although exempt from federal income taxes, may still be reportable to the IRS and, in certain circumstances, may be subject to the alternative minimum tax (AMT).

Where are your assets now?

Taxable **Tax Deferred** **Tax-free Income**

%________ %________ %________

Are you happy with these percentages? Would you like to discuss how to allocate your assets in the future?*

Taxable Income		**Tax-Deferred Distributions**		**Tax-Free Distributions**	
Savings & CDs	$	401(k)	$	Roth Accounts	$
Investment Accounts	$	IRA	$	529 Plans	$
Real Estate	$	Annuity	$	Municipal Bonds**	$
Business Income	$	Other deferred compensation plans	$	Cash Value Life Insurance*	$
Other	$	Other	$	Other	$

The primary purpose of life insurance is to provide a death benefit. Cash value life insurance is not a retirement account, like a Roth IRA. Cash value life insurance is not an interest-bearing debt obligation, like a municipal bond. However, cash value life insurance does offer tax-free access to the cash value, whereupon withdrawing cash value will reduce the available cash surrender value and death benefit. Using a life insurance policy's cash value to supplement retirement income can negatively impact the insurance benefit and cash value, and can possibly make the policy lapse. There may be tax implications for policies recognized as modified endowment contracts (MECs) or if you partially surrender the policy for an amount that exceeds the cost basis of the policy; in addition, certain partial surrenders made within the first 15 years after a policy is issued may be fully or partially taxable. Distributions, including loans, from an MEC are taxable to the extent of the gain in the policy and may also be subject to a 10% tax penalty if the owner is under age 59½.

*Taxable, tax deferred, and tax free refer to the tax treatment of any earnings/growth/gain from these assets. Please note that redistributing assets among the “buckets” may trigger tax consequences. For example: Selling assets in the taxable bucket in order to invest in assets in the tax-deferred bucket could trigger capital gains taxes. Please consult your tax advisor for advice before taking any action.

**Municipal bonds may be subject to alternative minimum taxes.

The "tax perfect" retirement plan.

There are ways to help minimize the effect taxes will have on your retirement income. Ideally, you would like to create a retirement plan that includes three key attributes:

1. Contributions that are tax deductible.
2. Accumulation that is tax deferred.
3. Distributions that are tax free.

Tax diversifying your asset types may help create more tax-free income for your future retirement

	Tax-deductible contributions	Tax-deferred accumulation	Tax-free income
Traditional IRA	●	●	
401(k) plan	●	●	
Roth IRA		●	●
Pension plan	●	●	
Tax-free municipal bonds*		●	●
Keogh plan	●	●	
Profit-sharing plan	●	●	
Cash value life insurance**		●	●

* Municipal bonds may be subject to alternative minimum taxes.

** The primary purpose of life insurance is to provide a death benefit. Using a life insurance policy's cash value to supplement retirement income can negatively impact the insurance benefit and available cash surrender value, and possibly help cause the policy to lapse. There may be tax implications for policies recognized as modified endowment contracts (MECs) or if you partially surrender the policy for an amount that exceeds the cost basis of the policy. However, certain partial surrenders made within the first 15 years after a policy is issued may be fully or partially taxable. Distributions, including loans, from an MEC are taxable to the extent of the gain in the policy and may also be subject to 10% additional taxes if the owner is under age 59 ½.

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A nontraditional solution.

In addition to protecting your family, whole life insurance:

- Can be paid for with after-tax dollars.
- Generates cash value that accumulates on a tax-deferred basis.
- Allows you access to policy values—before or during retirement—generally on a tax-free basis.[7]
- Provides a death benefit to your beneficiaries that is generally tax free, unlike other investments.

You can access cash value via loans or withdrawals through surrenders. When accessing cash value via loans, the total outstanding loan balance (which includes daily accrued loan interest) reduces your policy's available cash surrender value and life insurance benefit. When taking a withdrawal through surrenders, you are surrendering any available Paid-Up Additional Insurance for its Cash Surrender Value. This means that your Policy's Cash Value, available Cash Surrender Value and Death Benefit will be reduced by the amount of the withdrawal.

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The benefits of tax diversification.

Retirement income of $100,000:

Without Tax Diversification	With Tax Diversification	
$100,000 401(k)/qualified plans	$50,000 401(k)/qualified plans	$50,000[7] cash value life insurance
100% taxable	100% taxable	tax free[8]
$100,000 taxed at 22%[6]	$50,000 taxed at 12%[6]	$50,000 taxed at 0%[8]
= $22,000 tax	= $6,000 tax	= $0 tax
$78,000 to spend after taxes	**$94,000 to spend after taxes**	

Hypothetical example for illustrative purposes only.

[6]Assumed marginal federal income tax bracket under current rates for married individuals filing jointly. Assumption only federal income tax.

[7]As stated earlier, withdrawals and loans reduce the available cash surrender value and life insurance benefit. Policy values are in part based on nonguaranteed factors, such as dividends and interest rates, which are subject to change. Therefore, the supplemental retirement income is not guaranteed.

[8]If structured properly. Policy loans and partial policy value surrenders will reduce the available cash surrender value and life insurance benefit of the policy and may cause the life insurance policy to lapse.

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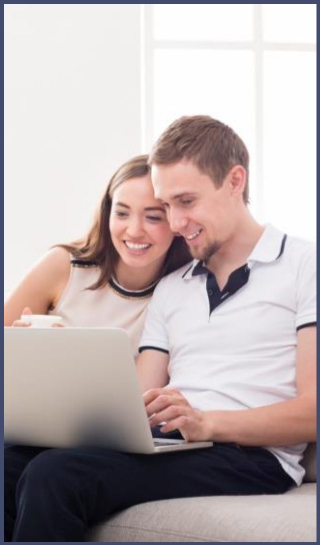
Tax Diversification and Retirement Income

Person to person help to craft and execute your unique strategy.



PREPARATION

1. Think about your goals
2. Prioritize your goals
3. Develop a strategy and take action
4. Update and review your progress at least once a year

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