Thank you all for joining me today. What I want to cover in the next ___ minutes or so, is how the last 20 or 30 years have changed the way we look at everything, from our investments to our homes to even our life insurance. With all of the economic and political uncertainty these days, coupled with a bumpy stock market and an incredibly low interest rate environment, clients need to get serious about where and how they invest their dollars and what vehicles they use. And I think life insurance can not only provide death benefit protection, but when properly owned, structured and funded, can become a valuable asset in a client’s overall financial portfolio.

Let’s take a quick look back before we move forward. For those of you who have been in the industry long enough to remember, before 1980, generally all that was available was whole life and term. Pensions from work were the norm and whole life was used for death benefit protection and as an additional funding vehicle, perhaps, to help supplement the pension. People were used to these types of steady and fixed rates of return.

But then something changed. We saw a dramatic shift in our industry, with three major things happening:

1) The 401(k) was introduced and pensions were beginning to be phased out. Companies saw an opportunity to reduce costs and the risk of having enough retirement income was beginning to transfer to the employee.
2) The market took off!
   a. In the 1980’s, the S&P averaged 17.68%
   b. In the 1990’s, the S&P averaged 18.30%
3) Universal life policies were introduced to the market. This introduction commoditized life insurance and changed the perception that life insurance was not an asset, but rather an expense. Universal life insurance was really the cost to replace you. Suddenly the returns of 3%, 4%, 5% and 6% inside whole life policies no longer looked attractive. People began to shy away from whole life and shifted to universal life, and supplemented it with equities investments.

Now things have shifted again. With the “lost decade” behind us, questions we need to ask our clients are:

• What do you think is a good return going forward?
• How is that different from what you thought before?
• What do you think about the future of taxes?

Remember, it’s our job as advisors to help our clients make solid financial decisions that make sense no matter what the market brings in the future.

1 Compound Annual Growth Rate (Annualized Return), Moneychimp.com, July 2012
I want to begin by talking a little about the environment we are in. What’s changed over the last 10 or 20 years? How does that change our expectations of the future?

Then, I want to get into tax diversification. We always talk about equity diversification, but taxes can play a significant role in how much money is leftover to fund our goals.

Finally, I want to help you position life insurance as an asset in clients’ overall financial portfolio.
Where We Are Today
Current Environment
Of course, life insurance is primarily used for its death benefit and not intended to be a replacement for any retirement plan. But there are situations where cash value life insurance can be a good vehicle to supplement retirement income, especially for successful individuals who are limited when contributing to qualified retirement plans.

For example, in 2015, those under 50 are limited to a $18,000 contribution to a 401(k). While this may represent a 18% savings rate for an individual making $100,000, it only represents a 6% savings rate for someone making $300,000. This combined with other income-based limits on Roth IRAs and other retirement plans, make putting enough money away in tax-advantaged vehicles difficult for higher income earners.

Furthermore, with the decline of traditional pensions and uncertainty surrounding Social Security and Medicare, everyone, including lower income earners need to re-evaluate the amount of income they can expect during retirement, and take steps today to help ensure they can retire as comfortably as they once thought.

We have also seen a flight to quality over the past few years. As of June of 2014, somewhere in the neighborhood of $10.9 trillion sit on the sidelines — in money markets, CDs and savings accounts.1 And 10-year treasuries hover around 2.25%, clients find it difficult to squeeze returns out of less risky assets.

Finally, we often discuss market diversification, but seldom discuss tax diversification. If taxes go up, clients need to make sure all of their assets are not in a position to be heavily taxed upon distribution. While we can't say exactly what the future of taxes will be, we are certainly in a relatively low period. The average top marginal tax rate over the last 100 years is upwards of 50%, so it’s not uncommon to think that taxes will likely go up in the future. It’s important to ask clients where and how they are investing their dollars now, and how might they be taxed in the future, especially if taxes go up.

1 JP Morgan “Guide to the Markets” 3Q2014 page 66
2 http://finance.yahoo.com/bonds
Let's take a look at where clients are investing their dollars. Generally, assets fall into three categories: Taxable, Tax-Deferred and Tax-Favored.

First – Taxable – Cash, CDs, checking, non-qualified brokerage accounts, etc…these are after-tax contributions and can be subject to tax every single year. This bucket is utilized for its high liquidity and it’s what I call our 1-to-3 or 1-to-5 year money. It is generally not made for retirement, as you do not get compounding tax-deferral.

Second – Tax-Favored – This bucket includes three simple vehicles– Roth IRA, municipal bonds and cash value life insurance. Let’s take each one separately. Roth IRA – if we are talking to clients making north of $100/$150K a year, we are not discussing Roth IRA’s anyway; they carry income contribution limits and they carry contribution limits themselves. Municipal or “Muni” bonds – these are excellent planning tools, but they are used more often when moving into or in retirement because they are designed to give you an income today. So they are best used to give you immediate tax-free income NOT deferred tax-free income. Lastly, cash value life insurance offers death benefit protection and features after-tax contributions, tax-deferred growth and, if properly structured, tax-free income through withdrawals up to cost basis and loans thereafter. Please keep in mind that loans and withdrawals can reduce the cash value and death benefit as indicated on the slide and there could be tax consequences if the policy lapses or is exchanged without standing loans.

Third – Tax Deferred – 401(k), 403(b), traditional IRA’s, SEP/SIMPLE’s, 457’s, KEOGHS…any qualified plan. It is tax-deductible contributions today, grows tax-deferred for retirement, but it is 100% taxable in retirement.

I’m not saying don’t invest here and I’m not trying to say it’s not a good choice. Just so you know everything involving purchasing life insurance is a supplement to, not an alternative to investing in qualified plans! I hope everyone here and our clients are maxing out these plans. This should be a discussion with these clients who are at the threshold and need to fill their retirement planning gap. It is a supplement to…NOT an alternative of investing in qualified plans.

Now…this is what we call the tax control triangle…this is your fact finder…use it in every single appointment…whether it be on a cocktail napkin, white board or a legal pad – you should draw this every time.

At the end of what I just walked through with you – advisors or producers should ask, “Mr. & Mrs. Client – where and how are you invested? Let’s go through each one…what do you have in cash, what do you have in checking, CDs…etc…?”

What you are going to find out is that for the most part they are going have very little (maybe 20-30%) in the taxable/liquid bucket, the majority (maybe 60-70%) in the qualified tax-deferred bucket and very little (maybe 0-10%) in the tax-favored bucket. I find they often have a small Roth IRA or Muni-bond or maybe even an old whole life contract that their parents or someone bought for them a long time ago.

What they will start to see is that while they understand market diversification is very important, the question to ask them is, "How do..."
you feel from a tax diversification perspective? Given that taxes may go up in the future, how do you feel when you move into the distribution phase, knowing that a lot of your funds will fall into the taxable category?”

This is not a story of me telling you to put your entire client’s money in cash value life insurance, it is a story of how we help clients to find a balance. Focusing on clients’ income in the future will help to make sure they have diversified their retirement income from a tax perspective.
## Taxes & Tax Diversification – A Laddered Approach

### Tax Treatment Comparison

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3. Traditional IRAs.
4. Personal, non-tax exempt investment, depending on the type of asset class, may be taxed as they increase in value or when a gain is distributed. Clients should consult with their own tax advisor for details.
5. Tax-favored distributions assume the policy is a Modified Endowment Contract (MEC); see Footnote one for additional details.
6. Income in excess of a Decedent (IRD).
7. Life insurance and annuities have ongoing policy and Contract charges, as well as surrender charges, that do not apply to other products, which may have their own fees and charges.

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Life Insurance as an Asset
So let’s talk about changing the perception that life insurance is just another necessary expense and talk about cash value life insurance as an asset.

First, let’s not forget the primary reason for purchasing a life insurance policy – the death benefit. The premiums paid provide immediate funds if a client were to pass away prematurely. And, the income and estate-tax free death benefit can be a powerful tool when planning for the next generation.

Second, as long as the policy is properly owned, structured and funded, the cash value may, depending on the product, grow tax-deferred. Clients can choose to have their premiums allocated to selected investment portfolios using a variable universal life policy. Or those that favor guarantees can look to whole life, which offers guaranteed cash value accumulation as well as the potential for dividends.

Third, again as long as the policy is properly owned, structured and funded, the cash value can be accessed through tax-free loans and withdrawals (up to cost basis). This is money that can be used to supplement retirement income, if needed, to fund college education, or for any other purpose.

Finally, cash value life insurance can be a flexible asset in a client’s overall financial portfolio. As long as the policy is not a Modified Endowment Contract (or MEC), there are no limits to contributions based on income. This can be essential for clients who have exhausted their contribution limits to 401(k)s, IRAs or other qualified retirement plans.

In addition, distributions can be more flexible than other assets. What about when a client’s income needs are earlier than usual? What if a client plans to retire prior to age 59 1/2? Or money is needed for a child’s college education? IRAs and other qualified plans may have restrictions or penalties when withdrawing before 59 1/2. In these situations, life insurance can bridge the gap and provide income when it doesn’t make sense to withdraw from qualified plans. As always, loans and withdrawals will decrease the cash value and death benefit.
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Finally, cash value life insurance can be a flexible asset in a client’s overall financial portfolio. This can be an additional retirement planning strategy for clients who have exhausted their contribution limits to 401(k)s, IRAs or other qualified retirement plans. Please keep in mind that, while there are no limits to contributions based on income, tax law may limit the amount of premiums that can be paid based on the amount of insurance coverage provided.

In addition, distributions can be more flexible than other assets. What about when a client’s income needs are earlier than usual? What if a client plans to retire prior to age 59 ½? Or money is needed for a child’s college education? IRAs and other qualified plans may have restrictions or penalties when withdrawing before 59 ½. In these situations, a properly structured life insurance policy can bridge the gap and provide income when it doesn’t make sense to withdraw from qualified plans. As always, loans and withdrawals will decrease the cash value and death benefit.
While Life Insurance is still a critical piece of estate planning, some types of Life Insurance can be used to meet some needs while the client is still living.

To start, there is a shifting expectation surrounding retirement. In the old days, the time it took you to get settled into a career (called your origination period) was relatively short. Therefore, you had more time to accumulate funds in anticipation of retirement. And with shorter life expectancies, retirement distributions didn’t need to last as long.

Nowadays, with a somewhat uncertain employment environment and younger workers often switching jobs more frequently, it’s harder for younger workers to get settled, which is reducing the amount of time they have to accumulate funds for retirement. And, with people living longer, retirement income needs to be stretched further than ever before. Therefore, it’s more important than ever for clients to take action as early as possible to better prepare them for this new retirement scenario.
With a nominal maximum on retirement plan contributions, such as 401(k), it’s the higher income earners that are more restricted, especially when you consider their retirement savings rate.

For example, a 45 year old making $100,000 who contributes the maximum $18,000 to his 401(k) in 2014 has a 18% retirement savings rate. Assuming the client also makes an IRA contribution of $5500 (either Roth or Traditional IRA) that number could go up to as high as 23.5%.

Now let’s take a look at the same 45 year old, but this one is making $300,000. He contributes the same maximum of $18,000 to his 401(k), but it only represents a retirement savings rate of 6%. The client would not be eligible at all for a Roth contribution but could still make a Non Deductible Traditional IRA contribution which would raise that savings rate to a maximum of 7.8%. Since the client is no longer eligible for deductible contributions, they may want to consider other ways to save on a tax-deferred basis while avoiding the contribution limits of an IRA and also avoid creating any after-tax basis in their Traditional IRA accounts which can be difficult to track. This individual may be a good candidate for supplemental retirement planning. Provided he has a life insurance need, he may benefit from utilizing a cash value policy to help supplement his retirement income.
According to a 2014 Fidelity Retirement Survey, Americans save approximately 10-15% of their salary annually. Assuming a household earns $300,000 a year, they would be saving between $30,000-$45,000 annually towards retirement. How they allocate those savings is very important as to the end result. If a female client with a "Preferred" rating was 45 years old and took roughly $21,596 of that savings annually and put it towards a Whole Life policy that was fully funded at age 65 with a face amount of $900,000 and used that policy to provide retirement income in the year following a down year in their portfolio beginning at age 66 through withdrawals or loans**, their retirement account balance could be as much as 6.6% higher with no additional funding assuming the account assets are invested and allocated as indicated and that historical returns are repeated.

Assuming the client has accumulated $2 million dollars for their retirement in 1993 and wants to take a 6% gross income stream beginning at age 66. This also showing the client in a 28% tax bracket during retirement which would provide a net, after tax amount of $94,920 (this equates to roughly a 20.9% effective rate and excludes any deductions or tax credits the client may have). By using actual historic performance of a 60/40 allocation* during the client’s retirement (1993-2013) you can see the difference of their retirement account could be more than $273,000 higher by using part of their annual savings to fund a whole life policy and then taking income from that policy following negative performance years in their retirement portfolio.

* Returns based on 60% S&P 500 index/ 40% Barclays US Bond Aggregate Index from 1993-2013. Past performance are no indicator of future results.

** Withdrawals and loans from the Whole Life policy may in whole or part be based on non-guaranteed values. Any presentation to clients must be accompanied by a complete company-approved basic illustration which includes guaranteed values. Accessing cash values will reduce the values in the policy including the death benefit and may have adverse tax consequences. See the disclosures at the end of this document for additional details.
So as you can see, a lot has changed in the past 20 or 30 years. We, as an industry, have moved away from utilizing cash value life insurance, and commoditized the industry with lifetime no-lapse UL.

What I am trying to do is change the perception that no-lapse UL is the only answer for long-term life insurance coverage. Cash value, especially with whole life insurance, can give client’s a new set of options that are currently not available with a lifetime no-lapse UL.

It’s important to take into account a client’s entire picture, especially the role of taxes in the future. With this knowledge, we can help clients take a new look on life insurance and position cash value as an asset class in a client’s overall financial portfolio.
REVIEW POLICIES AND THEIR DEFINITIONS
Thanks for your time. Please don’t hesitate to reach out after today if I can be of any assistance. Are there any questions before we wrap up?