Diversify Your Concentrated Position: Help lower volatility, increase portfolio predictability and potential reduce taxes

COULD THIS BE THE YEAR TO SELL YOUR CONCENTRATED STOCK POSITION?

A hallmark of wise planning is to diversify risk across a range of assets and asset types because any one asset or asset class might underperform in a given year. Diversification can help offset underperformance. This risk can be magnified when an individual has a heavy concentration in one stock or asset. While capital gain rates are currently at near-historic lows and the stock market at an all-time high now may be a time to consider repositioning because President Biden campaigned on increasing capital gains tax – both during life and at death. Where an individual has a life insurance need, a life insurance death benefit might also help add stability to an overall financial plan.

DID YOU KNOW?

- Too much of any one company's stock increases your exposure to company specific risk and stock price volatility.
- President Biden campaigned on replacing the 20% capital gain tax rate with ordinary income tax rate of 39.6% for incomes of over 1 million and eliminating stepped-up basis at death.

MEET JOHN, CEO of XYZ Inc.

Age 55, nonsmoker, in good health

John currently owns $2 million of XYZ stock (48,780 shares at $41 per share with a cost basis of $15.98 per share). He's concerned that his current concentrated stock position exposes him to higher levels of market and price volatility. Based on his objectives, net worth, time horizon and risk tolerance, this large position is more than he is comfortable with. John receives $980,000 in wages.

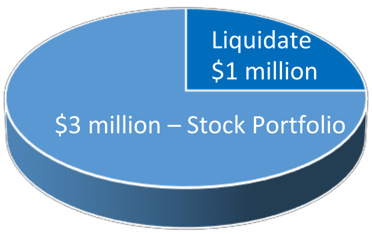
Despite his continued interest in the market returns, John wants a way to:

- Minimize his risk exposure to market volatility
- Leverage his legacy to his children
- Reduce risk associated with economic and tax uncertainty.

The Ideal Client

- Has a life insurance need
- Is 45-65, but might be older
- May be a corporate executive with salary and benefits tied to a company that also makes up a large portion of his/her net worth
- May have a large portion of wealth tied to a stock with family or sentimental value

IF YOU HAVE A CONCENTRATED POSITION LIKE JOHN



Here's what John's advisor recommends:

- John sells 24,390 shares of XYZ stock at $41 per share for $1 million. Today he pays a 20% federal capital gains tax, a 3.8% Medicare tax on investment income for federal tax of approximately $145,239[1].

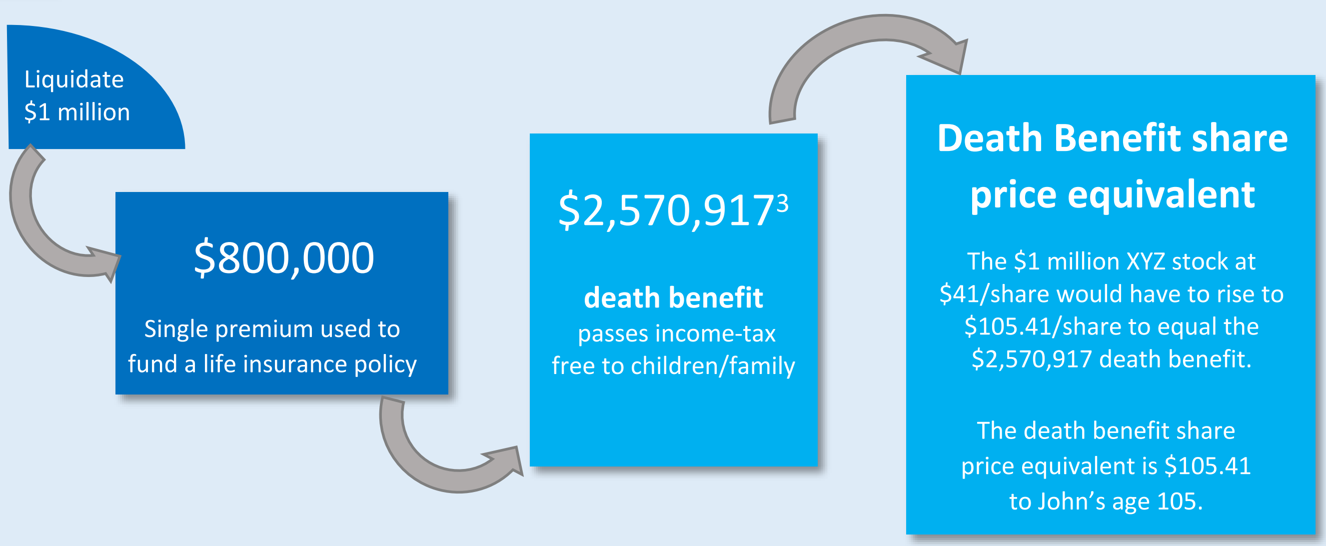
- If John waits to sell his large concentrated stock position and President Biden's proposal on capital gains is enacted into law John could pay a 39.6% tax rate on the gain of approximately $241,658.

  After paying taxes based on the $15.98 per share cost basis, John uses some of the remaining $854,761 to buy a life insurance policy.

By selling just a portion of his stock, John reduces his concentrated risk and protects his legacy with a legacy with a death benefit that can pass to his children/family income tax-free. [2]

THREE DESIGN OPTIONS ARE AVAILABLE:

1 GUARANTEED DEATH BENEFIT with a single premium



Where John desires to avoid state or federal death taxes on the life insurance policy his financial advisor could recommend that John take advantage of the current large federal lifetime exemption amount and purchase a guaranteed death benefit outside his estate. Where the client is willing to accept more investment performance risk, it may be possible to purchase a variable life insurance product with a larger death benefit guarantee.[4]

2 OPTIMIZE TAX ADVANTAGES with a limited pay

Liquidate
$1 million

After John pays the first $172,500 premium, the remaining proceeds of $627,500 are put into an account which will pay the remaining four annual premiums assuming 4%.

$2,004,744[5]

death benefit
passes income-tax free to children/family

Death Benefit share price equivalent

The $1 million XYZ stock at $41/share would have to rise to $107.92/share to equal the death benefit plus remaining fund value, totaling $2,632,244 in year 1. At age 87 the tax equivalent IRR on cash value of $4,493,834 is 8.04% assuming 35% bracket. Alternatively, at 87 the death benefit of $4,718,525 share price equivalent will be $193.46 .

To optimize John's tax advantages, his advisor recommends paying the premiums in five annual installments into a policy structured initially to minimize death benefit. This option provides John the ability to grow policy cash value on a tax-deferred basis and gives him the opportunity of taking tax-free income in the future through policy loans and withdrawals.[6] Alternatively, this structure has the potential to provide the largest death benefit in later years when policy cash values may force up the death benefit.

3 MAXIMIZE FLEXIBILITY with a managed portfolio

Liquidate
$1 million

$800,00 is put into a managed portfolio.
The annual premium of $38,350 will be paid from this account for 45 years. [7]

$3,141,098[8]

death benefit
passes income-tax free to children/family

Death Benefit share price equivalent

The $1 million XYZ stock at $41/share would have to rise to $160.01/share to equal the death benefit plus remaining cash account value, totaling $3,902,748 in year 1.

The death benefit share price equivalent will be $143.43 at age 85.

To give John flexibility, his advisor suggests putting the $800,000 into a managed portfolio that is assumed to pay annual premiums for 45 years. This option provides John with the lowest annual premium outlay of the three policy design options. This option may provide the largest combined legacy, but unlike the other options may not provide much tax-favored cash value. Where desired, while the other policy design options can include a long-term care or chronic illness rider, this rider is more often seen on this design.

THE LIFE INSURANCE OPTION OFFERS:

- Increased predictability with a guaranteed death benefit that doesn't fluctuate in value like stock prices
- Portfolio diversification with potential to reduced market exposure
- Opportunity to leverage legacy and maximize tax-free passing to children/family
- Ability to mitigate long-term care/ chronic illness risk exposure
- Potential to increase portfolio's tax diversification

Discover how life insurance can be used as an uncorrelated asset to help stabilize and diversify a portfolio!

[1] State tax rates vary.
[2] Life insurance death proceeds are generally received income-tax free under IRC §101.
[3] Product illustrated is Protective Indexed Choice UL (Form ICC19-UL27) guaranteed to age 105. Guarantees are subject to the claims-paying ability of the issuing company. A single premium structure will create a MEC (modified endowment contract). For policies that are Modified Endowment Contracts, distributions (including loans and withdrawals) will be taxed to the extent of income in the contract, and the taxable amount may be subject to an additional 10% federal income tax penalty prior to the contract owner's attaining age 59 $^{1/2}$.
[4] Variable Universal Life Defender (Form ICC18-20149) from Securian Financial with the same single premium produces a death benefit of $3,310,201 guaranteed to age 105 or the share equivalent of $135.72.
[5] Product illustrated is Symetra Accumulator IUL 3.0 (Form ICC17-LC1) assuming 5.92% participating crediting strategy.
[6] Loans and withdrawals may reduce the policy's cash surrender value and death benefit, may reduce the duration of the guaranteed death benefit, may cause the policy to lapse, and may have tax implications.
[7] The managed portfolio assumes a 4% annual growth rate and that taxes on any gains are paid from outside sources. There could be risks associated with a managed portfolio depending on the chosen asset allocation including possible loss of principal.
[8] Product illustrated is John Hancock Life Insurance Protection UL (Form 19PROUL) guaranteed to age 90, but endows at 120 assuming current 4.35% crediting rate and 50% long-term care rider. Guarantees are subject to the claims-paying ability of the issuing company.

Life insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Clients should talk with their financial advisors for their specific situation.

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