MEMO

THE 2024 ELECTION & U.S. SAVERS

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Today's political climate is a volatile one. But, while many Americans understand the potential implications of the election on things like the economy and inflation, they may not realize the impact November's election could have on the success - or shortcoming - of their retirement approach.

In general, elections can impact U.S. savers in two ways:

- **Short-term Impacts:** Based on new laws and regulations (what policies will a given administration pursue? What new legislation will Congress pass?)
- **Long-term Impacts:** Based on the future effect of the laws and regulations passed today (will taxes be higher in the future to offset today's spending? What will today's regulation do to future economic conditions?)

As we approach election day, savers may want to understand tax and legislative risk and how to protect their retirement assets from potential changes coming from Washington.

Understanding Tax & Legislative Risk in Retirement

Savers with retirement assets in tax-deferred vehicles[1] - accounts like traditional 401(k)s and IRAs - are particularly susceptible to tax and legislative risk.

That's because savers with these types of accounts have agreed to pay their future taxes when accessing their funds in retirement. Because these taxes are paid in the future, any changes to tax rates or structures from now through the end of a saver's life can potentially impact the amount of income they have to spend by impacting the amount of taxes they have to pay.

"The 2024 election could have both short-term and long-term impacts on U.S. savers and their retirement assets.

→ **Tax Risk** is the risk that a person's taxes are higher in retirement than planned. If taxes are higher in the future, more of a retiree's income goes to the IRS as taxes and less of the income stays with the retiree to spend on living expenses.

In short, Tax Risk measures the level of taxation a saver experiences in retirement.

→ **Legislative Risk** is the risk that Congress changes the rules, and those changes negatively impact a saver's retirement approach.

Legislative Risk measures the structure of taxation a saver experiences in retirement: what is taxed, when it is taxed, and for whom it is taxed.

Together, Tax & Legislative Risk can impact a saver's total tax burden in retirement and beyond. That means the debate in Washington can have a significant effect on a saver's spendable assets – even for savers who think they've created a solid retirement income plan.

What I'm Watching in November's Election

November's election will determine two important things: First, who is in the White House, and second (and equally important), what is the makeup of Congress. Are the three bodies controlled by the same party, or will we have a divided government? And if we have a divided government, how close will the margins be? All of these answers could impact our federal government's ability to pass new laws and regulations.

Here are the top near-term and long-term impacts I'm watching for the 2024 election.

NEAR-TERM IMPACTS

→ Near-Term Impact #1 | Attitudes Toward Retirement Savings

If you've been following the news from Washington over the past 24+ months, you may have noticed a shift in the attitude around retirement savings, particularly for higher-net-worth savers.

Once upon a time, saving for retirement was the responsible thing to do. You put a little away in a 401(k) or IRA each month, and over the years, you built a nice nest egg to support yourself in retirement.

But in recent years, we've seen a noted change in that attitude. It seems Washington feels that if a saver's retirement account grows too large, they're being greedy, and the tax code should no longer benefit their savings.

I first noticed this shift during the debate over the Build Back Better legislation[2] House Democrats introduced in 2021. The spending bill - originally introduced with a $3.5 trillion price tag - also included nearly $2.9 trillion in new taxes to offset spending provisions.

Surprisingly, many of these new tax provisions were aimed at retirement accounts.

The original bill included new Required Minimum Distributions (RMDs) for retirement assets that grew "too large." The House Ways and Means Committee fact sheet[3] explained this was "To avoid subsidizing retirement savings once account balances reach very high levels..."[3]

While that provision did not pass Congress, the push to apply additional taxes to successful savers didn't end.

In March, President Biden introduced his 2025 budget. The White House overview of the budget included the comments that "tax breaks for retirement savings are supposed to help middle-class workers put a little aside for the future."[4] But, the document noted, they were now being abused by wealthier Americans.[4]

I believe some of our leaders in Washington are trying to rewrite history. IRAs were created by the Employee Retirement Income Security Act of 1974.[5] Nowhere in that legislation does it say tax-deferred savings are only for middle-class workers. IRAs were a way to encourage all Americans to save for the future.

But regardless of the origins of tax-deferred saving, one thing is clear to me: retirement accounts for wealthier Americans seem to have a target on their back.

The outcome of November's election could impact whether we'll see more legislation attacking large-balance IRAs and 401(k)s. If Democrats control the White House and at least one branch of Congress, there's a good chance these efforts will continue.

→ Near-Term Impact #2 | The Trump Tax Cuts

In 2017, Congress passed and the President signed into law a comprehensive tax reform called the Tax Cuts and Jobs Act[6]. This law lowered individual income tax bracket rates for millions of Americans (myself included and probably you, too).

But those tax cuts were not permanent. In fact, they expire next year in 2025.[6] That means unless Congress and the President act to extend these bracket rate reductions, all of our tax brackets will revert back to their older, higher rates in 2026.

This matters to any saver with funds in a tax-deferred retirement vehicle, like a traditional 401(k) or IRA. Since taxes on these retirement savings are deferred to the future, higher tax bracket rates in 2026 and beyond could mean you pay more taxes in retirement than planned.

> **The potential for rising taxes is a risk that could impact savers with traditional 401(k)s and IRAs.**

The Biden Administration has indicated they want to let the tax cuts expire for wealthier Americans while extending them for lower-income Americans.[7] He plans to pay for the extension with new taxes on wealthier Americans. Former President Trump has indicated he wants to extend the tax cuts for all Americans.[7] And then there's the question of Congress: Will the House and Senate pass an extension? It could depend on the party makeup of those two chambers.

LONG-TERM IMPACTS

Of course, elections have consequences far beyond the next four years. That's because legislation passed today can have an impact on our nation's economy, spending, and debt for years to come.

Here's what I'm watching in terms of the long-term impact of the 2024 election:

→Long-Term Impact #1 | Federal Spending & The Risk of Rising Taxes

Each year, the Congressional Budget Office (CBO) publishes data evaluating the previous year's federal tax revenue and spending allocations.[8]

When you dig into these numbers, it paints a concerning fiscal picture that this year's election could make worse. Here's why:

In FY 2023, the federal government took in $4.4 trillion in revenue. This includes things like individual income taxes, business taxes, and other governmental fees. So last year, our government had $4.4 trillion to spend.[8]

And, naturally, our government did spend.

The first place they spent money was through mandatory spending. This is spending required by current law - spending that Congress and the President do not control. It includes things like Social Security, Medicare, and other government programs.[9]

In FY2023, the federal government spent about $3.8 trillion in mandatory spending.[8]

There's one other area of government spending that Congress and the President do not control. Each year, our government must service our federal debt by paying interest on the money we owe.[9] In FY23 - thanks to a record-high debt and higher interest rates - the federal government spent around $0.6 trillion on debt service.[8]

In total, that amounted to $4.4 trillion in non-discretionary spending.[8]

Of course, Congress did pass spending bills - to the tune of about $1.7 trillion in FY23.[8] This discretionary spending covered things like our military, federal agencies, and transportation priorities.

But that discretionary spending pushed our already fragile federal budget over the edge. So, in total for FY23, our government took in $4.4 trillion and spent $6.1 trillion.[8]

Anyone who's taken 3rd-grade math can likely see the problem: there's a $1.7 trillion gap between the revenue we bring in and the money we send out.

This is a large part of what's driven the U.S. debt to a record-high level of $34+ trillion.[10]

Why it Could Matter for Your Retirement

In the years ahead, it will be increasingly hard to reign in mandatory spending. After all, the 2020 census showed the fastest growth in U.S. citizens age 65+ in over a century.[11] Further, the Social Security Administration has acknowledged that Social Security is not sustainable even at current tax and benefit rates.[12] So it's unlikely we can reduce the amount of money we spend on programs like Social Security and Medicare.

And because we are in a high-interest-rate environment - and our national debt is growing - our nation is paying more to service our debt than ever before.[13] Unless we dramatically reduce interest rates or dramatically reduce our debt, this is an area that will continue to grow.

> **In my opinion, the biggest challenge facing Congress and the President isn't that our nation spends more than it makes - it's that it is nearly to change this equation.**

Now, Congress could appropriate less money to things like the military, the Department of Education, and other government agencies. However, as we've seen in the recent debates to avoid a government shutdown, both House and Senate leaders are not willing to make dramatic cuts in spending (In fact, our government is currently being funded at a $28 billion increase over last year).[14]

Additionally, we've seen Congress spend trillions of dollars in recent years outside of the appropriations process. In 2020, we had the $3.5 trillion economic stimulus bill[15]; in 2021, we had the $1.2 trillion Infrastructure Investment & Jobs Act[16]; and in 2022, we had the $738 billion Inflation Reduction Act.[17]

In short, while from time to time we may have a House, Senate, and White House that can hold down spending temporarily, it's hard to see a long-term path forward that doesn't include increased spending on both the discretionary and mandatory sides of the ledger.

If the U.S. can't reduce its mandatory spending, and it won't reduce its discretionary spending, there's only one piece of the equation left to adjust: Increasing revenue.

And what does that mean? The potential for higher taxes on U.S. savers and retirees.

How Tax-Deferred Savings Could Be Impacted

Tax-deferred savings vehicles - like traditional IRAs and 401(k)s - remain the most popular way Americans save for retirement. In fact, savers currently have trillions of dollars saved tax-deferred.[18] So if you've saved through these vehicles, you're in good company.

However, saving in these vehicles could expose you to tax and legislative risk in retirement, through one or more of the scenarios I've examined in this paper.

I believe the U.S. is likely entering an era of rising taxes on American savers. At this point, it's not just a political problem but a demographic problem as well.

And if your taxes rise in retirement, you could find yourself paying taxes on your retirement funds at a higher rate than planned, leaving you less income to spend on your retirement needs.

How to Help Protect Yourself from Tax & Legislative Risk

As we head into November's election, I believe tax and legislative risk may be the largest, least understood risks facing U.S. savers. But the good news is, there are strategies available to address these risks.

One way to potentially address Tax and Legislative Risk in your retirement approach is through diversification. Much like most savers don't have all their retirement assets invested in a single stock, savers may want to diversify the tax status of their retirement accounts as well. (Savers interested in this approach should consult with qualified professionals about their individual needs.)

Tax-free savings vehicles, like Roth accounts, can help savers hedge against rising taxes in the future.[19] Since these types of accounts are funded with after-tax dollars, no taxes are due on the funds when they're withdrawn in retirement. So if Congress raises taxes in the future, these funds won't be impacted.

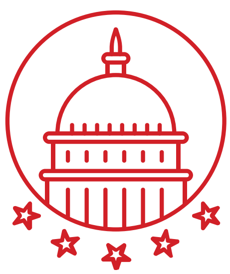
Some savers may want to further diversify the kinds of vehicles they use for their retirement assets. This could include evaluating options that potentially have lower exposure to legislative changes, like CDs or cash-value life insurance.[20]

WHAT YOU CAN DO BETWEEN NOW AND NOVEMBER (AND BEYOND)

If you're ready to address Tax and Legislative Risk in your retirement approach, it's important to work with a financial professional who understands these risks. Below are three questions to discuss with them. **These questions will help you better understand your exposure to legislative risk, and your options for addressing it.**

- Based on my needs and today's legislative environment, are my taxes in retirement likely to be lower, the same, or higher than they are today?
- How will my income be impacted if taxes are different than I expected? Can I still meet my retirement goals?
- Are the vehicles I've used to save for retirement exposing me to legislative risk or protecting me from it?

If your goal is to be prepared for all the risks you may face in retirement, it's important you've evaluated your exposure to Legislative Risk. November's election can potentially have a big impact on your retirement approach - and now could be a valuable time to take action.



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20 The primary purpose of life insurance is death benefit protection. Please note life insurance is subject to insurability and other suitability factors. Policies include fees, limitations and restrictions. Please see a complete carrier illustration for information regarding your specific situation.