Advanced Insurance Brokerage

ADVANCED INSURANCE BROKERAGE · CLIENT EDUCATION SERIES · NO. 2

Four Core Products. Hundreds of By-Products.

How stocks, bonds, CDs and Whole Life became today's financial services industry, how Washington shaped every step, and why the tax code treats the core products and the by-products so differently.

01 The four core products

02 A century of by-products

03 How by-products are built

04 Washington's role

05 Tax efficiency compared

4
core products that nearly every modern financial product is built from

$51.2T
held in U.S. retirement accounts, most of it with taxes still owed (ICI, June 2026)

$300B+
a year in federal tax expenditures for retirement saving: revenue deferred, not forgiven

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For educational purposes. See important disclosures on page 9.

THE CORE / 1ST GENERATION

01 Where it all started

By 1900 American families had four basic ways to save and build wealth. Each was simple: you owned it directly, you knew what you held, and there was no middle layer between you and the result. Nearly every financial product sold today is a repackaging of one or more of these four.

OWNERSHIP

Individual Stocks

A direct share of a company's profits and growth. Preferred stock added a fixed dividend with priority over common shares.

Return	Dividends + price growth
Tax	Taxed only when you sell; long-term gains at 0%, 15% or 20%
Control	You choose when to buy, sell and harvest losses

LENDING

Individual Bonds

A loan to a government or company that pays fixed interest and returns principal at maturity.

Return	Fixed interest, principal back
Tax	Municipal interest federally tax-exempt; Treasuries exempt from state tax
Control	You set maturity, quality and income

BANKING

Bank CDs & Deposits

A deposit with a bank at a stated rate for a set term. Federally insured after the Banking Act of 1933 created the FDIC.

Return	Stated interest rate
Tax	Interest taxed every year as ordinary income
Control	Fixed term; early withdrawal penalty

INSURANCE

Whole Life Insurance

Permanent protection with a guaranteed, growing cash value. Mutual carriers share profits with policyholders as dividends. Term insurance and the immediate annuity came from the same carriers.

Return	Guaranteed cash value + dividends
Tax	Cash value growth tax-deferred; death benefit income-tax free
Control	Access through policy loans and withdrawals

What the core products share: **direct ownership, transparent pricing, and control over when and how you are taxed.** As the following pages show, the by-products tend to give up at least one of the three.

RETAIL PRODUCTS | MATRIX & TIMELINE

02 A century of by-products

Core / 1st generation · By-product of core · Regulation / Congress acts · Retail-targeted qualified plans · Alternatives

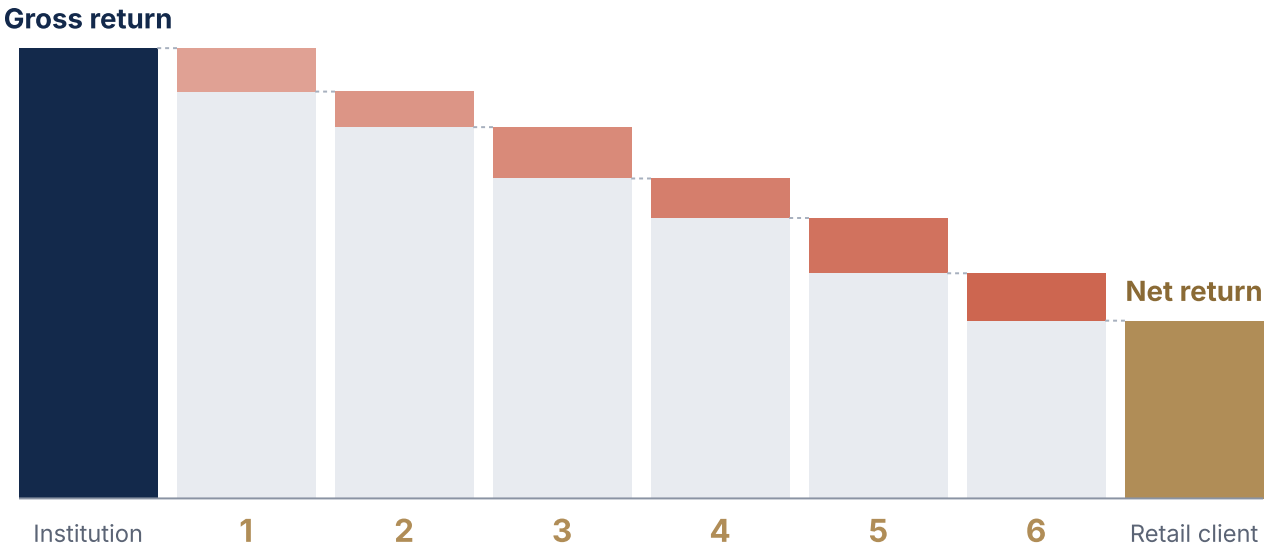
Year	Regulation & Congress	Investment	Qualified plans	Insurance	Alternative
1900		Stocks · Bonds · Preferred Bank deposits / CDs		Whole Life · Term Immediate Annuity	
1913	16th Amendment: federal income tax				
1924		First mutual fund			
1933	Securities Act · Banking Act (FDIC)				
1934	Securities Exchange Act (SEC)				
1940	Investment Company Act · Advisers Act		Defined benefit pension era***		
1949					First hedge fund*
1952				Variable annuity	
1973					Listed options & futures
1974	ERISA		Traditional IRA	Deferred annuity (1970s)	
1978	Revenue Act of 1978	Mutual fund growth**	401(k) / defined contribution		
1979				Universal Life	
1980s					Private equity* · Hedge funds* · Structured notes
1982–84	TEFRA · DEFRA (§7702)				
1986	Tax Reform Act				
1987				Variable Universal Life	
1988	TAMRA (MEC rules)				
1993		ETF (index)			
1995				Indexed annuity	
1997	Taxpayer Relief Act		Roth IRA		
1998				Indexed Universal Life	
2003	Medicare Modernization Act		HSA		
2006			Roth 401(k)		
2013	SEC Rule 506(c)				Private funds may advertise*
2019	SECURE Act				
2022	SECURE 2.0				

* Accredited investors only. Private funds were barred from advertising until SEC Rule 506(c) took effect in September 2013. ** The first mutual fund dates to 1924; assets grew rapidly once 401(k) plans arrived. *** Employer-funded defined benefit pensions began a steady decline in the mid-1970s, shifting retirement risk and investment decisions to individuals.

COMP ANALYSIS · LAYERING

03 How a by-product is built

A by-product starts with the same gross return a core product earns. Each layer of design, distribution and compensation then takes a share before the result reaches the client. None of the layers is unusual by itself. Together they explain the gap between what the institution earns and what the client keeps.



Illustrative only. Layer sizes vary by product and are not to scale.

Typical internal design of a non-core product

1 Index-linked or outsourced accumulation
Gains tied to an index, a cap or a third-party manager

2 Restricted diversification
Limited menu of allocation choices

3 No tax controls
No control over harvesting, turnover or tax type

4 Loads & surrender periods
Up-front or deferred sales loads; lock-up periods

5 Percentage-based fees
Charged on account size, not fixed, can rise with the balance

6 Distribution & compensation
Commission to the selling representative, or an annual advisory fee

Four wealth erosion factors

Risk vs. reward
Market risk stays with you while the upside is capped, shared or reduced. Net gain

Cost
Is each layer adding value, or only adding expense? Value or expense

Restrictions
Surrender periods, lock-ups and limited menus. Lack of flexibility

Tax type
Gains that could be capital gains are often taxed as ordinary income. Gains or income

The COMP approach (Core Overlay Management Program) starts with the core: **own the underlying asset directly where possible, and add a layer only when it earns its cost.**

REGULATION & GOVERNMENT

04 From protecting investors to shaping products

Washington's role changed over the century. The laws of the 1930s were written to *protect* investors after the 1929 crash. From the 1970s on, Congress increasingly used the *tax code* to steer savers into specific products, and then adjusted those rules to manage the revenue at stake.

Year	Law	What it did and why it matters
1913	**16th Amendment**	Created the federal income tax. Life insurance cash value growth was not taxed from the start.
1933	**Securities Act · Banking Act**	Required disclosure for new securities. Created the FDIC, which insures bank deposits and CDs.
1934	**Securities Exchange Act**	Created the SEC to regulate exchanges, brokers and trading.
1940	**Investment Company Act · Advisers Act**	Set the framework for mutual funds and registered advisers, which later allowed pooled products to grow.
1974	**ERISA**	Set standards for employer plans and created the IRA. Retirement saving moved toward individual, tax-deferred accounts.
1978	**Revenue Act of 1978**	Added §401(k). Defined contribution plans replaced pensions and fed the rise of mutual funds.
1982–84	**TEFRA · DEFRA**	Wrote the tax definition of life insurance (§7702), limiting how much cash value a policy can hold.
1986	**Tax Reform Act**	Limited deductible IRA contributions for higher earners with workplace plans.
1988	**TAMRA**	Created Modified Endowment Contract (MEC) rules, so over-funded policies lose tax-free loans.
1997	**Taxpayer Relief Act**	Created the Roth IRA: pay the tax now, take tax-free withdrawals later.
2003	**Medicare Modernization Act**	Created Health Savings Accounts.
2019	**SECURE Act**	Ended the lifetime "stretch" for most inherited IRAs; heirs must empty the account within 10 years.
2022	**SECURE 2.0**	Raised the RMD age to 73 (75 in 2033) and required catch-up contributions from high earners to go into Roth accounts.

Notice the pattern: when a product becomes **too tax-efficient** (an over-funded life policy, an inherited IRA stretched over a lifetime), Congress steps in to limit it.

THE GOVERNMENT'S STAKE

05 Tax-deferred is not tax-free

A pre-tax 401(k) or IRA is a partnership with the IRS. You fund it and take the market risk; the government keeps a claim on every dollar, at whatever tax rates apply when the money comes out. That deferred claim is a major future revenue source, and Congress manages it closely.

$51.2T

Total U.S. retirement assets, 33% of all household financial assets (ICI, June 30, 2026)

$300B+

Annual federal tax expenditures for retirement saving, more than $2 trillion over 2022–2026 (Tax Policy Center)

$15.7B

Revenue the SECURE Act's 10-year inherited IRA rule was projected to raise, FY2020–2029 (JCT)

Who owns a $1,000,000 pre-tax account?



Simplified illustration: full balance taxed at a single federal bracket; state taxes and progressive brackets ignored. *Whole Life access through policy loans and withdrawals up to basis, when the policy is not a MEC and stays in force.

How the claim is collected

- Withdrawals are taxed as **ordinary income**, even when the growth came from stocks that would otherwise qualify for capital gains rates
- **Required minimum distributions** force taxable withdrawals from age 73 (75 from 2033)
- A 10% penalty applies to most withdrawals before age 59½
- Most non-spouse heirs must withdraw everything, and pay the tax, within 10 years

Future tax rates are unknown

Deferral is a bet that your tax rate in retirement will be lower than it is today. Rates are set by future Congresses, and federal deficits are large.

By-products such as variable annuities add a second issue: gains come out as ordinary income, and heirs get no step-up in basis.

TAX EFFICIENCY COMPARED

06 Core products vs. by-products

The core products give you control over *when* you are taxed and *what kind* of tax you pay. Many by-products take that control away by converting gains into ordinary income, forcing distributions, or removing the step-up in basis at death.

Tax feature	Whole Life	Individual stocks	Individual bonds	Mutual funds (taxable)	Variable annuity	401(k) / trad. IRA
Tax on growth while held	**Deferred**	**None until sold**	Interest yearly; munis federally exempt	Distributions taxed yearly, even if not sold	**Deferred**	**Deferred**
Type of tax on gains	**None on loans / basis***	**Long-term capital gains (0–20%)**	Ordinary or tax-exempt	Mix of capital gains and ordinary	Ordinary income	Ordinary income
You control timing	**Yes**	**Yes: harvest gains and losses**	**Yes: choose maturities**	No: fund manager's turnover	Partly; surrender charges	No: RMDs from 73
Early-access penalty	**None**	**None**	**None**	**None**	10% before 59½	10% before 59½
Step-up in basis at death	**Death benefit income-tax free**	**Yes**	**Yes**	**Yes**	No	No
Tax for heirs	**Generally none (income tax)**	**Gains before death erased**	**Little or none**	**Gains before death erased**	Ordinary income on gains	Ordinary income within 10 years

Federal income tax only. Long-term capital gains and qualified dividends may also be subject to the 3.8% net investment income tax. Treasury interest is exempt from state income tax. *Whole Life loans and withdrawals up to basis are generally tax-free when the policy is not a MEC and stays in force; loans reduce the death benefit.

Whole Life and individual securities share what the tax code rewards: **you decide when a tax event happens**, and what passes to your family can escape income tax.

That is why Congress has built guardrails around Whole Life (§7702, MEC rules). The tax treatment is valuable enough that **the government limits how much of it you can use.**

BACK TO THE CORE

What this history means for you

The industry has spent a century adding layers to four simple products. Some of those layers are useful. Many exist mainly because they are profitable to sell or useful for tax policy. Before you buy any by-product, ask what it does that the core product underneath it does not.

Question to ask	Core products	Typical by-products
Do I own the asset directly?	**Yes**	Usually a share of a pool or contract
Can I see every cost?	**Few layers, clear pricing**	Loads, fees and spreads across several layers
Can I get my money when I need it?	**Generally yes**	Surrender periods, lock-ups, age-based penalties
Do I control when I'm taxed?	**Yes**	Fund turnover, RMDs and ordinary income rules decide
What does my family inherit?	**Step-up in basis or an income-tax-free death benefit**	Often a tax bill
Who sets the rules later?	**Long-standing rules; changes have mainly capped how much you can use**	Rules Congress has changed repeatedly (1986, 2019, 2022)

Four core products. A century of by-products. **The question is how many layers stand between you and your money.**

Start the conversation

Ask us for a COMP review: we'll map your current accounts back to their core products, list each layer you're paying for, and show your tax exposure.

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IMPORTANT DISCLOSURES

Please read

Educational purpose. This brochure is a general history of financial products and regulation for educational purposes. It is not a recommendation to buy or sell any security, insurance product or strategy, and not a statement that any product is suitable for you.

Dates and history. Product dates reflect when products were first introduced or became widely available in the U.S. retail market; sources vary on exact years. Regulatory dates reflect the year legislation was enacted unless noted. SEC Rule 506(c), permitting general solicitation by private funds, took effect in September 2013 under the JOBS Act of 2012.

Statistics. Retirement asset figures: Investment Company Institute, Quarterly Retirement Market Data, second quarter 2026. Tax expenditure figures: Tax Policy Center Briefing Book, based on Joint Committee on Taxation and U.S. Treasury estimates. SECURE Act revenue estimate: Joint Committee on Taxation, as reported by the Congressional Research Service.

Layering illustration. The layering diagram is conceptual and not to scale. Costs, features and restrictions vary widely by product, share class, rider and firm. Not every by-product has every layer, and some layers (such as professional management or guarantees) may provide value.

Tax information. Tax descriptions summarize general federal income tax rules as of 2026 and may change. State taxes are not reflected. The tax illustration is simplified and assumes the full balance is taxed at a single bracket. Advanced Group does not provide tax or legal advice; consult your tax advisor or attorney about your situation.

Whole Life insurance. Guarantees are based on the claims-paying ability of the issuing insurer. Dividends are not guaranteed. Policy loans and withdrawals reduce cash value and death benefit and accrue interest. Loans and withdrawals are generally income-tax free only if the policy is not a Modified Endowment Contract and remains in force; a lapse with an outstanding loan may create taxable income. The death benefit is generally income-tax free under IRC §101(a). Life insurance requires underwriting and has costs and surrender charges, especially in early years.

Securities. Individual stocks and bonds involve risk, including loss of principal. Bond values fluctuate with interest rates and credit quality. CDs are FDIC-insured up to applicable limits.

Source material. Adapted from the Advanced Group COMP (Core Overlay Management Program) Retail Products Matrix & Timeline. © Advanced Group, Chicago, IL.

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