

## DON'T UNDERESTIMATE THE IMPACT OF TAXES ON YOUR INVESTMENTS



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Chief Executive Officer

RPg Insurance Solution’s tax-managed Custom Private Placement Variable Annuity strategies are designed for investors who want a transparent, low-cost, flexible, tax-efficient approach to asset allocation. The goal of RPgINS’ tax-managed solution is twofold:

1. Provide a commission free, low-cost, and transparent, Private Placement Variable Annuity platform for advisors to utilize with their clients.
2. Construct a diversified investment portfolio with a flexible and tactical mandate that can grow and compound free of taxation.

Annuities and insurance policies have long enjoyed favorable tax treatment from the Internal Revenue Code. When structured correctly, the cash value held inside an annuity or insurance policy will grow unfettered by income taxes. While some tax optimization solutions need to get sophisticated modelling right to enhance the after-tax return, tax deferred growth in an annuity is recognized and unchallenged by the IRS, thus investments inside the investment account grow at a much faster rate than taxable investments.

Structural Alpha Defined:

RPg Insurance Solutions defines structural tax alpha as the portfolios excess pre-tax returns – fees and expenses relative to the identical portfolio, adjusted for taxes and fees and expenses:

Structural Tax Alpha =

Portfolio Returns – Fees Associated With Annuity

After Tax Return – Portfolio Fees



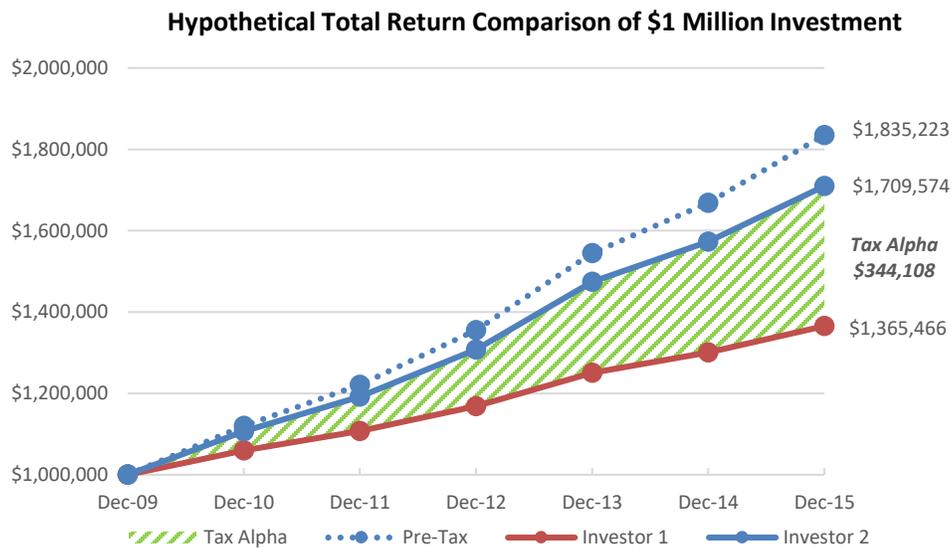
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Not all Tax Alpha is created equally. Outside of an annuity or life insurance policy, the size of tax alpha is largely dependent upon two market parameters: the overall direction of the equity markets, and the magnitude of stock-level volatility. To model the advantages one would need to perform a Monte Carlo simulation to simulate returns as well as dispersion between stocks to estimate the potential tax alpha.

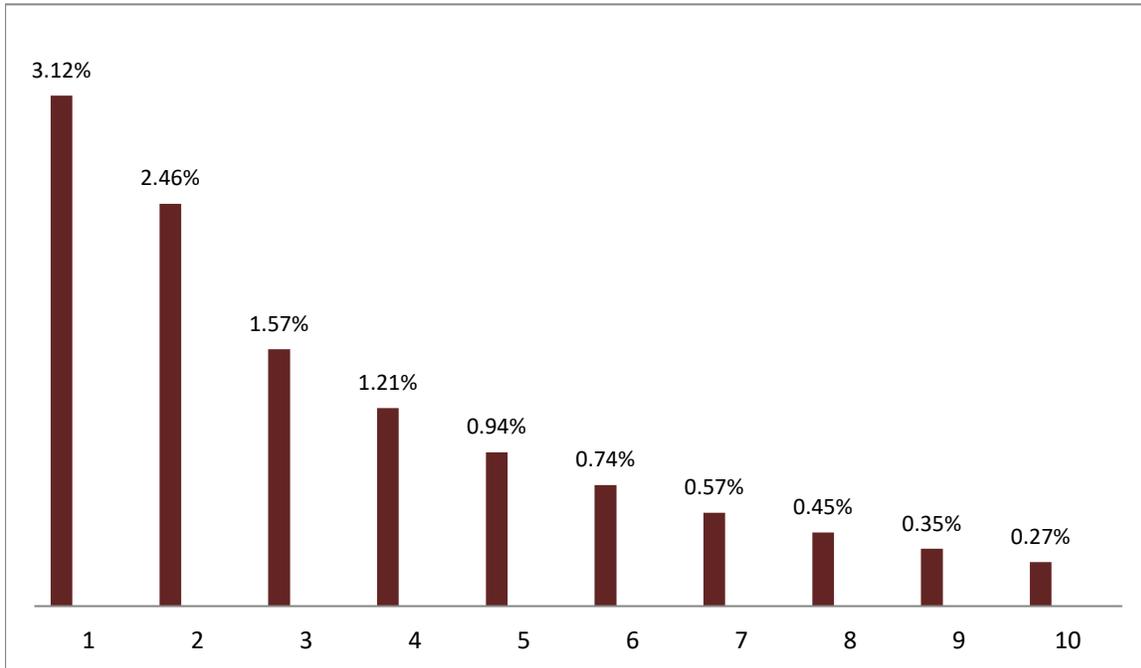
Within the RPgINS Custom Private Placement Variable Annuity it is much simpler. Utilize a Private Placement Variable Annuity with no commission, no surrender penalties, low mortality & expense ratio to access an efficient asset allocation investment model. Rather than paying taxes on the income and realized growth, investors are paying a low fee for access to the tax-deferred annuity wrapper.



The Tax Alpha is structural in that every year there is a difference between the tax rates and the lower cost of the annuity rates. In other solutions that seek a tax alpha, it is generally highest in the early years as tax alpha depends on loss availability and losses are easier to find in the earlier years of a portfolio’s life.

The value of active tax management outside of the annuity structure transitions from tax-loss harvesting in the early years to a continued form of deferral of the portfolios embedded gains. Understanding both components is critical to a continuous and efficiently implemented tax management strategy. Once the portfolio transitions to the deferral mode, any fee becomes very expensive to pay when the manager’s special sauce is exhausted.

## Year-by-Year Tax Alpha – 6% Market Return and 35% Volatility (Simulated)



Source: Parametric

Admittedly, there is some value in the deferral mode as the savings realized in the loss harvesting phase allows an investor to reduce taxes in the earlier time periods. The economic impact of the reduced taxes does grow over time, but the impact gets diminished as time goes on.

The value of Structural Tax Alpha is that it is structured. It doesn't go away. So as the assets grow and the tax liabilities grow, the RPgINS Custom Private Placement Variable Annuity wrapper becomes more valuable. And while we recognize that an investor's actual experience depends on several individual factors (e.g. inception date, individual tax rates and cash flows), we believe this helps illustrate the potential outcomes of tax-alpha and what we refer to as Structural Tax Alpha.

**IMPORTANT DISCLOSURES**

RPg Insurance Solutions does not provide tax or legal advice. Please consult an independent tax advisor for additional guidance.

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