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Value of Advice is Temporal
Clarity of Purpose
Key Dates for 2014

- Government hits debt limit (February 7)
- Obamacare individual mandate takes effect (March 31)
- Tax filing day (April 15)
- Mid-term elections (November 4)
### 2013 Tax Changes...

<table>
<thead>
<tr>
<th>Family Income</th>
<th>Change</th>
<th>Ordinary Inv. Income tax Rates</th>
<th>Cap Gain/Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$250k</td>
<td>None</td>
<td>35% Max</td>
<td>15% Max</td>
</tr>
<tr>
<td>$250k-$300k</td>
<td>3.8% surtax</td>
<td>38.8%</td>
<td>18.8%</td>
</tr>
<tr>
<td>$300k-$450k</td>
<td>3.8% surtax &amp; Pease phase out</td>
<td>39.8%</td>
<td>19.8%</td>
</tr>
<tr>
<td>&gt;$450k</td>
<td>3.8%, Pease &amp; Bush tax cut expire</td>
<td>44.6%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Additional:**
- Estate tax rate 40%
- Payroll tax 6.2%
Bi-Partisan Fiscal Compromise **Does**…

- Sets federal budget for fiscal years ‘14 & ‘15
- Replacing a portion of sequestration cuts

Bi-Partisan Fiscal Compromise **Does Not**…

- Meaningfully reduce the deficit
- Change the trajectory or amount of outstanding debt
- Raise the debt limit
Debt Ceiling Debate - Debt & Deficit

Republicans vs. Democrats

- Republicans: Demanding large spending cuts, tax and entitlement reform in any agreement
- Democrats: Demanding a “balanced approach”

- Already gave on tax increases with the Fiscal Cliff deal
- President says he will not negotiate on debt ceiling.

Is the debt a “real” concern, or not?
Federal Debt Projections

Federal Debt Held by the Public Under CBO’s Extended Baseline

Percentage of GDP

Actual vs. Projected

CONGRESSIONAL BUDGET OFFICE
SEPTEMBER 2013 • WWW.CBO.GOV/PUBLICATION/44521
Federal Debt Projections

Federal Debt Held by the Public Under CBO’s Extended Baseline

Percentage of GDP

CONGRESSIONAL BUDGET OFFICE
SEPTEMBER 2013 • WWW.CBO.GOV/PUBLICATION/44521

EatonVance Investment Managers
“Recent reductions in deficit projections do not change the basic structural picture….”

Robert Rubin, former US Treasury Secretary under Clinton
Financial Times, January 9, 2014
Debt Drivers

Need to be discussing…

• **Entitlement Reform**
  - \( \approx 60\% \) of Federal Budget
  - Growing at 7.2%

• **Tax Reform**
  - Avg. **Effective** Tax Rate historically low

“Every reform movement has a lunatic fringe.”

President Theodore Roosevelt
Health Care Reform

The Affordable Care Act is about health insurance - not necessarily health care.

60 million Americans do not have health insurance

Source: CBO ACA Analysis
Health Care Reform-2014 Deliverables

- **Mandates** - Employer and Individual
Health Care Reform – Mandates

- **Employer**
  - Greater than 50 full time equivalent employees
  - Employees working at least 30 hours/week
  - Penalty- $2000 per employee per year

- **Individuals**
  - Exception insurance cost > 8% of income
  - Penalty- > $695 ind./$2085 family or 2.5% of taxable income
  - Collected through tax refund system-$0 tax refund, $0 penalty
Who Intends to Buy Health Insurance

Uninsured’s Intention Of Getting Insurance in 2014

<table>
<thead>
<tr>
<th></th>
<th>% Buying</th>
<th>% Paying Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; Age 30</td>
<td>68</td>
<td>26</td>
</tr>
<tr>
<td>&gt; Age 30</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Democratic</td>
<td>80</td>
<td>15</td>
</tr>
<tr>
<td>Independent</td>
<td>58</td>
<td>31</td>
</tr>
<tr>
<td>Republican</td>
<td>46</td>
<td>45</td>
</tr>
</tbody>
</table>

Gallup Daily Tracking
Sep 17-Dec 2
Health Care Reform-2014 Deliverables

- **Mandates** - Employer and Individual
- Guaranteed Issue & Renewable Insurance Begins
- **Premium Compression** - 3:1 ratio
- **Federal Premium Support**
  - Family incomes between ≈ $24k & $94k
- **Medicaid Expansion**
Health Care Reform - Confusion

2.1MM signed up
Obama Administration Dec. 2013

Humana reports fewer young people signing up
Reuters 1/10/14

93% of hospital execs believe ACA will improve health care quality
Health Affairs survey Dec. 2013

1/3 enrollees late on first payment
WSJ 1/10/14

4.4 MM new Medicaid enrollees
Obama Administration Jan. 2014

62% of Americans disapprove of ACA
CNN/ORC Intl. Survey 12/23

Only 11% of consumers were previously uninsured
McKinsey & Co.

Health care costs shrink as a % of GDP
CMS data Nov. 2014
Health Care Reform - Short Term

“We don’t understand it (ACA) at all yet and we don’t understand the implications of how it is all going to affect the hospitals and physicians.”

Dr. Toby Cosgrove, CEO Cleveland Clinic on Meet The Press Jan. 5, 2014

- Mid April - Ratio of Young Enrollees
- Retention of policy owners post renewal
Health Care Reform- Short Term

• Small Employer Cancellations

“…for many people in the small-group market at some point soon their coverage is going to change.”

Gary Claxton, Kaiser Family Foundation
Health Care Reform- Medium Term

• Health
  • State exchange health
  • Financial health of health care industry
  • Population health

• Renewal rates in 2017
Health Care Reform- Long Term

The Affordable Care Act is about health insurance - not necessarily health care.

- \( \approx 30 \) million will gain health insurance
- \( \approx 1/2 \) of all uninsured in the United States
- 30 million uninsured Americans post ACA

Sources: CBO ACA Analysis
Health Care Reform – Gaps in Coverage

- Family members of an employee who gets coverage but cannot afford the family premium
- Low-income employees who do not choose to access employer provided plan
- Non Medicaid expansion
- Families for whom insurance costs are > 8% of income
- Undocumented workers
- Healthy people choosing to pay the penalty
Health Care Reform – Gaps in Coverage

- Family members of an employee who gets coverage but cannot afford the family premium
- Low-income employees who do not choose to access employer provided plan
- Non Medicaid expansion states
  - Families for whom insurance costs are > 8% of income
- Undocumented workers
  - Healthy people choosing to pay the penalty
2014 Midterm Elections
2014 Elections – House of Representatives

- Democrats need 17 seats for majority.
- President’s party has never gained as many as 17 seats in a mid-term election.
- Potential pick-ups (based on 2012 election):
  - 17 Republicans in districts Obama won
  - 9 Democrats in districts Romney won
- Only 9 races are considered toss ups.

Wall Street Journal (July 28, 2013)
2014 Elections – House of Representatives

- **State legislatures** reset House districts in wake of 2010 census.
  - Gerrymandering
  - GOP controlled most state legislatures after 2010 election

- Incumbents more worried about a primary challenger.

*Primary reason for polarization in DC*
2014 Elections - Senate

- Republicans must gain 6 seats for majority.
- Up for election:
  - 21 Democrats (5 committee chairs retiring)
  - 15 Republicans
2014 Elections - Senate

• **Good chance of Republican pick-ups:** 3
  (Montana, South Dakota, West Virginia)

• **Possible Republican pick-ups:** 4
  Romney won in ’12
  (Alaska, Arkansas, Louisiana, North Carolina)

• **Outside chance of Republican pick-ups:** 3
  (Iowa, Michigan, Minnesota)

• **Possible but unlikely Democrat pick-ups:** 2
  (Kentucky, Georgia)
• Obama still President & Republicans keep House

• Neither party gets:
  - 67 votes in Senate to overcome presidential veto
  - 60 votes to overcome Senate filibuster

• Republican ability to take over Senate depends on candidates who win nominations
2014 Elections – Republican Split:

“Republicans have not missed an opportunity to miss an opportunity.”

Sen. Michael Bennett (D-Co.)

- **Compromisers** - willing to moderate particularly on social issues to pick up Independent voters.

- **Ideologues** - Looking for conservative purity, a “true conservative”. Someone who will fight rather than compromise core beliefs on moral issues, even if it means holding only the House to block legislation.
2014 Democratic Election Challenge

“The answer is yes. In fact, we guarantee it. We are going to put in any legislation considered by the House and Senate the protection that you, as an individual, keep the health insurance you have, if that is what you want.”

Senator Dick Durbin, Majority Whip, 2009

“If you like what you have today, that will be what you have when this legislation is passed.”

Senator Patty Murray, 2009

PolitiFact has named "If you like your health care plan, you can keep it," the Lie of the Year for 2013.

PolitiFact, December 2013
Questions and Discussion...

pay.gov/paygov/forms/formInstance.html?agencyFormId=23779454

...Thank you for support
Investment Planning

• Volatility increase as we approach forcing events

• Give increased attention to “tax drag” on investment choices
  - Tax efficient, Tax advantaged, Tax free, Tax deferred
  - Harvest losses, Buy & Hold strategies

• Review sources of guaranteed retirement income
  - Lifetime and Increasing
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