Breaking News

By Editorial Staff *Thu, Nov 11, 2021*

New bill would tax billionaires' unrealized gains; Largest defined benefit pensions near 100% funding: Milliman; Know your 'end-investor,' Cerulli urges asset managers; Envestnet Insurance Exchange will carry Equitable RILA.

Proposal would tax billionaires' unrealized gains

There are about 700 billionaires in the US, according to Americans for Tax Fairness, with Elon Musk and Jeff Bezos topping the list. If their wealth were a stack of $1 bills, it would roughly reach the moon.

Their collective financial worth was about $4.56 trillion as of last spring, much of it presumably in the form of unrealized gains from appreciated shares of stock. Senator Ron Wyden (D-OR) would like to tax some of those unrealized gains to help cover the cost of infrastructure renewal.

On October 27th, Wyden released draft legislation for a new "Billionaires Income Tax." The Penn Wharton Budget Model, which assesses the economic impact of new legislation, said the proposal, if law, would generate about $500 billion in federal tax revenue over the next 10 years.

Here's the PWBM's **summary** of the bill, published this week:

Under Wyden's proposed tax, for tax filers with a net worth of more than $1 billion, gains on publicly traded assets would be taxed on an annual basis regardless of realization, a process sometimes called "accrual" or "mark-to-market" taxation.

For non-publicly traded assets, the Wyden proposal would impose a deferral charge at the point of realization that effectively makes up for gains accrued prior to realization.

Under current law, taxes on capital gains are due upon "realization;" that is, when assets are sold. A capital gain is equal to the sales price less the original purchase price (or "cost basis") of the asset. Investors owe tax on capital gains whenever they sell property that has

appreciated in value.

Most other forms of income (such as wages and dividends) are taxed in the period in which they are earned, as the income involves a transaction where the recipient receives cash. By contrast, capital gains can accrue without a sale, thereby allowing the tax liability to be deferred.

The realization-based nature of capital gains taxation presents an opportunity for tax savings for two reasons. First, deferring realization produces larger after-tax returns over time since the tax is not part of annual compounding; the tax is only applied once at the end of the holding period.

Second, capital gains avoid taxation entirely when appreciated assets are held unrealized until death. The asset’s cost basis is “stepped up” to its market value at time of death. This “step-up basis at death” allows benefactors to pass larger after-tax estates to their heirs. Both factors can reduce effective tax rates for wealthy households, making deferral a key tax planning strategy.

The Wyden proposal also contains a one-time transition tax. For tradable assets, the one-time transition tax would be payable over a five-year period on the amount of outstanding unrealized gains. For non-tradeable assets, the transition tax would be owed upon realization.

Moreover, applicable taxpayers would no longer receive the benefit of stepped-up basis at death. All transfers of appreciated property other than charitable gifts would be treated as realization events for tax purposes.

The Wyden proposal differs from an annual tax on net worth previously proposed by Senator Elizabeth Warren (D-MA). The Wyden proposal would tax a change in asset values whereas the Warren proposal would tax the total value of wealth regardless of the change in its value.

Largest defined benefit pensions near 100% funding: Milliman

During October, corporate pensions saw a monthly investment gain of 2.10%, the second-largest monthly return of 2021, according to the latest Milliman 100 Pension Funding Index (PFI), which analyzes the 100 largest US corporate pension plans. The funded ratio climbed to 98.1% from 97.2% as of October 31.

The PFI market value of assets increased by $31 billion, but liabilities also increased due to a drop in the monthly discount rate, from 2.78% in September to 2.72% in October. As a result, the PFI funded status increased by $17 billion for the month and the deficit declined to $36 billion.

"The funded status deficit for these pensions is inching closer and closer to zero as strong investment markets continue to drive improvements," said Zorast Wadia, author of the Milliman 100 PFI, in a release. "But with discount rates mired below 3.00% for the past 12 months it's a marathon not a sprint to full funding."

Under an optimistic forecast with rising interest rates (reaching 2.82% by the end of 2021 and 3.42% by the end of 2022) and asset gains (10.2% annual returns), the funded ratio would climb to 101% by the end of 2021 and 117% by the end of 2022.

Under a pessimistic forecast with similar interest rate and asset movements (2.62% discount rate at the end of 2021 and 2.02% by the end of 2022 and 2.2% annual returns), the funded ratio would decline to 97% by the end of 2021 and 88% by the end of 2022.

To view the complete Pension Funding Index, go to www.milliman.com/pfi. To see Milliman's full range of annual Pension Funding Studies, go to https://www.milliman.com/en/retirement-and-benefits/pension-funding-studies.

Know your 'end-investor,' Cerulli urges asset managers

Gathering demographic data about the end-investor is essential for asset managers as they design "thematic funds, active investment strategies and new vehicle structures, " according to a new report from Cerulli Associates, *US Product Development 2021: Aligning Product Development and Client Objectives,*

With the rise of multi-asset-class offerings such as target-date and allocation products, for instance, product developers need to know investors' "risk objectives."

“Model portfolios, which many product teams view as the future of asset management, rely on establishing suites of products that can accommodate the risk profile of any investor.” said Matt Apkarian, a Cerulli analyst.

“New and unique ideas that fit into a client’s portfolio are more likely to succeed when supported by demographic shifts in the industry. Alignment of third-party resource data and data from a firm’s true investor base will help product organizations understand whether they can break into niche product areas and share classes,” he added.

The end-investor attributes that matter to the highest percentages of asset managers are

- Risk objective (70%)
- Advice orientation (48%)
- Wealth tier (43%).

The consideration of demographic information for both advisors and end-investors, especially as generational and gender wealth transfer occurs, is also critical. “Understanding how and when wealth is being transferred can protect firms from losing assets as they change hands,” Apkarian said.

The research suggests asset managers dedicate appropriate resources to understanding their end-investor and financial advisor client base. “Using various resources and methodologies to gather data and understand directional shifts in product use will give product organizations advantages when managing their existing and future product lines,” he said.

“Managers should consider the cost and value of data, considering the appropriate frequency of data needed and the accuracy of data collected,” he said. “Monitoring these trends can help asset managers find opportunities with enough lead time to bring products to market that will benefit from shifts.”

Envestnet Insurance Exchange will carry Equitable RILA

Equitable (NYSE: EQH) has expanded distribution of fee-based versions of its variable and index-linked annuity products through various technology-enabled platforms, most recently joining FIDx-powered Envestnet Insurance Exchange, the company announced this week.

Equitable now offers its Structured Capital Strategies registered index-linked variable annuity (RILA) in a fee-based format, making it possible for Investment Advisor Representatives of Registered Investment Advisors (RIAs) to offer the product to their clients.

“RIAs and fee-only financial planners looking for financial protection offerings are a natural extension of this broad focus on distribution,” an Equitable release said. The company already distributes its products through about 4,500 affiliated Equitable Advisors financial professionals and through third-party advisers affiliated with wirehouses, broker-dealers and banks.

Equitable was among the first companies, in 1970, to enter the individual variable annuity market, the first company to provide variable annuities with living benefits in 1996, and the first company to bring to market a registered index-linked variable annuity product in 2010.

The company said it recently added eight new options to Structured Capital Strategies PLUS (SCS PLUS), including ways for clients to capture some upside potential even when equity market benchmarks may decline.