APPENDIX A

AEFA and IDS Life misrepresent and omit many material facts about ***VUL insurance from IDS Life,*** including but not limited to the following:

MISREPRESENTATION/ OMISSION	TRUTH
a. AEFA advisors omit that IDS Life is affiliated with AEFA and that they are IDS Life insurance agents.	IDS Life and AEFA are sister corporations, both wholly owned subsidiaries within the American Express family.
b. AEFA represents that IDS Life VUL insurance is the best way to meet insurance and savings goals.	Objectivity would require disclosure of the mainstream opinion that, as insurance, the cost of VUL is high relative to term insurance, and as an investment, high relative to low-cost mutual fund alternatives.
c. AEFA omits the reasons its advisors represent that a VUL insurance policy is a great investment.	AEFA and its *"advisors"* typically receive up to ***five times*** as much commission selling VUL insurance as they receive selling term insurance.
d. AEFA represents that VUL insurance is most tax-efficient because its appreciation is tax-deferred, unlike appreciation of other securities which is taxed every year at ***ordinary income rates***.	Only insignificant cash *dividends* generated by a mutual fund are taxed as ordinary income. The vast bulk of mutual fund appreciation is taxed only when the fund is *liquidated* – at ***lower long-term capital gains rates***.
e. AEFA omits that there are mutual funds that can eliminate taxable income.	There is a variety of available tax-managed mutual funds (that have yielded far superior returns to AEFA-recommended funds).
f. AEFA represents that one advantage of VUL insurance is that its death benefit is not part of a client's taxable estate.	People can pass on over $600,000 free of federal estate taxes. If a client is one of those elite few who can expect to pass away with such an estate (certainly not AEFA's target market), there are numerous other ways to reduce one's taxable estate.
g. AEFA conceals that most people do not need to avoid estate taxes, and can avoid them in any event through other less expensive means.	The death benefit of a *term* life insurance policy can *also* be excluded from a client's taxable estate through a variety of other ways, e.g., placing it in an irrevocable life insurance trust.
h. AEFA "advisors" conceal the disastrous impact of surrender charges if the client does *not* hold the IDS VUL policy at least 15 years.	The IDS VUL insurance policy has *little or no* cash value if held *less* than 15 years – because of AEFA fees and surrender charges (10-20% in the first 5-10 years of a policy, declining gradually).
i. AEFA conceals the statistical likelihood of clients *not* holding the VUL insurance policy for 15 years.	*Most* VUL insurance policyholders surrender VUL insurance policies early (typically during their first 10 years) and suffer significant losses.

MISREPRESENTATION/ OMISSION	TRUTH
j. AEFA omits the *tax* impacts of terminating the VUL insurance policy before death.	If a client terminates a VUL policy that has appreciated (the only kind in AEFA's pitch), the appreciation is taxed at ***ordinary*** income tax rates.
k. AEFA omits that IDS Life VUL insurance *premiums* are not fixed constants, as presented.	IDS Life VUL insurance premiums are *not* fixed and ***always*** increase.
l. AEFA projects only ***positive*** returns on its VUL insurance policies.	VUL insurance is one of the riskiest products available, subjecting retirement savings *and* insurance protection to the volatility of the stock market; *see*, *e.g.,* stock market 2000-2002.
m. AEFA omits the impact of ***negative*** investment returns on the VUL insurance policy.	Negative returns may either *eliminate* the investment portion of the policy or require *additional premiums* to maintain the insurance component.
n. AEFA inflates investment return projections, *e.g.*, 12% per year – over decades – with its mutual funds.	No AEFA-recommended mutual fund has ever made such returns (gross or net) over such a long period of time.
o. AEFA cites only "gross" returns, not "net" returns, i.e., after AEFA deducts its hefty fees.	Only net returns reflect the true financial effect to an investor. AEFA's fees diminish net returns by approximately 25%, among the highest in the industry.
p. AEFA represents that VUL insurance is "all paid-up" after *x* number of years – unlike term life insurance.	If life insurance is "paid-up," it is because the policyholder paid a lot more money in advance. And because of the volatility of the investment portion of the policy, the policy may ***never*** be "all paid up."
q. AEFA omits the cost of VUL insurance *after* a policy is "paid-up."	*After* a policy is "paid-up," IDS still deducts the cost of insurance from any cash value.
r. If AEFA even mentions "term insurance," it represents that clients will not be able to afford term insurance in retirement – unless they have a very large estate.	Life insurance is not something people typically need all their lives. In retirement, people typically have more assets but no regular income to protect; less (or no) mortgage to pay; and, most importantly, no dependents to protect.
s. AEFA conceals the *benefits* of term insurance (and treats any interest in term insurance as a *sales objection*).	The vast majority of clients' insurance needs are temporary, *e.g.*, to guarantee college funds for children. And, assuming he same death benefit, VUL is often *10 times more* expensive than term life insurance.
t. AEFA omits that VUL is an *expensive* way to buy life insurance.	As a result of this omission, clients often obtain an *inadequate amount* of life insurance.

MISREPRESENTATION/ OMISSION	**TRUTH**
u. AEFA omits any comparison between AEFA-approved mutual funds (to be placed within the VUL insurance policy) and those offered by others.	AEFA-recommended mutual funds are historically among the lowest performing of all those available (due only partly to their high fees). And if advisors wish to offer competing low cost non-Amex policies, they must take a cut in pay.
v. AEFA conceals the differential between compensation paid to "*advisors*" for VUL sales and that paid for term life insurance and non-proprietary mutual fund sales.	The vast differentials in compensation that AEFA pays to its *"advisors"* on its products create direct conflicts of interest between *"advisors"* and clients, making it impossible for AEFA "*advisors*" to address clients' financial needs honestly and objectively.
w. At its website, AEFA counsels the public: *"As a part of your process for choosing a financial advisor, ask for a fee schedule...."*	In practice, AEFA conceals its fee and commission schedule from clients.
x. Buried within the dense literature AEFA may provide to clients, AEFA states, *"The AEFA "financial advisor also **may** receive other incentive compensation for the financial analysis service and products you purchase."*	The AEFA financial *"advisor"* ***always*** receives incentive compensation for selling investment, financial and insurance products – and ***always*** receives ***higher compensation*** for selling those products that generate ***higher profits*** for AEFA. And such compensation is the advisor's virtually ***exclusive*** source of income.
y. AEFA represents to clients that they can borrow against the cash value of the VUL insurance policy with a low rate of interest.	The client who must borrow against the policy is, in all likelihood, insufficiently wealthy to enjoy any benefits that VUL insurance might theoretically offer. Moreover, because it is the client's cash that the client is borrowing, clients are paying interest for the privilege of borrowing ***their own*** money.
z. AEFA omits the risks of borrowing against the cash value of the VUL insurance policy.	It is also *dangerous* to borrow against the VUL's cash value: Clients increase the chances of the policy "imploding," leaving them with nothing to show for all the high premiums they have paid.