Tax deferral

Conversation guide

Keep more of what you earn

Harness the power of tax deferral

With tax rates reaching their highest level in more than 30 years, you may be looking for ways to help protect your wealth and your retirement income assets by minimizing tax exposure.

That's where a tax-efficient investment strategy may help.

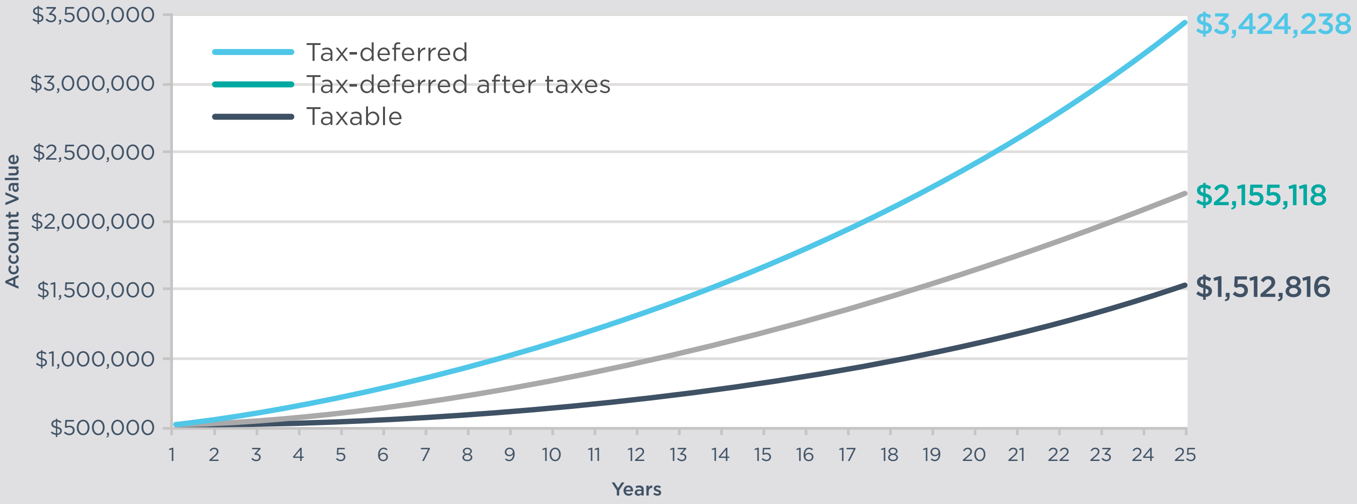
Why tax deferral matters

By deferring taxes until you take a withdrawal, you may be able to take advantage of compounded growth on your investments. The potential benefit of this strategy increases with every year the assets have the opportunity to continue to grow in a tax-deferred account. Let's look at an example to see the potential impact of tax deferral.

Initial investment: $500,000

Constant net growth rate: 8%

Tax bracket: 43.4%



This hypothetical example is for illustrative purposes only and is designed to show the power of tax deferral. The example does not reflect any specific product on either the taxable investment portion or the tax-deferred portion. The example assumes an initial investment of $500,000 nonqualified money, a constant net growth rate of 8% for 25 years, and a tax rate of 43.4% (39.6% federal income tax rate + 3.8% Medicare surtax). The same tax rate is applied to both the yearly taxable investment earnings and the earnings in the lump-sum withdrawal from the tax-deferred investment at the end of 25 years. You should keep in mind that all investments involve inherent risks and the assumed rate of return is not guaranteed. Investment losses affect the comparison of a tax-deferred versus a taxable investment and any applicable capital gains or dividends would affect the tax rate of the taxable investment.

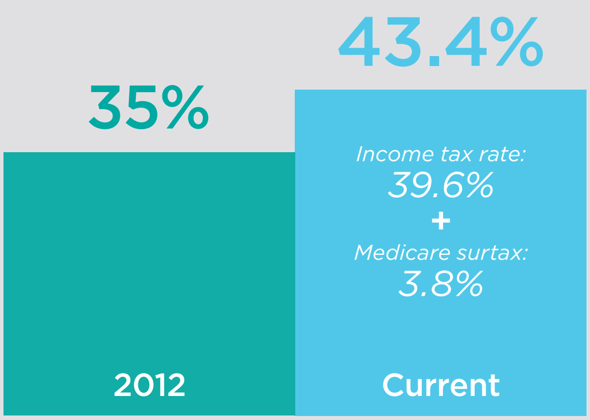
The high tax cost to high-income earners

This increase in taxes especially impacts high-income earners, meaning you may be paying more in taxes on your investments than you have in the recent past — at tax rates as high as 43.4%.

A tax-deferred investment can help you avoid this yearly tax burden.

Here's a look at some of the numbers you and your financial advisor may come across in discussing tax filing and strategy — figures that reflect tax increases resulting from the passage of **The American Taxpayer Relief Act of 2012.**

Highest federal income tax rate



(for filers in the 39.6% federal income tax bracket)

The additional Medicare surtax

3.8%

for single filers with modified adjusted gross income (MAGI) above $200k

or married couples filing jointly with MAGI above $250k

This tax applies to the lesser of
(a) net investment income or
(b) MAGI exceeding the thresholds

Work with your advisor to learn more about how tax deferral may help you provide more income growth in retirement.

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