STRATEGIES TO HELP YOU KEEP MORE OF YOUR INVESTMENT EARNINGS

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CONSIDER TAX-EFFICIENT STRATEGIES THAT HELP INCREASE YOUR INVESTMENT EARNINGS

The income we keep after taxes are paid is referred to as net income and is, essentially, what we live on. As you plan for retirement, it's important to consider strategies that can help you manage the impact of taxation on your investment earnings. Tax efficiency is one such strategy. Over time, it may help you keep more of your investment earnings.

Helpful Definitions as You Get Started

- **Annuity:** A contract with an insurance company, intended as a long-term investment for retirement, which provides the option of guaranteed income payments for life or for a specific period of time.
- **Nonqualified Annuity:** A deferred annuity purchased with after-tax dollars can help take advantage of the power of compounding by allowing money to accumulate without paying taxes on earnings until withdrawn.
- **Life Insurance Cash Value:** An amount included in some types of life insurance policies that can build value over time and help provide death benefit protection under the policy later in life. Generally, any growth in the cash value will be tax-deferred.

All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company and do not protect the value of the variable investment options, which are subject to market risk.

TAX EFFICIENCY INVOLVES TWO STEPS

1. Categorize Your Assets According to How They Are Taxed
2. Consider Your Repositioning Opportunities

To start, decide where each asset should be placed—either in a taxable, tax-deferred, or tax-exempt/tax-free account—in order to provide an optimal level of tax-management benefits for meeting your retirement goals.

Your financial professional and tax advisor can be invaluable in helping you create a personal tax-efficiency strategy that's appropriate for your needs and goals. It's not just about how much your investments earn; it's also about the amount of those earnings you're able to keep.

I. CATEGORIZE YOUR ASSETS
ACCORDING TO HOW THEY ARE TAXED

Tax efficiency can be a complex topic, so it's important to talk to your financial professional and, if appropriate, obtain additional input from your independent tax advisor. To prepare for those discussions, consider taking an inventory of your assets and accounts using the "My Financial Inventory" section at the end of this brochure. Then, categorize them according to how they are currently taxed.

Asset and Account Types

Taxable	Tax-Deferred	Tax-Exempt/Tax-Free
Some income taxes may be paid each year.	Income taxes paid only when assets are distributed or, if applicable, sold.	Certain distributions are free of federal and/or state income taxes.
Examples: • Mutual Funds • Stocks • Bonds • CDs	Examples: • Nonqualified Annuities (earnings distributed are taxed first) • Retirement Accounts (IRA, 401(k), etc.) • Life Insurance Cash Value	Examples: • Municipal Bond Interest • U.S. Treasury Securities • Roth IRAs • Roth 401(k)s • Life Insurance Death Benefit[1]

[1]For federal income-tax purposes, life insurance death benefits generally pay income-tax-free to beneficiaries pursuant to IRC Section 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Section 101(a)(2)(i.e., the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Section 101(j).

2. CONSIDER YOUR REPOSITIONING OPPORTUNITIES

Next, working with your financial professional and tax advisor, explore whether you might realize any tax benefits from repositioning certain assets. For example, should you consider moving certain assets that expose you to higher taxes from a taxable account to a tax-deferred account? Doing so may enable you to keep more of that asset's earnings—and, as a result, those earnings may have an opportunity to continue to grow.

How do you make repositioning decisions? In part, it's by considering the stage of life you're currently in.

TAX EFFICIENCY
DURING YOUR WORKING YEARS

While you work, investments are typically used for two purposes: to help meet **short-term or intermediate-term, expenses** and **long-term expenses**. To help you do this in a tax-efficient way, it is important to think about how to reposition your assets among taxable, tax-deferred, and tax-exempt/tax-free accounts. But first, let's define each account type in more detail.

Short-Term or Intermediate-Term Expenses	Long-Term Expenses	
Taxable Accounts	**Tax-Deferred Accounts**	**Tax-Exempt/Tax-Free Accounts**
Often used for **short-** and **intermediate-term** needs because they're relatively liquid. Even though income tax may arise annually on taxable earnings with this account, you can access these assets at any time without an additional 10% federal tax. Example: **After-tax brokerage accounts** holding stocks, bonds, and mutual funds where dividends, interest, and recognized gains are taxed annually. **CD investments** provide liquidity based on the length of the CD maturity term. Interest from a CD will be taxed annually.	Typically used for enhancing **long-term** growth potential. There may be adverse tax consequences for early withdrawals. However, in return, there are no taxes on any investment earnings in these accounts until you need to make withdrawals or take distributions. As a result, while you're invested, you keep more of your investment earnings, enabling your assets to grow faster. Example: **A nonqualified deferred annuity** is used to grow money for retirement. Early distributions (prior to age 59½) will generally be subject to both ordinary income tax and an additional 10% federal tax on the gains. Assets left within an annuity will continue to grow tax-deferred.	Can be used to help meet **long-term** expenses by generating tax-free income in retirement. Although you pay taxes up front at today's known rates, you may potentially eliminate any income tax on account earnings when withdrawn. Example: **A Roth IRA** can create tax-free income for retirement. Since you pay taxes up front when you contribute to a Roth IRA, these accounts work best when you expect to be in a higher tax bracket during your retirement years. Generally, for earnings from a Roth IRA account to be distributed tax-free, the Roth IRA holder must have established a Roth IRA for five years AND either attained age 59½, become disabled, passed away, or qualified for a first-time home purchase exception.

Now that the three different account types have been further defined, let's look at the differences in tax-efficient and tax-inefficient investments, and possible ways to position them among taxable, tax-deferred, or tax-exempt/tax-free accounts.

Tax-Efficient Investments

- Typically produce more long-term capital gains (which are not taxed until sold)
- Pay small to no dividends, such as growth-oriented equity funds and stock index funds

Consider Positioning Tax-Efficient Investments into Taxable Accounts

Tax-efficient investments produce a lower amount of taxable income or gains during the short or intermediate term, making them possible options to hold within taxable accounts.

Tax-Inefficient Investments

- Generate taxes due to regular distribution of dividends and interest, which includes bonds, dividend-paying equities, and real estate investment trusts (REITs)
- Generate short-term capital gains, which includes actively traded funds

Consider Positioning Tax-Inefficient Investments in Tax-Deferred or Tax-Free Accounts

Tax-inefficient investments produce a higher amount of taxable income or gains, but tax-deferred and tax-free accounts can take advantage of either a deferral or possible elimination of taxes on these types of investments.

TAX EFFICIENCY
DURING YOUR RETIREMENT

Assume you and your spouse are both age 66, retired, and in a 12% federal income-tax bracket. You've spent your life accumulating assets. Now, it's time to decide the best way to use those assets to fund your retirement. Consider the following hypothetical example.

Before Making Withdrawals, Think About Your Net Income

While doing some financial planning with your financial professional, you and your spouse realize that after Social Security benefits and pension payments, you'll need to withdraw a net **$13,500** from savings to meet living expenses. Which account should you withdraw from? If the goal is to minimize income taxes and help make your retirement savings last, it may be a good idea to withdraw from the tax-exempt account. Why?

In this hypothetical example, if you withdraw from the tax-deferred account, it will deplete your savings by an additional **$1,840** (12% tax rate). Withdrawing $15,340 would allow you to receive a net $13,500 In contrast, the tax-exempt account would only require $13,500 to be withdrawn without any additional federal tax.

Tax-Deferred	**Tax-Exempt**
Your withdrawals will be taxed at ordinary income-tax rates. Tax = $1,840	No income tax will be due on your withdrawals.
Total withdrawal needed to receive a net amount of $13,500: $13,500 + $1,840 = **$15,340**	Total withdrawal needed to receive a net amount of $13,500: **$13,500**

Be Aware of Your Tax Bracket

Now, let's add another hypothetical consideration to the previous example. You and your spouse's annual taxable income from sources other than savings—specifically, long-term capital gains from the installment sale of a business, your pension, and the taxable portion of Social Security benefits—is **$74,500**.

- If you withdraw $16,000 (rather than $15,340) from your tax-deferred account, your total taxable income (long-term capital gains, Social Security benefits, pension, and withdrawals) would be $16,000 + $74,500 = **$90,500**. By looking at the current IRS tax tables, you realize this amount of taxable income moves you from a 12% tax bracket to a 22% bracket **(which now results in long-term capital gains rates moving from a 0% to a 15% tax rate)**.
- However, if you withdraw $13,500 from your tax-free account, your total taxable income would still be $74,500, and this would keep your long-term capital gains at the 0% tax rate.

2023 Federal Income-Tax Brackets and Rates

Taxable Income (2023 Federal Tax Brackets)–Married Filing Jointly	**Is Taxed at** (Marginal Income Tax Rate)
$0 to $22,000	10%
> $22,000 to $89,450	12%
> $89,450 to $190,750	22%
> $190,750 to $364,200	24%

Tax-Free Withdrawal: **$13,500**
Total Taxable Income: **$74,500**
Capital Gains Tax Rate: **0%**

Tax-Deferred Withdrawal: **$16,000**
Total Taxable Income: **$90,500**
Capital Gains Tax Rate: **15%**

2023 Capital Gains Tax Brackets and Rates

Taxable Income (2023 Federal Tax Brackets)–Married Filing Jointly	**Is Taxed At** (Long-Term Capital Gains Tax Rate)
$0 to $89,250	0%
$89,250 to $553,850	15%
More than $553,850	20%

Source: IRS Revenue Procedure 2022-38.

Full tax bracket for 2023 Married Filing Jointly is not included. State taxes (if any) are not taken into account.

TAX IMPACT

Moving to a higher income-tax bracket not only impacts taxation on your ordinary income, it may also result in paying:

- More in capital gains tax.
- The 3.8% Net Investment Income Tax (NIIT) for nonqualified assets.
- Tax on a higher percentage of your Social Security benefit.
- The Alternative Minimum Tax.
- More retirement healthcare costs, such as increased premiums for Medicare Parts B and D.

Talk to Your Financial Professional

We've included a simple worksheet on the next page that can help you begin the process of categorizing your assets so that you can have a productive tax-efficiency discussion with your financial professional and tax advisor. Complete the form on your own, or ask your financial professional and tax advisor to work with you.

Creating your personal tax-efficiency strategy today
may help you build a more financially comfortable tomorrow.

My Financial Inventory

Use this chart as a starting point for a tax-efficiency discussion with your financial professional and tax advisor.

Name

Date

My Financial Professional

Telephone

LIST THESE		CHECK ONE		
Accounts, Assets, Investments	Value	Taxable	Tax-Deferred	Tax-Free/ Tax-Exempt
	$	×	×	×

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