

## How Tax-Deferred Compounding Works to Your Advantage

**With the conclusion of each tax season, many Americans reflect on how much more they pay in taxes every year. It quickly becomes clear how taxes paid on capital gains, dividends and interest can quickly erode portfolio return.**

What if you had a chance to increase the return potential of your money without adding to risk?  
Would you take it?

That's precisely what can happen in accounts that can defer taxes until the assets are withdrawn.

**"COMPOUND INTEREST IS THE EIGHTH WONDER OF THE WORLD.  
HE WHO UNDERSTANDS IT, EARNS IT..."<sup>1</sup>**

**-ALBERT EINSTEIN**

<sup>1</sup> Goodreads <https://www.goodreads.com/quotes/76863-compound-interest-is-the-eighth-wonder-of-the-world-he>

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While taxes cannot be eliminated from a tax-deferred account, they can be controlled.

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## What Is Tax Deferral?

Tax deferral refers to earnings such as interest, dividends or capital gains that accumulate tax free until the investor withdraws the amounts. The most common types of tax-deferred products include those in individual retirement accounts (IRAs) and tax-deferred annuities.

## How Does It Benefit Investors?

By deferring taxes on the returns of an asset, the investor benefits in two ways:

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### **Tax-Free Growth**

Instead of paying tax on the returns of an asset, tax is paid only at a later date, leaving the asset to grow unhindered.

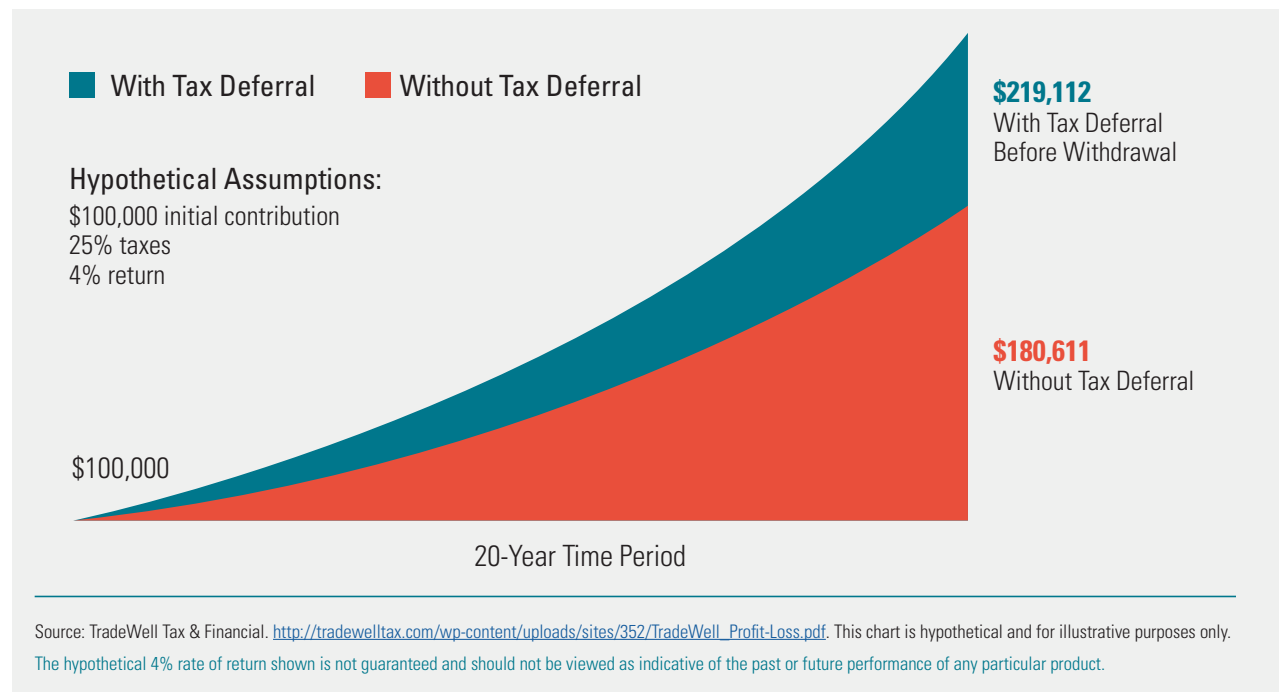
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### **Good Demographic Timing**

Most retirement contributions are made while the individual earns income at a higher tax rate—during prime working years. Conversely, individuals receive income in retirement when they are earning substantially less income, and, consequently, may be taxed at a lower rate.

# For Future Retirement Expenses, the Longer Taxes Are Deferred, the Better

As the chart below shows, a \$100,000 contribution that earned a 4% average annual rate of return in the 25% tax bracket would have grown to \$180,611 over 20 years. In contrast, a \$100,000 tax-deferred contribution that earned 4% over the same time period would have grown to \$219,112, **a \$38,501 advantage**.



## How to Combine Tax Deferral with Guaranteed Income Payments

While tax-deferred annuities can be fairly straightforward—pay an insurance company today to insure income in the future—they have become more flexible and diverse over the years. In 1995, for example, the insurance industry introduced the fixed index annuity (FIA) to pay interest based on the performance of a market index such as the S&P 500®.<sup>2</sup>

While an FIA is usually subject to income tax paid when withdrawals are made, investors can have the benefit of tax-deferral to earn interest on their:

1. Principal
2. Credited interest
3. Savings from tax deferral

<sup>2</sup> LIMRA US Individual Annuity Yearbook – 2011

# Growing Tax-Deferred Interest across Different “Buckets”

FIRAs offer a variety of options for earning interest, too, which investors can adjust if their objectives or circumstances change.

Think of these accounts as different “buckets” that represent different vehicles for your money.

Bucket 1



## Fixed Account

The first bucket might be a fixed-rate account that pays a guaranteed rate for a specified period of time. Amounts allocated to this option would be credited with an interest rate that is current on the date the solution is effective. This is typically a good choice for investors who want to know at the beginning of the year how much interest will be credited to their account.

Bucket 2



## Domestic Equities

For investors who want to participate in the performance of the broad U.S. market, another bucket could be linked to the S&P 500® Index, which is widely regarded as a premier benchmark for the domestic stock market.

Bucket 3



## International Equities

Investors who want international equity exposure might also want an allocation across a broad array of global equity markets and selected industry sectors.

Bucket 4



## Risk-Managed Momentum

For investors who want exposure to an even wider variety of asset classes beyond equities, other strategies are available. Multi-asset strategies can allocate across equities, gold, interest rates and cash in an effort to outperform fixed-weight portfolios by dynamically allocating more to assets that show upward momentum. A volatility control mechanism in such cases is often used to help manage downside risk, as well.

## Flexible Tax-Deferred Choices that Grow Your Savings

Such indexed account buckets offer these advantages:

- If an index turns negative during a term, an account cannot be credited below 0%.
- On the other hand, with positive index performance, an account has to the potential to receive credit increases.
- Since an indexed account can never earn a negative interest rate, an account can experience positive growth when an index rebounds.

Regarding income payouts, please keep in mind that annuity guarantees are subject to the claims-paying ability of the issuing insurance company.

## For the Retirement Dimensions in Your Life: Growth Today for Income Tomorrow

If you are like many individuals nearing or entering retirement, you are looking to achieve two primary goals: Accumulate dollars today and receive dependable income tomorrow.

The journey between those goals, however, may involve unwanted risk exposure unless you have adequate information, expert advice and access to proven strategies. One strategy you and your financial professional may want to consider to secure a sustainable retirement lifestyle is a proven, cornerstone financial product like an FIA.

An FIA, in effect, is a contract between you and an insurance company that is designed to help you meet your long-term retirement needs. In exchange for your payment of an insurance premium, the insurance company gives you the opportunity to earn additional interest based on the performance of a market index, and pays you income in the future.

## Is a Fixed Index Annuity Right for You?

**You might be a good candidate for an FIA if you agree with any of these statements:**

"I want a convenient way to receive predictable monthly payments after I retire."

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"I need to find a way to preserve my retirement principal."

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"I'm retiring yet still want my money to keep growing while it pays me income."

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"I'd like a solution that locks in value I can leave to my heirs."

# Experience Delaware Life Dimensions

Delaware Life Dimensions is designed to help you reach your retirement goals through timely, thoughtful ideas and leading research. This 12-part educational program offers general advice concerning principal preservation, growth and income during retirement. It is not intended as a substitute for a consultation with a qualified financial professional who understands how this information may apply to your specific situation. Guarantees are backed by the financial strength and claims-paying ability of the insurance company issuing the annuity.

## Do You Want to Learn More?

**Ask your financial professional about other topics in the Delaware Life Dimensions Retirement Education Series, including:**

**>1 Evaluating Retirement Readiness** This self-evaluation tool can help you gauge your planning progress as you prepare for one of life's major events: retirement.

**>6 Tempering Market Volatility** With less time to make up for losses, individuals can turn to a strategy that offers principal protection with a chance to grow retirement assets.

**>10 Keeping Up with Rising Costs** Even at today's historically lower inflation rates, price increases today can still undercut buying power tomorrow.

## About Delaware Life

We are dedicated to supporting you with valuable, straightforward solutions that help you save today and provide income for tomorrow. Our current product offerings include fixed and fixed index annuities. Delaware Life Insurance Company manages approximately 342,000 in-force annuity and life insurance policies representing \$36.6 billion in assets under management and \$14.1 billion of invested assets as of September 30, 2017.

### Contact Your Financial Professional Today to Learn More

Delaware Life Insurance Company is authorized to transact business in all states except New York, as well as in the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Delaware Life Insurance Company is a member of Group One Thousand One.

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NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY**

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