

The Power of Tax Deferral

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

That's precisely what can happen in accounts that can defer taxes until the assets are withdrawn.

What Is Tax Deferral?

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

Deferring taxes on the returns of an asset benefits you in two ways:

#1 Tax-Deferred 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. All your earnings grow 100% tax deferred, until you start taking withdrawals or income payments. Withdrawals are taxed as ordinary income and if taken prior to 59½, you may have to pay a 10% federal tax penalty.

#2 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.

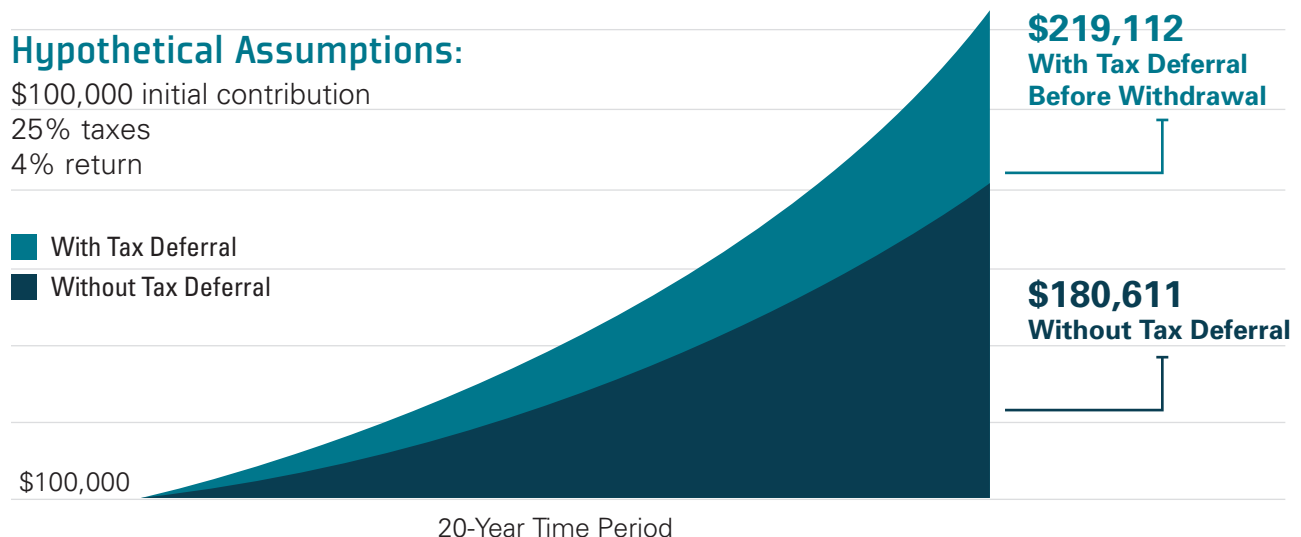
For Future Retirement Expenses, the Longer Taxes Are Deferred, the Better

As illustrated in the chart below, a \$100,000 contribution that earned a 4% average annual rate of return with taxes paid each year 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.

Hypothetical Assumptions:

\$100,000 initial contribution
25% taxes
4% return

■ With Tax Deferral
■ Without Tax Deferral



Source: TradeWell Tax & Financial. http://tradewelltax.com/wp-content/uploads/sites/352/TradeWell_Profit-Loss.pdf.

This chart is hypothetical and for illustrative purposes only. **The hypothetical 4% rate of return shown is not guaranteed and should not be viewed as indicative of the past or future performance of any particular product.**

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