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Why tax-deferred investing matters

With tax rates at their highest level in more than 30 years, it is essential to have a tax-smart investment strategy. Investors—especially those with portfolios heavily invested in taxable accounts—could be losing investment earnings to taxes. Over time, this may significantly erode the portfolio's returns.

A tax-deferred investment vehicle can help you stay invested in the market while limiting your tax exposure. By keeping more assets invested over time, tax deferral helps your money work smarter for the long run.

Do the Math – The Rule of 72

The Rule of 72 is a simple formula used for estimating the time it will take an investment to double. The rule number (in this case, 72) is divided by an expected rate of return or growth rate to determine when the initial investment could double in value.

$$\frac{72}{6\%\ \text{(growth rate)}} = \text{12 years to double}$$

What this rule does not account for is taxes—and taxes can have a dramatic effect on the growth of an investment. Assets may be taxed for short- and long-term capital gains, dividends, transfers and interest earned. Now, consider the time it would take a taxable investment to double given different tax rates.

Number of years it could take an investment to double

	Tax-deferred account Growth rate using the Rule of 72		Taxable account Growth rate adjusted to reflect a 25% annual tax rate		Taxable account Growth rate adjusted to reflect a 39.6% annual tax rate	
Growth Rate	Your rate	Years to double	Your rate	Years to double	Your rate	Years to double
2%	2%	36	1.50%	48	1.21%	60
3%	3%	24	2.25%	32	1.81%	40
4%	4%	18	3.00%	24	2.42%	30
5%	5%	14	3.75%	19	3.02%	24
6%	6%	12	4.50%	16	3.62%	20
7%	7%	10	5.25%	14	4.23%	17
8%	8%	9	6.00%	12	4.83%	15
9%	9%	8	6.75%	11	5.44%	13
10%	10%	7	7.50%	10	6.04%	12

This chart is for illustrative purposes only and is not intended to represent a particular investment.

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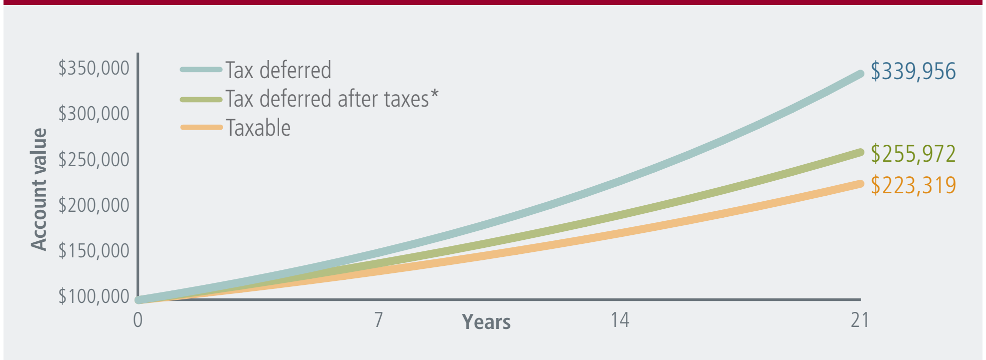
The power of tax-deferred investing

The longer you stay invested, the greater the impact tax deferral and compounding can have. Because no taxes are paid as the money grows, tax-deferred accounts can grow faster than taxable accounts.

Tax deferral for potential growth



Assumptions
Investment: **$100,000**
Annual gross rate of return: **6%**
Tax bracket: **35%**

*Withdrawals of earnings are taxable as ordinary income and, if taken prior to age 59½, may be subject to an additional 10% federal tax.

This example is hypothetical and for illustrative purposes only. The hypothetical rates of return shown in this example are not guaranteed and should not be viewed as indicative of the past or future performance of any particular investment. This example is based on a hypothetical situation assuming taxable and tax-deferred growth of $100,000 a 6% annual rate of return and a 35% tax rate over a 20-year period. Changes in tax rates and tax treatment of investment earnings may impact the hypothetical example. Lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the accounts shown. Investors should consider their individual investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, as these may further impact the results of the comparison.

Talk to your financial advisor about tax-deferred investment opportunities to help grow and protect your wealth.

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