



Tax deferral — a deeper look

How will you keep your taxes down?

It's an age-long challenge. What can you do to keep the amount you pay in taxes down to a minimum, while saving for or taking income in retirement? With the prospect of higher tax rates looming and inflation increasing from all-time lows, you may be looking for ways to minimize taxes — now and in the future.

Start now

It's wise to prepare for your later years as soon as possible, with a strategy that can help you make the most of what you have so you can achieve the freedom to pursue your passions.

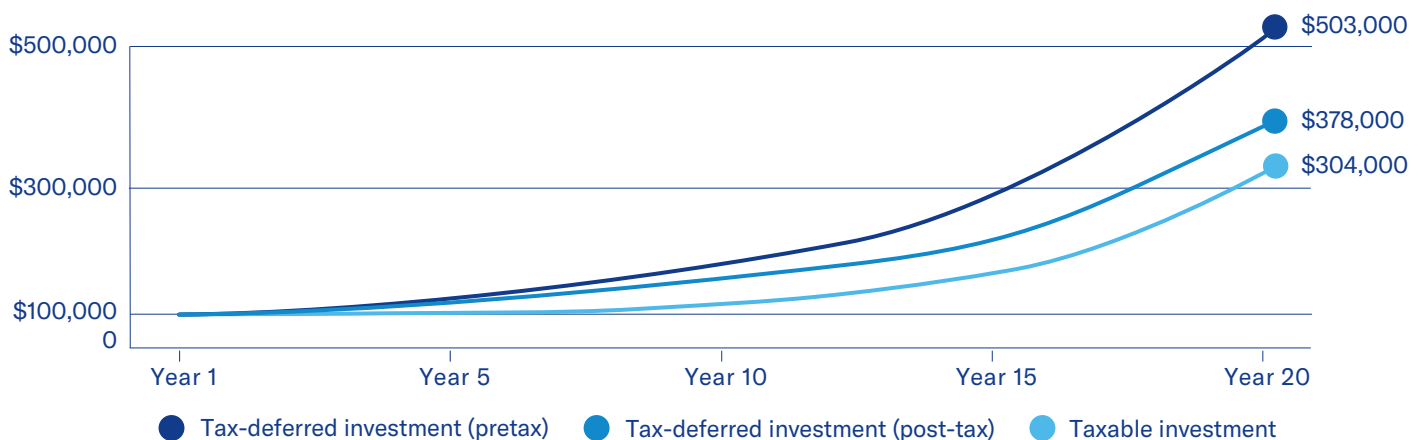
Consider tax deferral

One way to help lower taxes is by investing in a tax-deferred strategy, such as an annuity

With tax-deferred investments, you delay paying taxes until you take a withdrawal, which allows the original investment and earnings to grow and compound over time.

Tax-deferred versus taxable investment

Assuming an annual return of 8% (not guaranteed) and a federal tax rate of 24%, a tax-deferred investment will outperform a taxable investment over time, even after taxes are taken out.



The disclosure below applies to bank distribution entities.

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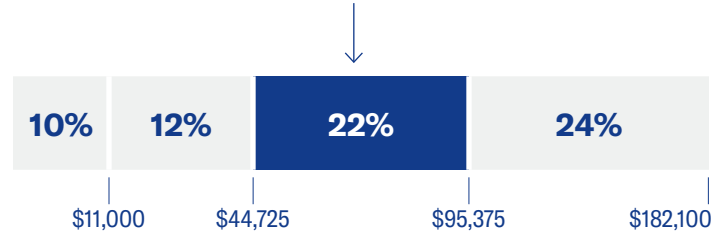
Other (often overlooked) benefits of tax-deferred investments

Besides the potential for greater growth, a tax-deferred investment, such as an annuity, offers important benefits you won't find in taxable investments.

You may not actually pay marginal tax rates.

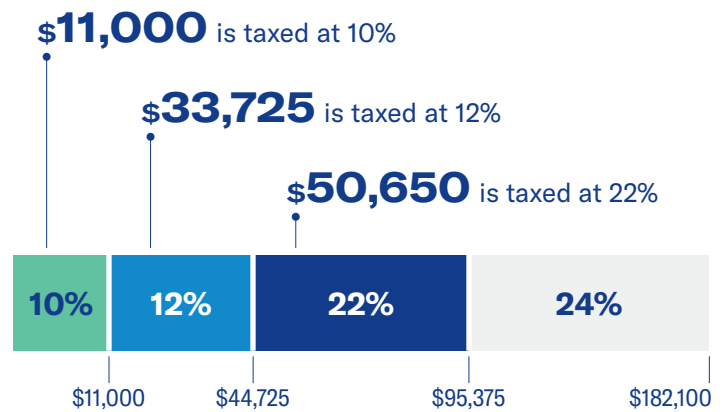
For example, it may look like someone who makes \$93,375 a year will pay 22% on the whole amount.

So if you earned \$93,375, you think your tax rate is 22%



But that's not true

Your money is divided into different tax brackets that increase as you make more money. So the first \$11,000 is taxed at 10%, the next \$33,725 is taxed at 12% and so on.



* Brackets only represented up to \$182,100.

Source: <https://www.vox.com/policy-and-politics/2019/1/7/18171975/tax-bracket-marginal-cartoon-ocasio-cortez-70-percent>.

2024 married filing jointly: ordinary income vs. capital gains

Income level	Ordinary income rate		Capital gains rate
	Marginal bracket	Effective rate	
\$50,000	12%	11.07%	0%
\$75,000	12%	11.38%	0%
\$100,000	22%	12.11%	15%
\$125,000	22%	14.08%	15%
\$150,000	22%	15.40%	15%
\$175,000	22%	16.35%	15%
\$200,000	22%	17.05%	15%
\$250,000	24%	18.43%	15%
\$300,000	24%	19.36%	15%

Marginal vs. effective tax rate examples — As you can see, someone at the top of the 24% marginal tax bracket may only have an overall effective tax rate of less than 20%. This is an important consideration when comparing investments that may have different tax characteristics.

Tax control

With a taxable investment, such as a mutual fund or individual stock, a capital gains tax must be paid on the increase in value upon distribution. That means, whenever you sell an investment for a profit or a money manager sells a security within a mutual fund that you own, you'll receive a 1099 showing an increase in your income. You'll pay the capital gains tax on that income in the year the profit was made — even if you don't withdraw the money from the account.

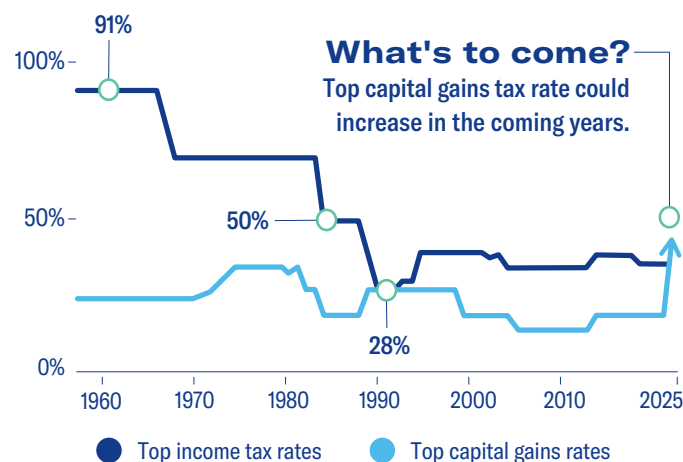
However, with a tax-deferred investment, you can move your money around (buy and sell) without paying any current taxes. You'll pay ordinary income tax when you withdraw that money, typically when you're retired, but not before.

Why it may be better to pay ordinary income tax than capital gains tax

While ordinary income tax may be higher than capital gains right now, that doesn't mean you're saving money by paying taxes on earnings now.

That's because: Tax rates may go up. It's possible, even probable, that capital gains rates will increase in the coming years. This chart shows tax rate history as well as one proposal going forward.

Top marginal tax rates 1954–2025



Sources: <https://taxfoundation.org/biden-capital-gains-tax-rate-historical/>; FRED, Federal Reserve Economic Data, Federal Reserve Bank of St. Louis.

You may be in a lower tax bracket when you take income, so your ordinary income tax may be lower than you think.

Some experts think you'll need 70%-80% of your pre-retirement income to support yourself comfortably in retirement. If you've paid off your home mortgage, downsized or moved to a less expensive location, you may need even less income.

Freedom to make the right decisions

Because you don't pay taxes when you buy or sell investment options within a tax-deferred account, you have the flexibility to make changes when needed:

- If your needs or goals change, or if the economy is moving in a new direction, you can move your money into different investments that might work better for you.
- If your account is performing well, you can rebalance your investments to maintain your asset allocation strategy.

Added bonus for annuities: NO investment limits

If you see the benefits of tax-deferred investments such as 401(k), 403(b) or 457 plans or traditional IRAs, but are a high-income earner, your contributions to those plans might not be enough to support your retirement savings efforts. That's where annuities come in. Nonqualified annuities allow for additional tax-deferred savings without the limitations you'll find on other retirement plans.

Keep in mind that you'll pay taxes on the money you contribute to nonqualified annuities, unlike qualified plans like 401(k), which allow pretax contributions but limit how much you can invest.

\$20,500 + \$7,500 if you're age 50 or older = 401(k) contribution limit (2024)

Unlimited = nonqualified annuity contribution

Where are your assets located?

Spreading your money among a variety of different types of investments is an important way to reduce risk. While you may be familiar with the concept of asset allocation, have you heard of asset location, which can help you minimize taxes? It's just as important to your future financial well-being.

- **Asset allocation** is an investment strategy that aims to reduce risk and volatility in a portfolio by spreading assets across a number of different types of investments, such as stocks, bonds and cash.
- **Asset location** is an investment strategy that aims to minimize taxes by dividing assets among different types of vehicles or accounts based on how they are taxed, such as a managed money account, annuity or Roth IRA.

You have three types of investment accounts to choose from:

Taxable

Like a brokerage or managed money account.

Tax-deferred

Like traditional IRAs, 401(k)s and annuities.

Tax-free

Like Roth IRAs and cash value life insurance.

Using both asset allocation and asset location strategies can help you make the most of your savings and investments. By taking advantage of the benefits of a tax-deferred investment like an annuity, you can set yourself up for success and look forward to turning today's goals into tomorrow's accomplishments.

For more information about our retirement planning products, contact your financial professional or visit equitable.com/annuity-tools.

Important information

Please consider the charges, risks, expenses and investment objectives carefully before purchasing a variable annuity or mutual fund. For a prospectus containing this and other information, please contact a financial professional. Read it carefully before you invest or send money.

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