It’s an agelong 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.

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.

INVESTMENT AND INSURANCE PRODUCTS ARE: • NOT FDIC INSURED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, THE BANK OR ANY OF ITS AFFILIATES • SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED

This material is for informational purposes only and does not constitute investment advice or a recommendation.
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.

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 1954–2021

What’s to come?
Top capital gains tax rate could increase in the coming years.


You may not actually pay marginal tax rates. For example, it may look like someone who makes $84,000 a year will pay 22% on the whole amount.

So if you earned $84,000, 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 $9,700 is taxed at 10%, the next $29,775 is taxed at 12% and so on.

2022 married filing jointly: ordinary income vs. capital gains

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.
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 + $6,500 if you’re age 50 or older = 401(k) contribution limit (2022)

Unlimited = nonqualified annuity contribution

Added bonus for some annuities: tax-efficient income

Some annuities offer the benefit of tax-efficient income in retirement, allowing you to take part principal, part earnings with each income payment. That can help you spread your tax burden out over time.

Typical annuity withdrawal program*

Get hit hardest by taxes in the early years of payments.

More tax-efficient withdrawal payments*

Distribute taxes evenly over the course of receiving payments.

* Pie charts are a conceptual representation, assuming no Account Value growth or volatility and an initial Account Value that is 50% gains and 50% cost basis.
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:

<table>
<thead>
<tr>
<th>Taxable</th>
<th>Tax-deferred</th>
<th>Tax-free</th>
</tr>
</thead>
<tbody>
<tr>
<td>Like a brokerage or managed money account.</td>
<td>Like traditional IRAs, 401(k)s and annuities.</td>
<td>Like Roth IRAs and cash value life insurance.</td>
</tr>
</tbody>
</table>

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 retirementguide.equitable.com.

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.*

If you are purchasing an annuity contract as funding for an IRA, you should be aware that such annuities do not provide tax deferral benefits beyond those already provided by the Internal Revenue Code. Before purchasing one of these annuities, you should consider whether its features and benefits beyond tax deferral meet your needs and goals. You may also want to consider the relative features, benefits and costs of these annuities with any other investment that you may use in connection with your retirement plan or arrangement.

Annuities are issued by Equitable Financial and Equitable America. Variable annuities are distributed by affiliates, Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN) and Equitable Distributors, LLC, Annuity contracts and features may not be available in all jurisdictions.

When distributed outside of New York state by Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN) through Equitable Advisors Financial Professionals whose business address is not in New York state, or when distributed by Equitable Distributors, LLC through financial professionals of unaffiliated broker/dealers when the solicitation state is not New York, Investment Edge® variable annuity is issued by Equitable Financial Life Insurance Company of America (Equitable America), an AZ stock company with main administrative headquarters in Jersey City, NJ. When offered by Equitable Advisors Financial Professionals whose business address is in New York state or when distributed by Equitable Distributors, LLC through financial professionals of unaffiliated broker/dealers when the solicitation state is New York, Investment Edge® is issued by Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY). The obligations of Equitable Financial Life Insurance Company and Equitable Financial Life Insurance Company of America are backed solely by their own claims-paying abilities.

Equitable is the brand name of the retirement and protection subsidiaries of Equitable Holdings, Inc., including Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY); Equitable Financial Life Insurance Company of America (Equitable America), an AZ stock company with main administrative headquarters in Jersey City, NJ; and Equitable Distributors, LLC. Equitable Advisors is the brand name of Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN).