

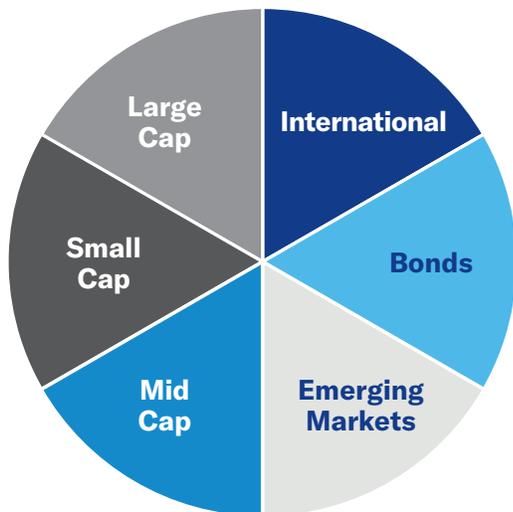


Asset Allocation vs. Asset Location

Allocation

Asset allocation is investing in different asset classes to reduce your investment risk.

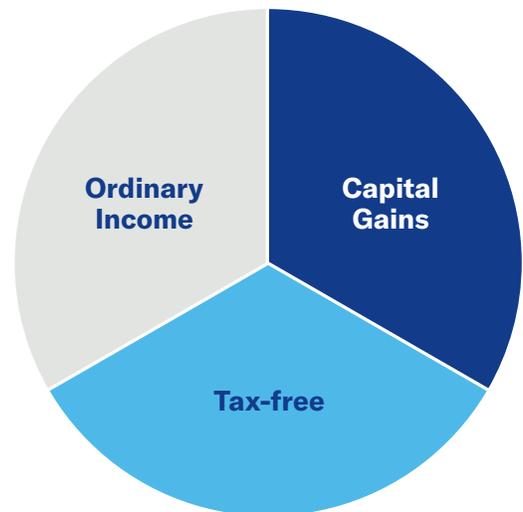
Asset allocation is the combination of asset classes in your portfolio such as stocks, bonds and cash.



Location

Asset location is investing in different tax locations to reduce your tax liability risk.

Asset location refers to the combination of portfolio holdings and tax treatment when you withdraw your asset.



vs.

Asset allocation, reallocation and rebalancing addresses portfolio risks. Asset location focuses on the risk of taxation on distributions.

Why you may need an asset location plan

Without asset location planning

Let's take a look at an example. Take Ivan and Andrea Smith. The Smiths just retired and need to pull \$350,000 from their investments this year to maintain their lifestyle.

If the Smiths had never done an asset location plan, they may not have been investing in all three locations during their working years, which means they may only be able to pull their retirement income from one location, the ordinary income location (which is typically a 401(k)). In this case, they would end up paying \$69,196 in taxes, based on current tax treatment.

Ordinary Income Only \$350,000 Total					
	First \$24,800	Next \$76,000	Next \$110,600	Next \$138,600	TOTAL
Tax rate	10%	12%	22%	24%	
Taxes due	\$2,480	\$9,120	\$24,332	\$33,264	\$69,196

Effective tax rate = 20%

With asset location planning

In option 2, the Smiths met with a financial professional and, based on their asset location plan, determined an optimal mix of investment locations. Since they had been investing in all three locations, they have the option to pull their \$350,000 from all three locations. In this case, they can take \$150,000 from the ordinary income location, \$100,000 from the capital gains location, and \$100,000 from the tax-free location.

	Ordinary Income \$150,000 Total			Capital Gains	Tax- Free	
	First \$24,800	Next \$76,000	Next \$49,200	\$100,000	\$100,000	TOTAL
Tax rate	10%	12%	22%	15%	0%	
Taxes due	\$2,480	\$9,120	\$10,824	\$15,000	\$0	\$37,424

Effective tax rate = 11%

**Total tax savings with asset location planning =
\$31,772 (46%)**

By determining their tax rates, finding the ideal tax locations, applying and tax bracket planning, Ivan and Andrea were able to reduce their effective tax rate from 20% to 11%. That's a savings of 46%, a total of \$31,772. This allows them to spend that money on their grandkids, travel and adventures, golf, and anything else they love doing!

Of course, this is just a hypothetical example — with your personalized asset location plan, you'll be able to determine how best to potentially reduce your taxes based on your income and investments.

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