

## How Tax Deferral Can Boost Your Savings Potential

One way in which tax strategy comes into play for everyday savers is tax deferral. Understanding how and where tax deferral fits into your retirement strategy is key to ensuring your investments grow throughout your retirement-planning journey so you will have enough money saved when you leave the workforce.



Tax deferral postpones the payment of taxes on investment earnings until a later date, meaning 100% of your earnings are compounded and won't be taxed until you withdraw the money, usually at age 59½ or later, depending on the type of account.

Here are a few things to consider within your retirement savings strategy:

- Capital Gains
- Tax and Tax-deferred Options
- Annuities

### **Understanding Capital Gains**

Capital gains and losses arise from the sale of capital assets, and the tax rate applicable to the capital gains depends on how long the capital asset was held.

### Long-term capital gains/losses

Long-term capital gains/losses are from the sale of capital assets held for more than a year and generally qualify for a tax rate of 0%, 15%, or 20%. Under the Tax Cuts and Jobs Act, [capital gains tax rates](#) are applied to income levels that differ from regular income tax brackets, as shown in the table below.

| Long-term capital gains tax rate | Single Filer       | Married Filing Jointly | Heads of Households |
|----------------------------------|--------------------|------------------------|---------------------|
| 0%                               | \$0-\$47,025       | \$0-\$94,050           | \$0-\$63,000        |
| 15%                              | \$47,026-\$518,900 | \$94,051-\$583,750     | \$63,001-\$551,350  |
| 20%                              | Over \$518,901     | Over \$583,751         | Over \$551,351      |

### Short-term capital gains/losses

Short-term capital gains are from capital assets held for a year or less and are still taxed as ordinary income.

### 3.8% Medicare Surtax Triggers

Those at the high end of the income spectrum also will need to account for a surtax in their capital income. The Health Care and Education Reconciliation Act of 2010 assesses a 3.8% surtax on net investment income for taxpayers with modified adjusted gross income (MAGI) over a certain threshold.

Net investment income includes:

- Interest
- Dividends
- Capital gains (including those from real estate)
- Rental and royalty income
- Income from financial instrument or commodity trading
- Income from businesses that generally do not require active involvement from the taxpayer

### Assessing Taxable and Tax-deferred Investments

There are only two account types you can use for your investments — taxable or tax deferred. Both allow account owners to increase value over time through the power of compounding, but taxable accounts require them to pay a yearly tax bill on interest, dividends, or capital gains, which can create significant tax “drag” on overall growth.

|                         | <b>Taxable Account Growth</b>   | <b>Tax-Deferred Account Growth</b>  |
|-------------------------|---|---|
| <b>Savings Vehicles</b> | Individual stocks and bonds, bank accounts, and money market mutual funds | Qualified retirement plans, IRAs, Roth IRAs, and annuities  |
| <b>Taxation</b>         | Annual tax bill on interest, dividends, and capital gains                 | Upon withdrawal, typically at the time of retirement when individuals may be in a lower tax bracket and have a smaller tax obligation than during their earning years |

### **Considerations**

When considering the purchase of an annuity, questions and considerations should include:

- How long do you plan to keep their money in the annuity?
- What risks are associated with this annuity and are you comfortable with them?
- How much should you reasonably expect to receive from this annuity in retirement?
- What is the annuity's guaranteed minimum interest rate?
- If riders are available with the annuity, how do they work?
- What are all of the annuity's fees, charges, and adjustments?
- How long is the surrender charge period for an annuity (typically ranges from 5 to 15 years)?
- Is there a limit on how much you can take out of the annuity each year without paying a surrender charge, and is there a limit on the total amount you can withdraw during the surrender charge period?
- Will your beneficiaries receive any payment from the annuity if you die?

### **The Bottom Line**

As part of a holistic retirement savings strategy, tax-deferral options like annuities can provide safety and stability while:

- Allowing your assets to grow through the power of compounding interest, and
- Delaying tax payments until you retire

### **Additional Topics**





### **Aging Parents**

As parents age, they become more vulnerable to a variety of risks - financial, physical, and emotional. It's wise to develop a plan that anticipates and accommodates for their longevity.

[Learn How to Help Your Aging Parents](#)



### **Specialized Estate Planning**

An estate plan is especially important if you want to provide ongoing financial support to a special needs loved one. Learn how Special Needs Trusts, Pooled Trusts, and ABLE Accounts may be used to enable your loved one to have a rich quality of life.

[Planning for Your Special Needs Loved One](#)

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An annuity purchased as an Individual Retirement Annuity or through a tax-qualified retirement plan does not provide any additional tax deferral benefit.

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