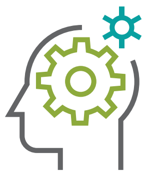
TAX WISE: THE POWER OF TAX-DEFERRED INVESTING



Investor Education

Long-term investors have long valued the impact tax deferral can have on their portfolios. Taking advantage of the full range of tax-deferred investment options available can be critical, and sometimes it's the simplest strategies that have the most impact.

THE RULE OF 72

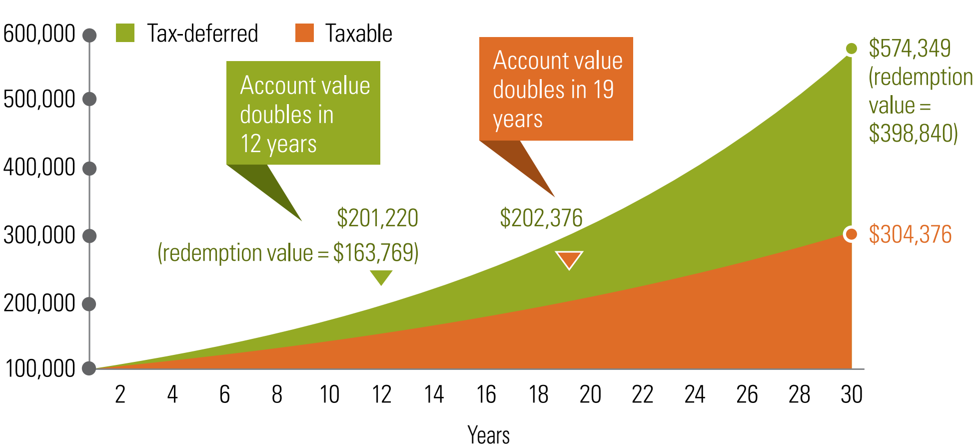
The Rule of 72 is a time-honored maxim that speaks to the power that compound interest can have on a long-term investment. Simply stated, divide 72 by an investment's expected growth rate to help estimate when the initial investment could double in value. The rule of 72 does not, however, take portfolio fees and expenses or federal/state taxes into account. Applying this same principle to tax deferral helps illustrate how a tax-deferred investment may help benefit a portfolio over the long term.

$$\frac{72}{\text{Rate of Growth}} = \text{number of years for an investment to double}$$

Tax deferral may help a portfolio grow faster

In the example below, a $100,000 investment grows at 6%. Thanks to the Rule of 72, we know that it could take 12 years for the money in a tax-deferred account to double, while a fully taxed (at 37%) account would take approximately 19 years to double.

Tax deferral can have a substantial impact on portfolio value
The growth of $100,000 over 30 years ($)



Sources: Franklin Templeton, Thomson. The chart shows hypothetical 6% growth over 30 years, with and without taxes. Taxes assumed at a 37% rate. This is a hypothetical example only and does not represent any specific investment product. Actual investments may include fees, charges and other expenses that would affect an investment's return. It assumes no distributions are made during these periods. However, lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable. Changes in tax rates and tax treatment of investment earnings may impact the comparative results. Actual returns will vary. Withdrawals of earnings from a tax-deferred account may be subject to ordinary income tax, and early withdrawals can be subject to an additional 10% federal tax and/or surrender charges. If an investor were to withdraw their entire account balance at the point in time at which the portfolio value had doubled, the redemption amount would be significantly lower. Taxes are assessed annually on taxable accounts. Investors should consider their own personal goals, time horizon and tax bracket when making investment decisions.

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And after 30 years…

A tax-deferred account would be worth **$574,349** (or **$398,840** after taxes), compared with **$304,376** for a taxable account. Investors in lower tax brackets (those with income below $647,850 or $539,900)[1] would be unlikely to see as dramatic a difference between tax-deferred and taxable accounts.

How long could it take an investment to double?
(measured in years)

Growth Rate (%)	Rule of 72: Tax-deferred account
2	36
3	24
4	18
5	14
6	12
7	10
8	9
9	8
10	7

Source: Franklin Templeton. For illustrative purposes only. The table serves as a demonstration of how the Rules of 72 works from a mathematical standpoint. Results are rounded. It is not intended to represent an investment. The table uses constant rates of return, unlike actual investments which will fluctuate in value, and is not guaranteed. It does not include fees, taxes or portfolio expenses, which would lower performance. It assumes no distributions are made during these periods. However, lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable. Changes in tax rates and tax treatment of investment earnings may impact the comparative results. Actual returns will vary. Withdrawals of earnings from a tax-deferred account may be subject to ordinary income tax, and early withdrawals can be subject to an additional 10% federal tax and/or surrender charges. If an investor were to withdraw their entire account balance at the point in time at which the portfolio value had doubled, the redemption amount would be significantly lower. Taxes are assessed annually on taxable accounts. Investors should consider their own personal goals, time horizon and tax bracket when making investment decisions. Past performance does not guarantee future results.

Don't forget the impact of state taxes

State-level taxes can also have a dramatic impact on a portfolio. Some states – such as Florida, Nevada and Texas don't have state income taxes. Other states, including New York, New Jersey and California, have top marginal rates ranging from 7.65% – 13.3%[2], making it a very important consideration. You should, of course, speak with your financial and/or tax professional for more information on how the nuances of taxation will impact your personal situation.

Need more information?

Speak with your Financial Professional about this and other investment strategies.

[1] On January 1, 2022, the income threshold for the top tax bracket changed to $539,900 for single filers and $647,850 for married couples filing jointly. Source: IRS.
[2] Source: https://www.thebalance.com/state-income-tax-rates-3193320

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