TAX-AWARE INVESTING

# Taxable vs. Tax-Deferred: What to Do With a Lump Sum?

T. Rowe Price
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## Deferring taxes on a lump sum increases your savings.

Tax-deferred growth is a major benefit for those individuals planning for retirement. Investing in a tax-deferred account can lead to a larger after-tax retirement nest egg for investors and can lower your taxable income. You pay no tax on earnings until you withdraw the money, usually at retirement, when your tax bracket may be lower.

Compounding is a powerful investment tool, as it allows you to generate earnings on an asset's reinvested earnings. It's even more powerful in a tax-deferred account because all of your earnings can be reinvested—instead of a portion being paid out for taxes when earned.

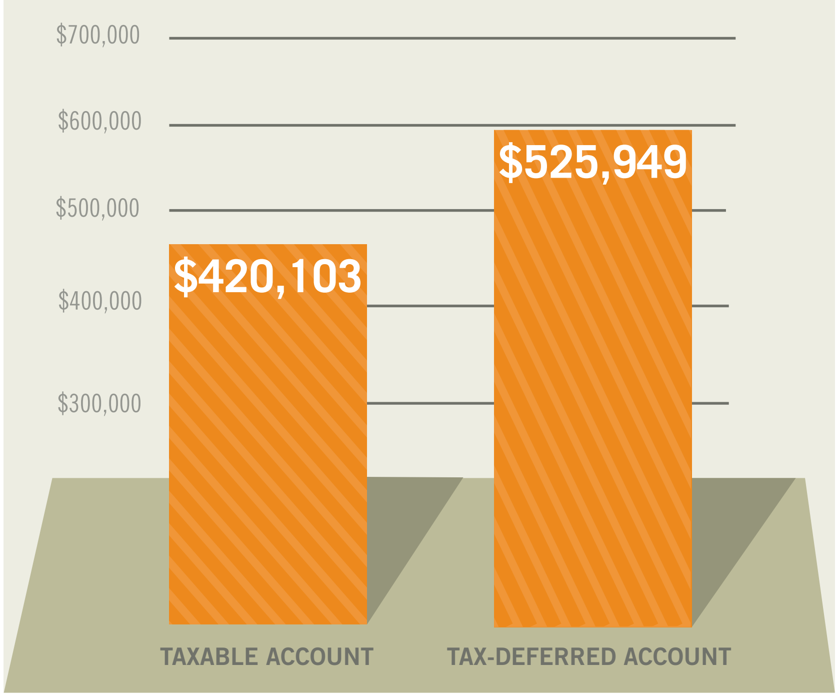
## Consider a non-qualified tax-deferred annuity.*

Transfers between investment options within a variable annuity do not trigger taxation, nor do certain instances of exchanging one annuity with another. The tax-deferred treatment of earnings within an annuity can create a significant tax benefit over a period of many years, potentially resulting in a higher level of savings available at retirement compared with a similar investment that incurs income taxation every year.

*Variable annuities are long-term investment vehicles designed for retirement purposes. They contain underlying investment portfolios that are subject to investment risk, including possible loss of principal. Like most investments, variable annuities include certain fees and expenses, such as administrative fees, sales charges, and mortality risk expense charges. Withdrawing taxable amounts are subject to ordinary income tax and if made before age 59 1/2, it may be subject to a 10% IRS penalty. Withdrawals may reduce the benefits and contract value, and may be subject to withdrawal charges. Annuity benefits and features vary, so you should carefully consider if the products is right for you. Some benefits may incur additional costs. Any guarantee associated with an annuity is subject to the claims-paying ability of the issuing life insurance company.



### Advantages of Tax-Deferred Growth




The chart compares the after-tax balance at the end of 30 years of a taxable account vs. a non-qualified tax-deferred annuity.

*The above illustration assumes $20,000 invested after tax in each account at the beginning of the first 5 years and compounded until 30 years after the first investment. Marginal tax bracket of owner is 25%. Account returns assumed to be compounding annually: 7% for the non-qualified annuity, ending balance being reduced by taxes; 5.25% tax-adjusted return for taxable account. This chart is a hypothetical illustration. This is not meant to represent the performance of any specific investment securities.*

*Source: T. Rowe Price*

*Changes in tax rates and the tax treatment of investment earnings may impact comparative results. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision since these factors may further impact the results of the comparison.*

# Taxable vs. Tax-Deferred: How to Save to Maximize After-Tax Income.

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## Money compounds faster in a tax-deferred account.

The longer you stay invested, the more compounding can potentially increase the value of your account. And the sooner you start saving on a tax-deferred basis, the easier it will be to reach your goals.

### Payout Comparison:

10 years of growth and 20 years withdrawal

| After-tax payments | Monthly | Annual | 20-Year Total |
|---|---|---|---|
| Taxable Account | $926 | $11,107 | $222,136 |
| Non-qualified Annuity | $1,059 | $12,704 | $254,077 |

*This chart is for illustrative purposes only. This is not meant to represent the performance of any specific investment securities. The chart compares the after-tax income produced by a taxable account vs. a non-qualified annuity, which has the benefit of tax-deferred earnings. The chart assumes $20,000 invested after tax in each account at the beginning of the first 5 years and compounded annually until 10 years after the first investment, followed by 20 years of payout. Marginal tax bracket of owner is 25%. Withdrawals at the beginning of the year. Account returns assumed to be at pre-retirement rates for the 10 year growth period: 7% for the non-qualified annuity, annual payments taxed based on exclusion ratio; 5.25% tax-adjusted return for taxable account. Account returns assumed to be at post-retirement rates for the 20 year payout period: 6% for the non-qualified annuity, annual payments taxed based on exclusion ratio; 4.5% tax-adjusted return for taxable account.*

*Source: T. Rowe Price*

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## Recent research: Tax deferral remains an important consideration for investors.

- 74% of baby boomers place some level of importance on tax deferral when selecting a retirement investment; 40% consider tax deferral a very important criterion.
- Three-quarters (76%) of boomers between ages 50 and 55 consider tax deferral an important feature of a retirement investment product.
- Nearly one-fifth (19%) of investors cited tax-deferred growth as the primary reason for purchasing annuities.
- Approximately half (56%) of advisors consider tax-deferred growth an important factor when evaluating and selecting annuities.
- 28% of advisors expect tax deferral to take on greater importance in the next five years, up from 20% a year earlier.

*Source: Insured Retirement Institute, March 2013*

**Call or visit your financial professional to request a variable annuity prospectus that includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing.**



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