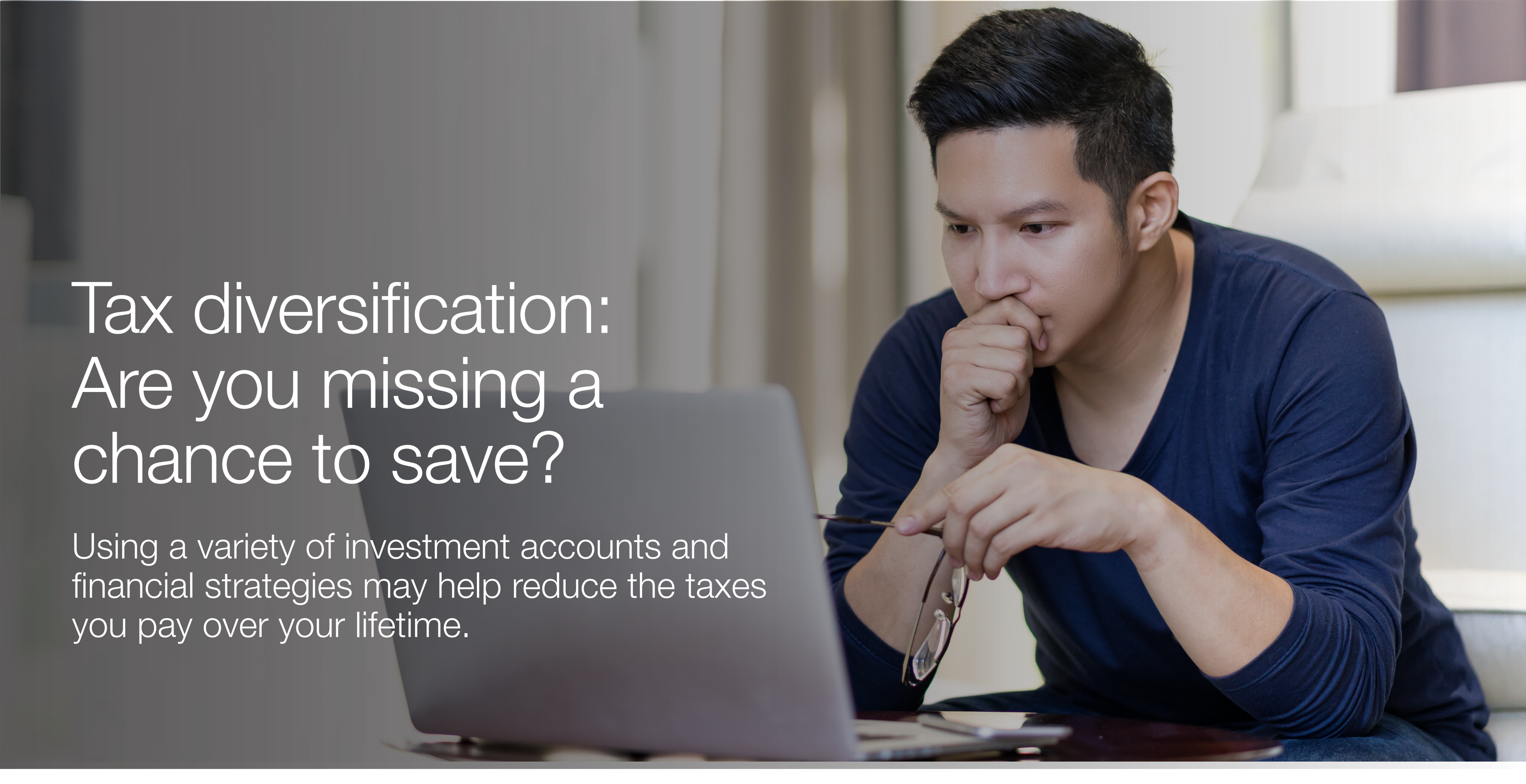

Tax diversification: Are you missing a chance to save?

Using a variety of investment accounts and financial strategies may help reduce the taxes you pay over your lifetime.

You know it's important to diversify your investments across stocks and bonds to reduce risk. But did you know you can also diversify your investments to minimize your potential tax burden and maximize your savings?

Tax rules for different types of investment and savings vehicles

	Fully taxable	Tax-advantaged	Tax free
Investment and savings vehicles:	Traditional brokerage account of stocks and bonds	Traditional retirement accounts • 401(k) • 403 (b) • IRA	Pre-tax contribution • Healthcare Savings Account (HSA), if used for qualified medical expense After-tax purchase or funding • 529 plans • Municipal bonds • Roth IRA or Roth 401(k)
Funded with:	After-tax money	Pre-tax income	After-tax money
Tax rules:	**1.** You pay taxes on any dividends, interest earnings or realized capital gains. **2.** Tax amount depends on your tax bracket, how long you held an investment before it's sold (in the case of stocks) and whether dividends are considered qualified or non-qualified. **3.** You may be able to deduct any investment losses, subject to certain tax rules.	**1.** Your retirement account balance grows tax-deferred. **2.** Withdrawals and mandatory distributions are subject to ordinary income taxes. **3.** If you withdraw money before age 59 ½, it may be subject to Federal tax penalties.	**1.** Appreciation is generally tax-deferred. **2. Municipal bonds income** are typically tax-free at the federal, state, and local levels. **3. Roth IRA or Roth 401(k)** distributions are usually tax free, if distributions are taken after age 59½ and the Roth accounts are at least 5 years old. Gains are taxed if you withdraw before age 59½, and a 10% penalty may apply. **4. 529 w**ithdrawals are taxed only if the money is used on unqualified (for example, non-education) expenses.

Diversify based on your goals and needs

What's your income now vs. in retirement?

If you have built up significant retirement savings, you might find that your retirement income exceeds your earnings during your working years. You also may have fewer tax deductions if, for instance, you no longer carry a mortgage.

If your income tax bracket now is *higher than* you expect it to be in retirement …

A **traditional retirement account, with current deductions**, can help reduce your tax burden today.

The current maximum contribution limit to a 401(k) is $19,500 annually (or $26,000 if you're over 50). The contribution limit to a traditional IRA is $6,000 annually (or $7,000 if you're over 50).

If your income tax bracket now is *lower than* you expect it to be in retirement …

A **Roth account** could mean you'll pay less income tax in the long run throughout retirement.

The current maximum contribution limit to Roth IRAs is $6,000 annually (or $7,000 if you're over 50).*

If you're using both or you've maxed your contributions already…

A **traditional brokerage account** can be a vehicle for you to continue investing in your retirement savings.

**If you have more than one IRA account, your combined contribution cannot exceed the limit.*

What are you saving for?

Different accounts are suited to different purposes. Identify your long-term savings goals and consider which accounts are most effective for you.

Retirement

A **separate IRA or Roth IRA, and/or HSA**: If you've maxed out your employer-sponsored account, these can be a good addition.

Keep in mind: With a Roth IRA, you can withdraw your Roth contributions tax-free before you retire without paying a penalty.

Your kids' education

529s: This is the go-to account when saving for qualified educational expenses.

Keep in mind: The definition of qualified expenses may change. For example, you can now use 529s for K-12 tuition.

Not sure?

A **traditional brokerage account**: This account is the most flexible in terms of uses and withdrawals.

Keep in mind: The taxes can be complex. You must pay capital gains tax on earnings but may also be able to deduct capital losses.

When it comes to lowering your taxes over a lifetime, awareness is key. Understanding when and how to choose the right investment vehicle for your needs and life stage can help you minimize your lifetime tax bill and maximize your savings.