



Demystifying the secrets of financial analysis

The 2 • 3 • 4 financial concept



EQUITABLE
ADVISORS

Life is more than money

In fact, money is more than money — because it's wrapped up in our hopes and fears and dreams. That's why we offer a humanistic and holistic approach to financial advice that takes into account the whole you.

This worksheet was designed to reduce the confusion that often arises when researching financial products and services, minimizing the mystery that surrounds planning to offer a simpler, smarter way to make decisions about your financial future.

The two pyramids

The two pyramids help coordinate the concepts of strategies with quantifiable goals and deadlines, portfolio modeling, and asset allocation and suitable product selection.

The three buckets

The three buckets define short-, intermediate- and long-term goals, and the issues of choosing suitable investments for your various time horizons.

The four boxes

The four boxes help clarify the impact of taxation on various financial instruments during accumulation and at distribution.

It's as simple as

2 • 3 • 4

These three coordinated concepts will help guide you through the process of financial analysis, portfolio allocation and product choices that most people find mysterious and confusing.

2 The two pyramids

Your well-being doesn't begin or end with your finances. It starts with — and is always about — you. Our committed financial professionals know the path to fulfillment begins with getting to know who you are, what matters to you and how you've made decisions so far. Only then do we offer advice on the specific products that are appropriate for your plan — and your life.

Strategy

Building a comprehensive or focused strategy with quantifiable goals and deadlines.

Portfolio

People commonly build a portfolio by purchasing products that “seem right at the time.” The proper approach is to define your goals, define the timeline for that goal, as well as the risks you are willing to take, then build the portfolio allocation to meet these objectives.

Product

Shopping and analyzing a crowded marketplace for the products that best fit the modeled portfolio. The more complex and sophisticated the challenges and strategies, the more critical professional analytical assistance becomes.



3 The three buckets

Financial goals can be broken into three general categories: short-, intermediate- and long-term goals. Experience has shown that many people do not effectively quantify their goals this way. And even if they do, it is rare that they choose the most efficient financial instruments to match their goals and deadlines, as well as understand the risks.

1 Short-term
 < 3 years

Defining needs

Once discrete needs for each bucket are defined, various issues, such as liquidity, product charges, investment flexibility and taxation, become important in the choice of appropriate financial instruments to fund the different needs.

2 Intermediate-term
 3–10 years

Allocating assets

Investors may not have allocated their assets and cash flow in the most efficient ways possible to maximize the probability of reaching an expected goal or result (e.g., overfunded in products, or optimal for buckets 1 and/or 2, but underfunded in bucket 3).

3 Long-term
 > 10 years

4 The four boxes

The greatest arbiter of long-term wealth may be the management of taxation. Nothing is certain but death and taxes, as the saying goes. However, managing when, where and how you are taxed, and helping to assure liquidity at death, can make a tremendous difference between realized and unrealized goals.

The four boxes help explain the concept of how taxation impacts various types of financial instruments while you're saving and accumulating, and when you start distributing and spending accumulated funds.

The grid below is a comparative hypothetical analysis that illustrates the effects of taxation during accumulation at the year you begin distributing earnings, and/or at the year you take a lump-sum distribution.

Hypothetical illustration of tax consequences

Annual earned income available for investment of \$10,000	Assumed annual rate of return 6%¹	Hypothetical tax bracket 28%	After-tax income distribution rate 6%²
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1 After-tax contributions
 Taxable during accumulation
 Nontaxable at distribution*

Year	End-year account value ⁴	After-tax income ⁵	Lump-sum after-tax distribution ⁶
1	\$7,511	—	—
5	\$40,943	\$1,769	\$40,943
10	\$91,528	\$3,954	\$91,528
15	\$154,025	\$6,654	\$154,025
20	\$231,239	\$9,990	\$231,239
25	\$326,635	\$14,111	\$326,635
30	\$444,497	\$19,202	\$444,497

2 After-tax contributions
 Nontaxable during accumulation
 Taxable at distribution

Year	End-year account value ⁴	After-tax income ⁵	Lump-sum after-tax distribution ⁶
1	\$7,632	—	—
5	\$43,022	\$1,859	\$41,056
10	\$100,596	\$4,346	\$92,589
15	\$177,642	\$7,674	\$158,142
20	\$280,748	\$12,128	\$242,459
25	\$418,726	\$18,089	\$351,883
30	\$603,372	\$26,066	\$494,908

3 Pretax contributions
 Nontaxable during accumulation
 Taxable at distribution

Year	End-year account value ⁴	After-tax income ⁵	Lump-sum after-tax distribution ⁶
1	\$10,600	—	—
5	\$59,753	\$2,581	\$43,022
10	\$139,716	\$6,036	\$100,596
15	\$246,725	\$10,659	\$177,642
20	\$389,927	\$16,845	\$280,748
25	\$581,564	\$25,124	\$418,726
30	\$838,017	\$36,202	\$603,372

4 After-tax contributions
 Nontaxable during accumulation
 Nontaxable at distribution*

Year	End-year account value ⁴	After-tax income ⁵	Lump-sum after-tax distribution ⁶
1	\$7,632	—	—
5	\$43,022	\$2,581	\$43,022
10	\$100,596	\$6,036	\$100,596
15	\$177,642	\$10,659	\$177,642
20	\$280,748	\$16,845	\$280,748
25	\$418,726	\$25,124	\$418,726
30	\$603,372	\$36,202	\$603,372

The grid above is for illustrative purposes only and focuses on tax consequences based on our general understanding of tax laws. These figures are not intended to represent the performance of any specific investment, insurance contract or financial product. In the case of life insurance policy loans, amounts do not reflect any difference between hypothetical earnings and interest charge. No legal or tax advice is being rendered by this chart. Tax/legal counsel should be consulted prior to any suggestion being implemented as to your specific situation.

Lower maximum tax rates on capital gains and dividends would make the return of the taxable investment more favorable, thereby reducing the difference in performance between the accounts shown. Changes in tax rates and tax treatment of investment earnings may impact the comparative results, and investors should consider their personal time horizons and income tax brackets, both current and anticipated, when making an investment decision, as these may further impact the results of the comparison.

The four boxes

This page represents, again on a generic basis, the types of financial instruments that would be taxed⁷ in a fashion similar to boxes 1, 2, 3 or 4 on the previous page.

- 1** After-tax contributions
Taxable during accumulation
Interest taxable⁸ (when credited to account or sent to investment holder)

Examples	
Bank accounts	Certificates of deposit
Money market accounts	Some bond funds
Some government bonds	Government securities

- 2** After-tax contributions
Nontaxable during accumulation
Taxable at distribution⁸

Examples	
Annuities (fixed or variable)	Certain cash value life insurance distributions ⁹
Non-deductible IRAs	U.S. savings bonds
Excess contributions to qualified plans (non-deductible)	

- 3** Pretax contributions
Nontaxable during accumulation
Taxable at distribution⁸

Examples	
401(k)	Keoghs
Pension plans	Profit-sharing plans
Simplified employee pensions	Deductible IRAs
Tax-sheltered annuities 403(b)	SIMPLE IRAs or 401(k) plans

- 4** After-tax contributions
Nontaxable during accumulation
Nontaxable at distribution⁷

Examples	
Some municipal bonds	Roth IRAs
Designated Roth 401(k)	Coverdell accounts
Certain cash value life insurance distributions ⁹	529 qualifying tuition programs

Direct real estate, additional mortgage payments, some common stock and some mutual funds could be considered hybrid types of investments. A portion of their gains could be subject to capital gains taxes.

It's as simple as
2 • 3 • 4

As the world and your goals change over time, your financial strategy should as well. With advice designed for you and products built to meet your needs at every stage of life, we help you secure your well-being, so you can live the life that's most meaningful to you.

¹ Please be advised that while each of the four boxes in the diagram on the previous page illustrates a hypothetical 6% rate of return, it is important to remember that it does not represent the performance of any specific investment product, and your investment vehicles will likely generate a different rate of return and have different fees or expenses. The type of vehicle chosen to use for an investment, along with tax treatment, market performance and economic conditions, will influence the actual rate of return received (e.g., generally speaking, when bond returns are higher, stock returns are lower; tax-free municipal bonds generally provide lower interest rates compared with similar risk and duration corporate bonds).

² Assumptions based on no distribution in the first year.

³ Tax-free distribution of principal.

⁴ End-year account value assumes continued contributions and no distributions through year shown.

⁵ After-tax income based on 6% distribution rate based on account value during the given year, assuming initial distribution starts in year shown.

⁶ Illustrates after-tax amount if a lump-sum distribution was taken in the years shown.

⁷ All return of principal plus after-tax earnings are nontaxable.

⁸ Tax treatment of distributions can vary.

⁹ Under current federal tax rules, you generally may take income tax-free partial withdrawals under a permanent life insurance policy that is not a modified endowment contract up to your basis in the contract. Thereafter, distributions are includable in income. Loans taken will be free of current income tax as long as the policy remains in effect until the insured's death, does not lapse or mature and is not a modified endowment contract. This assumes the loan will eventually be satisfied from income tax-free death proceeds. Loans and withdrawals reduce the policy's cash value and death benefit, and increase the chance that the policy may lapse. If the policy does lapse, mature, is surrendered or becomes a modified endowment, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distributions of policy cash values. Proceeds payable upon the death of the insured are generally income tax-free to the policy beneficiary.

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