A life insurance resource for individuals and families

Guardian®

Tax diversification

Helping to reduce the impact taxes can have on your retirement savings

Protecting your retirement account through tax diversification

While paying taxes is inevitable, nobody can predict what tax rate they'll fall into when they hit retirement. In fact, the federal income tax rate has fluctuated from 25% in the 1930s to 89% in the 1950s and 1960s, and back to about 37% today.[1]

While many assume they'll land in a lower tax bracket when they retire, this isn't a sure bet. We suggest spreading assets across a more diversified tax profile to help retain more of your savings.[2]

The importance of tax diversification for a strategic retirement

Spreading your money across four asset taxation categories, can help achieve tax diversification:

Tax-Deferred Accounts

After-tax dollars in with taxable dollars on gains out

- Non-Deductible Traditional Individual Retirement Accounts (IRAs)
- Non-Qualified Annuities

Tax-Favored Accounts

After-tax dollars in with tax-favored dollars out

- Muni Bonds (in many cases)
- Roth IRAs
- 529 Plans[3]
- Cash Value Life Insurance (when structured properly)

Tax-Deferred Accounts

Pre-tax dollars in with fully taxable dollars out

- Deductible Traditional IRAs
- 401(k) Plans
- Qualified Annuities
- Pension Plans
- Defined Benefit Plans
- Non-Qualified Deferred Compensation Plans[4]

Taxable Accounts

After-tax dollars in with potential income taxes along the way

- Money Markets
- Certificate of Deposits (CDs)
- Mutual Funds
- Stocks
- Bonds
- Real Estate Rentals

Protection through whole life

You may now have a better understanding of account taxation. But to protect your family in the event of an unexpected death, life insurance can be a core component of a comprehensive financial portfolio — providing both death benefit protection and valuable living benefits, such as access to policy cash values for supplemental retirement income.

Whole life is a versatile financial instrument and a tax-favored asset you can add to your retirement savings bucket. Benefits include:

- No income tax on potential cash value growth[5]
- No income tax on policy loans[6]
- Typically, no income tax on death benefits
- Not includible for determining taxation of Social Security benefits
- Withdrawals up to the amount paid in premiums are generally income tax-free[6]

How tax diversification works

Consider the following hypothetical example that shows what would happen if you take 100% of $100,000 out of a 401(k) account (after age 59½) versus taking 50% of the money out of a 401(k) and 50% out of a tax-favored asset, such as a whole life insurance policy.[7]

		401(k)	Whole life policy cash values	Total money kept
100% 401(k) withdrawn	Money withdrawn	$100,000		
	Taxes paid (32%)[8]	$32,000		**$68,000**
50% 401(k), 50% whole life cash value withdrawal	Money withdrawn	$50,000	$50,000	
	Taxes paid (32%)[8]	$16,000	$0	
	Net withdrawal amount	$34,000	$50,000	**$84,000**

Roughly 24% more value to you when whole life is in the mix.

Based on this hypothetical example, the 50/50 option creates an additional $16,000 at retirement.[9]

Contact your trusted financial professional today to learn more about proactive retirement saving strategies, including the benefit of whole life insurance.

[1] Tax Policy Center - Urban Institute & Brookings Institution: Historical Highest Marginal Income Tax Rates 2022; https://www.taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates.

[2] Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

[3] 529 plans cannot be used for retirement unless the child does not go to school, in which case there are tax consequences.

[4] Tax-Deferred planning for the Non-Qualified Deferred Compensation plans applies to the employees and is not suitable for S-corporations.

[5] Some whole life polices do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

[6] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modifed Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% tax penalty.

[7] All scenarios and names mentioned herein are purely fictional and have been created solely for educational purposes. Any resemblance to existing situations, persons or fictional characters is coincidental. The information presented should not be used as the basis for any specific investment advice.

[8] Taxes are due on the 401(k) account since money was contributed to that account on a pre-tax basis. However, no taxes are due on the whole life cash value. We assume that the $50,000 is for a client in a 32% effective tax bracket.

[9] Dollars contributed to life insurance premiums are not tax-deductible. Therefore, there may be more initial income tax benefits with other investment accounts because of tax deductibility. However, as stated in this piece, the account holder will pay ordinary income taxes on the dollars distributed from 401(k) accounts.

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Pub6174 (03/23) 2023-152431 (Exp. 03/25) | New York, NY