The Rule of 72

The Benefits of Tax-Deferred Investing

What is a variable annuity?

A variable annuity is a long-term, tax-deferred investment vehicle designed to provide income during retirement.

It is backed by the claims-paying ability of the issuing insurance company.

A variable annuity typically offers optional benefits or features to tailor it to each investor's individual needs.

There is a wide range of investments within the variable annuity that can be chosen to align with personal investment objectives.

What is the Rule of 72?

The rule simply states that if you divide 72 by your expected annual rate of return, it will tell you approximately how long it should take for your money to double.

72 ÷ 8 percent = 9 years

It doesn't matter if you have a starting balance of $500 or $50,000, if you earned a real rate of return of 8% each year, you could double your money after nine years. The chart below will show you how long it could take for your money to double based on the annual rate of return.

How many doubling periods do you have in your life?[1]

Annual rate of return (%)	Years to double	Annual rate of return (%)	Years to double	Annual rate of return (%)	Years to double
1	72	6	12	11	6.5
2	36	7	10.3	12	6
3	24	8	9	13	5.5
4	18	9	8	14	5.1
5	14	10	7.2	15	4.8

1. This table serves as a demonstration of how the Rule of 72 concept works from a mathematical standpoint. It is not intended to represent an investment. The chart uses constant rates of return, unlike actual investments, which will fluctuate in value. It does not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10% or greater on a consistent basis, given current market conditions.

Benefits of tax-deferred investing

Now that we have a good understanding of how the Rule of 72 works, let's take a deeper dive into tax-deferred investing. Although no current income taxes are paid until money is withdrawn, the idea behind tax-deferred investing is the thought that you are more likely to be in a higher tax bracket while working than in retirement. Once someone retires and their annual income goes down, they would most likely end up in a lower tax bracket.

You can accumulate tax-deferred savings in one of two ways:

1. Use a tax-deferred account like an Individual Retirement Account or employer-sponsored retirement plan (such as a 401k, 457 or 403b plan).
2. Use a tax-deferred fixed or variable annuity.

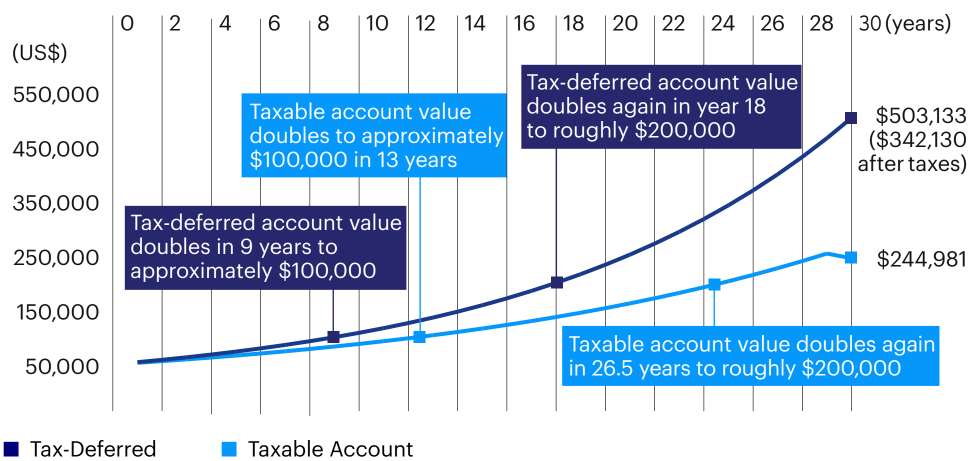
Tax-deferral versus taxable account

At the end of 30 years in the chart scenario, the tax-deferred account is valued at over $161,000 more than the taxable account after taxes.

Tax-deferral may help your portfolio grow faster

With the Rule of 72, we know that it might take nearly nine years to double the money at an 8% annual growth rate in a tax-deferred account, while a taxed (at 32%) account at an 8% annual growth rate would take roughly 13 years to double in value due to tax implications. And after 30 years, with a $50,000 investment and with an 8% annual growth rate, a tax-deferred account would be worth a little over $500,000, compared with approximately $244,000 for a taxable account.

Tax-deferral can have a substantial impact on portfolio value[1]



Source: Invesco

Variable annuities usually carry mortality and expense charges, administrative fees and possibly sales charges and if these fees and charges were included in the illustration, the tax-deferred performance would have been lower.

1. The hypothetical examples and estimates of an 8% average annual total return are for illustrative purposes only and are not intended to represent the performance of a particular investment product or a real investor. Your actual return and tax bracket aren't likely to be consistent from year to year, and there is no guarantee that a specific rate of return will be achieved. The example assumes that an individual in the 32% tax bracket and assumes no withdrawals. This illustration does not reflect the performance of or fees and charges associated with any specific investment, nor does it take into account the effect of inflation. Tax rates and brackets are subject to change. The tax-deferred account will be taxed as ordinary income upon distribution, while the lower maximum tax rates on capital gains and qualified dividends would make the return on the taxable investment more favorable, thereby reducing the difference in performance between the two accounts shown. Investment returns fluctuate over time and losses can occur. This hypothetical is based on current tax laws, which are subject to change. This information is not intended as tax advice. Investors should consult a tax advisor.

Tax treatment makes a difference

At the end of 30 years, there is more than a $250,000 difference between the two account types shown above. Now, let's look at the tax implications on both account types. The tax-deferred account is worth over $500,000 and the after-tax value is roughly $342,000. On the other hand, a taxable account would be worth roughly $244,000 at the end of 30 years.

Talk to your financial professional

Tax-deferred investing could be a critical part of your wealth-building and preservation strategy.

Contact your financial professional to discuss your specific situation and options for participating in tax-deferred investing opportunities.