

DIVERSIFICATION 2.0



When planning for retirement, diversification typically references an investment allocation that incorporates various asset classes. However, a truly diversified investment strategy should go one level deeper, taking into consideration the tax treatment of one's retirement savings. We call this **Diversification 2.0**.

Traditionally, individuals accrue the bulk of their retirement savings in tax deferred, employer sponsored vehicles like a 401(k), but this one dimensional savings strategy limits one's flexibility to mitigate tax liability during retirement. Diversification 2.0 involves accumulating investment savings in tax deferred, tax favored, and taxable accounts during our working years. Implementing a customized Diversification 2.0 strategy gives investors the ability to better control this issue by making intentional withdrawals from various retirement accounts with different tax characteristics.

One benefit of this strategy may include the reduction of necessary gross portfolio withdrawals to meet a specified income objective, preserving the longevity of a retiree's nest egg.



TAX REGISTRATIONS

Tax Deferred

- ↑ TODAY: Contributions may be tax deductible
- ↑ DEFERRAL: Grows tax deferred
- ↓ DISTRIBUTION: Mostly taxable as ordinary income
- ↓ FLEXIBILITY: Limited accessibility

Sources in Retirement

- Pension Benefits
- Social Security (up to 85%)
- 401(k) Distributions
- IRA Distributions
- Annuity Distributions

Taxable

- TODAY: Contributions are made with after-tax dollars
- ↓ DEFERRAL: Tax liability based on investment selection
- DISTRIBUTION: Potential capital gains or ordinary income
- ↑ FLEXIBILITY: Maximum accessibility

Sources in Retirement

- Brokerage Accounts
- Non-qualified Accounts
- Trusts

Tax Favored

- TODAY: Contributions are made with after-tax dollars
- ↑ DEFERRAL: Grows tax deferred
- ↑ DISTRIBUTION: Generally tax-free income
- FLEXIBILITY: Moderate accessibility

Sources in Retirement

- Roth IRA Distributions
- Health Savings Account Distributions
- Life Insurance Distributions
- Municipal Bond Interest