



## EXAMINING THE POWER OF TAX-EFFICIENT STRATEGIES

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## See what a tax-efficient strategy can do for your retirement savings

You've worked hard to retire comfortably — so how can you make sure your money is also working toward the same goal? Understanding how taxes affect your retirement savings strategy is a good place to start.

Employing the right tax-efficient strategies can help you grow and preserve your retirement savings — contributing to a more confident and comfortable future for you and your loved ones.

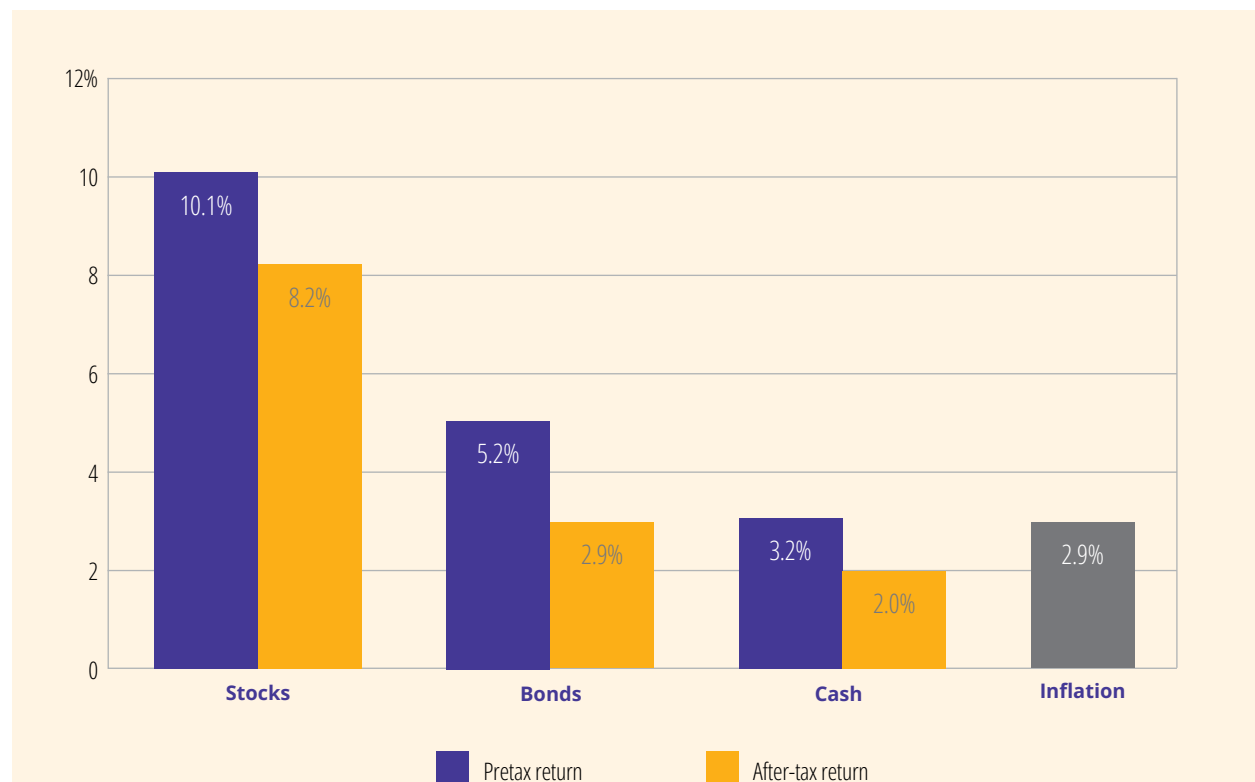
## Why tax deferral?

Using a tax-deferred strategy, you can delay paying taxes on your accumulated earnings until they are withdrawn. Similar to how 401(k) plans and Individual Retirement Accounts (IRAs) work, the longer your money remains invested, the greater your growth potential becomes.

Taxes can have a significant impact on the long-term returns of your investments. Investments you may have in non-qualified accounts are taxed on dividends, interest and realized short/long-term capital gains. This taxation could potentially affect your portfolio's performance — and cut into its growth. Utilizing an annuity for non-qualified assets may provide an outcome that resembles a qualified retirement account — and the unique tax treatment that comes with it.

### Taxes significantly reduce returns

1926–2022



Source: Morningstar. Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning \$130,000 in 2020 dollars every year. This annual income is adjusted using the Consumer Price Index (CPI) in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No state income taxes are included.

Stocks are represented by the Ibbotson Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, cash by the 30-day U.S. Treasury bill, and inflation by the CPI. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for transaction costs.

## Where you invest your money matters

When it comes to how taxes affect your investments, there are two main types of accounts to consider — qualified and non-qualified.

| Qualified accounts                                                                                                                                                                                                 | Non-qualified accounts                                                                                                                                                                                                                                                                                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Funded with pre-tax money</li><li>• Gains grow on a tax-deferred basis</li><li>• Distributions are taxable as ordinary income once you begin receiving the funds</li></ul> | <ul style="list-style-type: none"><li>• Funded with after-tax money</li><li>• Realized gains are taxed along the way</li><li>• Distributions receive long-term capital gains treatment for assets held for more than a year, but are subject to ordinary income tax treatment for assets less than one year</li></ul> |

*Note: There are exceptions, such as life insurance and variable annuities, which can allow you to take advantage of the tax benefits generally reserved for qualified accounts.*

### Non-qualified: annuities vs. other investments

Let's explore the similarities and differences between a traditional non-qualified account and a variable annuity for investing your non-qualified assets.

A variable annuity is a long-term investment vehicle designed to generate retirement income and allows for growth potential on a tax-deferred basis through allocation to subaccounts. Subaccounts are similar to mutual funds, as you can invest funds into a wide range of securities within a pooled account. Utilizing subaccounts can help you avoid tax drag on these accounts, allowing for more efficient growth potential.



## How taxes affect different non-qualified accounts

The table below highlights some of the key tax treatment differences between a traditional non-qualified account — one holding mutual funds for example — compared to a non-qualified variable annuity.

|                                         | Traditional non-qualified account                                                                                                                                                                                                                                                                                                         | Non-qualified variable annuity                                                                                                                                                  |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Investment gains and income</b>      | Long-term capital gains treatment is available for assets if held for more than one year, but subject to ordinary income tax rates if held for less than one year.<br><br>Dividends and interest may be taxed at ordinary income tax rates, or depending on the source, they could receive preferential tax treatment on an annual basis. | Gains and earnings grow on a tax-deferred basis. Taxes are not realized until a distribution is made from the account. And those withdrawals are then taxed as ordinary income. |
| <b>Investment losses</b>                | Can be claimed as a tax deduction to offset gains.                                                                                                                                                                                                                                                                                        | Upon surrender of the contract, any losses in a non-qualified annuity may or may not be tax deductible or used to offset gains.                                                 |
| <b>Exchanges or transfers</b>           | Could trigger taxable events; short- or long-term capital gains depending upon the holding period.                                                                                                                                                                                                                                        | 1035 exchanges between variable annuity contracts or subaccounts within a contract will not trigger tax consequences.                                                           |
| <b>Early withdrawal penalty</b>         | Not applicable                                                                                                                                                                                                                                                                                                                            | Withdrawals may be subject to an early surrender charge, and withdrawals prior to age 59½ may be subject to a 10% early withdrawal penalty.                                     |
| <b>Transfer of property after death</b> | Cost basis often steps up to fair market value.                                                                                                                                                                                                                                                                                           | The existing cost basis can carry over to a beneficiary. Basis is determined by compiling all purchase payments to the annuity.                                                 |

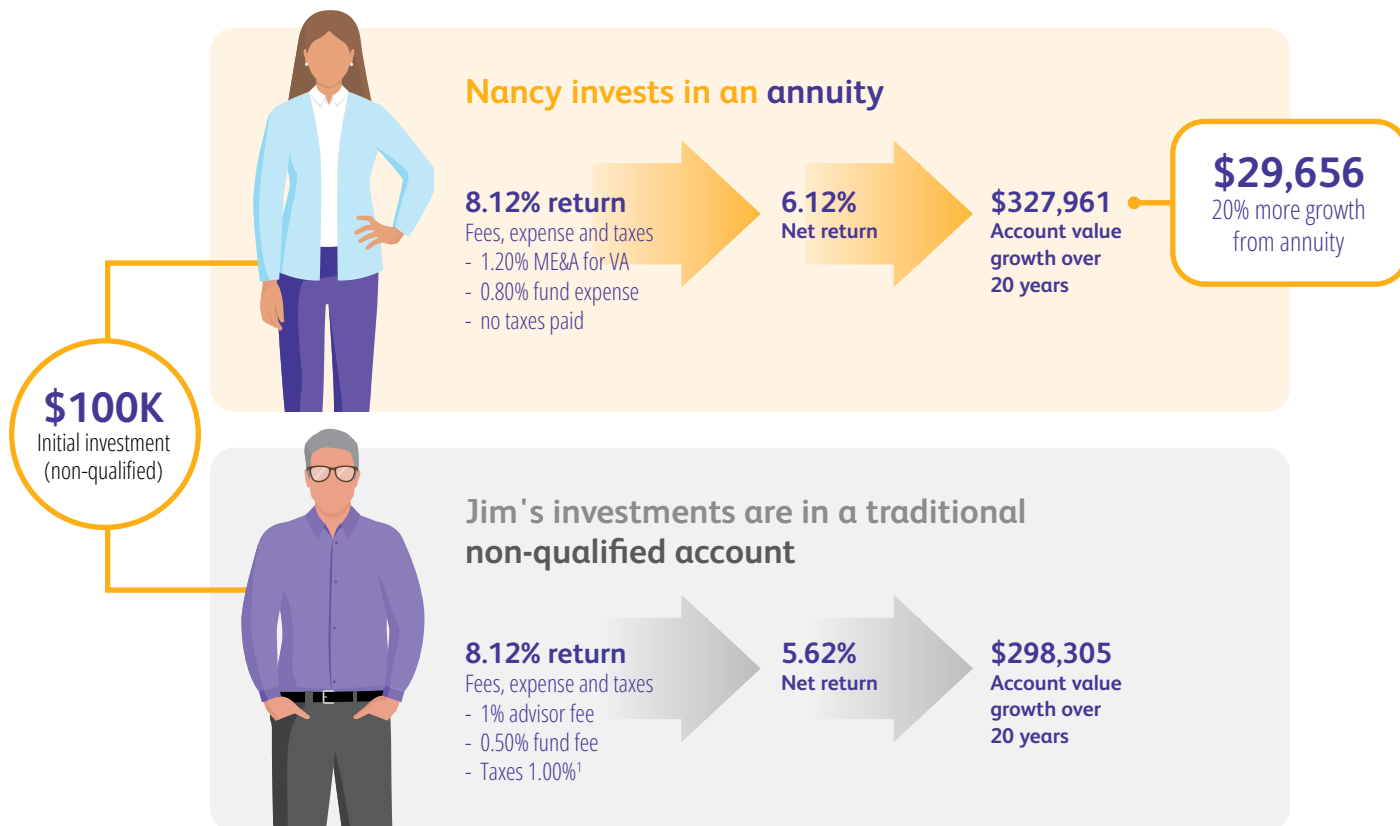
## Why traditional non-qualified accounts may cost you more in taxes

Traditional non-qualified accounts are often taxed annually on interest dividends and capital gains. With this being the case, you may owe taxes on these investments — regardless of whether the funds are withdrawn or reinvested. The tax rate you pay depends on the type of distribution you get from the account, as well as other factors. These investment returns are reduced by an amount lost to taxes.

## The power of tax-deferral

By investing in a variable annuity, may be better able to preserve wealth by reducing the taxes paid along the way. This helps you avoid tax drag on the account, allowing your money to continue growing. While you will still be taxed at ordinary income rates on your distribution, the long-term impact on your accumulated savings can result in potentially higher account values. Additionally, non-qualified variable annuities are not subject to the contribution limits typically associated with IRAs and 401(k)s.

Let's take a look at an example to illustrate the difference in tax treatment of non-qualified accounts. In this sample scenario, Nancy and Jim take a similar investment strategy using two different investment vehicles — Nancy invests in a variable annuity while Jim invests in traditional non-qualified accounts. Nancy and Jim select investment options with similar investment objectives and asset classes.



Both scenarios are upon 100k investment with an 8.12% gross average annual return. The variable annuity assumes ME&A of 1.20% and fund fee 0.80%. The traditional non-qualified account assumes 1% advisor fee, 0.50% fund fee, and 1.00% tax cost ratio over a period of 20 years.

<sup>1</sup>Morningstar. Tax cost ratio- Tax cost ratio is a measurement of how much of a fund's annualized return is reduced by taxes investors pay on distributions. 1.00% is average tax cost ratio of 60/40 mutual fund.

## Let the power of tax deferral enhance your savings

It's important to be aware of the various tax implications on different investment categories, so that you ensure you and your money are working toward the future you've been building. Tax-efficient investing and making your money work for you can be a valuable way to build a strong, stable retirement strategy — helping to set you and your loved ones up for a more confident future.

Remember, before making any investment decisions, you should discuss the differences between non-qualified accounts and variable annuities with your financial professional and tax advisor. This will help ensure that the decisions you make fit your needs, because there's a lot of variables to consider when it comes to planning for your retirement.



**Let us help you retire more confidently. Talk with your financial professional to see how a tax-deferred investment strategy, such as a variable annuity, can help secure the retirement you're looking forward to.**



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Variable annuities are long-term investments intended for retirement planning and involve market risk and the possible loss of principal. Investments in variable annuities are subject to fees and charges from the insurance company and the investment managers.

**Investors should carefully consider the investment objectives, risks, charges and expenses of a variable annuity, any optional protected lifetime income benefit, and the underlying investment options before investing. This and other information is contained in the prospectus for a variable annuity and its underlying investment options. Investors should read the prospectus carefully before investing. Prospectuses may be obtained by contacting PLICO at 800-456-6330.**

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|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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