

You have money to invest for Retirement.
Does a Variable Annuity and its deferral of taxes on growth make sense?

OPTION 1: INVEST IN VARIABLE ANNUITY ACCOUNT. PAY 12% AT FINAL WITHDRAWAL.

You have \$50,000. Put it in a variable annuity account for 10 years.
You earn market return (price + dividends) before costs = 7.1% real return
Annuity and mutual fund/ETF cost/year = .4%, lowering your return to 6.7%
You hold for 10 years and then pay **12%** tax on the increase in from initial investment

	Value Start of Yr	Price + Div	Value End of Year	
1	50,000	3,350	53,350	
2	53,350	3,574	56,924	
3	56,924	3,814	60,738	
4	60,738	4,069	64,808	
5	64,808	4,342	69,150	
6	69,150	4,633	73,783	
7	73,783	4,943	78,726	
8	78,726	5,275	84,001	
9	84,001	5,628	89,629	
10	89,629	6,005	95,634	
				Calculated at 22% rate
	Sales Proceeds		95,634	95,634
	Taxable Gain		45,634	45,634
	12% Tax on Gain		5,476	10,040
	Net Proceeds after sale	90,158		85,595

OPTION 2: KEEP IN IN YOUR TAXABLE ACCOUNT. PAY ON-GOING 15% CAP GAINS RATE.

You have \$50,000. You keep in a taxable account for 10 years.
Market return is 7.1%. Expense ratio is .05%, lowering your return to 7.05%
Dividend rate is 2%. You pay 15% tax on dividends lowering the value of your investment by the taxes paid.
Your mutual fund does not pay Capital Gains distributions that would increase your tax bill: it's an index fund.

	Value Start of Yr	Price + Div	Value B4 taxes on Div	Div portion	Tax on Div	Value End of Year	Cost Basis Div Reinvested
1	50,000	3,525	53,525	1,000	150	53,375	51,000
2	53,375	3,763	57,138	1,068	160	56,978	52,068
3	56,978	4,017	60,995	1,140	171	60,824	53,207
4	60,824	4,288	65,112	1,216	182	64,929	54,424
5	64,929	4,578	69,507	1,299	195	69,312	55,722
6	69,312	4,887	74,199	1,386	208	73,991	57,108
7	73,991	5,216	79,207	1,480	222	78,985	58,588
8	78,985	5,568	84,554	1,580	237	84,317	60,168
9	84,317	5,944	90,261	1,686	253	90,008	61,854
10	90,008	6,346	96,354	1,800	270	96,084	63,654
						Sales Proceeds	96,084
						Taxable Gain	32,429
						15% Tax on Gain	4,864
						Net Proceeds after sale	91,219
						Dollar Difference	1,061
						Percentage difference	1.2%
							At 22% rate
							5,624
							6.6%