

「 Tax smart  
strategies for  
retirement. 」



As you prepare for your financial future, it may make sense to periodically review your retirement savings and investment strategies from a tax perspective.

Your financial and tax professionals can be good resources for evaluating your tax liabilities and potentially identifying tax savvy opportunities and other ways of reducing your tax burden in the future.



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# Tax Savvy

Tax-smart strategies for retirement



<b>1. Understanding the power of tax deferral</b>	<b>2</b>
<b>2. Consider increasing contributions to retirement plans and accounts</b>	<b>4</b>
<b>3. Generate tax-free income</b>	<b>6</b>
<b>4. Avoid potential tax-time surprises</b>	<b>7</b>

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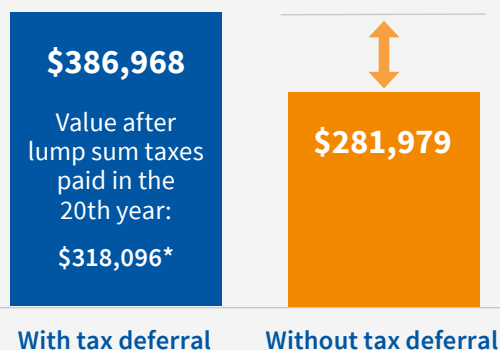
**Please seek the advice of an independent tax professional or attorney for more complete information concerning your particular circumstances and any tax statements made in this material.**

# 1 Understanding the power of tax deferral

Tax deferral can be a powerful tool for helping you reach your long-term retirement savings goals. With a tax-deferred savings or investment strategy, the money that might otherwise go to pay current taxes remains invested for greater long-term growth potential. As a result, any interest, dividends and capital gains you earn can benefit from the power of tax-deferred compounding. How much of a difference could that make over the long run?

## The Power of Tax Deferral

Hypothetical Example



### More money for retirement!

This hypothetical example shows the value of \$100,000 earning 7% interest in a fully taxable investment and a comparable tax-deferred investment over 20 years with no withdrawals. Both investments assume a 24% tax bracket.

The illustration above is hypothetical and is intended solely to demonstrate the comparative effect of compounding on tax-deferred vs. taxable investments. It does not reflect the actual return of any product or its investment options, nor does it reflect any withdrawal charges, insurance charges, contract administration charges or portfolio operating expenses associated with a tax-deferred or taxable investment. Such expenses would lower overall returns. The assumed rate of return is not guaranteed. Withdrawals of taxable amounts from tax-deferred investments are subject to ordinary income tax, and if taken prior to age 59½, an additional 10% federal tax may also apply in the case of annuities. Withdrawals are also subject to state tax. Lower maximum capital gains rates may apply to certain investments in a taxable account (subject to IRS limitations, capital losses may also be deducted against capital gains), which would reduce the difference between the performance in the accounts shown in the chart. You should consider your personal investment horizon and current and anticipated income tax brackets when making investment decisions as they may further impact the results of the comparison. Please consult with an independent tax advisor or attorney for more complete information concerning your particular circumstances and the tax statements made in this material. Annuities are long-term investments designed for retirement purposes. An investment in a variable annuity involves investment risk, including possible loss of principal. A variable annuity contract, when redeemed, may be worth more or less than the total amount invested.



To get a better idea of the power of tax deferral and tax-deferred compounding, consider the Rule of 72, a mathematical relationship that approximates the time it may take for an investment to double. Divide 72 by the rate of return. Here's an example:

Tax-Deferred Investment		Taxable Investment	
Rate of return:	7%	Rate of return:	7%
Current tax rate:	0%	Current tax rate:	24%
Rate of return:	7%	Rate of return after taxes:	5.32%
Rule of 72:	<b>72 ÷ 7</b>	Rule of 72:	<b>72 ÷ 5.32</b>
Potentially doubles in <b>10.29 years</b>		Potentially doubles in <b>13.53 years</b>	

## Help reduce current taxes

Saving or investing on a tax-deferred basis through an annuity can offer you many of the tax advantages afforded to retirement plans and accounts, with greater flexibility as to how much you can contribute and when you're required to take distributions, unless the annuity is held within a retirement plan or account such as an IRA, 401(k) or 403(b)<sup>1</sup>

With an annuity, you don't pay taxes on your interest or earnings until withdrawn, which is typically at retirement when you may be in a lower tax bracket. When you do take withdrawals from an annuity, withdrawals of taxable amounts are subject to ordinary income tax and if taken prior to age 59½, an additional 10% federal tax may apply. Unlike other types of investments, annuities offer an important advantage:

- No current tax on interest
- No current tax on dividends<sup>2</sup>
- No capital gains

<sup>1</sup> Keep in mind, the purchase of an annuity within a retirement plan or account does not provide additional tax-deferred treatment of earnings. However, annuities do provide other features and benefits that may be important to you, including options for guaranteed lifetime income and a guaranteed death benefit for your beneficiary.

<sup>2</sup> Note: some annuities pay dividends instead of interest; however, just as with interest, such dividends retained in an annuity are not subject to current taxation.

The Rule of 72 does not guarantee investment results or function as a predictor of how an investment will perform. It is simply an approximation of the impact a targeted rate of return would have. Investments are subject to fluctuating returns and there can never be a guarantee that any investment would double in value. The Rule of 72 is shown for illustrative purposes and does not represent the past or future performance of any specific product or investment. Distributions from the tax-deferred account will be taxable when withdrawn.

Annuities are long-term products designed for retirement. Early withdrawals may be subject to withdrawal charges. Retirement plans and accounts, such as an IRA, 401(k) or 403(b), etc., can be tax-deferred regardless of whether or not they are funded with an annuity. There are different types of annuities with varying benefits, features, and risks, including potential loss of principal. Speak with your financial professional for more information.

# 2 Consider increasing contributions to retirement plans and accounts

Perhaps the easiest and most effective way to accumulate tax-deferred savings is through contributions to an employer-sponsored retirement plan, such as a 401(k) or 403(b).<sup>3</sup> These pre-tax contributions reduce your current taxable income and thereby lower your current tax bill. Some employers offer a match—adding money to your retirement plan equal to a percentage of your contributions. Additionally, if you are age 50 or older, you can make annual catch-up contributions to IRA accounts and many retirement plans—allowing you to put away even more for retirement.

If you're not participating in your employer's retirement plan, you may be passing up a valuable retirement savings opportunity.

## Consider contributing to a retirement plan at work

Here's an overview of retirement plan contribution limits for 2021. Of course, such limits are subject to the provisions of your company's plan.

Employee Contribution Limits for 401(k) and 403(b) Plans		
Year	Maximum contribution	Catch-up contribution for individuals age 50+
2022	\$20,500	\$6,500*

\*Special additional catch-up contribution may apply for 403(b) plans.

## Contribute to an Individual Retirement Account (IRA)

Consider maximizing your contributions to a Traditional IRA as another strategy for potentially reducing your taxable income—and your taxes—as you build assets for retirement. These contributions also grow tax-deferred.<sup>4</sup>

Another type of IRA to consider is the Roth IRA. While contributions are not tax deductible, qualified withdrawals are generally tax-free. Please see page 6 to learn more about the Roth IRA.

IRA Contribution Limits for 2022 (Traditional and Roth)	
Under age 50	\$6,000
Age 50 and over	\$7,000

<sup>3</sup> Keep in mind, the purchase of an annuity within a retirement plan or account does not provide additional tax-deferred treatment of earnings.

However, annuities do provide other features and benefits that may be important to you, including options for guaranteed lifetime income and a guaranteed death benefit for your beneficiary.

<sup>4</sup> Withdrawals are subject to ordinary income tax and, if taken prior to age 59½, an additional 10% federal tax may apply.

Source for data above: IRS.gov.



## Determine the deductibility of your contribution

If you plan on contributing to a Traditional IRA, your financial and tax professionals can help you determine if you may be able to deduct all or a portion of the money you contribute. For a general idea, consider these current IRA deduction limits, which assume you are covered by a retirement plan at work. (Note: Deduction limits are less stringent if you are not covered by a retirement plan at work.)

- If your filing status is single or head of household and your modified adjusted gross income is less than \$78,000, you may be able to take a full deduction or a partial deduction.
- If your filing status is married filing jointly and your modified adjusted gross income is less than \$129,000, you may be able to take a full deduction or a partial deduction.

For complete details about your specific situation, please talk to your tax professional or visit [irs.gov](https://www.irs.gov).



### Did you know

When it comes to saving and investing, there are essentially three different types of accounts:

- 1. Taxable:** Taxes are due on investment income in the year in which it is received.
- 2. Tax-Deferred:** Taxes are not due on investment income until withdrawn.
- 3. Tax-Free:** Investment income may be exempt from federal, state and/or local taxes.

Ask your financial and tax professionals for more information.



# 3 Generating tax-free income

You may also want to consider tax-free strategies, which can be an important component of your overall retirement portfolio.

- **Roth IRA:** A Roth IRA can provide a way to grow tax-free retirement income. In order for a distribution of earnings from a Roth IRA to be a tax-free distribution, it may not occur until five years from the first contribution to a Roth IRA and you are at least 59½ or you are disabled, you meet the requirements for the purchase of a first home (up to a \$10,000 maximum lifetime limit), or die. Unlike Traditional IRAs, Roth IRAs are funded with after-tax contributions.

Your eligibility to open a new Roth IRA or contribute to an existing account will depend on your current-year income and tax filing status. Talk to your financial and tax professionals to see if you are eligible.

- **Tax-Exempt Bonds:** Here are two ways that can help you earn tax-exempt interest from bonds<sup>5</sup>:
  1. **Treasury Securities:** Interest from these securities is exempt from state and local income tax (but not exempt from federal tax). In addition, Treasury securities are backed by the full faith and credit of the U.S. government.
  2. **Municipal bonds:** Municipal bonds are bonds issued by states, cities, counties and other local government entities. They are generally exempt from federal income tax, as well as tax of the issuing state or locality provided you live in the state in which the bond was issued. The gain on the sale of a municipal bond may be subject to capital gains tax. Both interest and gains may be subject to alternative minimum tax. Municipal bonds are not backed by the U.S. Government; they are backed by the full faith and credit of the issuer.

In addition to individual tax-exempt bonds, consider mutual funds that invest in these types of securities.<sup>6</sup>

- **Life Insurance:** While life insurance benefits are traditionally paid at death, some life insurance products may provide you with access to a portion of the cash value that you can use for retirement income, provided certain conditions are met. Such withdrawals may be federal income-tax-free up to your basis in the policy under current federal income tax laws. Please see your financial professional for more information. Guarantees are backed by the claims-paying ability of the issuing insurance company.

<sup>5</sup> Keep in mind, interest rates and bond prices typically move inversely to each other. Therefore, as with any bond, the value of the investment may go up or down in response to changes in interest rates.

<sup>6</sup> It is important to note that mutual funds are subject to investment risks and are not backed by the U.S. Government. Please carefully read a fund's prospectus for details on the fees, expenses and risks of the fund(s).



# 4 Avoid potential tax-time surprises



It's important to know that **taxable investments can generate taxable distributions—even if you don't take money out of the account.** Please consult your tax professional for more information regarding potential taxable events.

Taxable Event <sup>7</sup>	Potential Tax Consequence
<p><b>Receive a capital gains distribution</b></p>	<ul style="list-style-type: none"> <li>You may pay short-term capital gains tax at ordinary income tax rates of up to 37%, depending on your income, if investment owned for 12 months or less.</li> <li>You may pay long-term capital gains tax of 0%, 15% or 20%, depending on your income, if investment owned for greater than 12 months.</li> </ul>
<p><b>Receive a dividend or interest payment</b></p>	<ul style="list-style-type: none"> <li>You may owe taxes even if dividends are reinvested.</li> <li>Certain dividends qualify for special tax treatment and are taxed at a rate of 0%, 15% or 20%, depending on your income.</li> <li>Dividends that do not qualify for special tax treatment are generally taxed at ordinary income tax rates.</li> </ul>
<p><b>Exchange shares within the same mutual fund family</b> (An exchange includes both a sale and a purchase)</p>	<ul style="list-style-type: none"> <li>You may pay short-term capital gains tax at ordinary income tax rates of up to 37%, depending on your income, if investment owned for 12 months or less.</li> <li>You may pay long-term capital gains tax of 0%, 15% or 20%, depending on your income, if investment owned for greater than 12 months.</li> </ul>
<p><b>Sell shares and reinvest money with a different mutual fund family</b></p>	<ul style="list-style-type: none"> <li>Gains from sales are subject to short-term and/or long-term capital gains taxes.</li> </ul>

Keep in mind, capital gains and dividends within a taxable investment may be taxed at a rate that is lower than tax rates on ordinary income.

With a tax-deferred investment—such as an annuity—all interest and/or earnings accumulate free of current taxes and are taxed as ordinary income when withdrawn.<sup>8</sup> In contrast to other traditional investments such as stocks, bonds, CDs and mutual funds (unless held within a retirement plan or account), with an annuity there are:

- **No capital gains surprises** at tax time
- **No annual 1099 forms** to collect (unless a withdrawal is taken)
- **Plus you have the flexibility to transfer between investment portfolios** and money managers within a variable annuity—or rebalance the investment—without triggering any current tax consequences

<sup>7</sup> Assuming the investment is not held within a tax-deferred retirement account or an annuity.

<sup>8</sup> Early withdrawals may be subject to withdrawal charges. Partial withdrawals may reduce benefits available under the contract, as well as the amount available upon a full surrender. Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, an additional 10% federal tax may apply.

# Next steps



Talk to your financial and tax professionals about strategies and financial products that may help reduce or eliminate current taxes. Here are some steps that you can take to get started:

- **Review your completed 1040** tax form with financial and tax professionals—look for ways to reduce taxes
- **Consider increasing** retirement account contributions
- **Explore annuities** as a way to save for retirement on a tax-deferred basis
- **Check out tax-free** investment strategies
- **Consider how** tax-deferred savings or investment strategies, such as an annuity, may help you reduce current taxes and avoid tax-time surprises



**Did  
you  
know**

**Some investments are less tax-efficient than others.** For example, some investments may have high portfolio turnover, which can increase taxable capital gains distributions. Your financial and tax professionals can help you determine which investments may be most advantageous to hold within a tax-deferred account, and which may be most advantageous to hold within a taxable account.



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Generally, higher potential returns involve greater risk and short-term volatility. For example, small-cap, mid-cap, sector and emerging funds can experience significant price fluctuation due to business risks and adverse political developments.

High-yield bond funds, which invest in bonds that have lower ratings, typically experience price fluctuation and a greater risk of loss of principal and income than when investing directly in U.S. government securities such as U.S. Treasury bonds and bills, which are guaranteed by the government for repayment of principal and interest if held to maturity.

Fund shares are not insured and are not backed by the U.S. government, and their value and yield will vary with market conditions. Interest rates and bond prices typically move inversely to each other; therefore, as with any bond fund, the value of an investment in this fund may go up if interest rates fall, and vice versa.

Investing involves risk, including the possible loss of principal. Investment values will fluctuate and there is no assurance that the objective of any fund will be achieved. Mutual fund shares are redeemable at the then-current net asset value, which may be more or less than their original cost.

Investors should carefully assess the risks associated with an investment in the fund.

This material is general in nature, was developed for educational use only, and is not intended to provide financial, legal, fiduciary, accounting or tax advice, nor is it intended to make any recommendations. Applicable laws and regulations are complex and subject to change. Please consult with your financial professional regarding your situation. For legal, accounting or tax advice, consult the appropriate professional.

Please seek the advice of an independent tax professional or attorney for more complete information concerning your particular circumstances and any tax statements made in this material.

Annuities are designed for long-term retirement savings. Variable annuities are subject to investment risk, including possible loss of principal. The contract, when redeemed, may be worth more or less than the total amount invested. Early withdrawals may be subject to withdrawal charges. Partial withdrawals reduce the contract value and may also reduce certain benefits under the contract, such as the death benefit and the amount available upon a full surrender. Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, an additional 10% federal tax may apply.

Retirement plans and accounts, such as an IRA, 401(k) or 403(b), etc., can be tax-deferred regardless of whether or not they are funded with an annuity. The purchase of an annuity within a retirement plan or account does not provide additional tax-deferred treatment of earnings. However, annuities do provide other features and benefits that may be important to you, including options for guaranteed lifetime income and a guaranteed death benefit for your beneficiary.

*Variable annuities are sold by prospectus only. The prospectus contains the investment objectives, risks, fees, charges, expenses and other information regarding the contract and underlying funds, which should be considered carefully before investing. Please contact your insurance and securities licensed financial professional or call 800-445-7862 to obtain a variable annuity prospectus. Please read the prospectus carefully before investing.*

Products and features may vary by state and may not be available in all states. The purchase of an annuity is not required for, and is not a term of, the provision of any banking service or activity. All contract and optional benefit guarantees are backed by the claims-paying ability of the issuing insurance company and are not the obligation or responsibility of AIG.

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