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Diversification 2.0

When planning for retirement, proper diversification goes far beyond having an investment allocation spread out among various asset classes. A truly diversified investment strategy also takes into consideration the impact of taxes both today and when we reach retirement. We call this strategy Diversification 2.0. Diversification 2.0 provides individuals the ability to minimize tax liability in order to optimize the tax effiency of their portfolio both today and in their retirement years. Traditionally, individuals rely solely on their 401(k), IRAs or other tax-deferred vehicles for savings. However, this one-dimensional savings strategy provides little to no flexibility when an individual reaches retirement. Diversification 2.0 involves spreading investments among tax-deferred, tax-favored, and taxable accounts during our working years so that we can plan to optimize our tax situation in retirement.

TAX CLASSIFICATIONS

TYPE	TAXABILITY AT WITHDRAWAL	ATTRIBUTES
Tax Deferred	Ordinary Income	Contributions are excluded from current taxation, but are fully taxed upon withdrawal
Tax Favored	Tax Free	Contributions are made with after-tax dollars and withdrawals are generally tax free
Taxable	Capital Gains/Dividends	Contributions are made with after-tax dollars and withdrawals are taxed but at a lower rate

This case study is hypothetical in nature and does not provide legal, tax, or accounting advice.

Mr. Jones is 60 and has saved prudently for retirement. Now it is finally time to retire. In retirement, he wishes to begin taking income of $100,000 from his investment portfolio.

Scenario 1: No Planning– Mr. Jones placed 100% of his savings in tax-deferred vehicles such as his IRA and 401(k). In the first year of retirement, Mr. Jones would be required to pay ordinary income tax on his entire distribution which, assuming current marginal tax brackets and standard deductions, would equal an estimated liability of $18,493.

Scenario 2: Diversification 2.0- Mr. Jones did some strategic investment planning during his accumulation years before retirement. By using a Diversification 2.0 strategy, he diversified his savings through a multitude of tax treatments which would reduce his tax liability by nearly 50% to $9,679 in his first year of retirement.

	SOURCE OF FUNDS	TAX LIABILITY	TAX SAVINGS
NO PLANNING	100% Tax Deferred	$18,493	-
DIVERSIFICATION 2.0	50% Tax Deferred 25% Tax Favored 25% Taxable	$5,929 $0 $3,750	$8,814 (47.7%)

This case study is based on 2013 marginal tax brackets, capital gains rates, standard deductions and exemptions.

The "Achieving Retirement Clarity" or "ARC" process was created to help individuals approach retirement with confidence. We developed this process to prepare you for retirement by navigating fluctuations in the market through a properly diversified portfolio. Diversification 2.0 provides an additional layer of diversification by helping prepare you for any tax situation that you may face in retirement.