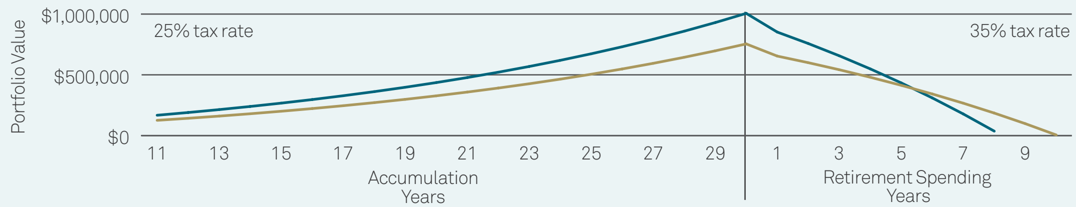
Tax Diversification With Roth Accounts

Investing

Roth is better when tax rates are *greater* in retirement than during working years.

Tax-Deferred Account

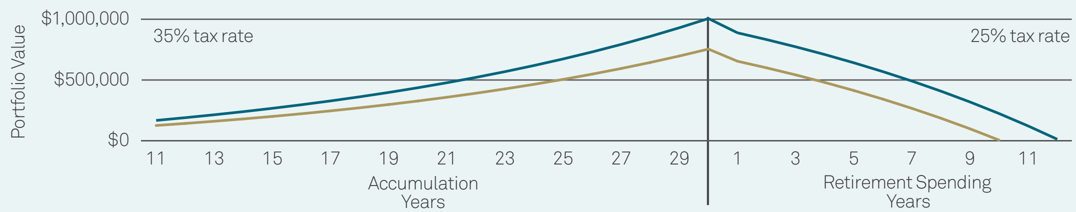
Roth Account



Tax-deferred is better when tax rates are *lower* in retirement than during working years.

Tax-Deferred Account

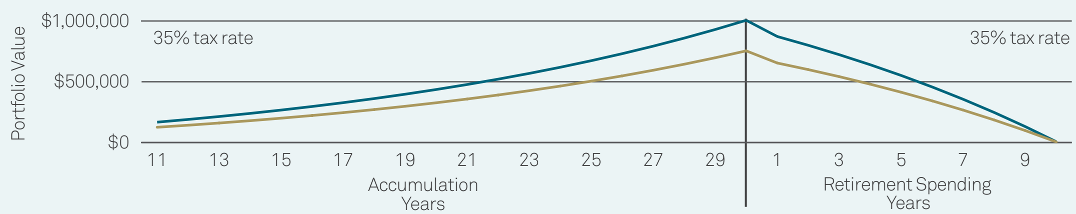
Roth Account



Tax-deferred and Roth are equal when tax rates are the *same* in retirement as during working years.

Tax-Deferred Account

Roth Account



Assumptions:

Assumes $10,000 invested each year for 30 years earning a hypothetical 7% annual rate of return. In retirement, enough is withdrawn each year to generate $100,000 of income after paying taxes. Withdrawals continue until the account is depleted. In the Roth account, each annual contribution is taxed, but withdrawals in retirement are not taxed. In the tax-deferred account, the contributions are not taxed, but the withdrawals in retirement are taxed.

For illustrative purposes only and does not represent the result of any actual investment.

Source: BNY Mellon Investment Management.

This information is general in nature and not intended to constitute tax or estate planning advice.

Why Should You Care?

In retirement, your tax-deferred 401(k) and IRA withdrawals will increase your income, triggering federal and most state taxes. Medicare premiums are also based on taxable income in retirement.

However, paying your taxes now for Roth may give you more flexibility in generating tax-free cash flow in retirement.

What's the Good News?

- Tax rates are still historically low for Roth conversions and contributions.
- Roth conversions are available at all income levels.
- Roth accounts grow tax-free. As long as you have the account for at least five years and take the money out for allowable reasons, your savings plus the earnings do not increase your taxable income.

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Take Action!

Pick and choose

Invest in both tax-free Roth and tax-deferred 401(k) and IRAs, so you have more options when you start living on your retirement assets.

Distribute wisely

Roth retirement distributions might give you the money you need to live on, without increasing your tax burden in a given year.

Manage Medicare premiums

Part B premiums are based on income. Tax-free Roth distributions do not currently increase Medicare premium costs.

Be investment-savvy

Evaluate dividing your portfolio as follows: put your growth investments in Roth, while placing your more conservative investments in your 401(k) and/or traditional tax-deferred IRA. Your overall risk and portfolio allocation remain the same.

It's Your 30

Because many investors will spend around 30 years in retirement, now is the time for you and your financial professional to plan for your future. This will be the time when pressures and responsibilities that once filled your days will diminish and you'll have more time to focus on you.*

We believe

To achieve the retirement you desire, first **determine your retirement goals** and then work with your financial advisor to **develop a financial plan.** Discuss the four interconnected financial behaviors — earning, spending, investing and insuring — because they will greatly impact your plan.

*The likelihood of any one individual experiencing a retirement horizon of 30+ years depends on a variety of factors including the age at retirement and health-related issues.

All investments involve risk, including the possible loss of principal.

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Risks

Bonds are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **Equities** are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

The Bloomberg Barclays U.S. Aggregate Bond Index is a widely accepted, unmanaged total return index of corporate, government and government-agency debt instruments, mortgage-backed securities and asset-backed securities with an average maturity of 1 to 10 years. The Bloomberg Barclays Global Aggregate Index is an index comprised of several other Barclays indices that measure fixed income performance of regions around the world. The Standard & Poor's 500 (S&P 500) Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) Index is a free float-adjusted market capitalization-weighted index that is designed to measure equity performance in developed markets excluding the United States and Canada. The index consists of 21 MSCI national developed market indices. The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging market countries. The FTSE NAREIT PureProperty® Index Series provides a daily measure of real estate investment performance (price returns and total returns) of unlevered property investments as well as equity investments in real estate. The values are calculated from daily stock market valuations of, and dividends paid by, stock exchange-listed U.S. equity REITs, using a patented methodology to infer property returns based on detailed information about the holdings and balance sheets of property-owning REITs. U.S. REITs own and manage high-quality properties in and around major metropolitan areas throughout the country. The FTSE NAREIT All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property. HFRI FWC utilizes a UCITS III-compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the hedge fund universe. HFRX Indices utilize state-of-the-art quantitative techniques and analysis; multi-level screening, cluster analysis, Monte Carlo simulations and optimization techniques ensure that each index is a pure representation of its corresponding investment focus. The BofAML U.S. High Yield Master II TR Index is a commonly used benchmark index for high yield corporate bonds. It is administered by Merrill Lynch. The Master II is a measure of the broad high yield market. Investors cannot invest directly in any index.

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