

The Benefits of Tax-Deferred Compounding

A traditional clock and two digital clocks indicate that time is passing quickly. When a cursor icon clicks on the second digital clock, the words Tax-Deferred Compounding appear. Narrator: “What time-proven strategy offers savers and investors the potential to accumulate more money over time? You guessed it! Tax-deferred compounding.”

A spinning circular form appears. It has a white center circle surrounded by yellow circles. The circular form bounces and picks up the two Os from the word Compounding, which are then incorporated into it. The spinning collection of circles moves to the right and gathers more yellow circles, getting bigger and bouncing over two holes labeled Tax. Narrator: “With tax-deferred compounding, taxes on investment earnings are delayed until you start withdrawing money, usually during retirement. As a result, the full value of your account is allowed to compound each year without being reduced by an annual tax bite.”

The words Tax-Deferred appear near the bottom of the screen. Yellow circles labeled \$100 fall from the top of the screen into a green bar that grows until it reaches \$163,630. The text below the bar reads, Assumes a 6% annual return and that the entire earnings portion of the investment was withdrawn at retirement and taxed as income at a 24% rate. Narrator: “Here’s how it works. Let’s say you invested \$100 a month in a tax-deferred retirement account over a 40-year period. At the end, you’d have accumulated over \$163,000 after taxes, assuming a 6% annual return and a 24% tax rate.”

Next to the green bar, a blue bar labeled Fully Taxable grows, stopping when it reaches \$136,707. The bars disappear, and a donut chart forms. It has a slice that becomes larger as the dollar amount in the center increases from \$0 to \$26,923, and the color of the donut changes from green to blue. When the slice is complete, it separates and disappears. Narrator: “By contrast, the same investment in a fully taxable account would yield only about \$136,000. That’s almost \$27,000 -- or about 16% -- less!”

The spinning collection of circles reappears and bounces onto a button labeled Tax-Deferred. As the button drops, the hole that was next to it, labeled Tax, disappears. The collection of circles continues to move and then bounces again, hitting two percentage symbols. It then hits a clock and picks up more circles, growing in size while it heads toward a Finish Line banner. Narrator: “As this example shows, investing on a tax-deferred basis can potentially make a tremendous difference over time. So make sure that you’re taking full advantage of the power of tax deferral by maximizing contributions to your employer-sponsored retirement plan or individual retirement account. Remember, too, that time may be the greatest ally of a tax-deferred investment strategy. The longer your money is allowed to compound without being reduced by annual taxes, the more money you may have on hand for retirement.”

The final screen appears, which reads, Example is for illustration purposes only and should not be construed as investment advice. Your results will vary.

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