



DAVE GRANT, CFP®

SAVING BEYOND EMPLOYER PLANS

As the summer season draws to a close, many prudent savers are approaching contribution limits on their 401(k), 403(b) or other employer-sponsored tax-deferred savings plans. One question we hear frequently from clients is “What other options do I have for tax efficient savings and investments?”

TAXABLE INVESTMENT ACCOUNTS

Taxable investment accounts, held directly at brokerage firms, provide viable saving opportunities for a number of reasons: liquidity of contributions; no limits on contributions, and capital gains treatment (rather than ordinary income) on investment growth. Once money has been deposited, establishing a balanced allocation based on your goals and risk tolerance is important. Investment options should be considerate of potential tax consequences which can provide maximum potential return with a reduced tax liability. This strategy is called *asset-location* investing.

Exchange Traded Funds (ETFs) are one option to consider when pursuing taxable investment accounts. ETFs track a specific index, commodity, or basket of indices in the same way as a mutual fund, typically with fewer capital gain distributions than a mutual fund resulting in a lower tax liability. When coupled with lower expense ratios, they typically make owning the same assets less expensive than when purchased through a traditional mutual fund.

Municipal bonds, whether owned individually or in a fund, may offer tax-free returns. Municipal bond returns are typically lower than taxable bonds, but the tax nature of municipal bonds can actually seem attractive to someone in a high tax-bracket since the tax savings may result in a higher net return.

TRADITIONAL OR ROTH IRA

Another consideration may be an IRA. Depending on your participation status with an employee-sponsored plan, and your current income, a deductible contribution may not be a possibility.



However, recent law changes have made it possible for even a non-deductible IRA contribution to have advantages by making it eligible for a Roth IRA conversion. With recent income limitations removed, anyone who was once restricted in his or her ability to pursue a Roth IRA conversion may be able to make a contribution to a non-deductible IRA and convert it to a Roth IRA, subject to pro-rata guidelines. The Roth IRA then grows tax-free and does not have the Required Minimum Distribution (RMD) requirements of a traditional IRA, making it a suitable vehicle for managing the tax consequences of retirement income and for efficiently endowing money to heirs.

LIFE INSURANCE

Yet another consideration could be permanent, low-cost life insurance such as Variable Universal Life Insurance. While the contributions to the cash-value of a life insurance policy would have already been taxed as income, the future growth of these investments is tax-deferred until withdrawals are made. In a Variable Universal policy, the cash value can be invested in equities offering the potential for market-like returns. Investing in a cash-value life insurance policy can also be beneficial for heirs. Should an individual invest in a life insurance policy and pass away before any of the cash value has been removed, the cash value can be added onto the death benefit; however, this option will depend on the specific policy terms. The death benefit

is income tax-free, so all of the growth in the cash value would not be subject to income tax. Extensive diligence should be taken prior to the purchase of life insurance to ensure all the costs and limitations are fully recognized.

While employer-sponsored retirement plans impose limits on annual contributions, tax-efficient investing can still take place outside of these accounts. Due to changing circumstances and tax laws, it is important to continually monitor all options in order to evaluate what plan could be best for your specific situation. Our Relationship Managers are prepared to discuss the aforementioned investment considerations and would be glad to answer your questions and discuss suitable options.

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VANTAGE NEWS

HOPEFUL HANDS

Maria Saravia's three-year-old grandson Luke Stastny went to [Bright Hope](#) carrying a Ziploc baggie with a donation...

Luke's mother, Ciara, explained that Luke earns his money through a 'point system' that rewards him for good behavior. Earning 10 cents a point, the family totals his points at the end of the month and he splits the net amount for savings and for his own money. When they totaled his money this month, Luke declared that he wanted to give his money to the poor.

His parents wanted to make the experience of where his donation was going real for him. Ciara brought him to Bright Hope to see pictures of the people Bright Hope serves that live on less than \$1 a day. Luke also got the opportunity to walk through a mock Kenyan slum house that Bright Hope has set up for their Experience Tours. He was able to better connect to the neglected and marginalized, where his donation was going to.

His Ziploc bag contained \$1.50. It was a small donation, but it was filled with large amounts of selflessness, humility, and hope. Luke is an inspirational example of someone with Christ's love in his heart. It was a pure, unashamed display of love. It has inspired many — and we are proud of Luke's giving soul.



Maria Saravia's Grandson Luke Stastny

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