



SECURITY BENEFIT

How Tax Deferral Can Boost Your Savings Potential



Many people think of tax planning as the exclusive concern of wealthy individuals trying to avoid significant tax bills, but tax considerations should be part of any comprehensive retirement plan. One way in which tax strategy comes into play for everyday savers is tax deferral. Understanding how and where tax deferral fits into your retirement strategy is key to ensuring your investments grow for you throughout your retirement-planning journey so you will have enough money saved when you leave the workforce.

Tax deferral postpones the payment of taxes on investment earnings until a later date, meaning 100% of your earnings are compounded and won't be taxed until you withdraw the money, usually at age 59½ or later, depending on the type of account.

Here are a few things to consider within your retirement savings strategy:

- 1 Capital Gains
- 2 Tax and Tax-deferred Options
- 3 Annuities

Understanding Capital Gains

Capital gains and losses arise from the sale of capital assets, and the tax rate applicable to the capital gains depends on how long the capital asset was held.

Long-term capital gains/losses

Long-term capital gains/losses are from the sale of capital assets held for more than a year and generally qualify for a tax rate of 0%, 15%, or 20%. Under the Tax Cuts and Jobs Act, capital gains tax rates are applied to income levels that differ from regular income tax brackets, as shown in the table at right.¹

Short-term capital gains/losses

Short-term capital gains are from capital assets held for a year or less and are still taxed as ordinary income.

3.8% Medicare Surtax Triggers

Those at the high end of the income spectrum also will need to account for a surtax in their capital income. The Health Care and Education Reconciliation Act of 2010 assesses a 3.8% surtax on net investment income for taxpayers with modified adjusted gross income (MAGI) over a certain threshold.

Net investment income includes:

- Interest
- Dividends
- Capital gains (including those from real estate)
- Rental and royalty income
- Income from financial instrument or commodity trading
- Income from businesses that generally do not require active involvement from the taxpayer

Capital Gains and Losses 2025¹

Long-term Capital Gains Tax Rate	Single Filer	Married Filing Jointly	Heads of Households
0%	\$0 to \$ 49,450	\$0 to \$ 98,900	\$0 to \$66,200
15%	\$49,451 to \$545,500	\$98,901 to \$613,700	\$66,201 to \$579,600
20%	Over \$545,500	Over \$613,700	Over \$579,600

¹<https://www.bankrate.com>

Statutory Thresholds

Filing Status	Threshold
Married Filing Jointly, Qualifying Widow(er)	\$250,000
Single Head of Household	\$200,000
Married Filing Separately	\$125,000

Modified Adjusted Gross Income (MAGI) Example: **(Single Filer/\$200,000 Threshold)**

Wages \$180,000	+	Net Investment Income \$60,000	=	Wages \$240,000
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MAGI is \$40,000 over the surtax threshold and net investment income of \$60,000 so the individual will pay the 3.8% surtax on \$40,000, the lesser of the two, resulting in a net investment income tax of \$1,520.

Frequent changes in investment holdings can result in tax payments on capital gains. The table illustrates the impact of **long-term** capital gain taxes on a hypothetical stock.

Long-term Example	Couple A MAGI: \$150,000 15% Capital Gains Rate	Couple B MAGI: \$300,000 15% Capital Gains Rate	Couple C MAGI: \$600,000 20% Capital Gains Rate
Buy 500 shares at \$100 each	\$50,000	\$50,000	\$50,000
Sell 500 shares at \$200 each more than a year later	\$100,000	\$100,000	\$100,000
Net investment income	\$50,000	\$50,000	\$50,000
Taxes owed on capital gains	\$7,500	\$7,500	\$10,000
Net investment income tax owed	\$0	\$1,900 (3.8% on \$50,000)	\$1,900 (3.8% on \$50,000)
Total capital gains tax obligation	\$7,500	\$9,400	\$11,900

Frequent changes in investment holdings can result in tax payments on capital gains. The table illustrates the impact of **short-term** capital gains taxes on a hypothetical stock.

Short-term Example	Couple A MAGI: \$150,000 22% Capital Gains Rate	Couple B MAGI: \$300,000 24% Capital Gains Rate	Couple C MAGI: \$500,000 35% Capital Gains Rate
Buy 500 shares at \$100 each	\$50,000	\$50,000	\$50,000
Sell 500 shares at \$200 each more than a year later	\$100,000	\$100,000	\$100,000
Net investment income	\$50,000	\$50,000	\$50,000
Taxes owed on capital gains	\$11,000	\$12,000	\$17,500
Net investment income tax owed	\$0	\$1,900 (3.8% on \$50,000)	\$1,900 (3.8% on \$50,000)
Total capital gains tax obligation	\$11,000	\$13,900	\$19,400

As you can see from the previous examples, capital gains are a result of investments that have performed well, but taxes can eat away at their compounding power. With both types of accounts, you'll still pay taxes on your earnings — it's just a matter of when and how much.

Options for Offsetting Capital Gains	Purchase Tax Status	Maximum	Tax Assessment*	Maximum
Qualified Retirement Plans 401(k), 403(b), IRA, Roth IRA	<ul style="list-style-type: none"> Pretax After-tax for Roth IRA 	<ul style="list-style-type: none"> \$23,500 for 401(k), 403(b), and 457 plans \$7,000 for IRA and Roth IRA (under 50) \$8,000 for IRA and Roth IRA (over 50) 	<ul style="list-style-type: none"> At Withdrawal 	<ul style="list-style-type: none"> None
Annuities 401(k), 403(b), IRA, Roth IRA	<ul style="list-style-type: none"> Pretax After Tax for Roth IRA (Non-qualified Options) 	<ul style="list-style-type: none"> No maximum (option to consider for accruing additional retirement savings if your qualified plans are maxed out or you have a windfall to invest)* 	<ul style="list-style-type: none"> Pretax: At Withdrawal After Tax: Only on Earnings 	<ul style="list-style-type: none"> None

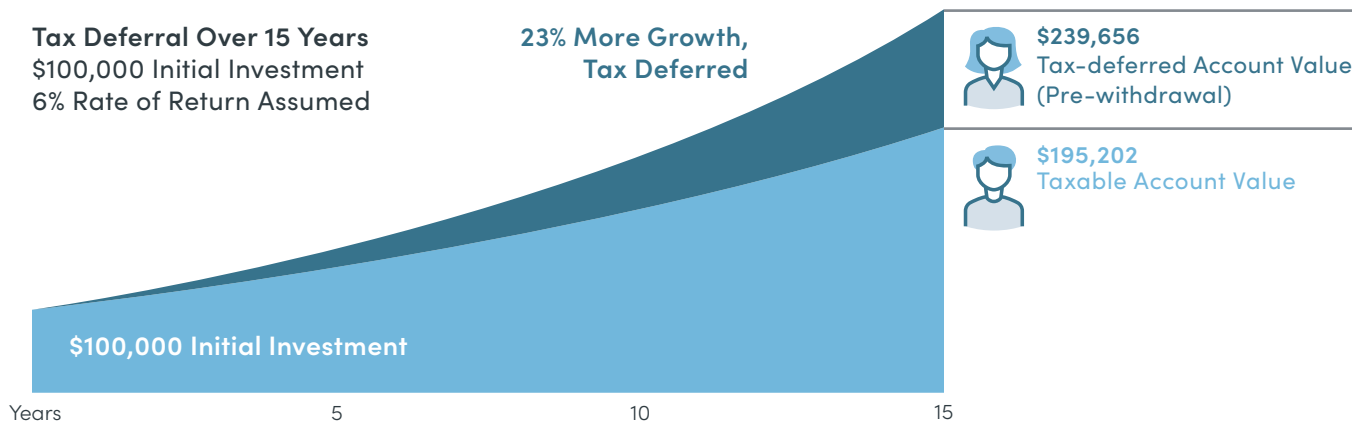
* Annuities usually have maximum total purchase amounts.

Assessing Taxable and Tax-deferred Investments

There are only two account types you can use for your investments — taxable or tax deferred. Both allow you to increase account value over time through the power of compounding, but taxable accounts require you to pay a yearly tax bill on interest, dividends, or capital gains, which can create significant tax “drag” on overall growth.

	Taxable Account Growth	Tax-deferred Account Growth
Savings Vehicles	Individual stocks and bonds, bank accounts, and money market mutual funds	Qualified retirement plans, IRAs, Roth IRAs, and annuities
Taxation	Annual tax bill on interest, dividends, and capital gains	Upon withdrawal, typically at the time of retirement when individuals may be in a lower tax bracket and have a smaller tax obligation than during their earning years

The Power of Tax Deferral



This hypothetical example assumes a 24% overall tax rate for both Jane and Joe. This hypothetical tax-deferred investment does not reflect deduction of any fees associated with the investment product to which contributions are directed. It is important to note that while taxes on amounts invested in tax-deferred investments are deferred until withdrawn, withdrawals are subject to ordinary income tax and, if made prior to age 59½, may be subject to a 10% IRS penalty tax. Conversely, earnings from investments that do not offer tax deferral are taxed currently, and withdrawals from such an investment are not subject to the penalty tax. Some situations such as your personal investment horizon and income tax brackets (both current and anticipated), changes in tax rates and tax treatment of investment earnings, and lower maximum tax rates on capital gains and dividends may impact the results of this comparison. Each person's situation is different so these and other considerations must be taken into account when making an investment decision. For illustrative purposes, a tax rate of 24% has been used; however a person's tax rate will likely change over time.

Achieving Tax Deferral With Annuities

Annuities are insurance products designed to grow your money over time to provide for financial needs such as retirement. Contract holders can elect to receive equal payments at regular intervals at the time they annuitize. If you have sufficient liquid assets to cover living expenses and emergencies, then an annuity might be a sound option for a portion of your portfolio.

A Brief History of Annuities

A.D. 225

A Roman judge created the first known mortality table for “annua,” lifetime stipends made once a year.

1776

America’s founding fathers passed the National Pension Program for Soldiers before signing the Declaration of Independence.

1930s

Consumers used annuities and life insurance to save money safely in the aftermath of the Great Depression.

Long before President Franklin D. Roosevelt signed the Social Security Act in 1935, there has been a recognized need for lifetime income.

Types of Annuities

Fixed Annuities

Fixed annuities provide a stated rate of interest that is declared by the insurer usually on a yearly basis.

Fixed Index Annuities

A fixed index annuity is a retirement savings option with the ability to link interest credits to part of the performance of a financial market index, such as the S&P 500®, typically with some type of upper limit on interest when the index increases and no risk of loss when it declines.

Multi-year Guarantee Annuities (MYGAs)

MYGAs provide a predetermined and contractually guaranteed interest rate for a set period of time, typically 3 to 10 years.

Variable Annuities

Variable annuities’ interest credits are based partly or wholly on the performance of variable subaccounts similar to mutual funds, and thus are also subject to loss of investment principal.

Features vary by annuity but often include:

- Competitive, current rates
- Principal guarantee (not applicable to variable annuities)
- Lifetime income that you can’t outlive
- Withdrawal flexibility (during the surrender charge period, generally up to 10% of your contract value each year after the 1st Contract Year)
- Access to funds without surrender charges (if applicable) in the event of a terminal illness diagnosis or confinement to a hospital or nursing home or hospital for longer than 90 days (additional restrictions apply)
- Death benefit

Considerations

When considering the purchase of an annuity, keep these questions in mind:

- How long do I plan to keep my money in the annuity?
- Are there risks with this annuity and, if so, am I comfortable with them?
- How much can I reasonably expect to receive from this annuity in retirement?
- What is my annuity's guaranteed minimum interest rate?
- If riders are available with the annuity, how do they work?
- What are all of the annuity's fees, charges, and adjustments?
- How long is the surrender charge period for an annuity (typically ranges from 5 to 15 years)?
- Is there a limit on how much I can take out of my annuity each year without paying a surrender charge and is there a limit on the total amount I can withdraw during the surrender charge period?
- Will my beneficiaries receive any payment from my annuity if I die?

As part of a holistic retirement savings strategy, tax-deferral options like annuities can provide safety and stability while:

- Allowing your assets to grow through the power of compounding interest and
- Delaying tax payments until you retire.

The Bottom Line

Harnessing the power of tax deferral can have a significant impact on how much your savings can grow over time. Talk to your financial professional to better understand how tax deferral can work for you.



Your path *To and Through Retirement*[®] begins here.

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SB-10029-47 | 2026/04/20