PennMutual

Diversifying the Taxation of Your Portfolio

You may have heard how important it is to diversify assets in your portfolio. But did you know it's just as important to diversify the taxation of your assets?

From an income tax perspective, the assets in your portfolio can be categorized into three buckets—taxable, tax-deferred and tax-free. Diversifying across these buckets can help minimize the impact of taxes on your portfolio, helping to maximize your portfolio's overall long-term growth.

A Closer Look at Each Asset Category

The table below shows the general tax implications for each asset category, and other important features.

	Taxable[1] (taxes due on gains)					Tax-Deferred (taxes due when money is withdrawn)			Tax-Free (funded with after-tax dollars, no taxes due on gains and distributions)	
	Stocks	Bonds	Mutual Funds	CDs	Savings Accounts	Annuities	Qualified Plans 401(k) / 403(b)	Traditional IRAs	Roth IRAs	Permanent Life Insurance
Protection from market downturns		✓		✓	✓	✓[2]				✓[2]
No annual limits on contributions	✓	✓	✓	✓	✓					✓[4]
Tax-deferred accumulation						✓	✓	✓	✓	✓
Income-tax-free distributions	✓	✓	✓[3]	✓	✓				✓	✓[4]
Distributions don't increase tax bracket									✓	✓
Distributions don't impact taxation of Social Security benefits									✓	✓
Distributions prior to age 59 ½ are not subject to 10% penalty	✓	✓	✓	✓	✓					✓[4]
Not subject to Required Minimum Distributions (RMD's)[5]	✓	✓	✓	✓	✓				✓	✓
Income-tax-free death benefit										✓
Avoids probate at death						✓	✓	✓	✓	✓

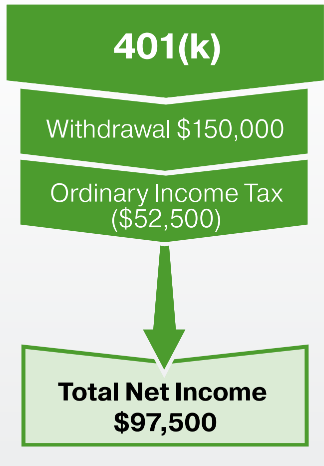
As you can see, life insurance can be a great addition to your portfolio, helping to minimize the impact of taxes and offering other great advantages.

Look at Life Differently

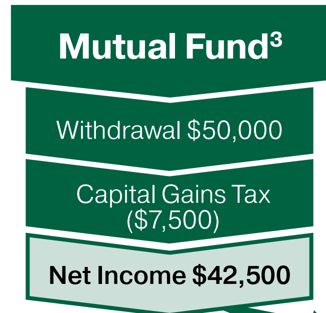
Permanent life insurance is more than just death benefit protection. As a tax-efficient accumulation and protection vehicle tthat may help to safeguard against market volatility, permanent life insurance can be a great addition to any retirement portfolio as a diversified source of income.

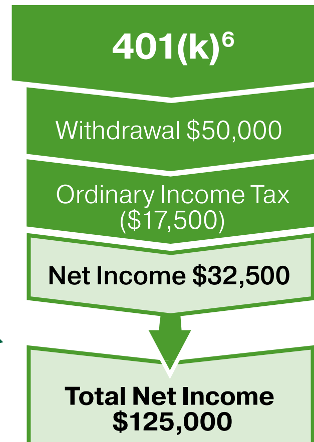
Case Study – Tax Benefit of a Diversified Retirement Portfolio

Non-Diversified Income



Diversified Income





Hypothetical Scenario - $150,000 withdrawal during a retirement year
Ordinary Income Tax 35%, Capital Gains Tax 15%, Permanent Life Insurance 0% Tax

Permanent life insurance also provides:

- Estate-tax-free death benefit, if properly structured
- Protection from creditors (varies by state)[7]
- Built-in or optional added protection in the event of disability[8]

Reference to the taxation of products in this material is based on Penn Mutual's understanding of current tax laws. Penn Mutual and its representatives do not provide tax or legal advice. Please consult a qualified tax professional regarding your personal situation.

[1]Taxable investments reflect taxes being paid on any earned income each year. Any distributions taken from these accounts assume that taxes have already been paid.
[2]With the exception of variable products, including variable annuities and variable universal life.
[3]Mutual funds may be subject to income tax or capital gains tax. Consult your tax advisor for more information.
[4]IRS contribution limits may apply. Policy must not be a modified endowment contract (MEC) and withdrawals must not exceed cost basis. Partial withdrawals during the first 15 policy years are subject to additional rules and may be taxable. Policy must not be surrendered, lapsed, or otherwise terminated during the insured's lifetime. Accessing cash value may result in surrender fees and charges, may require additional premium payments to maintain coverage, and will reduce the death benefit and policy values. Assumes life insurance is not part of a qualified plan.
[5]Under current law, individuals born on or after July 1, 1949 must begin taking required minimum distributions at age 72; individuals born prior to July 1, 1949 must begin taking required minimum distributions at age 70 ½.
[6]The $50,000 withdrawal is post age 59 ½ and pre Required Minimum Distribution age.
[7]Based on state tax law, state availability and/or individual availability.
[8]Requires certain riders to be included in your policy, subject to state tax law, state availability and/or individual availability.

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