Reduce taxes
with Deferred Annuities

You've worked hard to save and prepare for your retirement years. However, have you examined the impact that federal taxes may have on your retirement income distributions, including your Social Security benefits? Many don't realize that *up to* 85% of a Social Security benefit is taxable. The higher your gross income is, the more likely that a greater percent of your Social Security benefit will be included as taxable income.

To help ease the impact of federal taxes, consider taking advantage of tax-deferred solutions, such as annuities. Because, unlike taxable investments (e.g., CDs, bonds, checking accounts, money market accounts, etc.), you don't pay tax on the interest earned on deferred annuities[1] until you withdraw the money.[2] *Allowing your savings to accumulate faster!*

HYPOTHETICAL CLIENT EXAMPLE

Let's compare the tax calculation[3] for two married couples. Both couples have a net worth of approximately one million dollars to invest. The Nelsons do not take advantage of tax-deferred growth opportunities and invest in taxable investments. The Schneiders take advantage of tax-deferred growth opportunities by purchasing an annuity.

	NELSONS	SCHNEIDERS
Income from Qualified Retirement Plan	$40,000	$40,000
Taxable Investment Income	$40,000	$0
Deferred Annuity Interest	$0	$40,000
Social Security Benefit	$32,400	$32,400
Social Security Taxable Portion	$27,540	$16,370
Adjusted Gross Income	$107,540	$56,370
Standard Deduction	$11,400	$11,400
Exemptions	$6,100	$6,100
Taxable Income	$90,040	$38,870
Federal Tax Rate	25%	15%
Federal Income Tax Owed[4]	$22,510	$5,830
Tax on Social Security[5]	*$6,887*	*$2,370*

The table calculations are based on the 2003 tax laws.

POWER OF TAX-DEFERRAL

Based on 2003 tax laws, the amount of tax includable on taxes each year for both couples shows the power of tax-deferral. As mentioned, the greater your gross income is, the more likely that a higher percent of your Social Security benefit will be included in taxable income.

Based on the hypothetical example, you can see how advantageous it might be for you to grow part of your investments tax-deferred. A well-diversified portfolio of investment products is typically ideal for those in- or near-retirement.

THERE HAS NEVER BEEN A BETTER TIME TO PLAN

It's important you plan now to help ensure your assets can provide the income you need for retirement. Taxes are just one part of an overall financial plan that should be considered when investing.

You can take stock in Principal Life Insurance Company's steadfast commitment to provide quality, reasonably priced financial products and services that help individuals grow and prosper.

[1] If you are purchasing an annuity to fund a tax-qualified retirement plan (IRA, SEP, SIMPLE IRA), you should be aware that this tax deferral feature is available with any investment vehicle and is not unique to an annuity. Carefully consider the features and benefits of the annuity when making the decision to purchase it.

[2] Withdrawls prior to age 59½ may be subject to a 10% IRS penalty tax.

[3] These figures represent the information available to date. Please consult your tax attorney or accountant for more information.

[4] Please note, in the hypothetical example, the Schneiders are deferring the amount of taxes they owe. In future years, when income distributions are taken from the annuity, the Schneiders will pay income tax on that amount.

[5] Tax on Social Security is a percentage of the Social Security Taxable Portion listed in the table.

This information is believed to provide accurate and authoritative information in regard to the subject matter covered. The accuracy of the content is not guaranteed, and is provided with the understanding that Principal Life is not rendering legal, accounting or tax advice. In specific cases, clients should consult their legal, accounting or tax advisors.

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