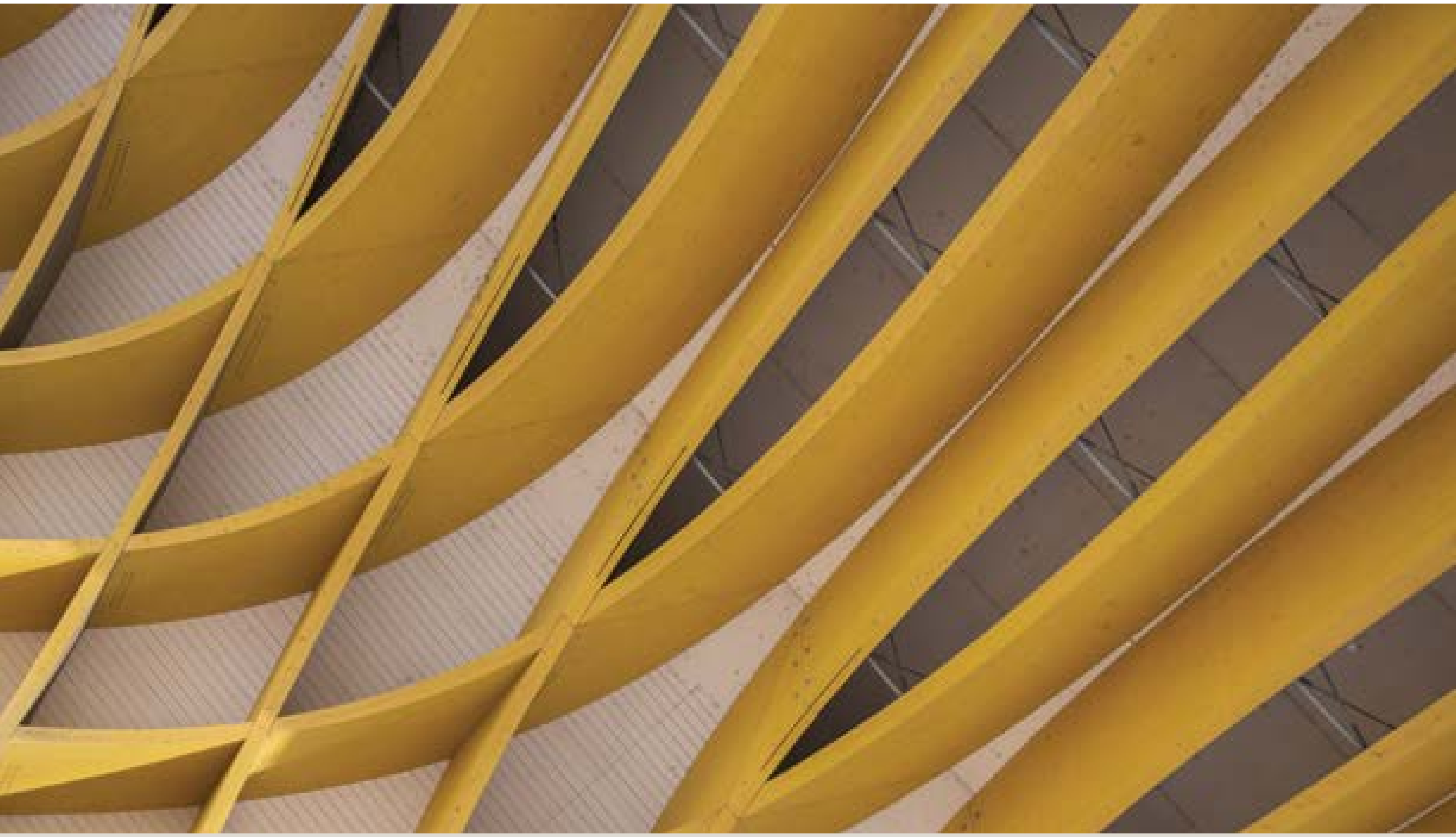
JACKSON®

IMPORTANT WAYS TO PLAN FOR YOUR TAX BILL

5 key tax-planning strategies



Taxes may immediately cause a sense of dread in some people. That dread is justified, as many fear the complexity of the tax code, paying too much in taxes, or simply the pain of paying prior and future tax bills. Taxes can also be confusing and are subject to change.

This may also be because the United States tax code can seem overcomplicated or worrisome if you don't completely understand it and its intricacies. Much like mechanics for cars, we hire tax professionals to help us with the upkeep of our tax obligations. Sometimes, the difficulty lies in not knowing where to start. Tax professionals have several key tax strategies that remain at the forefront of investors' minds. **Let's look at these five:**

1. Asset location
2. Maximizing qualified contributions
3. Qualified charitable distributions (QCDs)
4. Tax-free exchanges
5. Tax planning within trusts

We know that taxes are not always pleasant, and we often have to pay them regardless, but there may be strategies to help reduce your overall tax bill. So, let's look at these strategies one by one.

What is a variable annuity?
Variable annuities are long-term, tax-deferred investment designed for retirement, involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.

Add-on living benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity and may be subject to conditions and limitations.

The IRS issued a private letter ruling ("PLR") holding that a nongrantor trust cannot use the IRC 72(q) exceptions for (1) reaching age 59½, (2) disability, or (3) substantially equal periodic payments. The ruling recognized a nongrantor trust may use the IRC 72(q) exception for death. (See PLR 202031008).

1. Asset Location

Asset location is the practice of determining which of your investments are best held in taxable and tax-deferred* accounts. There are a few key strategies for attempting to attain tax efficiency through asset location.

Employer-sponsored plans

Contributing to employer-sponsored plans is one aspect of tax-deferred asset location. However, employer-sponsored retirement accounts have contribution limits and may have limited investment options.

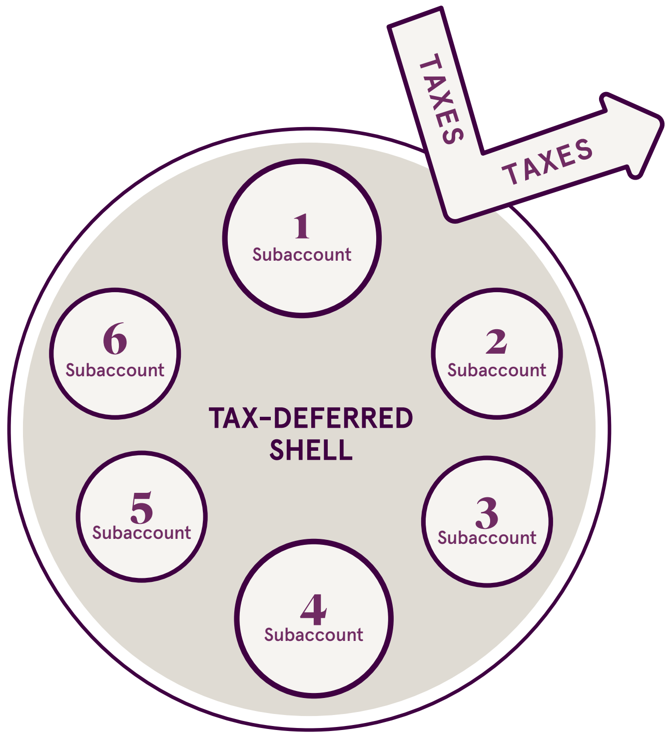
Individual Retirement Accounts (IRAs)

Earnings on investments within an IRA accumulate tax deferred and may provide access to a wider array of investment options with a potentially lower cost than an employer-sponsored plan.

Nonqualified variable annuities

Contributions to nonqualified annuities are made with money that has been taxed, whereas contributions to qualified annuities are often made with pretax money. Nonqualified annuities offer tax deferral, do not have annual contribution limits, do not have required minimum distribution (RMD) requirements, and may offer more investment options than an employer-sponsored retirement account. They can also act as a supplement to retirement plans.

One of the easiest ways to understand a nonqualified variable annuity for asset location purposes is to think of an investment portfolio enveloped by a tax-deferral shell, as seen in the illustration to the right. The investments in the variable annuity (referred to as subaccounts) may grow or shrink, but growth is not taxable until withdrawals are taken. Of course, there are ongoing expenses and charges involved in tax-deferred investing with variable annuities.



For illustrative purposes only

* Tax deferral offers no additional value if an IRA or a qualified plan, such as a 401(k), is used to fund an annuity. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

Tax inefficiency

Tax inefficiencies within your investments may include:

- Investment assets taxed annually at ordinary income rates
- Investments that send out frequent, taxable capital gains distributions
- Investments that send out dividends, which may be taxed as ordinary income
- Funds that have high portfolio turnover

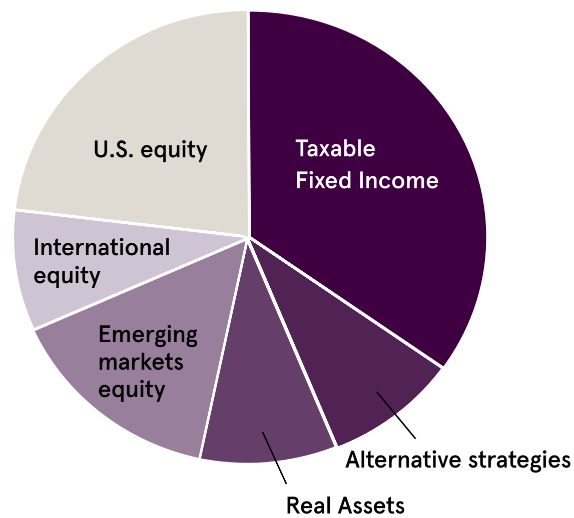
Once these inefficiencies are located in your portfolio, you may choose to allocate them to a tax-deferred account, such as a nonqualified variable annuity. Some variable annuities may also offer add-on living or death benefits that can help convert your retirement investments into a stream of income that you cannot outlive or help guarantee* a legacy to your loved ones. Add-on benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity.

Tax inefficiency within portfolios

A traditional portfolio often comprises 60% equities and 40% bonds. Some equities within that 60% can be tax inefficient, meaning they could be more likely to frequently pay out taxable capital gains and dividend distributions. The chart to the right assumes assets are held for longer than one year and describes the potential taxation (long-term vs. short-term capital gains) of distributions from those asset classes.

Let's consider the tax advantages of annuities for a moment. A qualified annuity is one that is funded with pretax dollars (such as an IRA) and taxed when withdrawals are taken. On the other hand, a nonqualified annuity is funded with after-tax dollars, meaning taxes have already been paid on that money. If titled properly, the annuity may grow tax deferred, meaning that the earnings are only taxed when withdrawn. When taking distributions from a nonqualified annuity, gains are withdrawn first and taxed as ordinary income. Basis is withdrawn last and is not taxed. A nonqualified annuity may be a tax-efficient strategy to consider for your asset location purposes.

TAX TREATMENT BY ASSET TYPE



Equities average turnover: 52.18%
Taxable Fixed income average turnover: 124.66%
Real assets† average turnover: 70.62%
Alternatives average turnover: 172.55%

Taxed at long-term capital gains rate

Some or all gains may be taxed as ordinary income

Source: Morningstar Direct, turnover since inception through November 2022.

* Guarantees are backed by the claims-paying ability of the issuing insurance company.
† Real assets are defined as commodities, energy, global and domestic real estate, infrastructure, and natural resources.

2. Maximizing qualified contributions

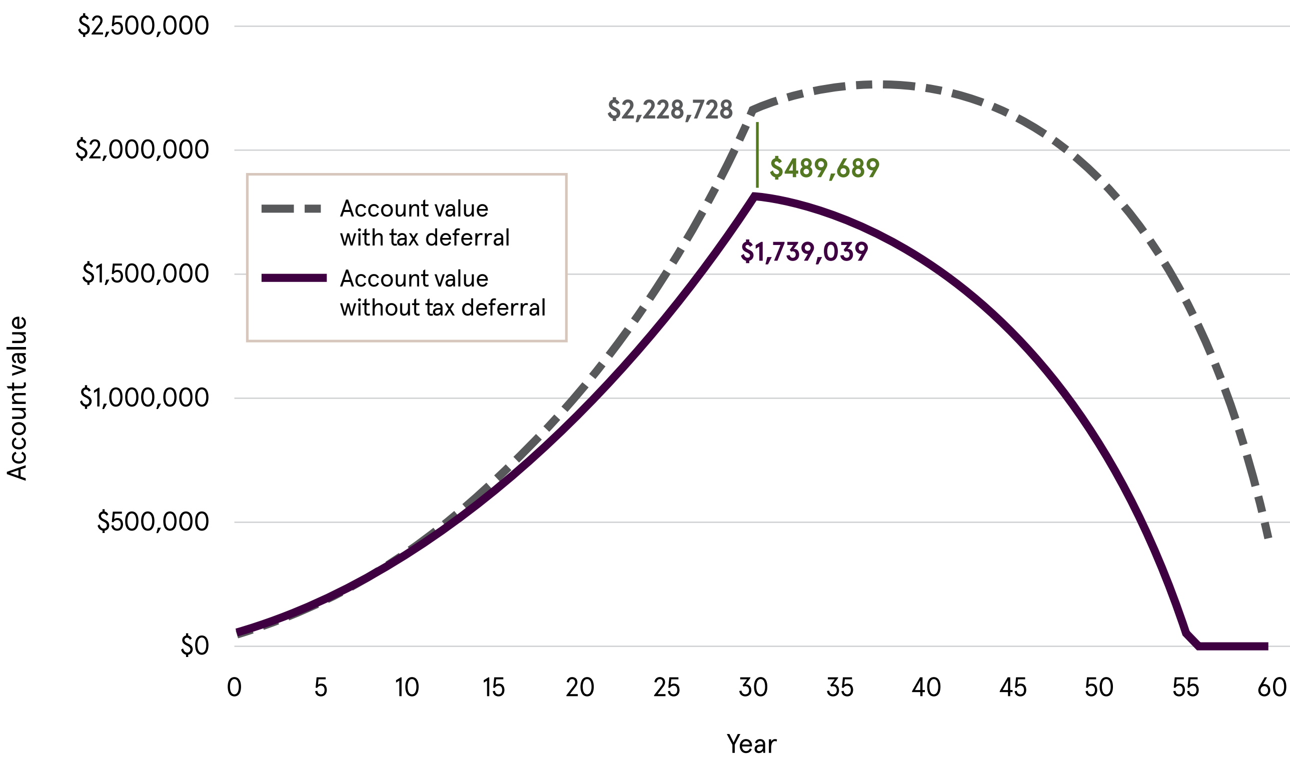
Retirement plans come in many varieties, with their own rules and contribution limits. Some are simple, and others are more complex. Some offer a wide variety of investment options, while others can be somewhat limited. Some may offer the ability to reduce your taxable income by the amount that you contribute to the plan.

Qualified retirement plans

Qualified retirement plans may allow you to grow your retirement assets on a tax-deferred basis, meaning you do not pay taxes on the growth of these assets unless you withdraw money. Your money may grow more quickly than it would in an account where you had to pay taxes on investment gains every year.

The chart below reflects an individual contributing $23,000 a year to their 401(k). Assuming the account grows at 6% annually, after 30 years, this individual's 401(k) account is worth $2,228,728. If this individual made the same contributions to an account that was not tax-deferred and assuming a tax rate of 20%, after 30 years, it would be worth $1,739,039. They earned an additional $489,689 through tax deferral.

401(K) CONTRIBUTIONS: TAXABLE VS. TAX-DEFERRED SAVINGS



This hypothetical example is for illustrative purposes only and is not representative of the past or future performance of any product. Past performance is no guarantee of future results. This example assumes hypothetical contributions to a 401(k) account of $23,000 annually, a 6% annual return and an effective 20% tax rate. The after-tax amount of $1,488,777 is available in the form of a lump-sum distribution after the deduction of taxes at a 33.20% tax rate from the tax-deferred account after 30 years. (The actual tax results of any distribution will depend on an individual's personal tax circumstances.) In the example above, years 1-30 represent the accumulation phase where withdrawals do not take place. Years 31-60 represent the distribution phase with an annual 5% withdrawal calculated using the year 30 account value with tax deferral that is adjusted 3% for inflation. This hypothetical example illustrates tax deferral and **does not represent the past or future performance of any particular product**. Investors should consider their individual investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, as these may further impact the results of the comparison. All calculations performed by Jackson.

Employer match and profit sharing

Employer match is essentially free money your employer contributes to your retirement account. Currently in a 401(k), your max deferral as an employee is $23,000/year if you are under 50, and $35,000 if you're over 50. With employer matching, maximum salary deferrals, and profit sharing, the maximum contribution to your 401(k) for 2023 is $69,000 and $76,500 if you're over 50.[1] In the best case scenario, if you are making full $69,000 contributions every year with and without tax deferral, assuming the account grows at 6% annually and the individual is subject to the 20% tax rate, the result after 30 years is $6,693,143 versus $5,222,686.*

Traditional IRAs

Traditional IRAs are retirement plans designed for individuals who do not have access to an employer plan, or who may want to supplement their retirement plan. They have contribution limits—$7,000 if you're under 50 and $8,000 if you're over 50.[2] In addition, any growth is tax deferred and withdrawals are taxed as ordinary income. If your income is below a certain threshold, you may be able to reduce your income by a portion, or all, of your contribution. Traditional IRAs also require you to begin taking required minimum distributions at a specified age, depending on your date of birth.[†]

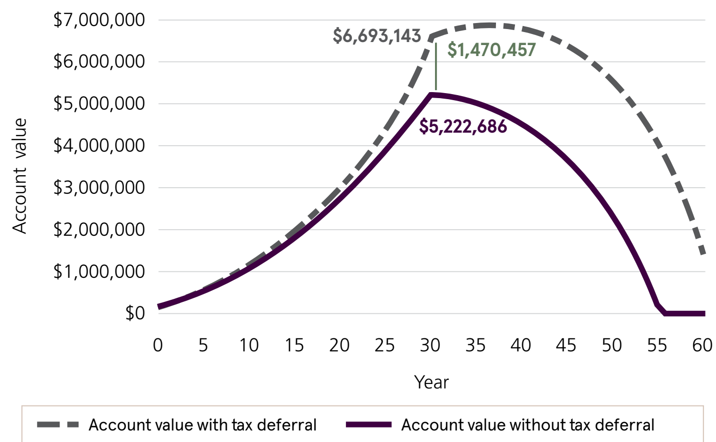
Roth IRAs

Earnings in a Roth IRA also grow tax deferred, but funds contributed are made up of after-tax dollars. Since the funds have already been taxed, you and your beneficiaries can make tax-free withdrawals, if your account has been open for more than five years and you are over 59½.[‡] Roth IRAs are not subject to RMD requirements.

Rollovers from qualified plans

Rollovers entail transferring funds from one type of qualified account to another, usually when an employee changes jobs or retires. By electing a direct rollover from one account to another, you avoid paying taxes on the funds, and all the money you earned is moved into your new account.

EMPLOYER MATCH AND PROFIT SHARING: TAXABLE VS. TAX DEFERRED SAVINGS



This hypothetical example is for illustrative purposes only and is not representative of the past or future performance of any product. Past performance is no guarantee of future results. This example assumes hypothetical maximum contributions to a 401(k) account of $69,000 annually, a 6% annual return and an effective 20% tax rate. The after-tax amount of $4,301,359 is available in the form of a lump-sum distribution after the deduction of taxes at a 35.73% tax rate from the tax-deferred account after 30 years. (The actual tax results of any distribution will depend on an individual's personal tax circumstances.) In the example above, years 1-30 represent the accumulation phase where withdrawals do not take place. Years 31-60 represent the distribution phase with an annual 5% withdrawal calculated using the year 30 account value with tax deferral that is adjusted 3% for inflation. This hypothetical example illustrates tax deferral and does not represent the past or future performance of any particular product. Investors should consider their individual investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, as these may further impact the results of the comparison. All calculations performed by Jackson.

Employer-sponsored plan annuities

Lastly, some employer-sponsored plans allow you to open an annuity in your retirement plan account. An annuity with a living benefit may allow you to convert your retirement account into an income stream that you cannot outlive, or add a death benefit to secure or increase your legacy to beneficiaries.

[*] Contribution limits are subject to change on an annual basis.

[†] The SECURE 2.0 Act changed the required beginning date for RMDs to age 73 for individuals attaining age 72 after December 31, 2022, and age 73 before January 1, 2033. Custodians are awaiting clarification, but SECURE 2.0 also appears to indicate that the required beginning date for RMD age is pushed back to 75 effective after December 31, 2032.

[‡] Separate rules exist for contributions to Roth IRAs and amounts converted to a Roth IRA.

[1] Internal Revenue Service, "COLA Increases for Dollar Limitations on Benefits and Contributions," November 7, 2023.

[2] Ibid.

3. Qualified charitable distributions (QCDs)

Account owners of many employer-sponsored plans and all traditional IRAs must begin taking RMDs at a specified age, depending on your date of birth.* If you do not want or need the income—and associated tax bill—from your RMD, you can make a QCD, which is unique to IRAs. A QCD is sent directly from your IRA to the charity of your choice, though some restrictions apply.

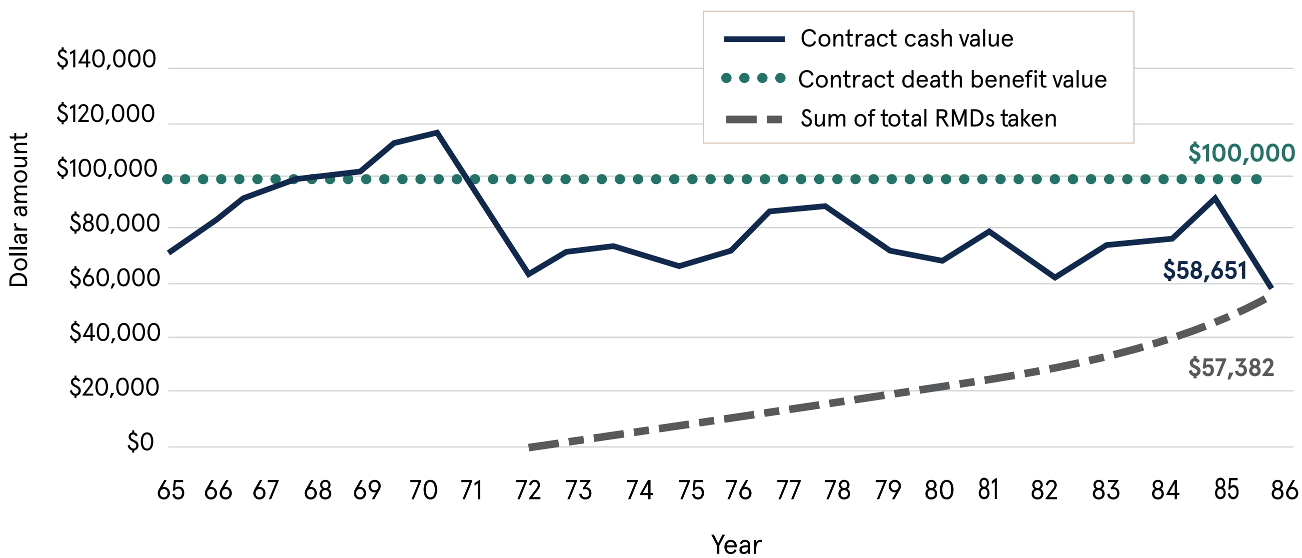
RMDs and QCDs

A QCD can satisfy your required distribution without increasing your tax liability, while also benefiting the charity of your choice. There are certain annuity products with a return-of-premium death benefit rider that does not reduce for allowable withdrawals, which may allow you to take your RMDs and also provide a death benefit equal to your premium payments to your beneficiaries upon your death. As seen in the chart below, the account owner contributed $100,000; took RMDs totaling $57,382 without any additional tax liability through the use of QCDs; and left a death benefit of $100,000 to their heirs, even though the contract value upon their passing was $58,651.

Further QCD observations

With the SECURE Act and the current RMD rules, you may still make QCDs at the original starting age of 70½, however, deductible IRA contributions made after 70½ may reduce your ability to make a QCD.[3] Contributions to other types of retirement accounts such as employer-sponsored accounts (including SIMPLE IRAs and SEP IRAs), Roth IRAs, and nonqualified annuities do not affect your ability to make QCDs. If an RMD is due, the funds must be distributed by the RMD deadline to count for the current year and must be sent directly from the IRA to the charity. In some instances, Jackson can make the check payable to the charity and can send it to you for delivery to the charity. The maximum amount that can qualify for a QCD is $100,000. However, starting in 2024, this maximum amount will be tied to inflation.[4] In the case of married couples, each spouse can make $100,000 in QCDs from their own IRAs.

BENEFIT OF RMDs TAKEN THROUGH QCDs



This hypothetical example is for illustrative purposes only and is not representative of the past or future performance of any product. Past performance is no guarantee of future results. Performance shown is based on the S&P 500 Index from 2002-2022. Indexes are unmanaged and are not available for direct investment. This example assumes a hypothetical, one-time contribution of $100,000, and an effective 20% tax rate. All calculations performed by Jackson using S&P 500 returns from 2002-2022 and has an assumed total fees of 3.07%. Death benefits may be eliminated in some circumstances if the cash value of the annuity falls to zero.

* The SECURE 2.0 Act changed the required beginning date for RMDs to age 73 for individuals attaining age 72 after December 31, 2022, and age 73 before January 1, 2033. Custodians are awaiting clarification, but SECURE 2.0 also appears to indicate that the required beginning date for RMD age is pushed back to 75 effective after December 31, 2032.

[3] U.S. Congress, Public Law 116-94, "Setting Every Community Up for Retirement Enhancement," December 20, 2019.

[4] U.S. Congress, "The SECURE 2.0 Act of 2022," December 29, 2022.

4. Tax-free exchanges

If you and your financial professional determine that you have certain tax-deferred investments that no longer fit your needs and goals, it may be possible to exchange them for more beneficial tax-deferred investments without generating any tax liability to you.

1035 exchanges

A 1035 exchange trades one nonqualified annuity, or life insurance policy, for a life insurance policy or nonqualified annuity. This means you can trade a nonqualified annuity for another nonqualified annuity or you can trade a life insurance policy for either another life insurance policy or nonqualified annuity. The exchange must go directly from one carrier to another, and you cannot receive the funds directly without tax consequences. The ownership and annuitant designations must remain the same from the original contract to the subsequent contract. A 1035 exchange's advantages may include access to lower embedded fees, a higher interest rate, a wider array of options, and the addition of a living or death benefit. The suitability of an annuity in your unique situation is something that should be discussed with your financial professional.

If you have a life insurance policy that you no longer need or want to pay premiums on, you can exchange the policy's cash value for a nonqualified annuity. If you have a loan on the life insurance policy, the exchange may trigger a taxable event. A living or death benefit can be added to a nonqualified annuity in a 1035 exchange from a life insurance policy.

ROLL TO

ROLL FROM	Roth IRA	Traditional IRA	Simple IRA	SEP-IRA	Governmental 457(b)	Qualified plan[*] (pre-tax)	403(b) (pre-tax)	Designated Roth account (401(k), 403(b), or 457(b)
Roth IRA	Yes[†]	No	No	No	No	No	No	No
Traditional IRA	Yes[‡]	Yes[†]	Yes, after two years[†, ‡‡]	Yes[†]	Yes[§]	Yes	Yes	No
Simple IRA	Yes, after two years[‡]	Yes, after two years[†]	Yes[†]	Yes, after two years[†]	Yes, after two years[§]	Yes, after two years	Yes, after two years	No
SEP-IRA	Yes[‡]	Yes[†]	Yes, after two years[†, ‡‡]	Yes[†]	Yes[§]	Yes	Yes	No
Governmental 457(b)	Yes[‡]	Yes	Yes, after two years[‡‡]	Yes	Yes	Yes	Yes	Yes[‡, **]
Qualified plan[*] (pre-tax)	Yes[‡]	Yes	Yes, after two years[‡‡]	Yes	Yes[§]	Yes	Yes	Yes[‡, **]
403(b) (pre-tax)	Yes[‡]	Yes	Yes, after two years[‡‡]	Yes	Yes[§]	Yes	Yes	Yes[‡, **]
Designated Roth account (401(k), 403(b), or 457(b)	Yes	No	No	No	No	No	No	Yes[††]

[*] Qualified plans include, for example: profit sharing, 401(k), money purchase, and defined benefit plans.
[†] Only one rollover in any 12-month period.
[‡] Must include income, and the converted amount is generally subject to income taxation.
[§] Must have separate accounts.
[**] Must be an in-plan rollover.
[††] Must be direct trustee-to-trustee transfer.
[‡‡] Applies to rollover contributions after December 18, 2015.

Qualified tax-free exchanges

Qualified plan transfers can also be tax-free. Direct transfers can be done, with some restrictions, from retirement plans to IRAs, from IRAs to retirement plans, from IRAs to IRAs, and from retirement plans to other retirement plans. The IRS rollover chart indicates permitted rollovers between different types of plans.[5]

Tax-free rollovers may also be valuable when adding a living or death benefit to an existing annuity in a qualified account or when moving assets from one plan type that has expensive or restrictive investment options, such an employer plan, to one that may have more varied or lower-cost investment options, like an IRA. This may allow you to convert your retirement assets to a stream of income that you cannot outlive.

Inherited account tax-free transfers

If you inherit a retirement account or a nonqualified annuity, you can transfer it to another annuity carrier to possibly access lower fees and/or additional investment options. A post-death 1035 applies to nonqualified assets, as opposed to a tax-free exchange of a qualified account, which is referred to as a qualified transfer.

Nonqualified stretch

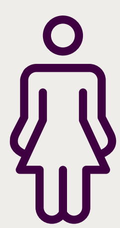
A nonqualified stretch allows inherited, nonqualified assets to stay invested and tax deferred while the beneficiary takes RMDs each year. Jackson® pioneered this option in 2001 with our Private Letter Ruling.[6] To use the nonqualified stretch program, a designated beneficiary must be a living person. Since this is a death benefit distribution, there are no IRS premature distribution penalties. If there are multiple beneficiaries listed on the contract at the owner's death, each beneficiary is able to use their own respective life expectancy to determine the maximum stretch period. If a beneficiary dies before the end of their stretch period, the remaining account balance is paid to their beneficiary in a lump sum. You can take more than the RMD without penalty, and the basis is withdrawn tax free, but all gains are withdrawn before basis and taxable to the account owner.

Inherited qualified and nonqualified annuities must be transferred via direct transfer, but special exceptions exist for spouses who inherit qualified funds from their deceased spouse. Although the SECURE Act eliminated stretch for most beneficiaries,[7] tax-free exchanges of inherited qualified assets may still be an option.

POST-DEATH 1035 TRANSFER

Dad owns
an annuity at
Carrier A
($100k death benefit
with cost basis of
$80k, gains of $20k)

Dad passes away



Daughter
(age 45)
inherits the
annuity*

Post-death 1035
exchange to
Carrier B

Results in
$280k
after-tax withdrawals
over daughter's lifetime,
assuming 5% growth and
an effective tax rate of 20%.

This hypothetical example is meant for illustrative purposes only and does not reflect an actual investment, nor does it account for any investment fees or expenses.

Variable annuity contract values fluctuate, so the contract may be worth more of less than the initial investment.

* Based on a lifetime expectancy factor of 41. See IRS Publication 590-B, Life Expectancy Table 1, 2022.

[5] Internal Revenue Service, "Rollover Chart," accessed November 17, 2021.

[6] Internal Revenue Service, PLR 200151038, December 21, 2001.

[7] U.S. Congress, Public Law 116-94, "Setting Every Community Up for Retirement Enhancement," December 20, 2019.

5. Tax planning within trusts

Trusts are drafted for a variety of asset protection, estate/legacy planning, and asset control purposes. You may currently have a revocable trust. Or you may be the grantor of an irrevocable trust, beneficiary of a trust, or perhaps even the trustee of a trust. The highly compressed tax rates imposed on certain trusts make tax-planning for trusts particularly important. Some trusts are taxed as highly as 40.8% when they earn just $15,201 of income. A married couple would have to earn more than $731,200 to be taxed at that same rate.[8]

Grantor trusts

If you are the grantor of a "grantor-type trust," the taxation of the trust income flows back to you. In some cases, positioning an annuity in that trust may reduce your tax liability because the trust-owned annuity can grow tax-deferred.

Non-grantor trusts

Non-grantor trusts are taxed at the rates below. Often, trustees will invest in municipal bonds or perhaps exchange-traded funds (ETFs) to grow trust assets as tax efficiently as possible. Other trustees may push all income out of the trust to the trust beneficiaries to avoid those compressed rates.

Trust-owned annuities

You can open an annuity within a trust. Trust-owned annuities properly titled can be a powerful tool against severe tax drag through tax deferral. They may even be titled such that they can be passed in kind to beneficiaries, allowing for tax deferral and mitigation for multiple generations.

INCOME TAX BRACKETS: 2024 TAX YEAR		
Tax rate	Single	Married filing jointly
10%	$0 - $11,600	$0 - $23,200
12%	$11,601 - $47,150	$23,201 - $94,300
22%	$47,151 - $100,525	$94,301 - $201,050
24%	$100,526 - $191,950	$201,051 - $383,900
32%	$191,951 - $243,725	$383,901 - $487,450
35%	$243,726 - $609,350	$487,451 - $731,200
37%	Over $609,350	Over $731,200

ESTATE AND TRUST TAX BRACKETS: 2024 TAX YEAR	
10%	$0 - $3,100
24%	$3,101 - $11,150
35%	$11,151 - $15,200
37%	Over $15,200

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Scan the QR code or visit **jackson.com/tax-brackets** to get started.

The IRS issued a private letter ruling ("PLR") holding that a nongrantor trust cannot use the IRC 72(q) exceptions for (1) reaching age 59½, (2) disability, or (3) substantially equal periodic payments (SEPP). The ruling recognized a nongrantor trusts may use the IRC 72(q) exception for death. (See PLR 202031008).

[8] Internal Revenue Service, Revenue Procedure 2023-34.

With the help of your trusted tax professionals, the upkeep of your tax obligations may be less unpleasant through five key tax strategies.

1. Asset location
2. Maximizing qualified contributions
3. Qualified charitable distributions (QCDs)
4. Tax-free exchanges
5. Tax planning within trusts

Now that we've looked at these tax strategies one by one, hopefully this clears up any confusion and gives you more confidence around your potential tax bill. Again, knowledgeable tax professionals can help you get through the complexities of the United States tax code.

This material is provided in an effort to help you keep more of what you make.

Talk to your financial planner about these simple strategies to guide your assets through the complicated tax code.

Contact your financial professional for more information on how these tax-planning strategies can be used to potentially help reduce your tax burden or visit jackson.com/TaxDeferral.

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