DESTINY
FINANCIAL TEAM

Understanding Assets and Account Types

Income sources fall into three buckets:

Taxable

Taxable accounts are taxed on distributed dividends or interest. That interest is taxable in the year it is accrued. The other way an account is considered taxable is when a capital gain is realized, such as when you sell a stock at a profit. That gain is also taxable in the year it is realized.

- **Investments (stocks, most bonds, CDs)**
- **Cash accounts (savings and money market)**
- **Taxable portion of Social Security benefits**
- **Profit from selling a primary home**

Tax-deferred

Tax-deferred accounts are funded with pretax deductions from your paycheck. These accounts accumulate over time, often also growing through investment. The money is used for income later in life, usually after wages have stopped. Taxation is deferred to when you withdraw.

- **Pension**
- **Retirement savings**
  - 401(k)
  - 403(b)
  - 457(b)
- **Traditional IRA**
- **Some annuities**

Tax-free

Tax-free accounts are often funded with income that has already been taxed, and so it will not be taxed when you withdraw it.*

- **Retirement savings**
  - Roth 401(k)
  - Roth 457(b)
  - Roth IRA
- **Cash value life insurance**
- **Certain municipal bonds**
- **Health reimbursement arrangement (HRA)**
- **Health savings account (HSA)**
- **Nontaxable Social Security benefits**

* An exception is a health savings account (HSA) and health reimbursement account (HRA), which are funded with pretax dollars.

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Do you have assets in all three of these buckets?

Having tax diversification in retirement can give you the flexibility to manage your retirement cash flow.