Consider a tax-efficient investment strategy

Clients are looking for more than just financial planning.

As the baby boomer generation begins to retire en masse, next-generation households are becoming the focus for many advisors. But the needs and preferences of younger investors are vastly different from those of baby boomers.

The next generation shows a stronger desire for insight and guidance on a range of issues. They would like their advisors to spend more time helping them with things like understanding new investment products and health care costs.[1]

To meet these changing needs, you can start by identifying strategies and products that may help your clients with their broader needs, including tax planning.

Higher tax efficiency	Medium tax efficiency	Lower tax efficiency
• Equity index funds (other than REITs) • Equity index ETFs (other than REITs) • Equity income ETFs* • Tax-managed equity funds • Equity separately managed accounts	• Bond funds with large U.S. Treasuries allocations** • Typical actively managed equity funds* • Equity income funds* • REIT funds	• High-turnover equity funds • Mortgage bond funds • Corporate bond funds • Leveraged loan/floating rate bond funds • U.S. high-yield bond funds • Emerging-market bond funds

Keep in mind that with a deferred variable annuity, earnings are taxed at ordinary income tax rates upon withdrawal and if taken prior to age 59½ may be subject to a 10% IRS penalty.

The relative tax efficiencies of these investments are generalizations and are not universally accurate. Each investment should be considered individually for the benefits of being held in a taxable or tax-deferred account.

* Equity income funds and ETFs typically distribute most of their income in the form of qualified dividends, which for many taxpayers are taxed relatively lightly, allowing most equity income funds to be considered high-tax-efficient investments. However, for higher-income taxpayers, qualified dividends are subject to taxation at a rate of either 18.8% or 23.8% (including the Medicare surtax on investment income), which may make them less efficient for those investors.

** Applies to investors who are subject to high rates of state/local taxes on investment income; for other investors, these bond funds should be considered as having lower tax efficiency.

Fidelity INVESTMENTS®

How tax-efficient is my current investing strategy?

The following questions can help you assess the level of your tax exposure. If you answer yes to three or more, you may benefit from a more tax-efficient strategy.

Ten years or more until use?
The longer your money stays in a tax-deferred account—like a 401(k) or variable annuity—the longer the period of time it can potentially grow.

Assets largely held in taxable accounts?
If you are subject to a relatively high marginal income tax rate and have assets in taxable accounts, you may benefit from tax deferral.

Income tax subject to high marginal rates?
In general, higher marginal rates apply if you are in one of the top three federal income tax brackets (currently 32% and above) and/or pay high state or local taxes.

Lower anticipated income taxes in retirement?
You expect to pay lower taxes in retirement. Maybe your income will be reduced or you plan to move to a state with lower taxes.

Significant exposure to highly tax-inefficient assets
Tax-inefficient assets tend to deliver most or all of their total returns from investments that are taxed at a relatively high rate.

Identifying opportunities for variable annuities and variable life

Common situations for tax-advantaged investment opportunities

Trust opportunities
Help meet the needs of trust beneficiaries by providing income tax efficiency within the trust.

Reduced fee opportunities
Reduce fees by removing living benefits from contracts where they are no longer useful. Additionally, housing tax-inefficient assets inside a variable annuity may reduce tax-cost burden.

Expanded control of taxable income from investments
Gain control over the taxation of investments held in and outside of trusts.

Asset protection (creditor protection)
Move assets into annuities to help protect assets of those individuals who may be subject to higher-than-average litigation risk (e.g., doctors, contractors) in many states.

Death benefit
Potentially enhance the value of assets passing to beneficiaries.

Strategies to consider to maximize your tax benefits and increase your savings

Invest in tax-free investments or investment vehicles.
Consider converting a tax-deferred account to a Roth IRA. While you may benefit from tax-free withdrawals from a Roth, there will be a tax liability at the time of conversion. You could also consider investing in municipal bonds, which are generally exempt from federal tax.

Allocate investments to tax-deferred accounts.
Putting investments in a trust may help lower federal tax liability, but be sure to consult a tax professional to determine if there are any estate tax implications. A simpler investment option may be a variable annuity, which allows you to defer taxes while increasing the growth potential of your assets. Keep in mind that variable annuities have additional expenses not found in taxable accounts that will affect returns.

Look for deductions.
Tax-loss harvesting allows you to use capital losses to reduce taxable income in certain situations. Charitable giving can also provide an opportunity to save on taxes by using the deductions to offset income and estate taxes.

Endnote

1. The 2025 Fidelity Investor Insights Study was an online blind survey (Fidelity not identified) that was fielded during the period February 7, 2025, through February 25, 2025. It surveyed a total of 2,018 investors, including 998 millionaires and 1,215 investors with advisors. The study was conducted via an online survey, with the sample provided by an independent firm not affiliated with Fidelity. Respondents were screened for a minimum level of $50K in investable assets (excluding retirement assets and primary residence), with additional quotas by age and affluence levels.

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