

Taxable vs. Tax-deferred

What pre-tax interest rate must be earned by a taxable account to equal the same rate earned on a tax-deferred account?

Someone in a 33% tax bracket would have to earn 6.72% interest in a taxable account to match a tax-deferred annuity's rate of 4.50%.

Tax-Deferred Rate (%)	Equivalent Pre-Tax Rate for Different Tax Brackets					
	10%	15%	25%	28%	33%	35%
2.25	2.50	2.65	3.00	3.13	3.36	3.46
2.50	2.78	2.94	3.33	3.47	3.73	3.85
2.75	3.06	3.24	3.67	3.82	4.10	4.23
3.00	3.33	3.53	4.00	4.17	4.48	4.62
3.25	3.61	3.82	4.33	4.51	4.85	5.00
3.50	3.89	4.12	4.67	4.86	5.22	5.38
3.75	4.17	4.41	5.00	5.21	5.60	5.77
4.00	4.44	4.71	5.33	5.56	5.97	6.15
4.25	4.72	5.00	5.67	5.90	6.34	6.54
4.50	5.00	5.29	6.00	6.25	6.72	6.92
4.75	5.28	5.59	6.33	6.60	7.09	7.31
5.00	5.56	5.88	6.67	6.94	7.46	7.69
5.25	5.83	6.18	7.00	7.29	7.84	8.08
5.50	6.11	6.47	7.33	7.64	8.21	8.46
5.75	6.39	6.76	7.67	7.99	8.58	8.85
6.00	6.67	7.06	8.00	8.33	8.96	9.23
6.25	6.94	7.35	8.33	8.68	9.33	9.62
6.50	7.22	7.65	8.67	9.03	9.70	10.00
6.75	7.50	7.94	9.00	9.38	10.07	10.38
7.00	7.78	8.24	9.33	9.72	10.45	10.77

Annuity interest is taxable when withdrawn. If withdrawn prior to age 59½, the IRS may impose a 10% penalty except under specific conditions. See a tax advisor for details.

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