Tax-deferred investing: Improving fixed income return potential without adding risk

Fixed income investors are searching for ways to enhance return without adding incremental risk. A simple solution: take advantage of the compounding power of tax-deferred investing.

WHAT IS TAX-DEFERRED INVESTING?

In a taxable investment vehicle, any interest earned from fixed income investments is typically taxed as ordinary income[1] rather than the lower capital gains rate paid on dividends.

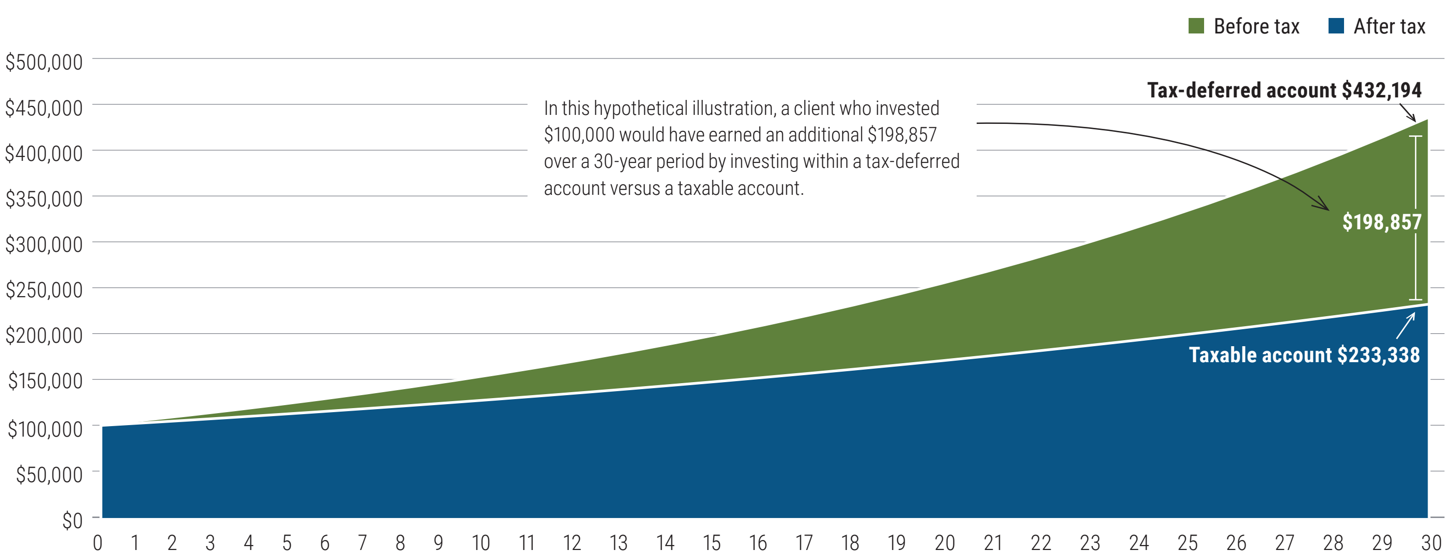
But in a qualified investment vehicle such as a tax-deferred annuity or a 401(k) account, tax obligations are postponed until an investor begins taking distributions, typically during retirement.

THE POTENTIAL BENEFITS OF POSTPONING TAXES

Over the years, this ability to defer taxes provides fixed income investors with several compelling opportunities:

- Because investment income can be automatically reinvested, investors can benefit from the compounded growth of both income and principal on a pre-tax basis.
- Distributions from tax-deferred accounts are usually taken during retirement, when an investor is earning less and in a lower tax bracket. Therefore, the investor's tax burden is reduced.
- Even as an investor receives distributions throughout retirement, any remaining funds may continue to benefit from the advantages of compounded growth.

Enhancing long-term growth potential through the power of compounding



For illustrative purposes only. Figure is not indicative of the past or future results of any PIMCO product or strategy. There is no assurance that the stated results will be achieved. This illustration shows the hypothetical growth of $100,000 at a rate of 5% inside a tax-deferred account, such as a tax-deferred variable annuity or 401(k) account, for example, versus the same investment within a taxable investment account (such as a retail brokerage account) over the same period. 5% of the assets are distributed annually and immediately reinvested. Above currently taxable scenario, for years 1-8 (2018-2025) applied maximum marginal Federal Rate 37% plus 3.8% Medicare Tax and for years 9-30 applied maximum marginal Federal Rate of 39.6% plus 3.8% Medicare Tax. No current taxes are taken during accumulation period in above tax-deferred scenario. **The tax-deferred returns do not reflect the taxes investors will be liable for when they begin taking distributions.** After-tax returns are treated as ordinary income calculated using the highest individual federal marginal income tax rates as of March 2021 and do not reflect the impact of state and local taxes. The current maximum for marginal income and short-term capital gains tax rates are 40.8% and 43.4% respectively. **PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns**.

1 Distributions from qualified vehicles are subject to tax. Distributions prior to Age 59 1/2 are subject to an additional 10% Federal penalty tax.

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Past performance is not a guarantee or a reliable indicator of future results.

A word about Risk: All investments contain risk and may lose value.

HYPOTHETICAL ILLUSTRATIONS

Hypothetical illustrations have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve results similar to those shown. In fact there are frequently sharp differences between hypothetical results and actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical results is that they are generally prepared with the benefit of hindsight. In additional, hypothetical scenarios do not involve financial risk, and no hypothetical illustration can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation if any specific trading program which cannot be fully accounted for in the preparation of a hypothetical illustration and all of which can adversely affect actual results.

There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

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