The ABC's of Asset Types

ROOTED PLANNING GROUP

Cash Accounts

Cash – the official physical form of currency.

Money Market Account at Bank or Credit Union – this can be a holding account for your cash, usually with a slightly higher interest rate than a savings account. These accounts limit the number of withdrawals per month to six. These accounts are FDIC / NCUA insured up to $250,000.

Money Market Mutual Funds – these are not to be confused with money market accounts at banks and credit unions. These types of mutual funds are made up of short-term, high-credit-rating, debt-based investments. They are generally priced at $1.00 per share. There are no maximum number of liquidations per month.

Savings Account at a Bank or Credit Union – this is a basic banking account that earns interest; these accounts limit the number of withdrawals per month to six. These accounts are FDIC / NCUA insured up to $250,000.

Certificate of Deposit (CD) – this is a type of bank account that pays you interest (sometimes more than a savings and money market account), and has a term associated with it. For example, you could have a 1-year CD at a fixed rate, so regardless of what interest rates do during that 1-year, you are locked in. These accounts usually have a penalty for early withdrawal. These accounts limit the number of withdrawals per month to six. These accounts are FDIC / NCUA insured up to $250,000.

Taxable Accounts

These are accounts that your interest, dividends, capital gains, and/or capital gain distributions are taxable in the year you received them.

Dividend - a regularly scheduled payment from a corporation to its shareholders.

Interest - amounts paid to you by an institution for allowing them to borrow your money.

Capital Gain - profit earned when you sell an asset. The gain is the difference between the basis (what you paid for it) and the sale price (what you got for it).

Short-term Capital Gain - when a security / investment that is held for less than one year, the gain is considered short-term and is taxed at your ordinary income tax rate.

Long-Capital Gain - when a security / investment that is held for more than one year, the gain is considered long-term and is taxed at the more favorable capital gain rates:

Tax Bracket/Rate	Single	Married Filing Jointly	Head of Household
0%	$0 - $40,400	$0 - $80,800	$0 - $54,100
15%	$40,401 - $445,850	$80,801 - $501,600	$54,101 - $473,750
20%	$445,851+	$501,601+	$473,751+

The ABC's of Asset Types

ROOTED PLANNING GROUP

Taxable Accounts

Capital Gain Distribution - this is distributed by a mutual fund and represents a portion of the proceeds for any net gain sales of the assets within the mutual fund. Although you may not have personally liquidated (sold) any holdings, these gains are internal and are pushed out to the holder in order for the mutual fund to maintain its tax status.

Tax-Free Accounts

Tax-Free Accounts – distributions from these accounts are considered tax-free for Federal (and sometimes State) purposes. Often the contributions to these accounts are made with "after-tax" money, but the earnings grow tax free and the withdrawals are tax free.

Roth IRA – this is a type of tax-free account. As long as you hold the account for 5-years and you are over 59 ½, then the earnings are tax free when withdrawn. You can contribute $6,000 to these accounts ($7,000 if you are over 50).

Tax-Deferred Accounts

Tax Deferred – with these accounts, the earnings, dividends, and growth are not taxed to you in the year you earn them. Instead, they are taxable in the year you withdraw them.

401k – your contribution deposits are pretax for Federal (sometimes for State) and grow tax deferred. Sometimes employers will match your contributions or deposit a profit-sharing contribution; these contributions grow tax deferred as well.

401k Roth – your contribution deposits go in after-tax and grow to be tax free (like a Roth IRA). Sometimes employers will match your contributions or deposit a profit-sharing contribution; these contributions grow tax deferred (not tax free).

403b – this is similar to a 401k but has some unique rules. These types of plans are only for employees of public schools and tax-exempt organizations. Your contribution deposits are pretax for Federal (sometimes for State) and grow tax deferred. Sometimes employers will match your contributions or deposit a company contribution; these contributions grow tax deferred as well.

403b Roth - your contribution deposits go in after-tax and grow to be tax free (like a Roth IRA). Sometimes employers will match your contributions or deposit a profit-sharing contribution; these contributions grow tax deferred (not tax free).

457 (non-qualified) – although this plan is considered non-qualified, it is a tax-deferred plan offered to state and local governments and some nonprofit employers. These plans are similar to a 401k but have some unique withdrawal rules. Your contribution deposits are pretax for Federal (sometimes for State) and grow tax deferred. Sometimes employers will match your contributions or deposit an employer contribution; these contributions grow tax deferred as well.

457 Roth - your contribution deposits go in after-tax and grow to be tax free (like a Roth IRA). Sometimes employers will match your contributions or deposit a profit-sharing contribution; these contributions grow tax deferred (not tax free).

The ABC's of Asset Types

ROOTED PLANNING GROUP

Tax-Deferred Accounts

Defined Contribution plans – a type of retirement plan that either an employee or employer can make a contribution (a 401k is a type of defined contribution plan too); but some plans have employer source money for:

> **Profit Sharing** – employer contributes a discretionary portion of their profits to the plan for eligible employees. These contributions are tax deferred.
>
> **Money Purchase Pension Plans** – employer contributes a required fixed percentage to their employees (regardless of profits). These contributions are tax deferred.

IRAs – a type of retirement savings account (Individual Retirement Account)

Deductible IRA – the contribution you make is deductible on your tax return. You turn after-tax dollars into tax deferred.

Non-Deductible IRA – the contribution you make is NOT deductible. Your earnings are tax deferred. When you make withdrawals, a pro-rated portion of the withdrawal is taxable, and a portion is not.

Backdoor Roth – you contribute to your non-deductible IRA and immediately convert the contribution into a Roth IRA.

Roth IRA – after-tax dollars are contributed and if the earnings are held for at least five years or until you are 59 ½, then the earnings are tax free when withdrawn. Your contributions are always eligible for withdrawal since you received not tax benefits.

Annuity – a type of insurance account that offers tax-deferred growth or income.

Immediate Annuity – in exchange for a sum of money, the insurance company will pay you a fixed amount per month, for a fixed period of time or lifetime.

Fixed annuity – an insurance contract that has a fixed "guaranteed" interest rate. Sometimes the fixed rate is for a certain period of time and there is often a "floor" that indicates the lowest the interest rate on the contract will ever pay the account holder. These accounts can also grow tax deferred.

Variable annuity – a type of insurance contract that has underlying "separately managed accounts" that are similar to mutual funds. The balance on these contracts can vary in value, just like a mutual fund.

Passive Income vs. Active Income- passive income is earned when you receive money that you earn with little to no daily effort. Active income is earned when you receive money that you receive for performing a service or required effort on your part.