



ACT ADVISORS
• WEALTH MANAGEMENT •



TAX-FOCUSED INVESTING

FOR CREDIT UNION LEADERS



Direct Indexing

Direct Indexing is an investment strategy designed to track a public index like the S&P 500 **by purchasing the underlying securities of the index**. The ownership of the index components allows the investor to achieve income tax flexibility and portfolio customization not offered by the traditional index mutual fund or ETF.

Credit union leaders who have collateral assignment split-dollar plans (CASD) often see a sharp decline in tax rates in early retirement and an increase when required minimum distributions (RMD) from qualified accounts begin at age 72. Since it provides tax efficiency at various income levels, direct indexing can be an ideal after-tax investment strategy for the credit union executive.

With direct indexing, the components of the index can be traded to take advantage of tax opportunities surrounding tax-loss and tax-gain harvesting and charitable giving. Direct indexing can provide tax benefits to credit union leaders in each stage of their life. Career peaks with higher levels of income can benefit from tax-loss harvesting and charitable contributions, while those in early retirement can benefit from tax-gain harvesting.

34%
HIGHER ASSET VALUES

It is estimated that tax-loss harvesting alone in a direct indexing strategy can increase the effective return of a portfolio by as much as 1%* which, compounded, can produce up to 34% higher asset values over a 30-year time frame.

*Baldridge, Rebecca and Benjamin Curry. "Beat Funds At Their Own Game With Direct Indexing." *Forbes*, April 15, 2021.

For Credit Union Executives



Listen to the podcast episode “What Is Direct Indexing and How Can It Benefit Credit Union Executives?” to learn more.

<https://act-advisors.com/what-is-direct-indexing-and-how-can-it-benefit-credit-union-executives>

DIRECT INDEXING IS A POWERFUL STRATEGY PARTICULARLY FOR CREDIT UNION LEADERS.

As illustrated in [The 125% Credit Union Executive](#), executives who have collateral assignment split-dollar (CASD) plans often find themselves in low tax brackets in the years following retirement due to the tax-free nature of the CASD income. This is represented in the table below.

For those with CASDs, this makes direct indexing a great option for

after-tax investing in pre-retirement or for investing taxable bonuses or 457(f) payouts. Direct indexing can be dovetailed to a broad range of credit union leaders’ life stages, benefiting the CU leader during the high-income pre-retirement investors (through tax-loss harvesting and charitable donations), the low-income retirement to age 72 years (through tax-gain harvesting), and back to higher incomes at age 72.

Executive Optimization Income Tax Projection

	Year	Age	Gross Total Income	Total Income Tax	Effective Income Tax Rate		
	2033	60/60	\$472,735	\$127,885	27.05%	Pre-Retirement High Tax Years	Tax Loss Harvesting to Reduce Taxes
	2034	61/61	489,221	132,934	27.17		
	2035	62/62	506,331	138,013	27.26		
Retirement	2036	63/63	823,322	294,910	35.82		
	2037	64/64	144,165	1,202	0.83	Early Retirement Low Tax Years	Capital Gains Harvesting Low Tax Years
	2038	65/65	139,238	177	0.13		
	2039	66/66	187,107	7,283	3.89		
	2040	67/67	178,624	5,412	3.03		
	2041	68/68	230,490	8,333	3.62		
	2042	69/69	228,403	7,645	3.35		
	2043	70/70	240,403	9,114	3.79		
	2044	71/71	341,284	28,981	8.49		
RMDs Begin	2045	72/72	433,384	55,479	12.80	Mid-Retirement Median Tax Years	Tax Loss Harvesting to Reduce Taxes
	2046	73/73	449,022	58,801	13.10		
	2047	74/74	466,433	62,620	13.43		
	2048	75/75	483,765	66,369	13.72		

Benefits



Tax Focused Investing

Tax-loss harvesting and tax-gains harvesting allow an investor to realize gains or losses at the individual security level, without having to sell entire shares of an index fund.



Tailored to CU Executives

Credit Union leaders are in a position to benefit more from direct indexing than many others because of the scale of the difference in their tax rates over time.



Socially Responsible

Customized to the investor's preferences—for instance, fossil fuel companies replaced with clean renewable energy companies.



Charitably Inclined Investors

Donating appreciated individual securities in the index allows the investor to receive a tax deduction for the full value of the security and an increased basis when its repurchased.



Concentrated Equity

An index portfolio built around a concentrated equity position allows the investor to retain the position and achieve a portfolio that behaves like an index.



Diversification Benefits

Direct indexing provides broad diversification with tax and customization benefits that come from owning the individual components of an index.



Team



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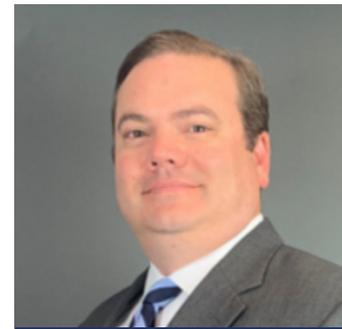
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About ACT Advisors

When you advance to the executive suite, your finances reach another level, too. That's when strategic financial guidance can be a helpful solution. We design strategic financial plans that optimize the specialized retirement plans of the credit union executive suite. As experts in credit union retirement strategies, we can help.

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