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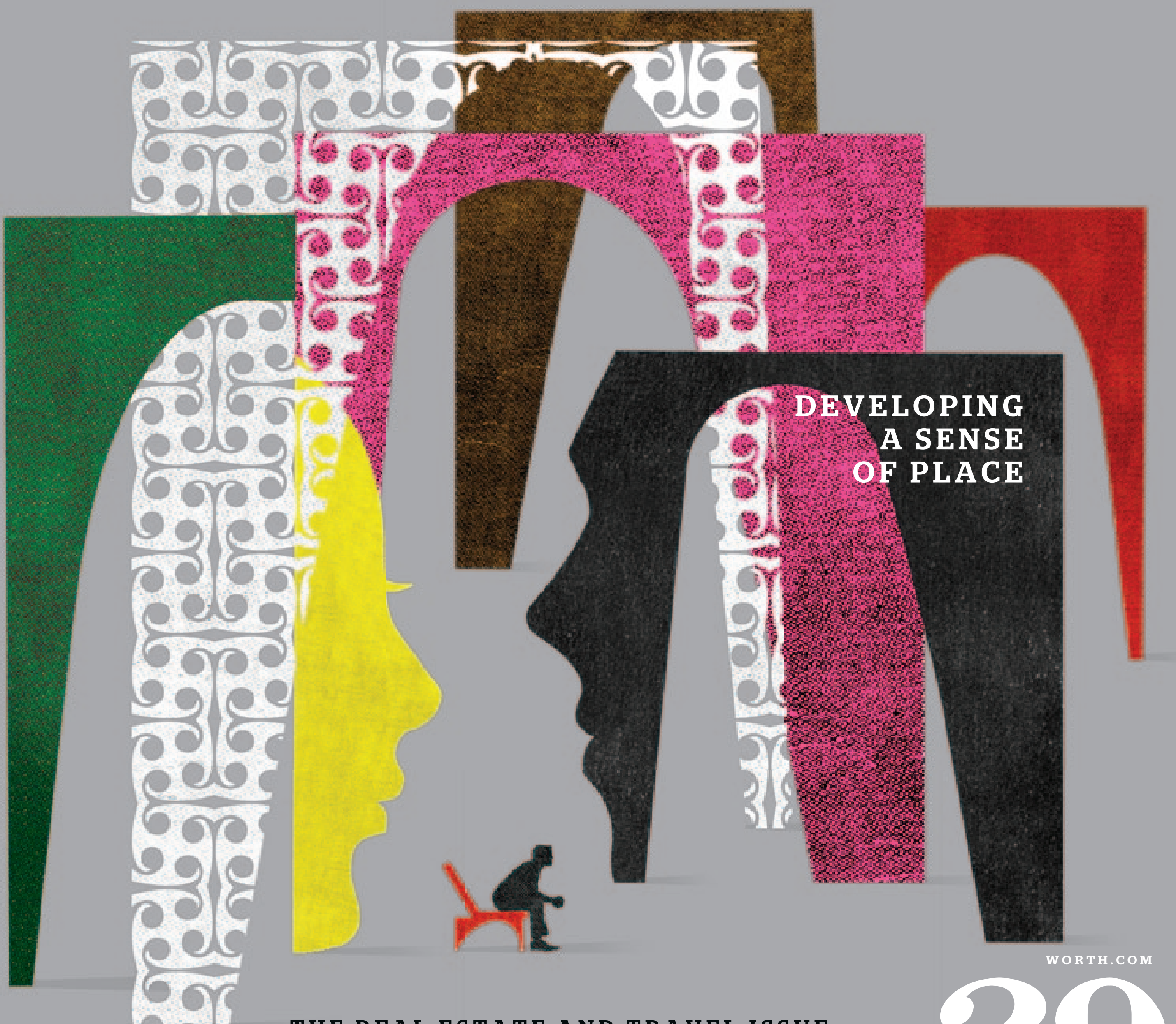

DEVELOPING A SENSE OF PLACE

THE REAL ESTATE AND TRAVEL ISSUE

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The Haverford Trust Company
Joseph J. McLaughlin, Jr., Chairman and Chief Executive Officer; Binney H.C. Wietlisbach, President; Henry B. Smith, Chief Investment Officer, Director; John H. Donaldson, CFA®, Vice President, Director of Fixed Income; Timothy A. Hoyle, CFA®, Vice President, Director of Research

"How can an investor save for retirement after maxing-out a 401(k)?"

By The Haverford Trust Company

There are several tax-advantaged options one may wish to consider, and none are as straight-forward as 401(k)s and IRAs. But when those options are exhausted, investors need to turn elsewhere. Some high-income investors choose to invest in variable annuities, which offer the benefits of tax deferral. But annuities carry disadvantages such as generally higher costs and reduced liquidity. For these reasons, we usually do not recommend this direction.

Instead, here are five options for investors to consider:

01 **Invest in ROTH options.** Roth 401(k)s and Roth IRAs have the same contribution limits as traditional retirement accounts, but the tax treatment is different. Instead of getting a tax break when you make the contributions, Roth accounts allow you to pay the income tax at your current rate, with withdrawals in retirement tax-free. Note that your eligibility to make Roth IRA contributions is phased out once your income hits a certain level, so this option should be discussed with a tax professional.

02 **Contribute to a health savings account (HSA).** To qualify for an HSA, you need a high-deductible health insurance policy, whether it's through an employer or on your own. The annual maximum contribution in 2014 is $6,450 (for a family plan) plus an additional $1,000 for those who are age 55 or older. HSA contributions are tax deductible, and as long as funds are withdrawn to pay eligible medical expenses, no taxes are paid on withdrawals. HSA funds may be invested for long-term growth and held until retirement, at which point the funds can provide tax-free income by reimbursing for past and current eligible medical expenses, including Medicare premiums.

03 **Invest in low-turnover, tax-sensitive strategies such as index funds.** Investing in a low-turnover strategy allows capital to compound tax free, although dividends will still be taxed annually. An S&P 500 index fund, for example, distributes few, if any, capital gains on an annual basis. In retirement, the capital gains portion of the withdrawals will most likely be taxed at rates preferential to 401(k) income. Many investment managers also employ tax overlays to invest portfolios in a tax-efficient manner.

04 **Invest in master limited partnerships (MLPs) that pay tax-advantaged income.** MLP dividends—called distributions—are comprised mostly of nontaxable "return of capital" due to depreciation deductions. After 10 to 20 years, this tax shelter will probably be diminished if not exhausted, but if shares are passed on to heirs, they get to start the process over again with a step-up basis. However, it is important to maintain diversification and invest only a small portion of one's assets in such a focused segment of the market.

05 **Ensure that retirement assets are invested correctly for the long term.** This is the most important thing an investor can do. For example, assuming an individual is at least 10 years from retirement, he or she may want to have any assets heavily weighted toward equities versus bonds. In the short term, there will likely be more volatility, but while past performance is no guarantee of future results, stocks have historically outperformed bonds.

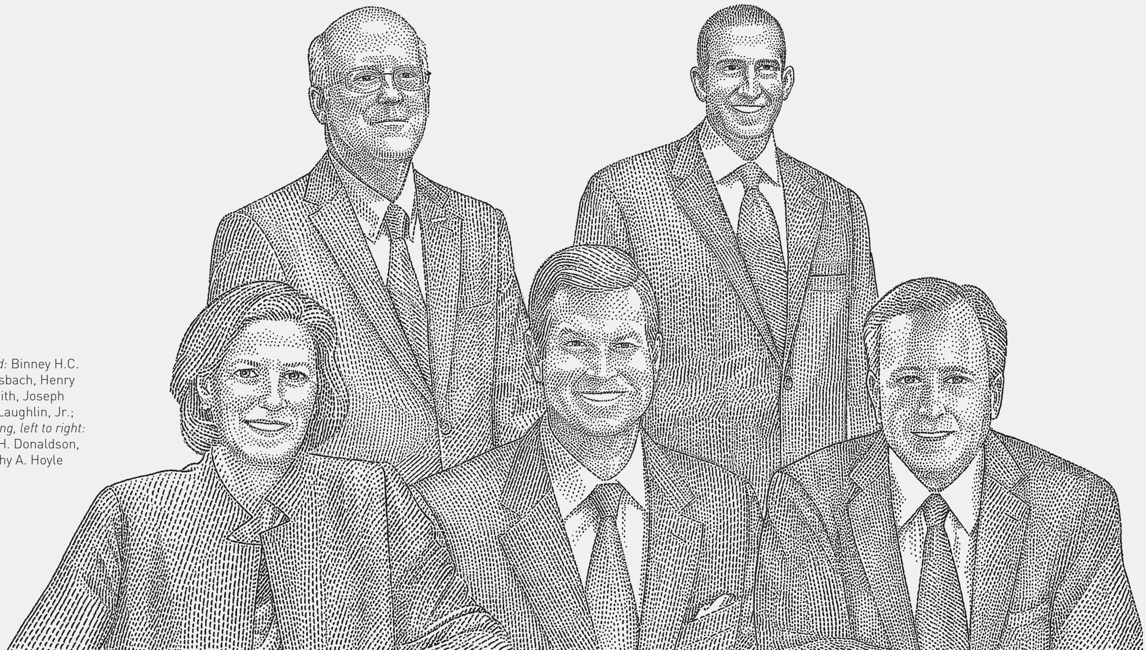
The opinions expressed in this article are those of Haverford. Views and security holdings are subject to change at any time based on market and other conditions. This article is for informational purposes only and should not be construed as investment advice or recommendations with respect to the information presented. No forecasts are guaranteed and past performance is no guarantee of future results.

"Some high-income investors choose to invest in variable annuities . . . but annuities carry disadvantages such as generally higher costs and reduced liquidity."

—The Haverford Trust Company

How to reach The Haverford Trust Company

We can be reached at 610.995.8700.



Seated: Binney H.C. Wietlisbach, Henry B. Smith, Joseph J. McLaughlin, Jr.; *standing, left to right:* John H. Donaldson, Timothy A. Hoyle

ILLUSTRATION BY KEVIN SPROULS

About The Haverford Trust Company

The Haverford Trust Company provides highly personalized investment management services based on our *Quality Investing* approach. Refined over three decades, Haverford's *Quality Investing* strategy is committed to maximizing returns while minimizing risk throughout the entire market cycle. Adhering to this consistent, successful investment philosophy since our inception in 1979, Haverford has enabled our client base and assets under management to continually grow. Today, assets under management or consultation exceed $7.4 billion.* We take pride in the fact that we are privately owned and believe that independence gives us the flexibility to better serve our many clients, whether individual or institutional.

Assets Under Management
$7.4 billion*

Minimum Fee for Initial Meeting
None required

Minimum Investable Assets
$1 million

Largest Client Net Worth
$250 million (firm)

Number of Team Members
75

Compensation Method Asset-based fees

Primary Custodian for Investor Assets
The Haverford Trust Company

Professional Services Provided
Money management and investment advisory services, including: strategy development, written investment policy, asset allocation, asset management, performance reporting and tax-efficient strategies

Email hsmith@haverfordquality.com

Website www.haverfordquality.com

*Assets under management or consultation as of December 31, 2013.

The Haverford Trust Company | Three Radnor Corporate Center, Suite 450, Radnor, PA 19087 | 610.995.8700

Joseph J. McLaughlin, Jr.
Chairman & Chief Executive Officer

Binney H.C. Wietlisbach
President

Henry B. Smith
Chief Investment Officer & Director

John H. Donaldson, CFA®
Vice President & Director of Fixed Income

Timothy A. Hoyle, CFA®
Vice President & Director of Research

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Three Radnor Corporate Center, Suite 450
Radnor, PA 19087
Tel. 610.995.8700

hsmith@haverfordquality.com
www.haverfordquality.com

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