taxable distributions and performance

"In this world nothing can be said to be certain, except death and taxes."

(Ben Franklin — letter to Jean-Baptiste Leroy) Nov. 1789

While most individuals have heard this famous quote by one of America's forefathers and are reminded of the statement every year around April 15, many are less aware that this statement can also ring true when looking at the individual performances of the most popular taxable investment choices.

Drag on Performance

An Industry study reported by Lipper states that in 2008 taxable mutual fund investors paid over $33.8 billion in taxes. The majority of these taxes were paid in the form of capital gains distributions. These distributions had a significant impact on performance of these taxable investments.

Included in the study was the following. Over a 10-year period ending 12/31/2007 taxes on short- and long-term capital gains distributions in the average diversified equity mutual fund[1] showed a significant impact on the overall growth of the dollar amount in the portfolio.

As you can see a tax impact on performance as little as 0.87% over a 20-year period caused a 15% difference in the actual dollar amount returned ($358,368 vs. $304,189). If you were to include additional taxes on dividend income, the difference in performance would be even greater (18%).

1 All open-end funds (excluding money market funds) registered for sale in the U.S. with at least one year of performance data as of 12/31/08.

What is a Mutual Fund?

A mutual fund[2] is operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, futures, currencies, or money market securities. These funds offer investors the advantages of diversification and professional management. A management fee is charged for these services. Mutual funds levy other fees such as 12b-1 fees, exchange fees and other administrative charges. Mutual fund shares are redeemable on demand at net asset value by shareholders. All shareholders share equally in the gains and losses generated by the fund. Mutual funds are subject to investment risks, including possible loss of principal invested.

Class A, B and C shares are most common. Class A shares typically have a front-end load, a sales charge payable when shares are bought, and generally have the lowest annual 12b-1 fees. Class B shares typically have a back-end load, a sales charge payable when shares are redeemed, and generally have higher annual 12b-1 fees than A shares. Class C shares typically have no front-end load, a rear-end load ranging from very low to nothing, but have relatively high 12b-1 fees.

2 Source: Dictionary of Finance and Investment Terms, 6th Edition.

What is a Variable Annuity?

A variable deferred annuity is a long-term financial product designed for retirement. Simply stated, an annuity is a contract between you and an insurance company that lets you pursue the accumulation of assets through asset allocation and customized investment portfolios, and may provide an optional guarantee, which is available for an additional fee.

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Tax Effect on the Growth of $100,000 Investment			
	Rate	10 Years	20 Years
Before Capital Gains Tax	6.59%	$189,306	$358,368
After Capital Gains Tax	5.72%	$174,410	$304,189
Difference	0.87%	$14,896	$54,179

This illustration is for hypothetical purposes only. It does not represent any specific investment nor does it account for any fees or expenses associated with an actual investment. If it had, returns would be lower.

This impact on performance is based on current tax rates. If taxes are increased and capital gains rates increase, the potential exists for higher erosion of your investment performance. And if tax rates decreased, then the results shown would be more favorable.

Fund Comparison

Taxes can have a significant impact on performance. Below is a breakdown of 37 funds[2] divided by asset class. The total result was an average of 1.2% drag on performance after taxes.

Let's take a closer look at a breakdown by asset class. As you can see, depending on what asset class you are invested in, it can have a significant impact on the after-tax performance of your portfolio.

This chart reflects the average performance of a cross section of A-share mutual funds after applying the average effect that taxes (capital gains and tax on dividend income) would have on the funds in that particular asset class.

What is a Variable Annuity? *Continued*

Asset allocation helps spread your investment dollars across different asset classes, to help manage risk and enhance returns. Asset allocation does not guarantee a profit or protect against a loss, including possible loss of principal. Through customization you choose according to your risk tolerance. The goal is to select a mix of asset classes that will help you meet your long-term investment goals. Your portfolio is professionally managed and closely monitored, including your portfolio's performance and remains consistent with your investment goals. Ultimately, you pay an insurance company and in turn, the company agrees to provide lifetime income or a lump sum from your accumulated assets.

There are fees and charges associated with variable annuities, which include mortality and expense risk charges, administrative fees, investment management fees, withdrawal charges, and charges for optional benefits. In addition, annuity contracts have exclusions and limitations. Withdrawals are subject to normal income tax treatment. Early withdrawals may be subject to withdrawal charges, and, if taken prior to age 59½, a 10% federal income tax penalty may apply. Withdrawals will reduce the death benefit, living benefits and cash surrender value. Withdrawals will come from any gain in the contract first for federal income tax purposes. Variable annuities are subject to investment risks, including the possible loss of principal invested. Guarantees described herein are subject to the claims-paying ability of the insurance company.

High, Low and Average Annual Tax Implication by Asset Class			
	High	Low	Avg
Large Cap Equity	-0.53%	-0.21%	-0.32%
Small/Mid-Cap Equity	-1.98%	-0.17%	-1.16%
International/Global Equity	-1.50%	-0.36%	-0.85%
Fixed-Income	-4.46%	-2.22%	-2.97%
Sector/Specialty Portfolios	-1.47%	-0.43%	-1.07%
Allocation Portfolios	-2.19%	-0.82%	-1.51%

The Benefits of Tax Deferral

Tax deferral can provide additional compounding power on your investment returns. Investing in a variable annuity, or another tax-deferred investment, allows you to defer paying taxes on your investments until you make a withdrawal. It also allows your investments to grow tax-deferred and avoid the tax drag that comes with a taxable investment portfolio. Over time the benefit of tax-deferral can have a significant impact on the overall performance of your investment portfolio.

Retirement Cornerstone℠ Variable Annuity

Featuring dual accounts, Retirement Cornerstone℠ is a unique variable annuity that may help provide asset accumulation and income protection. The Performance Account[3] offers a wide range of equity-based portfolios and alternative investment options for building assets. This product allows you the ability to make transfers or sweeps from the Performance Account to the Protection Account[4]. (The Protection Account offers a Guaranteed Income Benefit, an optional benefit available for an additional fee, that, if chosen, must be elected at contract inception.) The Protection Account may provide income protection while continuing to help grow assets in more conservative investment options that include several Asset Allocation portfolios. In addition, the Guaranteed Income Benefit has a Benefit Base[5] that will roll up at least 4% annually, guaranteeing that you will have income available for your retirement.

All of this takes place in a tax-deferred environment, with the option of adding the Guaranteed Income Benefit (for an additional fee) that will provide income for life. You will not have to worry about any tax implications when readjusting your portfolios and subsequent asset allocation to meet your changing needs. Contributions and any growth are tax-deferred, allowing you to defer taxation until you begin to take withdrawals, which is typically during retirement when you may be in a lower income tax bracket.

2 Funds were chosen based on the 37 Variable Insurance Trust funds in Retirement Cornerstone that have corresponding Mutual Fund counterparts. These Mutual Fund counterparts can be purchased outside of a Variable Annuity.

3 "Performance Account" — as referenced above, refers to the Long-Term Accumulation Account, which has the potential to grow assets.

4 "Protection Account" — as referenced above, refers to the optional Guaranteed Benefit Account, which has the ability to help protect retirement income.

5 The Benefit Base has no cash value and cannot be withdrawn. It is used to calculate lifetime income payments.

For more on the Retirement Cornerstone℠, call your financial professional.

Tax Differences Between Mutual Funds and Variable Annuities

Mutual Funds	Variable Annuities
Income of dividends and capital gains on internal transactions, as well as any gains on the sale of an investment, are treated for tax purposes as capital gains instead of as ordinary income.	Gains and earnings within a variable annuity grow on a tax-deferred basis. When withdrawn, gains are taxed as ordinary income.
If an investor suffers a loss, he or she can claim it as a tax deduction.	Losses in non-qualified (NQ) annuities may or may not be deductible, and then only upon surrender of contract.
If an investor sells shares in a mutual fund in a taxable account in order to purchase shares of a different mutual fund, this exchange would trigger capital gains taxation.	1035 Exchanges trigger no tax consequences. An investor can exchange from one subaccount to another and the earnings from the original investment will remain tax-deferred until the annuity owner withdraws money from the variable annuity. Subaccount changes may be subject to additional fees. However, an exchange into another variable annuity may result in new or increased surrender charges or higher charges, such as annual fees. In addition, the features and benefits of the new product may have higher costs associated with them, and may not be necessary.

A variable annuity is a long-term financial product designed for retirement purposes. Variable annuities are sold by prospectus. In essence, annuities are contractual agreements in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. There are contractual limitations and fees and charges associated with annuities, which include, but are not limited to, mortality and expense risk charges, sales and surrender charges, administrative fees, and charges for optional benefits. A financial professional can provide cost information and complete details. Variable annuity contract values will fluctuate and are subject to market risk, including the possibility of loss of principal. Variable annuity contracts have limitations. For costs and complete details of coverage, contact your financial professional.

Please consider the charges, risks, expenses and investment objectives of variable annuities carefully before investing. For a prospectus containing this and other information, please ask your financial professional. Read the prospectus carefully before you invest or send money.

All guarantees are backed by the claims-paying ability of AXA Equitable Life Insurance Company.

Retirement Cornerstone℠ is a service mark of AXA Equitable Life Insurance Company. Variable annuities are issued by AXA Equitable Life Insurance Company and are co-distributed by affiliates AXA Advisors, LLC and AXA Distributors, LLC, all located at 1290 Avenue of the Americas, New York, NY 10104.

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