Asset location tool could boost savings by 15% over 30 years: Betterment

By Editorial Staff *Thu, Sep 29, 2016*

'Asset location is the closest thing there is to a free lunch in wealth creation,' Boris Khentov, vice president of operations and a tax attorney at Betterment.

Betterment, the largest independent online "robo-advisor," now offers "Tax Coordinated Portfolio," a feature that aims to boost investors' cumulative after-tax returns by increasing the tax efficiency of their portfolios. In a release this week, Betterment said no other robo-advisor offers this service.

"Americans wind up saving for retirement in three account types: taxable, tax-deferred, and tax-exempt. Each type of account has different tax treatment, and certain investments fit one account type better than another. Choosing wisely can significantly improve the after-tax value of their savings, when more than one account is in the mix," the release said.

According to one Betterment hypothetical example, saving in all three types of accounts showed an estimated annualized after-tax benefit of 0.48%, which can raise accumulations by 15% over 30 years.

The release did not say if the service might move existing tax-deferred IRA assets, for instance, to taxable accounts, or if such a move might trigger a taxable event for the investor. The release didn't say if the service only considered new contributions to Betterment accounts.

"Asset location is the closest thing there is to a free lunch in wealth creation," Boris Khentov, vice president of operations and a tax attorney at Betterment. "Customers saving for retirement in more than one type of account should be using it to increase their after-tax returns. However, doing it properly is a complex, mathematically rigorous, and continuous process. Betterment's Tax-Coordinated Portfolio automates this sophisticated strategy every step of the way, helping our customers make the most of their investments."

Tax-Coordinated Portfolio is one of Betterment's suite of tax-efficient features, which include Tax Loss Harvesting+ and Tax Impact Preview. Betterment, launched in 2010, now manages some $5.6 billion in assets for more than 185,000 customers in globally diversified portfolios of exchange-traded funds (ETFs) "with personalized advice in a goal-based investing framework." Customers can open and customize regular investment accounts,

traditional/SEP/Roth IRAs, trust accounts, and accounts for retirement income.

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