Strategies to Keep More of What You've Saved in Retirement

Many people assume their tax burden will decline in retirement. While that may be true for some, others find that managing taxes in retirement is more complex than expected.

As you move from accumulating assets to generating income, the sources of that income—and how they are coordinated—can have a meaningful impact on your overall tax situation.

Common retirement income sources include:

- Traditional IRA and 401(k) withdrawals
- Capital gains from investments
- Social Security
- Roth IRA withdrawals
- Dividends and interest from taxable accounts
- Pension income

Required Minimum Distributions: A Common Tax Trigger

One of the most frequent drivers of higher taxes in retirement is the Required Minimum Distribution (RMD).

Under current IRS rules, individuals must generally begin taking annual distributions from traditional IRAs and most employer-sponsored plans at age 73. These withdrawals are taxed as ordinary income and can increase overall tax liability.

The challenge is that RMDs are required whether the income is needed or not. For retirees with significant tax-deferred balances, RMDs can become substantial over time and potentially push income into higher tax brackets.

In some cases, larger RMDs may also impact other areas of a retiree's financial picture—such as Medicare costs or the taxation of Social Security benefits.

Medicare Premium Surcharges (IRMAA)

Another often-overlooked consideration is the impact of income on Medicare premiums.

Medicare Part B and Part D premiums are subject to Income-Related Monthly Adjustment Amounts (IRMAA), which are based on your income from two years prior. As income increases, premiums can rise significantly.

Income sources that may contribute to higher IRMAA brackets include:

- IRA distributions and RMDs
- Capital gains
- Pension income
- Interest and dividends
- Roth conversions

For many retirees, it can be surprising how decisions made today can affect healthcare costs in future years.

Strategies to Help Keep More of What You've Saved

While the rules can seem complex, there are several planning strategies that can help improve tax efficiency over time, as explained below.

1. Consider Roth Conversions

The years between retirement and the start of RMDs can create a valuable planning window.

During this time, converting portions of a traditional IRA to a Roth IRA may allow you to pay taxes at known rates today while reducing future RMDs. Roth IRAs also offer tax-free qualified withdrawals and are not subject to lifetime RMDs for the original owner.

However, conversions should be evaluated carefully, as they may temporarily increase taxable income and affect Medicare premiums.

2. Coordinate Withdrawals Across Account Types

Rather than relying on a single account, retirees may benefit from strategically drawing from taxable, tax-deferred, and tax-free accounts.

A coordinated approach can help manage tax brackets and create a more consistent income stream over time.

3. Utilize Qualified Charitable Distributions (QCDs)

Individuals age 70½ and older can make Qualified Charitable Distributions directly from an IRA to eligible charities.

QCDs can satisfy all or part of an RMD without increasing taxable income, potentially reducing taxes and limiting the impact on Medicare premiums or Social Security taxation.

4. Plan Before RMDs Begin

Some of the most effective strategies take place before age 73. Waiting until RMDs begin may limit flexibility. Early planning allows for greater control over income, tax exposure, and long-term outcomes.

The Importance of Proactive Planning

Taxes are one of the few variables in retirement that can be influenced through thoughtful planning.

While investment returns are inherently uncertain, decisions around withdrawals, account sequencing, and tax strategy can have a meaningful impact on how much of your income you ultimately keep.

Proactive planning can make a meaningful difference over time. If you'd like to take a closer look at your retirement income strategy, we would welcome the opportunity to connect.

Sources: Fidelity, Internal Revenue Service (IRS), Landsberg Bennett Private Wealth Management. Mercer Advisors, Savant Wealth, Smart Asset, and Western & Southern Financial Group.

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