

10 tips to help build tax-efficient retirement income plans

Whether saving for retirement or drawing income from a nest egg, it's important to consider strategies that can help minimize what's lost to taxes. Tax efficiency can be complicated and it may be necessary to work with a tax expert. In the meantime, here are a few helpful tips for potentially optimizing tax-efficient retirement income.

1

Diversification of account types

Using a mixture of tax-deferred, taxable and tax-free accounts could offer more tax flexibility in retirement. One example is splitting qualified plan contributions between Roth and traditional 401(k) accounts.

2

Roth conversion

Retirees could have a higher tax liability in the future for reasons such as delayed Social Security benefits and large required minimum distributions (RMDs). In this case, doing a conversion now could lead to a lower tax rate later.

3

Consider NUA for employer stock holdings

Net unrealized appreciation (NUA) rules allow those holding employer stock inside their 401(k) or an IRA to potentially receive a more favorable tax treatment on the sale of those shares that have grown in value. Consult a tax advisor for details.

4

Health savings account (HSA)

Take advantage of tax-free distributions from HSAs to pay for qualified medical expenses.

5

Life insurance

While the primary purpose of life insurance is death benefit protection, it can also create supplemental tax-free income, which may reduce the death benefit amount; withdrawals to basis and loans are tax-free if the policy isn't a modified endowment contract (MEC).

6

Social Security

If you have the financial flexibility, delaying Social Security benefits until later in retirement may generate a greater lifetime benefit. It may also reduce the likelihood of those benefits being taxed, especially if you continue working in retirement.

7

Medicare

Medicare premiums may increase as retirement income increases. Look for income sources that aren't included in modified adjusted gross income (MAGI), such as life insurance or Roth IRAs.

8

Capital gains

Selling capital assets to generate retirement income may result in less taxes owed versus an investment product with ordinary income taxation. In 2024, married couples filing jointly with a taxable income amount of \$94,050 or less will have a capital gains tax rate of 0%.

9

Qualified charitable deduction

For retirees who don't have a financial need to take their RMDs, donating to a favorite charity directly from an IRA account could help reduce income taxes.

10

Tax Cuts and Jobs Act

At the end of 2025, several time-limited provisions of the Tax Cuts and Jobs Act of 2017 will sunset, including the higher standard deduction and lower marginal tax brackets in place today. Consider any benefits of making tax-efficient changes prior to this expiration.



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