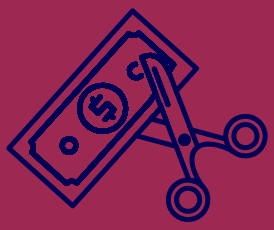
ARE YOU PAYING TOO MUCH

IN TAXES IN RETIREMENT?

HOW A RETIREMENT INCOME ANALYSIS CAN HELP YOU BLUNT THE TAX BITE IN RETIREMENT.



Ahhhh, taxes — a necessary evil in our American lives. They pay for roads, safety and a whole host of other community-related services. We enjoy the benefits our taxes pay for but loathe the idea of paying more than our fair share. Taxes leave our pockets with that less-than-full feeling after Uncle Sam takes his cut.

Taxes follow you even into retirement. Those retirement accounts you've started drawing from, Social Security benefits you're receiving and other income from accounts designed to support your lifestyle in retirement may be taxable.

For most of your working life, you've been in an accumulation phase — gathering and growing assets to be used to support you in your later years. During retirement, however, you move to a different mindset as you transition into a distribution phase. Planning for the distribution phase includes a shift in perspective as you work toward preserving the assets you spent so many years building.

One of the keys to preserving your assets is to develop an appropriate distribution strategy, one that accounts for many things — including the taxes you'll owe in retirement — and answers key questions: When should I start taking income from my accounts? Which accounts should I take the income from? A distribution strategy is designed to create a plan for optimizing your tax liability and your income — and maintaining that income for as long as you will need it. Even if you've already entered retirement, you can still benefit from distribution planning and potential repositioning of assets to help ensure your strategy is as tax-efficient as possible.

While distribution planning would start before retirement in an ideal world, people who have already entered retirement can also greatly benefit from building a distribution strategy to potentially pay less in future taxes. But where do you begin? What steps do you need to take today to help ensure financial confidence tomorrow? An experienced financial professional can help you develop a tax-efficient approach designed to preserve your retirement assets, whether you're already retired or you plan to work 10 more years.

2025 Income Tax Brackets[1]

RATE	INDIVIDUALS	MARRIED FILING JOINTLY
10%	Up to $11,925	Up to $23,850
12%	$11,926 to $48,475	$23,851 to $96,950
22%	$48,476 to $103,350	$96,951 to $206,700
24%	$103,351 to $197,300	$206,701 to $394,600
32%	$197,301 to $250,525	$394,601 to $501,050
35%	$250,526 to $626,350	$501,051 to $751,600
37%	$626,351 or more	$751,601 or more

TAXING QUESTIONS

Many people think that retirement automatically means you pay less in taxes. After all, you're no longer being handed a paycheck from an employer, right? The reality is that most Americans don't reduce their tax bill that much in retirement. The reason? You're still taking in an income, but you most likely have fewer deductions and credits than you had during your working years.

Retirement income can come from a variety of sources, both taxable and nontaxable. Whether or not the income is taxable depends on its source, or what account you take it from. The potential key to optimizing your taxes and putting more money in your pocket is to blend your income from a variety of sources. Here's a look at which accounts are taxable and which are not.

TAXABLE INCOME

Qualified Accounts

Most retirement accounts — including 401(k)s, 403(b)s, SIMPLE IRAs, SEP IRAs, profit-sharing plans, pension plans and traditional IRAs — are called qualified accounts. Qualified accounts are designed for retirement income; any money saved into these plans can be accessed without penalty after age 59 ½.

The IRS has allowed money in these accounts to be saved and grow tax-deferred, meaning the taxes have been delayed until some point in the future. You haven't paid any taxes on qualified retirement accounts yet. When you start to take income from those accounts, taxes are owed at your ordinary tax rates at the time of distribution.

Beware: Because you haven't paid any taxes on this money yet, the IRS will soon come calling for what it's due. Typically, at age 73, you must start taking an annual *required minimum distribution* (RMD) from a qualified account.[2] This amount is calculated based on your age, amount of money in the account and life expectancy factor. If you don't take your RMD, you could receive a tax penalty of up to 25% of the RMD amount for that year.

Social Security

Will your Social Security benefits be taxable? It depends. During his election campaign, President-elect Trump advocated for eliminating taxes on Social Security benefits; however, any such changes could face significant challenges in gaining congressional approval. For now, to avoid being taxed on your Social Security benefits, any income from other sources — such as a job or qualified retirement accounts — must remain below the allowed base amount for your filing status.

2025 Limits to Taxable Social Security Benefits[3]

FILING STATUS	COMBINED INCOME*	% OF SS BENEFITS THAT MAY BE TAXABLE
Individual	$25,000 to $34,000	Up to 50%
	More than $34,000	Up to 85%
Married Filing Jointly	$32,000 to $44,000	Up to 50%
	More than $44,000	Up to 85%

**Combined income = adjusted gross income (AGI) + nontaxable interest + ½ of Social Security benefits.*

Annuities

Annuities are another type of account designed to provide income during retirement. Unlike more traditional retirement accounts, not all income from an annuity may be taxable. It depends on a variety of factors, including what type of annuity it is and how it was funded.[4] Not sure how your annuity income might be taxed? A financial advisor can review your existing annuity and help clarify.

NONTAXABLE INCOME

A *nonqualified* account is funded with money you've already paid taxes on. These could include savings and checking accounts, nonretirement brokerage and investment funds, money market accounts and CDs. While you have already paid taxes on the money you've put into the account, any growth on the account — including interest earned or dividends paid — will be taxable.[5]

A Roth IRA is a hybrid of a qualified and nonqualified account. Like a traditional IRA, it's designed for retirement, and you can access funds in a Roth IRA penalty-free after age 59 ½. Unlike a traditional IRA, however, a Roth IRA is funded with after-tax dollars. Qualified distributions from a Roth IRA are free from federal income tax, and a Roth IRA doesn't have a required minimum distribution while the account owner is alive.[6]

DEDUCT THIS

Consider this: In your younger years, you probably took advantage of a wide range of tax deductions and credits. This may have included a child tax credit or expenses for child care. You also may have taken deductions for the interest you paid on a mortgage and student loans or work-related expenses you were able to write off.

However, because of changes brought by the 2017 Tax Cuts and Jobs Act, it is likely that fewer taxpayers will itemize. You're no longer able to claim certain deductions on your taxes, such as personal exemptions. The federal government has changed its itemized deduction rules related to work expenses. As a result, deductions may no longer exist or may have significantly changed. Even if you do itemize, some of the allowed deductions may no longer work for your situation. Maybe you've paid off your house and loans, which means you can no longer deduct mortgage interest on your return.

When you meet with a financial advisor, they can review the accounts you currently own and provide you with an understanding of how income from each account might be taxed. They also can introduce you to a qualified professional who is experienced in taxes. But don't wait! It's important to meet with an advisor now, in order to put an effective plan in place from the beginning of your retirement.

> "The hardest thing in the world to understand is the income tax."
> ~Albert Einstein

TAX LAWS ARE EVER-CHANGING

Tax law changes often prompt taxpayers to revisit their financial plans, but this year's adjustments could be particularly impactful following the recent election. With Republicans now in control, proposals such as extending the 2017 Tax Cuts and Jobs Act (TCJA) and eliminating taxes on Social Security benefits are expected to take center stage.

However, these reforms face significant fiscal challenges, particularly as the national debt continues to grow, complicating efforts to implement them.

Adding to this uncertainty, an aging American population is creating new pressures on the federal budget and tax policies. Rising national debt,[7] projected Social Security shortfalls,[8] and escalating Medicare expenses[9] — including costs tied to health care and long-term care — could all influence future tax codes, leaving retirees to navigate an increasingly complex financial landscape.

Never fear: It's not necessary to become a tax professional to understand how possible legislative changes could impact your bottom line in retirement. It is necessary, however, to work with a financial advisor who understands how to build an income strategy that accounts for those possible changes and helps you take the necessary steps to be ready for them when they come.

DID YOU KNOW?

Congress makes changes to our tax laws every year. Here's a look at some of the changes they could make that may affect your retirement income:

- Individual tax brackets, including adding, removing or expanding brackets
- Deductions for medical expenses
- Social Security and Medicare
- How estates are taxed
- Exemptions, credits and standard deductions
- Deductions of state and local tax payments
- Taxes on selling your home or other real estate

WHERE YOU PUT YOUR MONEY MATTERS

Different types of accounts may have different tax statuses, including taxable, tax-deferred and tax-free. While many Americans have money earmarked for retirement, often that money is stashed in a variety of accounts started at various times throughout their earning years. The accounts may not work together to provide an income stream that works effectively for tax purposes.

Types of Accounts

Your financial advisor may present the idea of spreading your assets across four categories of accounts. This method of saving for retirement considers future tax implications and creates a plan to optimize your retirement income. This strategy divides your assets into four types:

- **Taxable**
- **Tax-deferred**
- **Income-tax-free (to you) but taxable to your estate**
- **Income-tax-free (to you and your estate)**

The categories move from 100% taxable to 100% income-tax-free for you and your estate. When preparing a plan for retirement income, your financial advisor may make recommendations for how much of your assets should be allocated to each account type.

If you currently have money saved, you may need to consider redistributing some of your existing assets into different categories. Contact a qualified financial professional to help you evaluate the tax qualification of your assets and they also can introduce you to a qualified professional who is experienced in taxes who can help you determine which assets might be available for repositioning. The purpose of this exercise is to help make your retirement strategy more tax-efficient and possibly lower your future tax bill.

> "The only difference between death and taxes is that death doesn't get worse every time Congress meets."
> ~Will Rogers

Consider a Roth IRA

Eligible taxpayers under age 50 can contribute up to $7,000 in a Roth IRA in 2025. Eligible taxpayers age 50 and older can contribute an extra $1,000.[10] You won't receive an income tax deduction for your contribution, but your money will grow tax-free. You also can withdraw contributions tax-free at any time. After you reach age 59 ½ and the account has been open for at least five years, withdrawals will not be taxed at all. And you don't have to convert all of your funds to a Roth IRA; partial conversions provide some flexibility in how much you pay in taxes today.

Because converting a traditional IRA or other qualified assets to a Roth IRA is a taxable event and could result in additional impact to your personal tax situation — including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, higher taxes on Social Security benefits and higher Medicare premiums — be sure to consult with a qualified tax advisor before making any decisions regarding a potential Roth conversion. Please keep in mind that due to recent tax law changes, it is no longer possible to undo a conversion through recharacterization. It is generally preferable that you have funds to pay the taxes due upon conversion from funds outside of your IRA. If you elect to take a distribution from your IRA to pay the conversion taxes, please keep in mind the potential consequences, such as an assessment of product surrender charges or additional IRS penalties for premature distributions.

Giving to Future Generations

When planning your estate, you might want to consider the funds you plan to gift before your death as well as the money you wish to distribute after you're gone. Types of accounts that can help accomplish these goals might include life insurance, accounts set up for minors, funds to be given to charitable organizations and money designated as gifts to loved ones. In 2025, you can give up to $19,000 to an individual each year without triggering a federal gift tax consequence.[11]

How much should you have in each category? That depends on you — your goals for retirement, how much you want to leave to heirs and much more. Your financial advisor can help you devise a strategy customized to meet your personal needs.

GET STARTED TODAY!

Planning for retirement income starts with a plan for optimizing taxes in retirement — a tricky situation, because it's difficult to know what the future might hold. Your financial advisor can provide recommendations for tax-efficient tools and financial vehicles available to help you reach your goals. They also can work with other qualified professionals — such as a tax accountant or estate planning attorney — to implement all the tools to make your strategy work efficiently and effectively. But don't wait! It's important to start now to help make this strategy work in the future. Schedule a retirement income analysis today and get a customized strategy for your unique tax situation.

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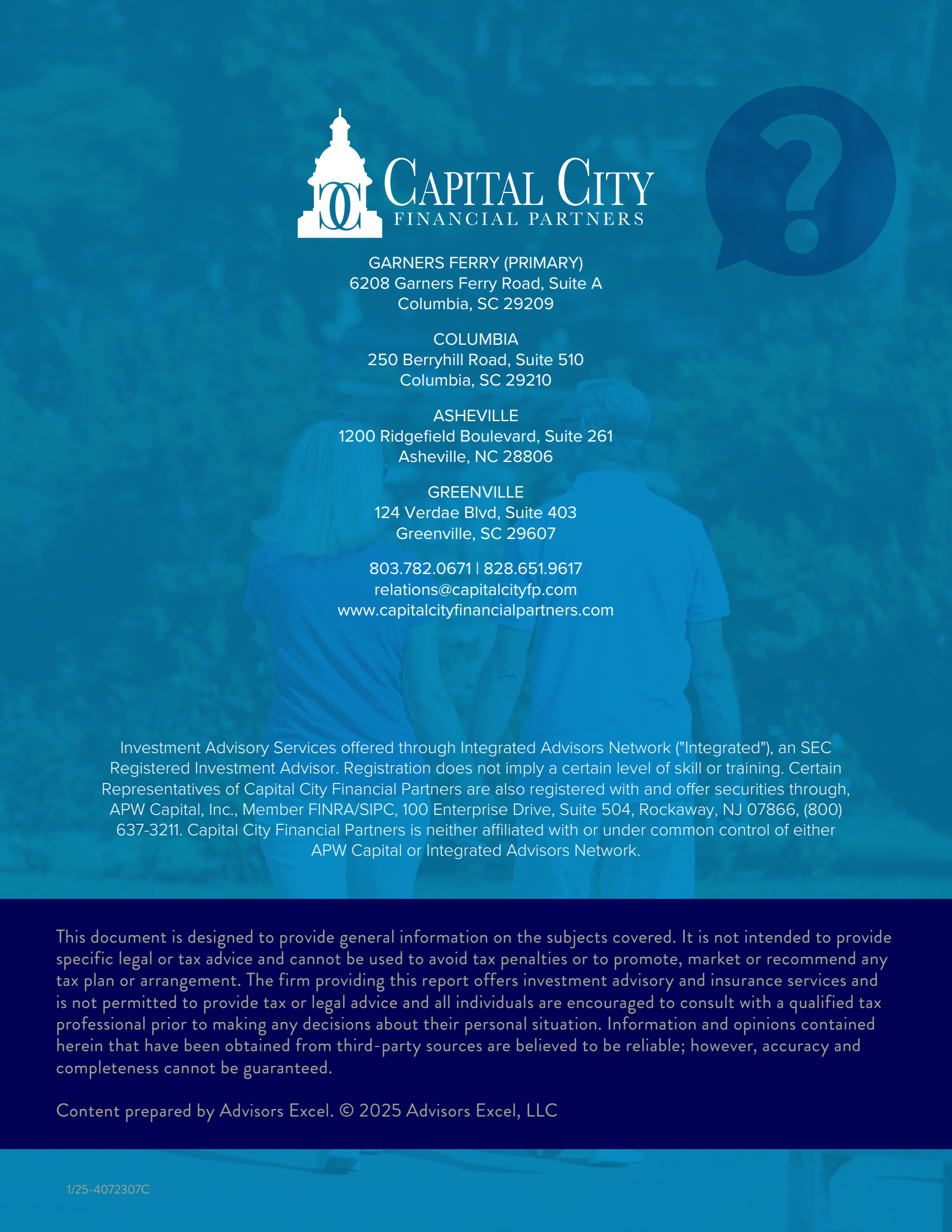

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