Maximizing Tax Benefits for Retirees

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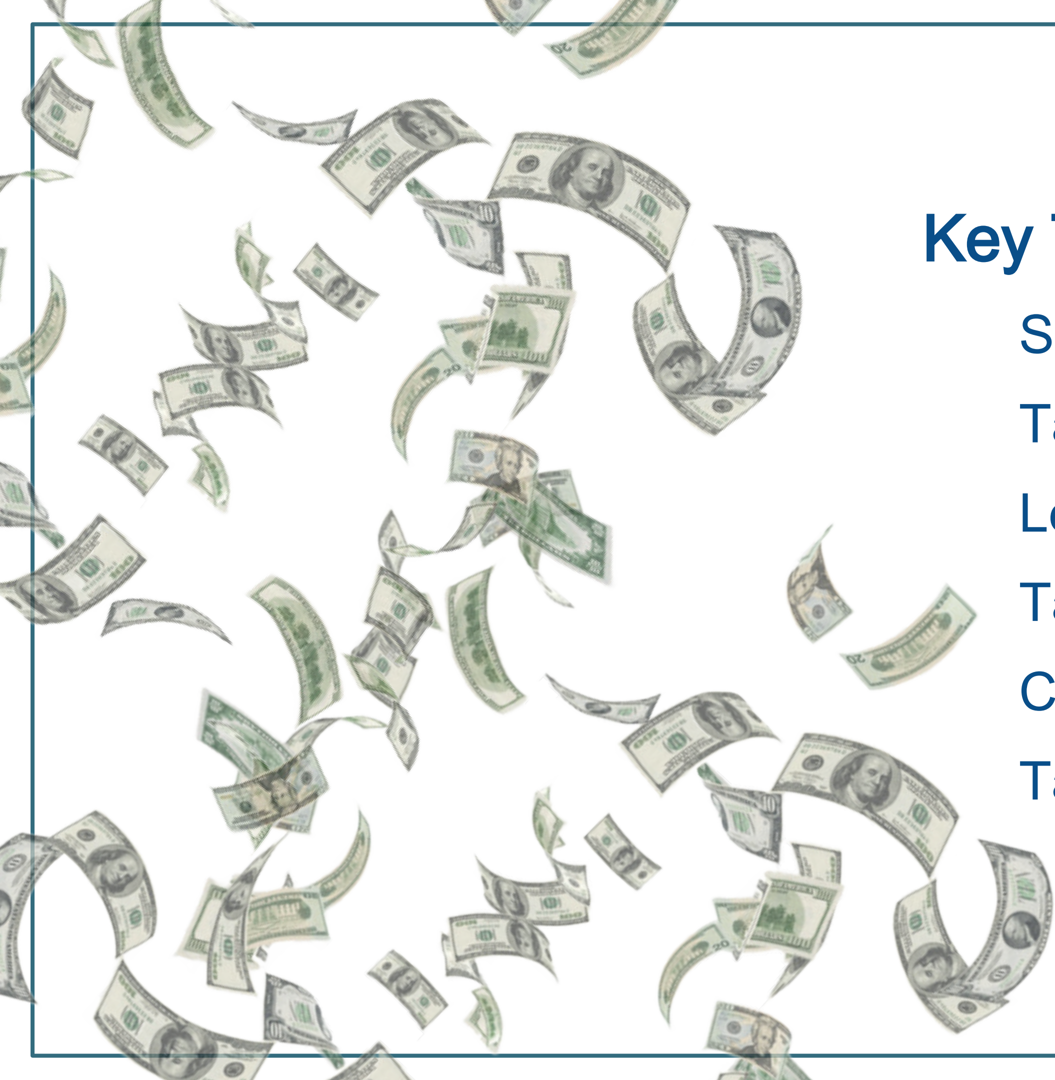

Key Topics

- Sources of Income
- Tax Location Withdrawals
- Leveraging Deductions and Credits
- Tax-Efficient Investing Strategies
- Charitable Giving
- Tax Traps

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Retirement Tax Landscape

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Sources of Retirement Income tax treatment

Guaranteed	Withdrawals	Investments
Social Security	**Traditional IRA**	**Long-Term Capital Gains**
Up to 85% taxable	"Always taxable"	"Sometimes taxable"
Pension	**401(k), 403(b)**	**Short-Term Capital Gains**
100% taxable	"Always taxable"	"Ordinary" income
Deferred Compensation	**Roth IRA**	**Dividends**
100% taxable	"Never taxable"	"Qualified" at LTCG rates
		Interest
		"Current" income year earned

NEW—WEP/GPO repeal—effective 2024

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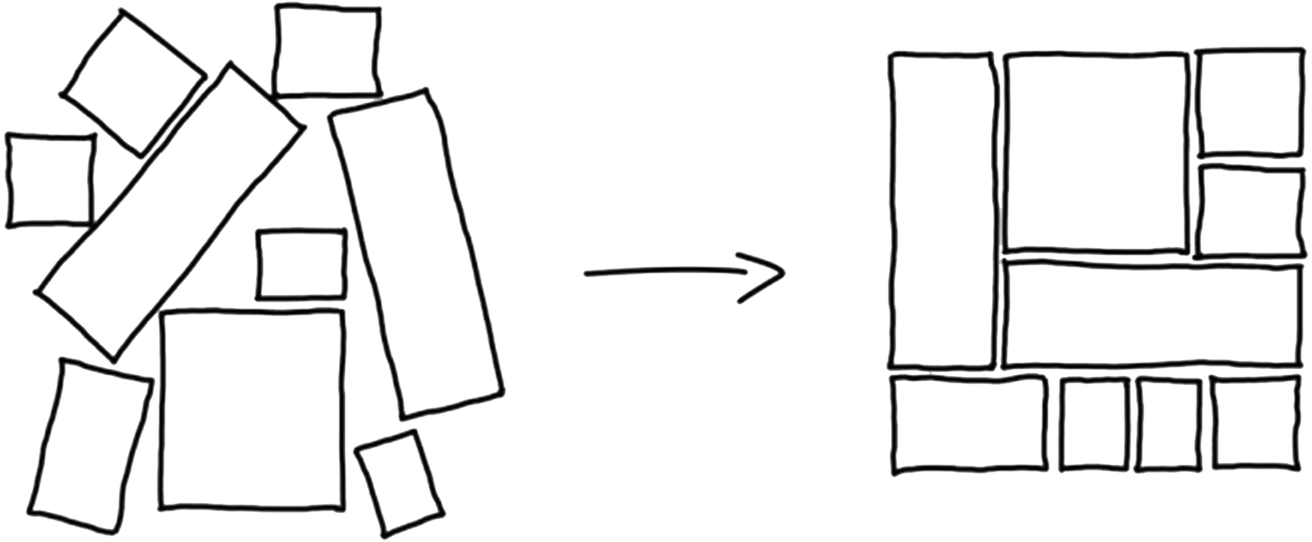
Tax-Efficient Withdrawal Strategies



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Tax Location Withdrawals

FAQ—Distribution Order

1^{st} priority

Taxable Accounts

"Sometimes taxable"

2^{nd} priority

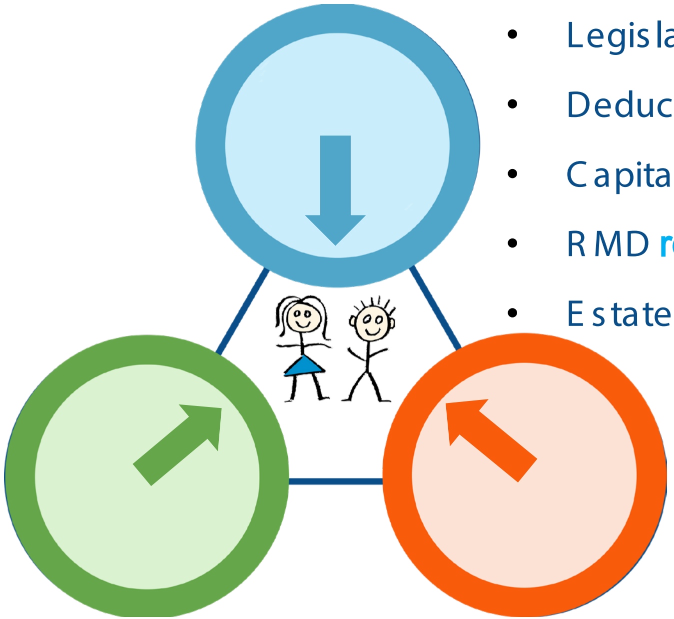
Tax-Deferred Accounts

"Always taxable"

3^{rd} priority

Tax-Free Accounts

"Never naxable"



Preferred —Blended Withdrawals

- Timing is **everything**
- Legislative **changes**
- Deduction **phaseouts**
- Capital gains **harvesting**
- RMD **reduction**
- Estate **efficiency**

  - Basis **step-ups**

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Required Minimum Distributions (RMDs)

IRS mandates RMDs to ensure deferred taxes on pretax contributions are eventually paid

- RMDs are the minimum amounts you must withdraw annually from retirement accounts, beginning at age 73
- Distributions from 401(k)s and 403(b)s must be taken from each account
- IRAs can be aggregated together and distributed from a single account
- RMD amount is calculated based on December 31st prior year account value, divided by Uniform Lifetime Table corresponding lifetime expectancy divisor

Example: Age 73 divisor is 26.5, so if your 12/31 value was $1,000,000 than your RMD would be $37,735.85

Note: The percentage is calculated as (100 / Divisor) and represents the portion of the account balance that must be withdrawn for the Required Minimum Distribution (RMD) Age

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RMD—Timing and Penalties

First RMD Deadline

- First RMD must be taken by April 1 of the year after turning RMD age
- Subsequent RMDs due by December 31, annually

Penalties for Missing RMDs

- 25% excise tax on the amount not withdrawn by the deadline
- Penalty can drop to 10% if corrected promptly by filing Form 5329

Special Exception

- Delay RMDs from employer-sponsored plans (e.g., 401(k)) if still employed

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RMD—Strategies to Minimize Impact

Roth Conversions

- Convert Traditional IRA or 401(k) balances into a Roth IRA gradually, reducing pre-tax account balances subject to RMDs
- Pay taxes at today's rates rather than future potentially higher rates

Qualified Charitable Distributions (QCDs)

- Donate up to $108,000 (2025) annually (adjusted for inflation) directly from your IRA to a qualified charity
- Amount counts toward your RMD and isn't included in taxable income

Strategic Withdrawals Before RMD Age

- Withdraw from tax-deferred accounts before RMD age to manage tax brackets and smooth taxable income over time

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Roth Conversions

What is a Roth Conversion?

Transferring funds from an IRA or 401(k) into a Roth IRA by paying taxes on the converted amount now

Are there eligibility requirements?

No, anyone can do a Roth Conversion regardless of income

Why would I do it?

- Reduce Required Minimum Distributions (RMDs)
- Take advantage of currently low tax brackets before rates increase
- Invested funds grow tax-free in the Roth IRA
- Heirs receive tax-free distributions
- Balance taxable, tax-deferred, and tax-free income sources in retirement

Roth Conversion —Strategies

Partial Conversions

- Convert smaller amounts over several years to avoid jumping to higher brackets

Filling Tax Brackets

- Maximize your current tax bracket by converting up to the bracket's limit

Before RMDs Begin

- Reduce the size of your Traditional IRA before RMDs start

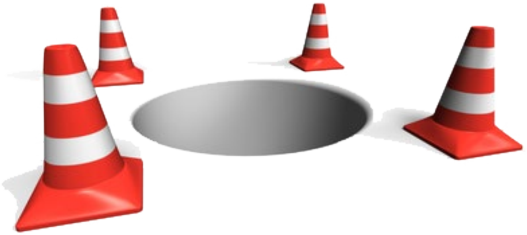
Pay Taxes with Non -Retirement Funds

- Use taxable savings to cover the tax bill and keep retirement funds intact

Spousal Planning

- Coordinate conversions with your spouse to optimize tax outcomes

Roth Conversion —Pitfalls to Avoid



Converting Too Much at Once

- Could push you into a higher tax bracket or trigger surtaxes

Not Planning for the Tax Bill

- Conversion taxes can erode savings if paid from retirement accounts

Medicare Surtaxes

- Be mindful of income thresholds that affect Medicare premiums

Timing Mistakes

- Convert when markets are low or before major life events

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Leveraging
Tax Deductions and Credits

Standard Deduction vs Itemized

Standard Deduction (2025)

- **$30,000** (Married Filing Joint)
- Single is **$15,000**
- Over 65 Add **$1,600** per person

Itemized Tax Deductions

- The goal is to lower taxable income, but itemizing is only beneficial if the total of eligible expenses **exceeds** the standard deduction
- These are eligible expenses you can deduct from your adjusted gross income (AGI) **instead** of claiming the standard deduction

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Eligible Itemized Deductions

Bunching Strategy
Schedule elective medical procedures (paid in tax year), prepay property taxes, or make charitable contributions in a single year (possibly through Donor-Advised Fund (DAF)

Medical and Dental Expenses

- Only the portion exceeding 7.5% of your adjusted gross income (AGI) is deductible

State and Local Taxes (SALT)

- Deductible up to $10,000

Home Mortgage Interest

- Interest paid on qualified home loans up to $750,000

Charitable Contributions

- Donations to qualified organizations

Cash is common and can generally be deducted up to 60% of AGI

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Tax Credits

Unlike deductions, which lower taxable income, credits are dollar-for-dollar reductions to your tax bill

After all other calculations like Adjusted Gross Income (AGI) and Taxable Income have been determined

Do not overlook Health Insurance Marketplace (in Connecticut: Access Health CT)

Advance Premium Tax Credit

- Helps offset health insurance premium costs under the Affordable Care Act (ACA)
- You'll pay premiums of somewhere between 0% and 8.5% of your MAGI for a mid-level plan premium (the "benchmark silver plan")

Note: *This means you may have subsidized health insurance premiums for significant savings*

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Strategies for Tax -Efficient Investing

Tax Loss Harvesting

Tax-loss harvesting is a strategy that allows you to offset capital gains by selling investments that have lost value. By realizing capital losses, you can offset gains and reduce your taxable income.

Example: *If you sell an investment that has gained $10,000, but you also sell another investment that has lost $4,000, you can subtract the $4,000 loss from the gain. As a result, you will only be taxed on the net gain of $6,000.*

Additionally, if your capital losses exceed your gains, you can use up to $3,000 of the remaining losses to offset other income (such as wages or dividends), and any excess losses can be carried forward to future years.

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Asset Location Optimization

Taxable “Sometimes taxable” accounts

- Hold investments that generate qualified dividends or long-term capital gains, since these are taxed at favorable rates

Tax-Deferred “Always taxable” accounts **(IRAs, 401(k)s)**

- These are better suited for investments that generate ordinary income, such as bonds, REITs, or other interest-bearing investments
- The income generated in these accounts will not be taxed until you withdraw it

Tax-Free “Never taxable” accounts **(Roth IRAs)**

- Investments that are likely to appreciate significantly in value should be held in Roth accounts, where they can grow tax-free, and qualified withdrawals are tax-free

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Timing Capital Gains

Managing the timing of when you sell investments can have a significant impact on your tax liability

If possible, try to spread capital gains over multiple years to avoid pushing yourself into a higher tax bracket or triggering the Net Investment Income Tax(NIIT)

Example: Rather than selling an entire portfolio of appreciated assets in a single year, consider selling a portion each year over several years to spread out the capital gains and minimize your taxes.

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Advanced Charitable Giving Strategies

Optimize Strategic Giving

Maximize the Charitable Deduction

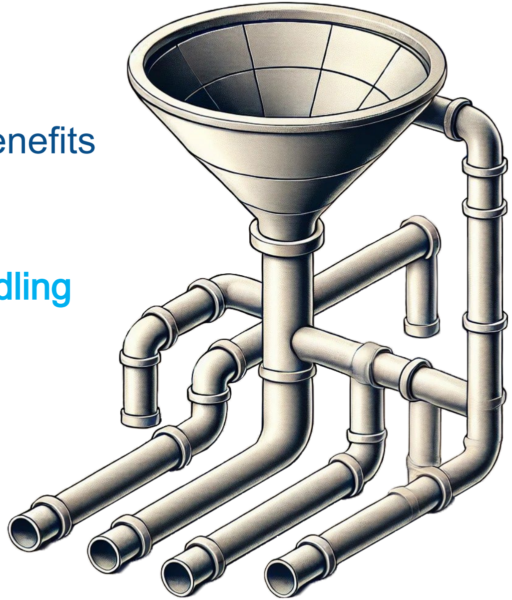
- Avoid capital gains tax on securities held for over a year
- Align donations with high-income years for maximum tax benefits

Donor-Advised Funds (DAFs)

- Contribute to a DAF for an immediate tax deduction by bundling donations to exceed the standard deduction and distribute to charities over time
- Decide which charities to support and when

Qualified Charitable Distributions (QCDs)

- Donate annually directly from your IRA to a qualified charity
- Counts toward your RMD



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Tax Traps to Avoid

An "unexpected" bump in the effective tax rate, due to the phasing in of a tax, or the phasing out of a credit/deduction

Medicare Income Brackets (IRMAA)

Income-Related Monthly Adjustment Amount (IRMAA) increases Medicare Part B & D premiums for high-income earners

A tax cliff occurs when crossing a specific income threshold triggers an increase in tax

Medicare Premiums			
2023 MAGI single	**2023 MAGI joint**	**Part B Premium**	**Part D income adjustment**
$106,000 or less	$212,000 or less	$185.00	$0
106,001-133,000	212,001-266,000	$259.00	$13.70
133,001-167,000	266,001-334,000	$370.00	$35.30
167,001-200,000	334,001-400,000	$480.90	$57.00
200,001-500,000	400,001-750,000	$591.90	$78.60
Above 500,000	Above 750,000	$628.90	$85.80

- 2-year lookback --meaning 2025 Medicare benefit year refers to 2023 income
- Form SSA-44 is used for appeal

Capital Gains Tax Surprises

Selling appreciated assets can push taxable income into higher brackets

Net Investment Income Tax (NIIT) of 3.8% tax for MAGI over $250,000 (married)

Loss of 0% capital gains tax rate

Harvest capital losses to offset gains

Spread sales across multiple years to avoid bracket jumps

Widow(er)'s Penalty

The Widow(er)'s Penalty refers to the higher taxes and potential loss of benefits a surviving spouse faces after their partner's death due to filing status changes and reduced income thresholds

Income	2024 when MFJ	2024 when Single
Interest	$2,994	$2,994
Dividends	$21,192	$21,192
IRA Required Minimum Distributions (RMDs)	$39,215	$39,215
Pension Income	$40,165	$40,165
Taxable Social Security	$40,800	$23,800
Total Income	$144,366	$127,366
Minus Standard Deduction	-$32,300	-$16,550
Taxable Income	$112,066	$110,816
Tax	$14,761	$19,638

Mr. Moderator

Please gather questions

Meanwhile…

KEY TAKEAWAYS

Plan income beginning date(s) including Social Security and spousal benefits

Manage withdrawals sources and investment tax location including RMD minimization

Consider Roth IRA conversions early during low income years

Keep an eye on legislation change on deductions and credits

Manage investments to be tax-efficient and utilize tax harvesting

Optimize charitable giving strategies

Avoid any of the half dozen or so retirement income tax traps www.SkyBlueWealth.com

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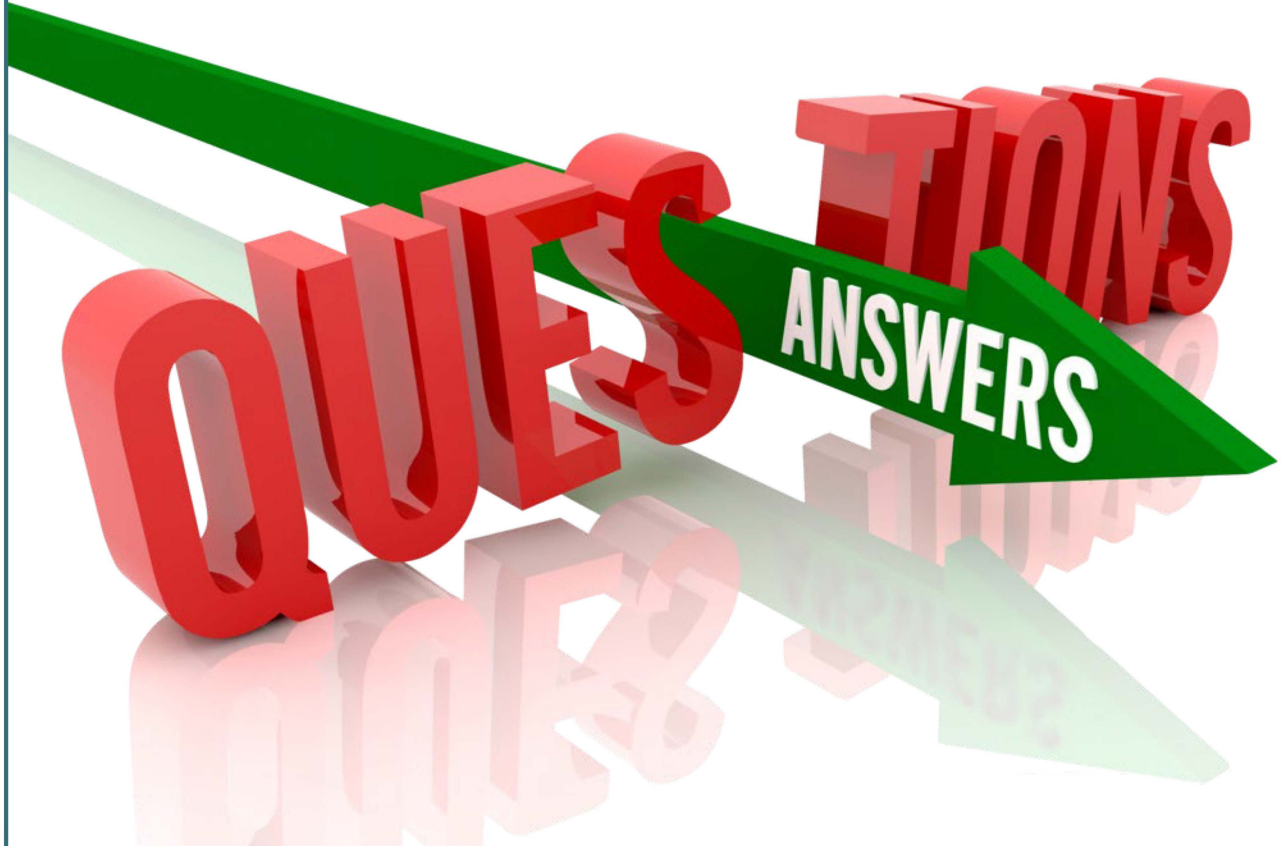
Content library

Future events


QUESTIONS
ANSWERS

Want to connect with the presenter?

Schedule a call

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