

10 tips to help build tax-efficient retirement income plans

As you plan for retirement, considering tax and distribution flexibility may help you avoid higher tax brackets and reduce unintended taxes on income sources like Social Security. 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 generating tax-efficient retirement income.

1

Asset location

Dividing assets between taxable and tax-advantaged accounts could help maximize after-tax returns.

2

Net unrealized appreciation (NUA)

Special rules may allow plan participants to avoid paying ordinary income on gains from employer stock that's held in their qualified plan.

3

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.

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.

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 Ira's.

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 2019, married couples filing jointly with a taxable income amount of \$78,750 or less will have a capital gains tax rate of 0%.

9

Qualified charitable deduction

Some retirees may not have a financial need to take their required minimum distributions (RMD), donating to a favorite charity directly from an IRA account could help reduce income taxes.

10

Roth conversion

Retirees could have higher tax liability in the future for reasons like delayed Social Security benefits and large RMDs. In this case, doing a conversion now could lead to a lower tax rate.



To understand more about tax efficient retirement planning,
contact a financial professional or tax advisor.



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