Wealth Enhancement®

5 Tax-efficient *retirement strategies*

Let's craft your future

We recommend you consult a tax specialist before making changes affecting your tax situation; the strategies described in this guide are not right for everyone. This guide is up to date with federal tax law changes as of June 2025 and may be affected by subsequent changes in tax law.

Why focus on retirement tax planning?

Simply put, the realities of retirement have changed—drastically.

Pensions are mostly a thing of the past

By replacing pensions with defined contribution plans such as a 401k, employers are shifting the burden of investment responsibility to the individual. That responsibility includes being tax-wise in managing your money.

People are living longer than ever

Your retirement could last 30 years or more. It's important to be as tax-efficient as possible to help to maintain your wealth so it can support you for as long as you live.

Markets are unpredictable in the short term

Effective financial planning helps you ride out short-term market fluctuations and focus on the aspects of your finances that are more predictable. Controlling tax liabilities, for example, is the surest way to improve net returns.

5 Tax-smart strategies to *optimize* your retirement plan

Anyone age 45 and older should pursue a tax-wise retirement strategy. The earlier you begin, the more options you'll have. However, these options can be confusing to understand and complex to implement. That's why it's so important to work with an advisory team with access to a tax specialist.

In what follows, we'll guide you through the basics of five strategies you can incorporate into your financial plan to help you work toward a low-tax retirement.

One	Diversifying across tax buckets
Two	Managing capital gains
Three	Converting to Roth IRAs
Four	Capitalizing on health savings accounts
Five	Maximizing deductions

Diversifying *across* tax buckets

1 Investment accounts fall into three basic tax categories we'll call "tax buckets":

- **Tax-deferred:** Contributions are tax-deductible, earnings grow tax-free, and taxes are deferred until distributions begin.
- **Tax-advantaged:** Contributions are made on an after-tax basis, earnings grow tax-free, and there is no tax due on distributions (assuming certain requirements are met).
- **Taxable:** Dividends and interest are taxable at the end of every year, and capital gains are taxed when investments are sold.

	Tax-deferred	Tax-advantaged	Taxable
Examples	• 401k • 403b • SEP IRA • IRA (traditional) • Deferred compensation plan • Defined benefit plan	• Roth IRA • Roth 401k • 529 plan • Health savings account* • Education savings account	• Standard brokerage account • Savings account • Bank CD
Pros	• Tax deduction on contribution • Earnings grow tax-deferred • Significant contributions possible	• No tax on qualified distributions • No required minimum distributions (RMDs) (Roth IRA) • Flexibility to withdraw contributions before retirement (Roth IRAs) • Ability to stretch tax benefit over multiple generations (529 only)	• Liquidity, easier to access • Can qualify for lower qualified dividend and long-term capital gains rates • Up to $3,000 of capital losses can offset non-investment income • Step-up in cost basis at death
Cons	• RMDs begin at age 73 • Distributions taxed at ordinary income rates • Tax liability passed on to beneficiaries • 10% penalty on distributions before age 59½ (exceptions exist)	• Income eligibility restrictions (Roth IRAs) • Withdrawal penalties on distributions before age 59½ (Roth IRA, Roth 401k) • Tax and penalty if not used for intended purpose (HSA, 529, ESA)	• Realized gains taxable at year end • Interest and ordinary dividends taxed as ordinary income • Earnings potentially subject to 3.8% net investment income tax

*HSA contributions are made pre-tax.

How should you diversify?

How and when do you fill or withdraw from each bucket? There are no shortcuts when it comes to prescribing how and when these buckets should be filled or siphoned off. Factors to consider include:

- Age
- Time horizon until money is needed
- Tax brackets (now and forecasted)
- Retirement goals
- Health care and education funding needs
- Personal values
- Estate planning considerations

If any portion of your financial plan should be customized, this is it!

Distribution rules are rife with complexities and tax laws change frequently. It's not just the percentage you may be required to withdraw at a certain age—it's also the steep penalty you'll pay if you make an error.

The good news? A skillful distribution strategy can help you save on taxes—but you must do it correctly, and that requires planning. Work with a team of retirement income distribution specialists to help avoid unnecessary taxes.

Take our quiz
To see how tax-savvy you are.

- Which of your accounts have RMDs, and which do not?
- How much are the RMDs from your retirement accounts?
- When do you have to take those distributions?
- Is it best to take your distributions in a lump sum or a series of periodic payments?
- Can you give your distributions to charity?

If you don't know the answers to the above questions, now's the time to get a second set of eyes on your financial plan.

Call Wealth Enhancement today at 1-888-717-1685 to meet with a financial advisor.

Managing capital *gains*

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Most investors believe that their long-term capital gains tax rate is currently 15%. But did you know there are actually three long-term capital gains rates? Currently, those rates are 0%, 15%, and 20%.

There are many ways to strategically manage capital gains to reduce your overall tax bill. The basics involve simple addition and subtraction.

Take advantage of capital loss harvesting.

A common mistake is to recognize gains in one year and then losses in the next. Good tax planning often involves distributing your losses over multiple years to offset your gains, which allows you to avoid paying excessive tax. In fact, if you have excess capital losses, you can annually use up to $3,000 of the loss to offset other income! The remaining loss is carried forward to the next tax year.

Terry sold stock ABC for a gain of $10,000
Terry also sold stock XYZ for a loss of $10,000
The loss on XYZ offsets the gain on ABC
RESULT: No capital gains taxes owed

Obviously, your capital gains and losses won't always match up and offset one another. What's an investor to do when they must realize a capital gain?

What are you doing to make the 0% capital gains tax rate a reality both today and in the future?

The first step is to understand which capital gains tax rate applies to you based on your income threshold.

2025 CAPITAL GAINS TAX RATES		
Tax rates on long-term capital gains	**Taxable income:** single	**Taxable income:** married, filing jointly
0%	Up to $48,350	Up to $96,700
15%	$48,351–$533,400	$96,701–$600,050
20%	Over $533,400	Over $600,050

If your taxable income is near a cutoff, careful planning can help you sneak down into the lower bracket. If you're not near a margin, there may be other ways to save on taxes. A tax specialist can help you find the strategy that works best for you.

Consider harvesting capital gains.

While harvesting a capital loss can mean you avoid paying tax, it's not always the smartest move. If you expect your capital gains rate will be higher down the road due to higher taxable income, realizing your capital gains today may allow you to pay at a lower tax rate overall.

Save more in retirement.

The advice above is especially pertinent to retirement, when income levels may initially decrease. For example, if you're currently a high earner and subject to the 20% rate, you might benefit by paying 15% in retirement. With proper planning it's possible for many retirees to live comfortably and still take advantage of the 0% capital gains tax rate. However, keep in mind that capital gains rates may change and your taxable retirement income may be higher than you think.

What kind of IRA do *you own*

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Traditional IRA	This is a "tax-deferred" account, meaning it is funded with pre-tax dollars, and taxes are paid at ordinary income rates when money is distributed. You are also required to take minimum distributions (RMDs) starting at age 73.
Roth IRA	This is a "tax-advantaged" account, meaning it is funded with money that has already been taxed, so no taxes are due when money is distributed. There are no RMDs with Roth IRAs—you can keep the money in there as long as you'd like.

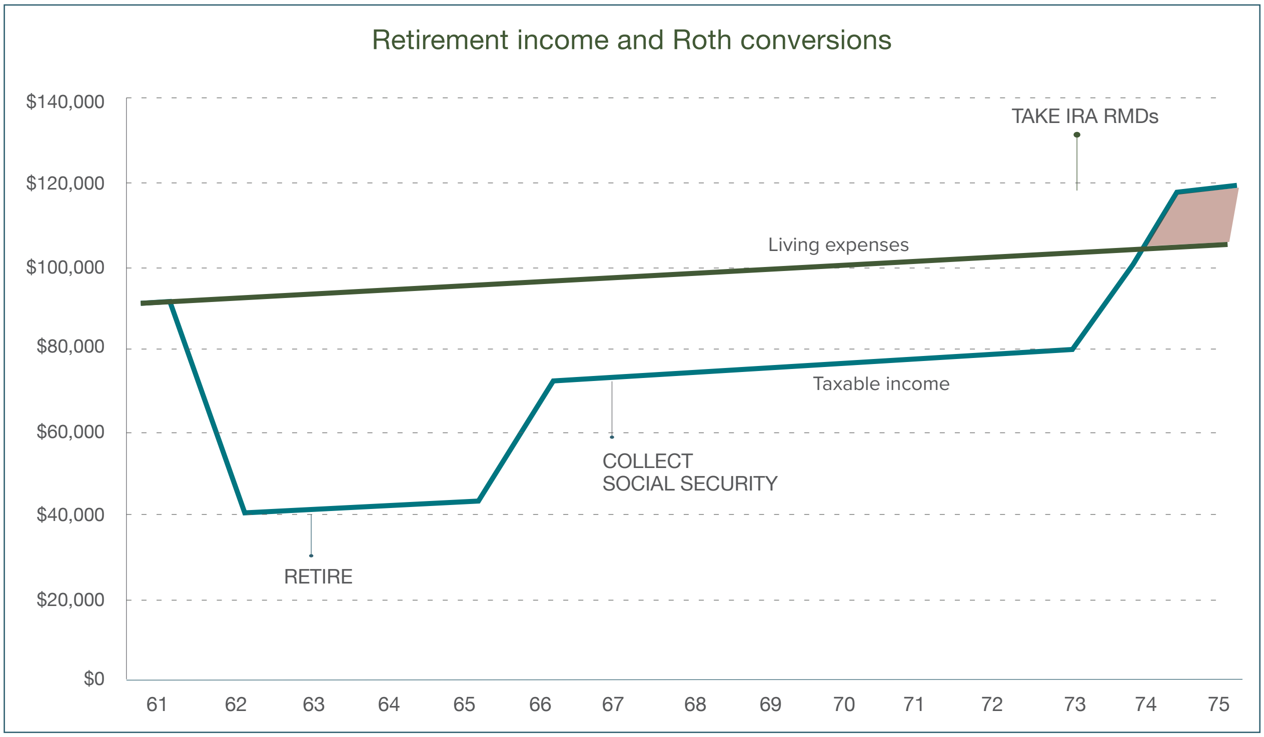
What is a Roth conversion?

A Roth conversion is, quite simply, taking money from your traditional IRA, paying the full tax due—but without penalties—and transferring it into a Roth IRA where the money will continue to potentially grow tax-free. While the tax-free earnings of a Roth IRA are well-known, the tax implications of a conversion are less commonly understood.

The main way a Roth conversion can help you is by allowing you to pay taxes when you're potentially in a lower bracket due to lower income. As shown in the graph on the following page, because you won't need to take RMDs and are unlikely to withdraw Social Security benefits the day you retire, your income is likely to go down in those first few years. By paying taxes on your Roth conversion in the early years of retirement, you can avoid paying a higher tax when you start taking RMDs and your income is potentially in a higher bracket.

By making these conversions to a Roth IRA, you can greatly reduce your RMDs from traditional IRAs, therefore allowing you to take only what you need and stay in that lower tax bracket longer.

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.



Example: This shows a window for Jane to make Roth conversions between age 63 and 72. Jane's income is $90,000 per year and she plans to retire at age 63. At retirement, Jane's taxable income drops. At age 67, when Jane files for Social Security, her taxable income rises.

At age 73 RMDs kick in, causing her taxable income to exceed actual living expenses. What's the problem with additional income? She's getting taxed on it. With tax-smart retirement income strategies (like Roth conversions), we seek to accelerate income into years where a lower tax rate is possible.

This is a hypothetical example and is not representative of any specific situation. Your results may vary.

Roth conversions aren't for everyone. In fact, a Roth conversion may push you into a higher tax bracket if you're not careful! Here's one example of how a hefty tax can be avoided:

Example

Dan is retired and single and reports $131,900 of income this year, placing him in the 24% tax bracket. He decides to convert $75,000 from his traditional IRA to a Roth IRA. However, that extra taxable income pushes him up to the 32% bracket.

Solution

Spread conversion out over several years. If Dan converted $25,000 each year for three years, he would remain in his 24% tax bracket and save more than $1,100 in taxes.*

This concept of taking advantage of lower tax rates illustrated in this simple example applies not just in this situation, but for high income earners as well. Talking to a tax specialist may make this process easier and help you limit your tax burden.

*Assuming tax rates stay the same.

Capitalizing on *health* savings accounts

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One tax-saving area people often overlook is medical expenses. That's surprising when you consider that the Employee Benefit Research Institute (EBRI) found that a 65-year-old male-female couple would need $301,000 in savings if they wanted a 90% chance of covering all of their medical expenses.[1] Even more disconcerting: The EBRI also found that more than 20% of retirees are not confident they've saved enough to pay for medical expenses, including the costs of long-term care.[2]

What is an HSA?

A health savings account (HSA) is a tax-advantaged savings account specifically for medical expenses that combines the most valuable elements of a traditional and a Roth IRA. An HSA can be a great savings vehicle if you have a high deductible health plan (HDHP), are not enrolled in Medicare, and do not have other health coverage. As an added bonus, you can continue to contribute to your HSA after you retire, making it an excellent option if you are not yet Medicare eligible.

Why is it beneficial?

HSAs are super-charged savings vehicles that provide a combination of four specific tax benefits:

- Contributions are deductible like those made to a traditional IRA, and help reduce your adjusted gross income.
- Earnings inside the HSA grow tax-free while you're working and after retiring.
- Distributions made for qualified medical expenses are also tax-free (like a Roth).
- There are no penalties for using the funds for qualified medical expenses before age 59½.

Can my spouse have an HSA?

As long as your spouse is covered by your HDHP, you can open separate HSA accounts. However, your combined contributions cannot exceed the annual contribution limit for families, which is $8,550 in 2025. The IRS allows couples to split contributions between spouses, if desired. If both spouses are over 55, careful planning is needed to make sure that the $1,000 catch-up contribution for each spouse is maximized.

[1] https://www.ebri.org/health/content/projected-savings-medicare-beneficiaries-need-for-health-expenses-spike-in-2021

[2] https://www.ebri.org/docs/default-source/rcs/2021-rcs/rcs_21fs-1_confid.pdf

What are examples of qualified medical expenses?

COBRA premiums	Long-term care insurance	Medicare parts A&B	Medicare Part D premiums
Prescriptions	Eyeglasses	Dental fees	Laboratory fees
X-rays	Surgery	Hearing aids	Chiropractor
Contact lenses	Dentures	Wheelchairs	Vision correction

How can I fund it?

The IRS limits how much you can put away each year. In 2025, individuals can put away up to $4,300 annually and families can put away $8,550. There is also a $1,000 catch-up if you are 55 or older.

There are three methods for making contributions:

Employer contributions	If you have an HDHP through your employer, automatic contributions are typically made via payroll deductions.
Direct contributions	As the account holder, you can directly write a check to an HSA custodian to make a contribution. This can happen if you are not employed and manage your own HDHP and HSA.
IRA to HSA rollover	This strategy allows you to transfer money directly from your IRA without taxes or penalties provided you only do it once in your lifetime and only up to the maximum HSA contribution limit for that year.

How do I reimburse myself?

If you need to pay out of pocket to cover a medical bill, you could reimburse yourself for the costs using your HSA, provided the expense was paid after the account was opened. However, reimbursing yourself right away isn't a requirement. As an HSA owner, you have the option to save your receipts over multiple years and reimburse yourself in the future.

Maximizing *deductions*

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The Tax Cuts and Jobs Act was signed into law at the end of 2017. One of the biggest changes from the 2017 tax reform was to nearly double the standard deduction for individuals and almost triple the deduction for families. Given the higher standard deduction and $10,000 cap on state and local income/property taxes, many families no longer itemize since their deductions do not exceed the standard deduction amount.

Status	2017 standard deduction	2025
Single	$6,350	**$15,000**
Single (over 65)	$7,600	**$17,000**
Married	$12,700	**$30,000**
Married (both 65+)	$15,200	**$33,200**

Bunch itemized deductions for a better return.

If you don't have enough individual deductions to itemize above and beyond the standard deduction, you lose the value of those deductions forever.

If this applies to you, consider bunching your itemized deductions. Bunching means that you strategically sequence your itemized deductions every other year, giving yourself the maximum itemized deduction. During the year in between, you would claim the standard deduction. For the year you plan to itemize, do everything you can to make your itemized deductions exceed the standard deduction.

To accomplish this, consider the following:

- Prepay state income tax and property tax payments before the end of the calendar year. This is only necessary up to $10,000 given the cap on this deduction.
- Accelerate charitable gifts into one year and then contribute nothing the next. Donations must be made before the end of the calendar year to apply to that year's tax return.
- Pay for medical expenses: health insurance premiums, elective surgery, expensive dental procedures, stock up on prescription medications, get new eyeglasses, etc. Medical expenses in excess of 7.5% AGI are deductible for 2025.

Let's look at how this might work in practice:

Scenario 1

Standard deductions only

Every year Stan and Judy, both age 64, deduct $8,000 of state income and property taxes, pay $6,000 in mortgage interest and donate $10,000 to charity.

- Before the 2017 Tax Reform, they would itemize and claim $24,000 of itemized deductions. With the new law, they now claim the $30,000 standard deduction since it exceeds the $24,000 of itemized deductions.
- Over two years, they claim $60,000 of income deductions.

Scenario 2

Bunching itemized deductions

Stan and Judy instead decide to bunch their deductions.

In the first year they:

- Pay their usual $8,000 of state taxes, $6,000 of mortgage interest, and $10,000 of charitable contributions.
- They then decide to prepay $2,000 in property taxes and make an additional $10,000 in charitable contributions.
- In total, they claim $36,000 of itemized deductions.

In the second year they:

- Pay only $6,000 of state taxes, pay $6,000 of mortgage interest, and make no charitable contributions.
- Claim the $30,000 standard deduction.

Over two years, they claim $66,000 versus $58,400 of deductions. This strategy created an additional $7,600 of deductions, saving them a bundle in taxes.

Want to know where you stand?

Call Wealth Enhancement today at 1-888-717-1685
to meet with a financial advisor.

Taking the *next steps*

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The fact that you requested this guide, and read it through, indicates a high level of interest and concern for strategic tax planning, now and into retirement. If so, there is no better way to seek reassurance than by getting a second opinion on your tax strategies from experienced professionals. Wealth Enhancement is eminently qualified to do this for you—with a free, no-obligation meeting.

Call us today at **1-888-717-1685** to schedule your free, no-obligation meeting.

In this introductory meeting, we will:

- Discuss where you are now and what you want to accomplish.
- Identify opportunities for your portfolio and plan.
- Provide proactive next steps to pursue your goals.

When it comes to something as crucial as tax strategies, you want to have a highly experienced financial team on your side. Wealth Enhancement is precisely that: a team, not just an advisor. Read on to learn more about our approach and the thinking behind it.

Your financial plan, crafted *with care*

Wealth is personal, and it requires exceptional craft and care to fashion it into something truly all your own.

At Wealth Enhancement, we don't just manage portfolios or start with the same formulaic questions. We strive to unlock your wealth's full potential with teams of experienced professionals who take the time to understand your financial picture.

We work to ensure that every aspect of your financial life is organized, accounted for, and explained, giving you a comprehensive view of where you stand.

With our Roundtable™ of financial specialists, your advisor can provide comprehensive financial planning, retirement income planning, tax strategies, investment management, estate planning, and insurance.

As your life and wealth evolve, we will be there at every step along the way.

Here is how we'll work together.

Listen	Craft	Guide
We meet individually with you to explore your financial ambitions and needs	Our advisors, backed by specialists, provide integrated advice and investment management	As stewards of our clients' finances, we work together to build and preserve your wealth

Wealth Enhancement®

Call us today

1-888-717-1685

Schedule a complimentary, no-obligation review of your retirement plan. We'll work with you on a financial plan that's crafted with care, tailored with compassion, and built to handle what life brings.

(For best service, please call between 8:00 a.m. and 5:00 p.m. Central Time)

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