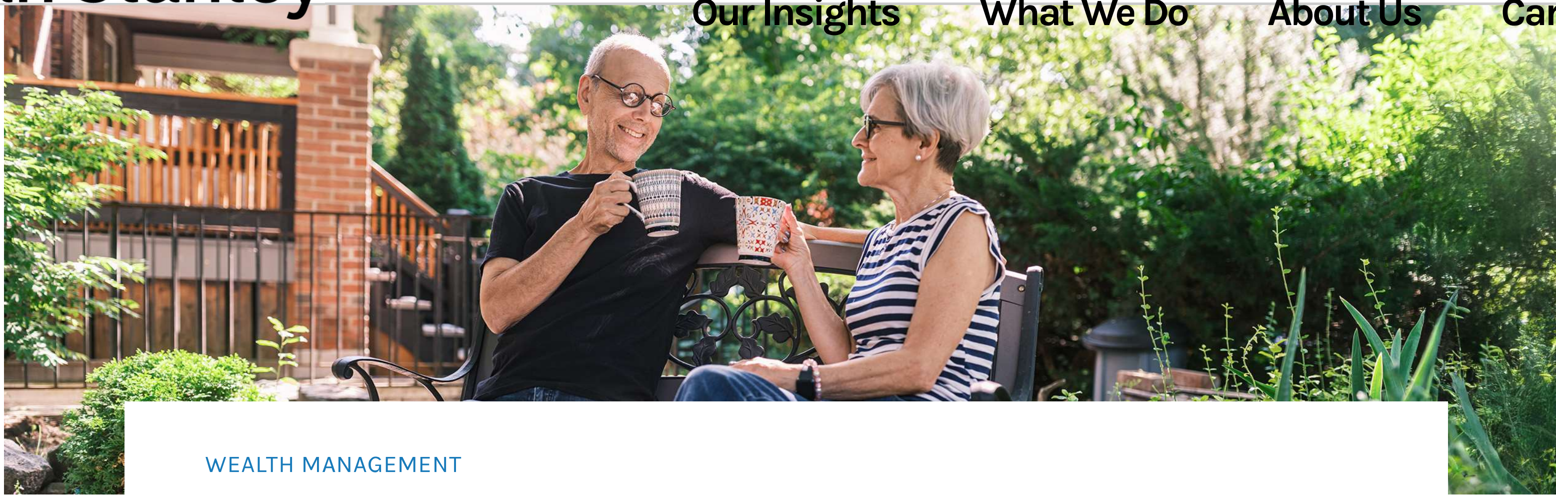

WEALTH MANAGEMENT

Making the Most of Your Retirement Savings

Carefully managing distributions from your portfolio during retirement can help you save on taxes, leaving you more money to spend and enjoy.

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Key Takeaways

- Taking distributions from your retirement account prior to reaching RMD age may help keep your tax bracket lower later.
- Income smoothing, combined with other strategies like municipal bonds, can help maximize retirement readiness without additional investment risk.

Markets don't always cooperate with your best laid plans, including those you've made for retirement. But there are strategies that can help improve retirement readiness, even at times such as now, when our forecasts indicate it's unlikely that markets will perform as well as they have been in recent years.

One such strategy, known as income smoothing, seeks to minimize the impact of taxes once investors start tapping into their retirement savings.

Smoothing Out Your Income

Contributions to most retirement plans, such as 401(k) plans and traditional IRAs (excluding Roth IRAs), are generally made on a pretax basis, up to the applicable contribution limit for that tax year and remain tax-deferred until you start to draw down the assets held in such accounts. When that happens, the IRS treats the withdrawn funds as ordinary income and taxes such distributions accordingly, for that tax year.[1]

in an effort to lower account balances, resulting in less money in those accounts when you reach the age at which you must start taking required minimum distributions("RMDs"). It is more tax efficient to smooth out the distributions you take from your retirement account prior to reaching the age at which you must start taking RMDs ("RMD Age"), which depends on your date of birth (e.g., if born after 1950, but before 1960, RMD Age is 73.[2] This can prevent higher income levels being realized in any given year because of RMDs for that tax year, which would push you into higher tax brackets.

Depending on the size of the retirement account, RMDs can sometimes be significantly larger than a retiree's needs, after accounting for other income sources, such as Social Security. The current progressive tax code often taxes those withdrawals at higher rates, which can substantially increase your tax bill.

Mind Your RMDs

Here's an example of how income smoothing can reduce tax costs. Consider a retiring couple, both 65, who plan to spend around $17,000 a month. They have combined, tax-deferred assets of $5 million and taxable assets of nearly $2 million. If they follow common practice and spend their taxable assets first, that could entail selling securities subject to the lower capital-gains tax rate. As a result, their taxable income would be quite low during the first few years of retirement.

Once they attain RMD Age in their 70s, however, RMDs would force the couple to tap into their tax-deferred assets with respect to such distributions. These higher withdrawals would push their income into the highest tax brackets—and their effective tax rate would spike.

their income, such distributions may result in lower estimated average tax costs during retirement. That means the couple may have more resources to support spending, gifting and other financial goals.

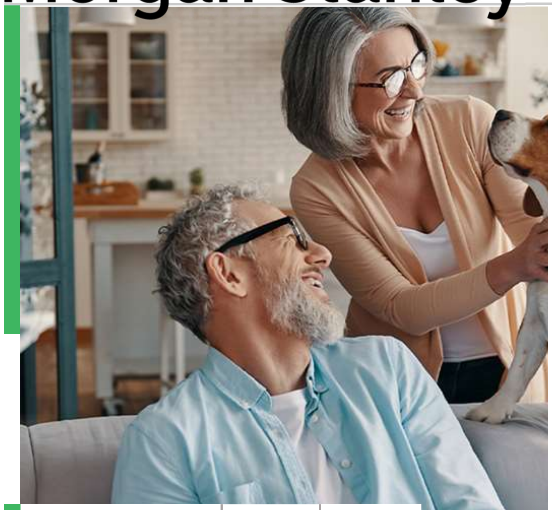
One downside of this strategy is that tax rates can change, and if they were to go down in the future that could adversely impact the tax efficiency of the income smoothing strategy (on the other hand, if tax rates were to increase, benefits would be magnified). Current tax rates are set to expire at the end of 2025, and it's unclear how rates will change in 2026 and beyond.

Find Opportunities to Maximize Retirement Dollars

Income smoothing is one of many techniques investors can use to help maximize their retirement readiness, but it's one of the few that doesn't require taking on additional investment risk. This approach can be even more effective when used in conjunction with other strategies that can reduce tax costs and increase flexibility to control the way income gets realized on a tax return, like investing in municipal bonds, or buying certain kinds of life insurance.

As the business cycle ages, opportunities for large market gains are more likely behind us. That makes strategies, like income smoothing, that can stretch the savings you do have, even more important for achieving your retirement goals.

This article was derived from Wealth Management's publication, On Retirement*. You can ask your Financial Advisor for the full report.*



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[1] Distributions taken by an individual from certain employer retirement plans and IRAs prior to attaining age 59 ½ are subject to a 10% early withdrawal penalty tax, unless such distribution satisfies an eligible exemption to the early withdrawal rules.