



How Will Taxes Impact My Retirement Income?

Proper tax planning enhances your financial security throughout retirement

Taxes can significantly affect your retirement income, reducing the amount available for spending.

Understanding how different income sources are taxed and implementing **tax-efficient withdrawal strategies** can help minimize tax burdens and maximize savings.

Taxable vs. Tax-Advantaged Income

Retirement income falls into three categories:

- **Taxable Income:** Withdrawals from traditional 401(k)s, IRAs, pensions, and some Social Security benefits are taxed as ordinary income.
- **Tax-Free Income:** Roth IRA and Roth 401(k) withdrawals (if held for at least five years and taken after age 59½) are tax-free.
- **Partially Taxable Income:** Social Security benefits may be partially taxed depending on overall income.

Required Minimum Distributions (RMDs)

Starting at **age 73** (as of 2023), retirees must take **RMDs** from traditional IRAs and 401(k)s, which are subject to income tax. Failing to take RMDs results in a steep **25% penalty** on the required withdrawal amount.

To mitigate RMD-related tax burdens, consider:

- **Roth Conversions:** Converting a portion of traditional accounts to Roth IRAs before RMDs begin to reduce future taxable income.
- **Qualified Charitable Distributions (QCDs):** Donating RMDs directly to charity to avoid taxation.

Tax-Efficient Withdrawal Strategies

A structured withdrawal plan can reduce tax liabilities:

1. **Withdraw from taxable accounts first** to allow tax-advantaged accounts to continue growing.
2. **Tap traditional retirement accounts next** to spread out taxable withdrawals over time.
3. **Use Roth accounts last**, as withdrawals are tax-free.

State Taxes and Retirement

Some states tax Social Security benefits and retirement income, while others offer exemptions. Before relocating, consider the **tax-friendliness** of potential states.

Proper tax planning ensures that more of your retirement savings are available for essential expenses, enhancing financial security throughout retirement.