

TRACK 1 RETIREES AND PRE-RETIREES

1:00 - 2:50 pm CDT



CURRENT SESSION



The John C. Bogle
Center for Financial Literacy

Tax Planning for the Five Phases of Retirement

1:00 - 1:50 pm CDT



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Disclaimer and Sourcing

This presentation is not investment, tax or legal advice for any individual.

Tax return examples sourced from
Tax Planning To and Through Early Retirement.



Opening Thought

“[Roth conversions] don’t usually improve financial security in retirement.”

– Mike Piper, 2024 Bogleheads Conference, 29:52 in the YouTube video



The Five Retirement Phases

- 1) Early Retirement Before Medicare Eligibility
- 2) The Golden Years
- 3) Age 70 to RMDs
- 4) Beginning of RMDs
- 5) Widow/Widower Years

Single taxpayers combine phases 4 and 5.



Phase One: Early Retirement

Taxable assets are the best “first spend” assets in early retirement.

- Keep income low with basis recovery
- Consider the top of the 0% long-term capital gains (LTCG) tax bracket. In 2025, that’s taxable income of \$48,350 for single taxpayers and \$96,700 for married filing jointly. That’s after the standard deduction (\$15,750 / \$31,500).



Phase One: Early Retirement

Planning Considerations

- Optimize for the Premium Tax Credit (PTC)
 - Asset Location
 - Specific Identification (Spec ID)
 - Turn off dividend reinvestment
 - Consider HSA contributions (Bronze is Gold!)
- Taxable asset withdrawals with basis recovery
- Very conservative Roth conversions, if any



Phase Two: The Golden Years

Generally speaking, these are the 66th through 69th birthday years.

- No PTC concerns.
- No RMDs.
- Social Security can be delayed.
- From a tax planning perspective, the world is your oyster!



Phase Two: The Golden Years Roth Conversion Path

If a retiree is still living off taxable accounts during the Golden Years, Roth conversions, particularly Tailored Taxable Roth Conversions (“TTRCs”) become very attractive.



Phase Two: The Golden Years

Roth Conversion Path

Tailored Taxable Roth Conversions have two parameters:

- 1) Leaves ordinary income no greater than the available standard/itemized deductions plus Senior Deduction.
- 2) Leaves taxable income no greater than the top of the 0% LTCG tax bracket.



Phase Two: Golden Years Example

Robert & Natasha, married, file jointly, both age 66 in 2025	
Item	Amount
Interest (A)	\$2,000
Qualified Dividends (B)	\$10,000
Nonqualified Dividends (C)	\$4,000
Long Term Capital Gains (D)	\$85,000
Other Income (E)	\$0
Pre-Roth Conversion AGI (A + B + C + D + E) (F)	\$101,000
Roth Conversion Prior to Year-End (G)	\$40,700
AGI (F + G) (H)	\$141,700
Total Available Deductions (I)	\$46,700
Taxable Income (H - I) (J)	\$95,000



Phase Two: Golden Years Example

Take a guess.

How much federal income tax do Robert and Natasha pay in 2025 with **\$141,700** of adjusted gross income?



Phase Two: Golden Years Example

Zero!



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Phase Two: Golden Years Example

How many W-2 workers with a \$141,700 salary pay \$0 in federal income taxes in 2025?



Phase Two: The Golden Years Hidden Roth IRA Path

If a retiree has depleted taxable accounts and is still living off traditional retirement accounts during the Golden Years, they can benefit from the “Hidden Roth IRA.”



Phase Two: The Golden Years Hidden Roth IRA Path

Vinny & Mona Lisa, married, file jointly, both age 66 in 2025

Item	Amount
Traditional IRA Withdrawals	\$140,000
Interest Income	\$2,500
Adjusted Gross Income	\$142,500
Total Deductions	\$46,700
Taxable Income	\$95,800



Phase Two: The Golden Years Hidden Roth IRA Path

Results

- 1) Total Federal Income Tax: \$11,019
- 2) Effective Tax Rate: 7.73%
- 3) Rate Assigning All Tax to IRA Distributions:
7.87%
- 4) **Hidden Roth IRA: \$44,200**



Phase Two: The Golden Years Hidden Roth IRA Path

Vinny and Mona Lisa have an effective tax rate about equivalent to the FICA rate during their careers!



Phase Two: The Golden Years

Planning Considerations

- Delaying Social Security retirement benefits increases future benefits and provides tax planning benefits.
- The Golden Years can affirmatively address traditional retirement account size, reducing concerns about RMDs.
- Roth conversions beyond TTRCs can have drawbacks.



Phase Three: Age 70 to RMDs

- No further delay of Social Security retirement benefits. This reduces desirability of Roth conversions.
- Consider Qualified Charitable Distributions (QCDs) starting at age 70½.
- Lowering income through QCDs, tactical Roth distributions, etc. can lower the amount of Social Security included in taxable income.



Phase Three: Age 70 to RMDs

Mike & Christine, married, file jointly, both age 71 in 2025	
Item	Amount
Social Security	\$80,000
Excluded QCD	\$12,000
Taxable Social Security	\$58,700
Traditional IRA Withdrawals	\$64,000
Interest Income	\$2,000
Adjusted Gross Income	\$124,700
Actual Income	\$158,000
Total Deductions	\$46,700
Taxable Income	\$78,000



Phase Three: Age 70 to RMDs

Results

- 1) Total Federal Income Tax: \$8,884
- 2) Effective Tax Rate: 5.62%
- 3) Rate Assigning All Tax to IRA Distributions:
11.69%
- 4) **More than half of their \$158,000 of income is not taxed!!!**



Phase Four: Beginning of RMDs

How Bad are RMDs?

- 4.07% distribution rate at age 75, 6.25% distribution rate at age 85.
 - Mike Piper discussed how **RMDs often help facilitate financial success, not harm** (30:49 in 2024 Bogleheads YT video).
- Start at age 75 for those born in 1960 and later.
- Taxation of RMDs benefits from run of progressive tax brackets. Can complete the loop on favorable tax rate arbitrage.



Phase Four: Beginning of RMDs

RMD Mitigation Factors

- Tailored Taxable Roth Conversions (and others)
- QCDs
- Asset Location
- Living off traditional retirement accounts prior to RMDs
- RMDs themselves!
- Life expectancy
- Early withdrawal strategies: Rule of 55, 72(t) payment plans, governmental 457(b) plans



Phase Five: Widow/Widower Years

The death of the first spouse most certainly will increase effective tax rates.

But how bad is it?



Phase Five: Widow/Widower Years

How much does one need in a traditional retirement account to have a \$200,000 RMD?

An 80-year-old widow(er) would need a bit more than \$4 million to have that large of an RMD!



Phase Five: Widow/Widower Years

Picture a \$200,000 RMD (in 2025 dollars) in the Widow's Tax Trap. How much of that will be subject to a federal income tax bracket over 24%?

With no affirmative planning, approximately \$32,000 (16%) is taxed at an income tax bracket greater than 24% (though numbers obviously can vary).



Phase Five: Widow/Widower Years

If the widow(er) in this example added a \$32,000 QCD, we estimate not a penny of their \$200,000 RMD would suffer negative income tax rate arbitrage.



Phase Five: Widow/Widower Years

Widow's Tax Trap Mitigation

All 7 factors that mitigate RMDs mitigate the Widow's Tax Trap. There are two more:

- 1) In order for the Widow's Tax Trap to have a material effect on widow(er)s, there needs to be a significant amount of time between the spouses' deaths.
- 2) If the older spouse dies first (the most common scenario), the inherited retirement accounts now benefit from the younger spouse's greater life expectancy factor (lower RMDs).



What Abouts?

- Inherited retirement account taxation
- Future tax law changes
- IRMAA



Conclusion

Mike Piper was correct about Roth conversions at Bogleheads 2024.

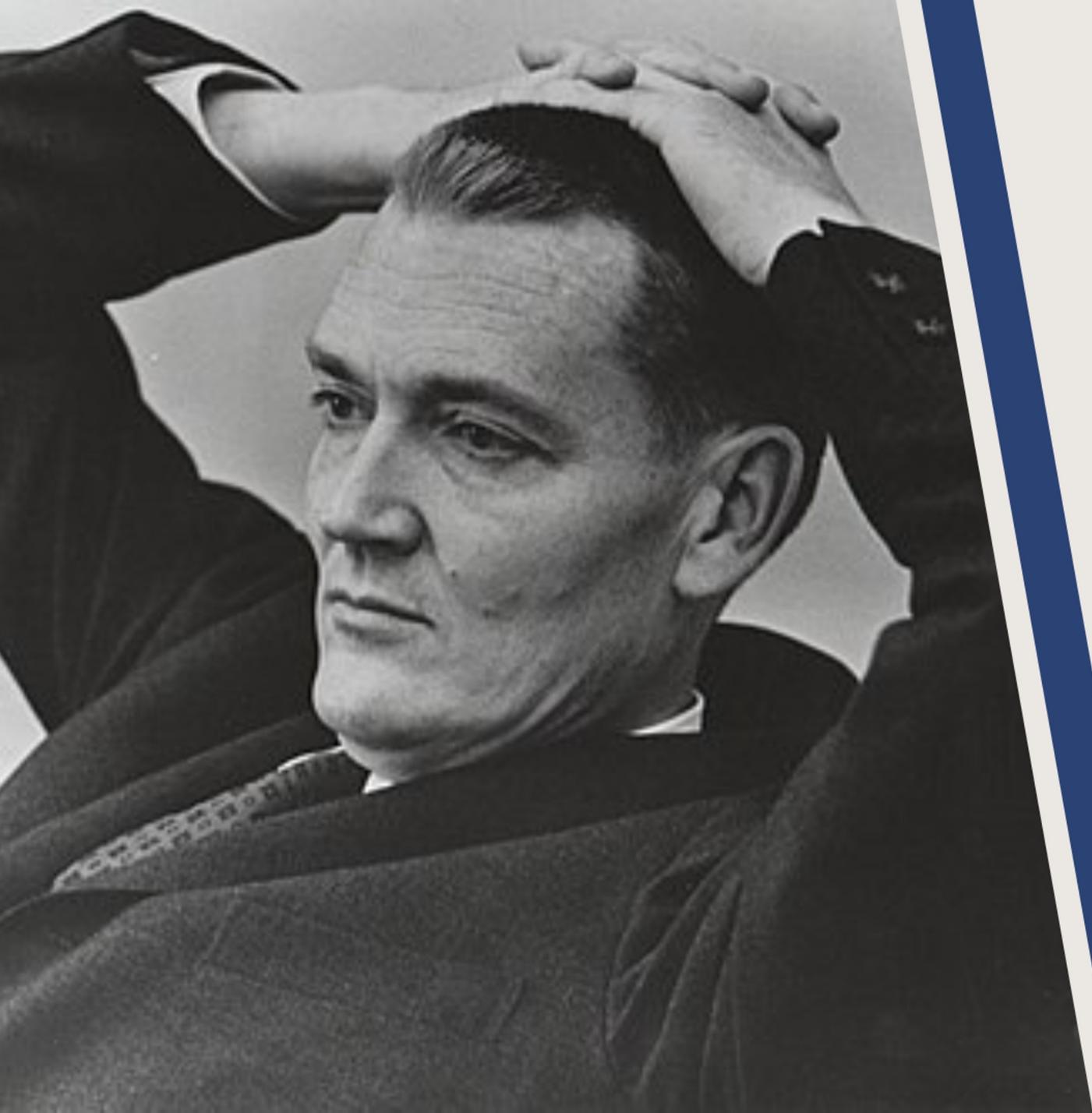
Why?

**Taxation in retirement tends to be light,
and can be even lighter with some good planning.**



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Thank You!



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Retirement Roundtable

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