



Managing taxes in retirement:

5 tips designed to help reduce
your exposure



The end of your working years doesn't mean the end of your taxes. In fact, your retirement tax liabilities can have a significant impact on your income and ability to achieve your retirement lifestyle goals. Fortunately, smart tax planning strategies may help reduce your tax exposure, support efforts to optimize your investments and help you better manage retirement income.

1. Diversify your retirement savings.

One of the best ways to reduce your tax exposure in retirement is by saving in a variety of accounts with different tax treatments throughout your working years. This gives you flexibility to manage your retirement income stream, as you can adjust the source of your withdrawals based on your changing income and tax situation.

It's wise to maintain a balance in each of the following account types.

- **Taxable accounts:** Taxable accounts include standard bank and brokerage accounts. Assets within these accounts are continually subject to taxes at either ordinary income or capital gains tax rates.
- **Tax-deferred accounts:** Contributions to traditional IRAs and 401(k)s are made with pre-tax dollars that reduce your taxable income during the year in which you contribute. Assets grow tax deferred within the account and are taxed as ordinary income when they are withdrawn in retirement.

The IRS mandates that taxpayers begin taking required minimum distributions (RMDs) once they reach a certain age. Because RMDs are taxed as ordinary income, it's important to plan for them in advance.

- **Tax-exempt accounts:** Accounts such as Roth IRAs and Roth 401(k)s are funded with after-tax dollars. This means that contributions do not reduce your taxable income during the year in which you make them. However, the tradeoff is that qualified withdrawals from Roth accounts—after satisfying IRS age and holding-period requirements—may be tax-free, providing a potential source of tax-advantaged income in retirement. Due to their tax-exempt nature, these accounts are not subject to RMDs.

If your income exceeds the threshold for contributing to a Roth IRA, you may still be able to access a tax-exempt source of retirement income by completing a Roth conversion. Talk to your advisor to determine whether a Roth conversion may be appropriate based on your individual circumstances.

2. Consider your various sources of income

As you plan for income in retirement, be sure to incorporate all sources of potential income, including retirement savings distributions, Social Security, pensions, rental income and passive income. This may help you coordinate your income sources and allow certain assets to remain invested.

The timing of your Social Security benefits is also an important consideration, so be sure to work with your advisor to establish a strategy that aligns with your broader financial plan.

3. Optimize your investments

The performance and tax efficiency of your investment portfolio can have a big impact on your ability to achieve your retirement lifestyle goals, which is why it's important to take steps to optimize your investments. The following strategies can help.

- **Tax-loss harvesting:** Tax-loss harvesting refers to the strategy of selling investments that have declined in value, realizing a loss on the sale and using that loss to offset gains elsewhere in the portfolio. Reinvesting the proceeds from the sale in a new investment with similar risk/reward characteristics may help you maintain your portfolio's target allocation and may improve tax efficiency. Up to \$3,000 of net capital losses per year can be used to offset ordinary income,

such as W-2 wages; that amount is reduced to \$1,500 for married filing separately (MFS) filers. Any additional losses can be carried over to use in future years.

It's important to note that the IRS's "wash sale" rule may disallow your tax deduction if you sell at a loss or repurchase a "substantially similar" investment within a 30-day window. Your advisor can help you understand this potential pitfall.

- **Asset location:** Asset location refers to the strategy of allocating different types of investments to different accounts, based on their tax treatment. It typically involves placing tax-efficient investments in tax-inefficient accounts and tax-inefficient investments in tax-efficient accounts. When done correctly, this can help reduce your portfolio's tax exposure, which may improve overall tax efficiency and could contribute to better after-tax outcomes, depending on market conditions.
- **Investing for growth:** A potential mistake made by many retirees is to sell out of equities and allocate the majority of their portfolio to conservative investments, which may reduce their exposure to potential long-term growth opportunities.

While it's important to preserve the value of your assets in retirement, it's also important to optimize your growth potential. Keep in mind that you may end up living in retirement for 20 or 30 years, or more if you're lucky. You'll need to make sure your assets are invested to keep up with inflation and your long-term investment needs.

And for many retirees, the investment time horizon may extend even further. If part of your financial plan includes leaving assets to children, grandchildren or other heirs, your investment strategy may span multiple generations. That longer view may influence how much of your portfolio stays positioned for long-term growth, even as you meet your own spending needs in retirement.

Your advisor can help you evaluate whether establishing a semi-liquid account to hold several years' worth of living expenses is appropriate for your circumstances, while investing your additional assets in a diversified investment portfolio focused on long-term growth. This type of structure may help provide liquidity for near-term spending needs while allowing the remainder of the portfolio to stay invested for potential future growth. It may also help reduce the likelihood of needing to sell riskier assets during less favorable market conditions.

4. Establish a tax-efficient retirement withdrawal strategy

Establishing a tax-efficient retirement withdrawal strategy is key to helping reduce your tax exposure in retirement. Your specific withdrawal strategy should take into consideration your financial and lifestyle goals, tax situation, income needs and legacy objectives. There are two main strategies to consider:

- **Traditional approach:** Using this approach, you would draw retirement income from one type of account at a time, typically from taxable accounts first, tax-deferred accounts next and tax-exempt accounts last. This may allow your tax-advantaged accounts to remain invested for a longer period of time, potentially continuing to accumulate tax-deferred savings to support your future needs. The downside of this approach is that your taxable income will vary from year to year.
- **Proportional approach:** This strategy involves establishing a target percentage to withdraw from each account each year, based on the proportion of retirement savings represented by each account type. The main benefit of this approach is it offers you a relatively stable tax bill from one year to the next.

5. Consider donating your RMD

A common mistake made by many retirees is failing to plan for the impact of RMDs. In fact, many are surprised to discover that they actually fall into a higher tax bracket later in retirement, due to these taxable distributions.

If your retirement goals include supporting charitable causes, you may be able to offset the tax liabilities of your

RMD by making a qualified charitable donation (QCD) directly to an organization of your choice. In 2026, the IRS allows individuals aged 70 ½ to make a direct donation of up to \$111,000 per year from their tax-deferred retirement savings to a 501(c)(3) charitable organization. (The limit is doubled to \$222,000 for married couples filing jointly and is adjusted for inflation annually).

In order to qualify, the donation must be issued from the IRA custodian directly to the charitable organization. If you take possession of the assets at any point in the process, the transaction will not qualify for QCD treatment. Also, the donation must be received by the charity prior to December 31 to count in the current year.

Also, you cannot claim a charitable deduction for a QCD, as doing so would be considered double dipping on the tax benefit. The QCD is an exclusion from income, not a deduction.

Manage your tax exposure

Tax planning is an essential component of any comprehensive financial plan. If you're not taking steps to reduce your tax exposure, you could be paying significantly more than necessary. However, the right tax planning strategies for you depend on your goals, your overall situation, retirement income needs, risks, time horizon, legacy goals, charitable giving priorities and more.

As you navigate the challenges of managing your taxes in retirement, your advisor can work with you to help ensure your decisions are in line with your long-term goals and overall financial plan.

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Tax-free treatment of Roth accounts applies only to qualified distributions, which require meeting IRS age and holding-period rules. Additional rules apply to Roth conversions, including potential taxes on converted amounts and separate holding periods. Under current law, Roth 401(k)s and Roth IRAs are not subject to required minimum distributions for the original account owner. State tax treatment may vary.

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