

CONFIDENT CONVERSATIONS® on Retirement: Tax Planning Strategies to Help Maximize Savings To and Through Retirement

Francisco Negrón: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. My name is Francisco Negrón, and I'm grateful to be your host. For the past 35 years, I've been privileged to work with organizations to help their employees prepare for retirement. My colleagues joining me today are financial professionals who also help people on their retirement journey, whether they're planning for retirement or are already there.

In today's episode, we are diving deep into the world of tax planning. Taxes can be complex and often overwhelming subject, but with the right knowledge and planning, you can make informed decisions to minimize your tax burden and maximize your financial well-being. Tax planning can impact your savings and your income leading up to retirement and tax efficient withdrawal strategies can help you maximize these savings. Once you are living in retirement. We'll discuss the key concepts and strategies of tax planning so you will have the tools to make the most of your hard-earned money.

Joining me to discuss this topic is CERTIFIED FINANCIAL PLANNER™ professional Roger Young. He's participated in several of our prior episodes. Welcome again, Roger.

Roger Young: Thanks for having me. It's great to be back.

Francisco Negrón: Roger, I have to be honest with you, my friend, I am not one of those folks that gets excited about tax planning. I am one of those that finds it overwhelming, complex, dare I say boring.

Roger Young: You're killing me.

Francisco Negrón: I enjoy tax planning as much, maybe a tad more, as I enjoy having to have a root canal. So, with that as a setup, you have this episode to make me a convert when it comes to that.

Roger Young: (laughs)

Francisco Negrón: So, let's kick things off. Let's start with the basics. What are the basics of tax planning when we say that and why is it important?

Roger Young: Well, to start, I do think it's hopefully a little better than the root canal for you. I haven't had one, but let's drill down.

Francisco Negrón: Woah, okay.

Roger Young: Yeah. So anyway, so tax planning, you know, it's about preparing ahead so that you and your family can keep more of that hard earned money you just talked about. So, in terms of the importance, let's just talk about a couple of big picture numbers.

A lot of retirees are going to pay between maybe 22 and 37% federal income tax rates on at least some of their income. You know, some lower some higher. State income taxes can be as high as about 13%. You know, most people don't face estate taxes, but those who do can pay a 40% rate. You know, you could pay 20% on your capital gains. Those are all some significant numbers. And we're not going to talk today about completely getting rid of those that, of course, isn't feasible. But if you can pay a lower rate on some of your income, that can meaningfully improve your ability to enjoy your retirement and leave a legacy, if that's important to you.

So, yes, it can be a complex topic. It's not necessarily the most fun, but we're going to try and make it easy to understand as we can. Listeners might still want to jot down some notes. That way they can do future research if they want or have some thoughts for when they meet with a tax professional if they go that route.

So, we'll talk about how taxes affect your assets like in your investments and also your income sources. On the flipside, we'll talk a little bit about tax deductions, things like charitable contributions, which are important to a lot of people. So, a lot of facets to tax planning.

Francisco Negrón: Oh, absolutely. So not to oversimplify it, but really at its core is about how to minimize that tax burden.

Roger Young: Yes. Yup. Over time. And have it fit in with the rest of your financial plan.

Francisco Negrón: Excellent. So, let's go a level deeper. I still think it's complex, but let's keep going. So, what are some of the common types of taxes that people need to think about before and during retirement? And actually, also, why are taxes different in retirement? Could you talk about those two points?

Roger Young: Sure, so we'll talk about two main types of taxes: income taxes and estate taxes. Now, people also have property taxes and other things. But in terms of today's topic, income taxes and estate taxes.

Within the topic of income taxes, an important distinction is what is called ordinary income versus capital gains taxes. The capital gains taxes, those rates are generally lower. So, we'll come back to all of that. You know, income taxes for a lot of people in their working years can be fairly straightforward. You know, work income is reported to them on a W-2 and that's ordinary income. And then you get to partly offset that with the standard deduction. Most people use that standard deduction. So, it's a pretty easy calculation. There's not necessarily a lot you can do about it.

Now, in retirement, there are new rules to consider. Things like Social Security has a very interesting way of being taxed. There are different types of retirement accounts and the distributions on those. You might have more gains from selling investments in retirement than when you're working. Medicare premiums are another interesting facet. Technically, those premiums are not a tax. But the income you have determines what your premiums are. So therefore, it's kind of like a tax.

So, all of these are pretty new for retirees, so as I mentioned earlier, most people don't have enough assets to worry about estate taxes. So, we're going to focus primarily on income taxes today.

Francisco Negrón: That's a good idea. So, what are the key tax principles individuals need to keep in mind to make the most of their savings?

Roger Young: So, we'll talk about two principles. First, your taxes on investment returns. You know, the gains and other income that you have for taxable accounts, those can create a drag on your performance. So, you know, we talk in the investment world about the power of compounding. Well, those taxes can dampen the power of compounded growth. So, one principle is to reduce that drag and ways to do that include delaying income, so you're taxed on it later, or shifting away from ordinary income sources to capital gains, which again, are typically at a lower rate. So, we'll talk a little more about ways to do that.

The second principle is to avoid bunching your income into specific years that would push you into a higher tax bracket. So, for example, if you can steadily pay taxes with a 24% top rate, federal rate today, instead of occasionally being taxed on chunks of that income at the next rate up 32% in some years, you're going to save money on taxes. So, the way you take money out of accounts can make a big difference.

You know, the impact of taxes on your investment strategy is going to vary based on your personal circumstances, primarily your tax rate. The higher your marginal tax rate, the more value there is to spend time on an investment strategy that factors taxes into the decision making.

But even so, even if you're not in the super high tax rate, you know, some of the strategies that we're going to talk about are options for investors even in lower tax brackets. So, for example, the difference between being taxed at 12% and 22%, which are two of the lower brackets right next to each other, that can be a big deal for someone who's not super wealthy.

So, you know, for all people, it's worth at least spending some time thinking about these principles in their taxes.

Francisco Negrón: So, it really is just as important considering as the accumulation and how you're going to turn your accumulated balance in retirement into an income stream. You really

need to understand what these taxes are and how they're going to cut into that so that you spread it out. I mean, one of the takeaways that I'm getting from what you're saying.

Roger Young: Yeah, I mean I think we in the industry recognize accumulation is relatively straightforward, kind of like I said, the taxes while you're working are relatively straightforward. A lot of things can get more complicated, and you might need some more advice as you head into retirement.

Francisco Negrón: Excellent. You also mentioned that people save in a variety of accounts. I know you've talked about this before. Can you describe how those different accounts are taxed?

Roger Young: Sure. It's helpful to think about them in three different buckets. So, the first bucket and probably the biggest for a lot of people, traditional 401(k)s and IRAs. You know, with these, you generally get to exclude the amounts that you contribute to them from your taxes in each year when you're making those contributions, then you pay ordinary income taxes later, when you take the money out. So, you'll hear us refer to those sometimes as tax deferred.

Francisco Negrón: Right. I'm very familiar with those and hopefully that is the majority of what's going to get taxed for you. So, what about, what are some others?

Roger Young: So, the second bucket would be Roth accounts and the benefits from having a Roth. And these basically have the reverse tax treatment of those traditional accounts I mentioned. So, you don't get a tax break when you put the money in, but qualified distributions during your retirement are completely tax free. So, two very different ways to have tax advantages in your retirement accounts and it's great that you know, we have those options.

Francisco Negrón: Yeah, they are great options and they do confuse people sometimes in terms of how they behave differently.

Roger Young: Yep.

Francisco Negrón: On both ends. Recently, I know that more people, more than ever, have the ability to make Roth contributions to their 401k. There are particular reasons for that, we won't get into those today. And some are eligible for Roth IRAs as well. What is the third bucket?

Roger Young: Third bucket would be what we call taxable accounts. So that's kind of everything else. So, nonretirement accounts, non-tax advantaged accounts. And with those accounts, you're going to pay taxes each year on the dividends and interest that you collect. And when you sell investments, you'll have potentially capital gains and pay capital gains taxes on those. So, when I mentioned tax drag earlier, those are the type of accounts where that tax drag is really relevant. So hopefully listeners are getting the idea these three different buckets have very different tax treatments and that affects how you want to arrange your investments heading into retirement and then how you want to take the money out during retirement.

Francisco Negrón: That's a very helpful overview. Any other tax considerations around the different account types?

Roger Young: So, the first one I'm going to mention is required minimum distributions. So, you've heard the abbreviation RMDs. Traditional IRAs and traditional workplace retirement accounts like 401(k)s have RMDs and they kick in now for people who are turning 73 or older. So as a quick numerical example, for a lot of people, the RMD starts at about 3.8% of your balance when you're age 73 and that percentage goes up steadily, you know, over time from there. And, when you're in your nineties, it's up over 10%. So that's a meaningful portion of your assets in these traditional type of accounts that you have to take out and you get taxed on every year. Now I'm curious from your perspective, you know, helping people with retirement plans, do you often hear people say, "Wow, I did not expect my RMDs were going to be that big?"

Francisco Negrón: Very much.

Roger Young: Yeah.

Francisco Negrón: very much.

Roger Young: And it speaks to the importance of planning. Don't be blindsided, You know, this is going to happen to you. So, there are things that you can do leading up to retirement or early in retirement that that might help with that.

Francisco Negrón: Absolutely. Very helpful. You also, I think, you had a second point.

Roger Young: Oh, yes, I did have a second point. Thank you. So, second one is, if you hold a taxable investment until you die, your beneficiaries or your heirs can get the benefit of what is called a step up in basis. And so, what that essentially means is nobody pays any capital gains taxes on the gains of that investment that you got during your lifetime. Your beneficiaries will eventually pay taxes on the gains from the day you died until when they sell it. So that's a real big benefit, potentially. Now, there are a lot of things to consider before making a decision that you're going to hold an investment for a really long period of time until you die. But if you're pretty sure that you're not going to need that money for your spending and it's a solid investment and it's comparable maybe in risk and return potential to other investments, you know, that step up could really help your beneficiaries.

Francisco Negrón: Does that get into estate planning then?

Roger Young: It does. It does. But it's also in that case, we're talking about income taxes for the beneficiary. So, you know, you never pay the income taxes, and they never pay the income taxes.

Francisco Negrón: Now, I've heard that it can be beneficial to hold various account types, especially when you're planning, like we've talked about, a withdrawal strategy, how important that is when you're planning that in retirement. Can you talk a little bit more about this?

Roger Young: Sure. Most people can benefit from having at least some Roth assets, you know, potential tax-free income in retirement because those qualified distributions are tax free. This can help you from, say, bumping into a higher tax bracket. You know, if you need more money in a particular year, for example, or as just part of your strategy. Now, also some of the returns that you generate in taxable accounts might be subject to those lower capital gains rates compared to your ordinary income. So those accounts can be a helpful part of the mix. So, I would say, yes, having what we call that tax diversification can be helpful.

Now, if you have some variety of those accounts: taxable, tax free, tax deferred - then the question might be, "Well, okay, how do I tap into those when I need them for spending? You know, what order should I do that?"

There's a rule of thumb that some people use, and you might hear it referred to as conventional wisdom. And that conventional wisdom is first you drain your taxable account, then you go to the traditional or tax deferred money, and then you save the Roth for last, and maybe that money ends up going to your beneficiaries which they love because it's tax free.

So that conventional wisdom, I would say, it's not crazy. There's a reason that's out there. But we'd also say a lot of people can improve on that order. So, I'll give you a quick example. You know, you could take money early in retirement from both your taxable account and your tax deferred account and essentially fill up a low tax bracket like the 10% or 12% or maybe even 22% bracket today, if that's, you know, low for you relative to what you may pay later.

And that's just one technique. There are other techniques. The takeaway is, you know, you could potentially save a significant amount by strategizing your withdrawal order.

Francisco Negrón: No that makes a lot of sense. And also, that brings to mind, we've talked about the types of accounts, but what you just described requires an understanding of the sources of income.

Roger Young: Yes.

Francisco Negrón: So, what are the tax implications of different sources of retirement income, let's say, such as Social Security, pensions?

Roger Young: You know, I think I alluded to it earlier. Social Security is taxed in a very unusual way. So, for federal income tax purposes, if your income is low, none of your Social Security benefits will be taxed. The higher your income, the more of it becomes taxable. So, it starts out adding, you know, adding it in at 50% of, you know, certain amount of Social Security benefits and then goes up to potentially 85% at a maximum.

Now, keep in mind, I don't want people to get confused by this. That's not the tax rate, 85%. That's how much of your Social Security benefits are taxable. Big difference between those two things.

Francisco Negrón: Yeah, important distinction.

Roger Young: People say 80, 85%, no. So, it's actually good in a way that only 85% at most is taxable. So at least 15% is not taxed from a federal income tax perspective. And most states don't tax Social Security benefits at all. So, there are nice things about that taxation. But it's also a little quirky because of how other income affects the taxability.

Francisco Negrón: Right. So, is there anything else one needs to take into consideration when it comes to Social Security and taxes?

Roger Young: So, because of that interesting way that it's taxed, you do need to consider this income in tandem with your other income. And you want to be aware of the marginal tax rate that you're paying. So, there's this phenomenon that some researchers call the tax torpedo. Interesting, catchy name, not, you know, maybe not as scary as a real torpedo. Definitely not as scary as a real torpedo. It's not going to sink you in retirement. But the idea of that, you know, scary sounding tax torpedo is extra income that you have in retirement, it can both be subject to ordinary tax on that amount, of course. But it also increases how much of your Social Security benefits are taxable. So effectively, you're almost getting a double tax hit on some of that income.

Now, you may not be able to avoid this. You might have years where, you know, you're going to pay the 85%. And so, some of it's being taxed in that weird way. But on the margins, if you're in a position where that additional dollar does add to what's being taxed at 85%, you might think about nontaxable sources for that additional income like Roth or selling investments where you don't have much gain.

So, it's a bit complicated to go into further. But in your spare time as listeners, you know, you can read about what we've written on Social Security taxation for more details.

Francisco Negrón: Or we could do a future episode just on this. I'm sure you would come back for that.

Roger Young: I would personally enjoy it, but most of you who consider it like a root canal, probably not quite so much.

Francisco Negrón: Get you a different host. We'll see. We'll come back to that.

Roger Young: Fair.

Francisco Negrón: No, it is all very helpful. I appreciate the way that you're explaining it. So, when thinking about the investments themselves, we've talked about account types, we've talked about sources of income. When thinking about the investments themselves within these accounts, what are tax efficient investments and what are their benefits?

Roger Young: You know, it's interesting. I think this is a lot of what people usually think about when they're thinking about tax planning. You know, the tax efficiency of the underlying investments. And first, just a quick reminder, you know, this is relevant to those taxable accounts. You know, tax advantaged accounts like traditional or Roth 401(k)s and IRAs don't incur taxes on the returns every year. They're taxed, if at all, on when you take the money out. So, tax efficient investments are relevant for those taxable accounts, not an IRA. So, that's the first aspect. Before we talk about, you know, what are those investments? You know, which accounts do they apply to?

Francisco Negrón: Okay. So, let's talk about the actual investments. What are examples of tax efficient investing?

Roger Young: So first one to mention is municipal bonds. So, these are bonds where you're essentially loaning money to a government for purposes of the government. Generally, those don't incur federal income tax. And in a lot of cases, you know, if it's in your own state, they may not incur state income taxes. So compared to, you know, a traditional bond, you know, that can be more tax effective and particularly valuable if you're in a high marginal tax rate.

So related to this, you know, you have these types of investments that you'd put in a taxable account. Ideally, you can coordinate that with assets and your other accounts, and that helps you diversify across your whole portfolio. This is something that we'll refer to as asset location.

So, if you're putting these tax efficient things in your taxable account, what do you put in other accounts? One example would be more aggressive investments, even if they might generate capital gains you might put those in a Roth account because of course you're not paying on the capital gains every year.

You might want to put investments that generate interest income, like taxable bonds, in a tax deferred account or traditional account. So just a few simple principles on ways to, you know, locate things in the right account.

Francisco Negrón: No, very helpful. So, let's talk about timing. You know, you made a point that alluded to this earlier. How can someone strategically time their retirement income and expenses, I would imagine, to minimize their tax burden? How does one do that?

Roger Young: So, I was thinking about an analogy on this, Francisco. And our listeners don't know until now that, you know, you and I met years ago because our kids ran cross-country together.

Francisco Negrón: That's right. That's right.

Roger Young: Full, disclosure, I can't run to save my life. I don't know how our kids did this.

Francisco Negrón: But anyway, but we watched.

Roger Young: We watched, that was my speed. And so anyway, so thinking about cross-country, you know, did our sons run, sprint as fast as they could in the first mile out of the gate?

Francisco Negrón: No.

Roger Young: Yeah, that that would have been kind of foolish, right?

Francisco Negrón: It would have been a short race.

Roger Young: Yeah, they would have burnt out. That would not be good. They were pretty spent by the end as it was. But that wouldn't have been pretty. So, yes, you know, slow and steady wins the race. Kind of, maybe not slow, but steady, you know, it wins the race is kind of a common thought. You can think about it in the same way for taxes. So, do you think it always makes sense to go out of the gate in retirement with as little tax as possible in those first years?

Francisco Negrón: No, absolutely not.

Roger Young: Yeah. There are there are times when you want to be careful about your taxes earlier on. But if you're paying zero at the beginning, you're not taking advantage of potentially those low tax brackets, you know, 10%, 12%. I mentioned earlier filling up brackets. So somewhat of a steady pace to your income over the course of your retirement generally works out pretty well. Maybe you save a little more early than late because there is, of course, the time value of money and, you know, maximizing your investments. But it doesn't help you to pay 0% at the beginning and pay a really high rate ten years later when RMDs kick in. So that's the principle of it.

I'll say again, generally you want to avoid spikes in your income that are going to bump you into a higher bracket. There's probably more potential for timing your income than timing expenses. So again, if you have different types of accounts, you can strategically choose when to draw from each like we talked about a few minutes ago.

Francisco Negrón: Yeah, I understand what you're saying. If I may put it this way. Pacing yourself when it comes to how you're going to pay those taxes.

Roger Young: Excellent. Yes.

Francisco Negrón: So, when it comes to drawing down accounts, which we've also touched on, what are some key phases of retirement to consider?

Roger Young: I tend to think of it as three big phases for tax planning. So first, you have the years before you claim Social Security. You know, for a lot of people we recommend waiting until, you know, at least full retirement age, you know, 67 for a lot of people, maybe even waiting until 70 when it's kind of the latest you can claim and still get as much as possible. So before claiming Social Security.

The second phase would be the years after claiming but before your RMDs, so that would be, you know, the years from, you know, say, age 70 to 73 or 67 to 73. And then the third phase is obviously the years after those milestones. So, 73 on. And the point here is there can be different strategies for each of those phases.

You know, one big example people might hear about is a strategy called Roth conversions. And that's when you're taking money that's in a tax deferred account and you're converting it into a Roth account. And that can have some benefits for you down the road, but you pay taxes on the amount you convert. So that might make sense for you in that first phase, the early years where you don't have so much taxable income kind of built in, therefore your tax rate might be relatively low, and you pay at that lower rate and reduce your future RMDs and that keeps you out of higher brackets later.

Now coming back to the other side of that, expenses. Some people are going to be near that cut off on their expenses between taking the standard deduction and itemizing. So, some of the key itemized deductions would include things like your state and local taxes, which are currently capped; if you're still paying a mortgage, mortgage interest; and charitable deductions. And for some people who have a lot of health expenses, health expenses could be part of that.

Now, if you're near that cut off, what you might try doing is bunching your deductible expenses in certain years. So, you might take large charitable contribution deductions, say, every other year, and then, you know, qualify for itemize but then other years you're well below the standard deduction number and you take the standard deduction.

You know, if you happen to have a year with big deductible medical expenses, that might be a year, if you can afford it, to do some other things, like take some charitable deductions. So, you can get creative with the timing on things that are, you know, somewhat optional, where you have some control, a lot of your expenses you don't control but the charitable contributions, you might.

Francisco Negrón: Well, what about regular expenses that are not deductible?

Roger Young: You know, on that, it's almost the flip side where you don't probably want to bunch those together in any year because, again, that could force you to take larger taxable distributions and push you into a higher bracket. So as an example, you might want to consider spacing out your home improvements. You know, you might consider spacing out your travel. Now, Francisco, when you retire, are you going to take all of your lavish trips in the same year?

Francisco Negrón: Probably not.

Roger Young: Probably not. Again, pacing yourself.

Francisco Negrón: Yes.

Roger Young: So yeah. If you bunched those together, you might have to take a little more out of your 401(k) and get an unfortunate surprise at a tax time.

Francisco Negrón: Very much so. Getting back to a topic you talked about earlier, or touched on, we didn't talk about it. Tax planning is also an important part of estate planning. Are there any tax efficient ways to transfer wealth to family members or even to charitable organizations that you would want to support?

Roger Young: We'll start with the family. You know, one common way to give money effectively to family is what's called the annual gift exclusion.

You can give a certain amount, per person every year, and not face any gift taxes on it. And it doesn't count against your lifetime maximum or estate taxes. So that's a nice way if you have a lot of kids and grandkids and in-laws, you know, that number can add up quickly and reduce what you ultimately pay in estate taxes without incurring any income taxes.

Similarly, there's the idea of making contributions to a 529 college savings account. Now, those contributions, those gifts would be included potentially in that annual gift exclusion. Now, if you are concerned about estate taxes, those contributions and those accounts have kind of a nice combination of features. Unlike other things, you control the amount that you have in a 529 account that's in your name for, you know, for the benefit of a beneficiary like a grandchild. But they don't count against your estate tax. And that's kind of an unusual combination. So, people like that from an estate planning perspective. And of course, they like the fact that they're paying it forward and getting to see potentially the benefit of those during their lifetime instead of just after they die.

You know, some of the strategies we talked about earlier, like your withdrawal sequence and the use of the step up in basis, those also affect what you end up leaving to your beneficiaries. So, you want to consider that impact potentially if a legacy is important to you.

Francisco Negrón: And what about charitable organizations?

Roger Young: There are a few different ideas related to taxes and giving money to charity. First one is something called qualified charitable distributions. With that, you donate money directly from your IRA to a charity. It counts towards your RMD but isn't taxed like an RMD. So that's great, especially if you don't itemized deductions. If you do itemize deductions, you might think about donating appreciated investments. So, you get the deduction, and you don't pay capital gains taxes.

Another idea is giving away your tax deferred account to a charity as the beneficiary. If your kids don't need all the money, the charity doesn't pay taxes on that. And compared to the high rate that your kids might, that that could be beneficial.

So, there are lots of ideas regarding charity. Some get even more complex than that but for our purposes today, that's probably a good place to cut it.

Francisco Negrón: No, but there is a lot to consider, a lot of opportunity, as you said, but a lot to consider. So, what about recent changes to the tax laws? Are there any that you would call out that our listeners should be aware of?

Roger Young: So, we've had a few tax law changes in the SECURE Act, the original SECURE Act, and then SECURE 2.0. In the first SECURE Act, it changed how people have to take money out of retirement accounts if they're the beneficiaries. After the person dies, most people who aren't spouses have to take it out within ten years, and that can bump up their tax rate if they're taking out a chunk on a sizable inheritance in a tax deferred account. So that's important to consider. With SECURE 2.0, you know, we had a podcast episode not too long ago about all sorts of facets of that one. So, lots going on there, as you know.

Francisco Negrón: Yes. And that has a lot of implications for 401(k), some of which have already taken effect and some of which will be coming. But as you alluded to, there is an entire episode on this topic so, I would encourage our listeners to check that one out.

Roger Young: So just keep in mind, tax laws do change. You want to have, you know, a strong strategy for the way things are today, but also, you know, somewhat flexible for things that might happen in the future.

Francisco Negrón: Now, all of this comes to mind. I remember when my wife, when I first got married, my father-in-law, I mean, he loves all this stuff. He's like you. And he would say, do not, and he was very specific, do not make decisions as you, you know, economic decisions based on taxes and tax law, because those can change. And he's not wrong. I mean, you don't want to base your entire plan. But this conversation to me is yet another example. It is a very important element and a very important consideration that needs to come into play as you build a plan that makes sense and is unique for you.

Roger Young: I think it's a fair point that your father-in-law made that you don't want the tax tail to wag the financial planning dog, so to speak.

Francisco Negrón: Mm hmm.

Roger Young: You know, you don't want to make rash decisions on things like, you know, selling an investment just for the loss, ignoring the underlying economics of whether it made sense to sell an investment, just as one example. Yeah, so I completely agree with that. But at the same

time, you know, be aware of taxes, don't do things that are harmful for you and think about what, you know, what the possibilities could be down the road. You know something like having some Roth, some of that tax diversification helps, potentially, prepare you for a variety of tax environments.

Francisco Negrón: Right. And the point, the reason I make this point is because sometimes for somebody, if this is overwhelming, well, you know, start with the basics that we've talked about in other episodes. I mean, there's no substitute. Well, are you saving? How much are you saving? Are you considering, you know, that hierarchy, that conventional wisdom, you know, having something for emergencies, etc., etc. You can always layer this into the equation. You could, you can introduce this into your financial plan, into the overall equation later. So, listeners don't need to feel like you have to have a good handle on this and just incorporate it all at once.

Roger Young: Yeah, I mean, personally, I'm hoping people have listened to other episodes before this one, but if you haven't, go back and listen to the earlier episodes and might benefit from both the basics, the building blocks, as well as the more advanced.

Francisco Negrón: Absolutely. Absolutely. Well, because it is complicated, I'm curious what tax planning, resources, tools, software would you say can assist individuals in managing their tax obligations more efficiently?

Roger Young: You know, there certainly is tax software out there that, you know, you and I can use as individuals to help us with our taxes. But it's more for compliance and filing your taxes typically than more advanced planning, like what we're talking about here. So, to me, if you want more tax planning, you should probably talk to a financial professional. You know, maybe that's a tax professional, but maybe it's a tax professional and a financial planner. So, the financial planner is going to think a little more holistically, hopefully, about all of your financial aspects, including investments and estate and charity and all that type of stuff, and not just the taxes. So, again, not wagging the dog...

Francisco Negrón: No, I like that.

Roger Young: You know, with just tax strategies. So, yeah, I think it is an area where especially because things get more complex in retirement, consulting with a professional is often a good choice.

Francisco Negrón: Mm hmm. Our prior episode was all about that. The value of working with a financial professional and how it can be helpful. So, you've just reinforced that point.

Roger Young: A topic I know and love. Yes. That's great.

Francisco Negrón: I know you do. Well, hard to believe...and I have to say I feel better now about tax planning than I did at the beginning. I don't think you'll ever let me live down the root canal comment.

Roger Young: (laughing)

Francisco Negrón: But you know, we're friends. But no, but all kidding aside, this has been really insightful and I'm sure that we could go in many different ways on some of the topics that we only touched on, but this is a good overview. So, thank you, can you leave our listeners with a parting thought or a key takeaway when it comes to strategic tax planning for retirement?

Roger Young: My key takeaway would be start planning well ahead of retirement. And I know that sounds painful, potentially. Oh, how early do I have to start planning? But those early years of retirement are years where you have more flexibility to take control of your tax situation. So, you want to take advantage of that if possible. You know, if you're in your later years, you probably don't have as much flexibility because of, you know, especially those required minimum distributions.

At the same time, you can also plan at that point on leaving assets to your family, having conversations with your family now that they're more settled about their financial situations. So, there are a lot of opportunities over the course of your retirement to plan but the sooner you start, the better positioned you'll be for all of those conversations.

Francisco Negrón: Excellent points. Thank you. And thank you so much for joining me today. I've enjoyed the conversation.

Roger Young: Thanks, me too.

Francisco Negrón: As we conclude today's episode, remember that tax planning is a powerful tool that can significantly impact your financial situation at any stage of life. By understanding the fundamentals, implementing effective strategies, and staying informed, you can navigate the tax maze with confidence. Always consider consulting with tax professionals to align your tax planning with your unique circumstances. Remember, a well-executed tax planning strategy can really help you keep more of your money and achieve all your financial goals.

Again, I'm Francisco Negrón. Thank you for listening. Please tune in for our next episode, which will offer valuable advice to guide women on their journey to uncover their passions and define their purpose. If you like this podcast, please rate us and subscribe wherever you get your podcasts. And remember, it's not how you start, but how you finish. So be confident! Your tomorrow begins today.



T. Rowe Price
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