



## Optimizing Retirement Income: A Case Study on Minimizing Taxes and IRMAA Surcharges

### Introduction:

This case study focuses on clients seeking assistance in optimizing their retirement income. These clients worked with a previous advisor who had overlooked the potential tax implications and the use of after-tax funds when generating income. As a result, the clients faced excessive taxes, and IRMAA surcharges due to the annuities with guaranteed minimum income riders held within their IRA accounts.

### Background:

The clients, a married couple in their late 60s, had accumulated a substantial retirement nest egg, divided between their after-tax and tax-deferred accounts. Their previous advisor sold them variable annuities with a minimum guaranteed income benefit and placed these contracts in their IRA accounts. The advisor purchased illiquid private real estate investments with their after-tax funds. Upon retirement, the previous advisor activated their annuity guaranteed minimum income riders. While this provided a steady income stream, it had unintended consequences in the form of increased taxes and IRMAA surcharges.

### Challenges Faced:

1. **Excessive Taxes:** Since the clients held the annuities in their IRA accounts, all income was taxed at their ordinary federal tax rate along with Maryland state and local taxes.
2. **IRMAA Surcharges:** The clients' income from the annuities triggered additional surcharges under the Medicare Income-Related Monthly Adjustment Amount (IRMAA) framework. The IRMAA resulted in higher Medicare Part B and Part D premiums.
3. **Illiquid after-tax investments:** The client's after-tax money was invested within an illiquid private real estate holding that generated minimal income. Due to the nature of this income, it was also taxed at their ordinary federal and state rates.

### Restructuring the Portfolio:

1. A comprehensive analysis of the client's financial situation was conducted upon transferring their accounts to our advisory firm. The following strategies were implemented to optimize their retirement income and minimize tax liabilities:
  - a. **Utilizing After-Tax Funds:** One of the primary steps involved leveraging the clients' after-tax funds to generate income. By selling the Real Estate investment and diversifying their portfolio, we could generate income mainly through qualified dividends and capital gains, which are taxed at a lower rate.
  - b. **Tax-Efficient Asset Allocation:** A thorough review of the client's portfolios was performed, focusing on asset location strategies to minimize tax exposure.
  - c. **Roth IRA Conversions:** A series of Roth IRA conversions were implemented, aiming to shift a portion of the clients' traditional IRA assets into tax-free Roth

accounts. This strategy allowed for future tax-free income withdrawals while reducing the clients' required minimum distributions (RMDs) as they aged.

- d. **IRA Distribution Planning:** A detailed analysis of the client's income needs, tax brackets, and RMD requirements was conducted. By carefully managing their IRA distributions, we ensured the clients remained within favorable tax brackets, thereby minimizing the overall tax burden.

### **Results and Benefits:**

The implementation of the aforementioned strategies yielded significant benefits for the clients:

1. **Increased Retirement Income:** By utilizing after-tax funds and adopting tax-efficient asset allocation strategies, and through IRA distribution planning/strategic Roth conversions the clients were able to generate a higher retirement income compared to their previous approach. This provided them with a more comfortable lifestyle during their retirement years.
2. **Reduced Tax Liabilities:** The portfolio restructuring resulted in a substantial reduction in the client's tax liabilities. By strategically managing their distributions, the clients could optimize their tax brackets, minimizing the impact of taxes on their income.
3. **Elimination of IRMAA Surcharges:** Through careful planning and a diversified income strategy, the clients successfully eliminated the IRMAA surcharges. This led to significant cost savings by reducing their Medicare Part B and Part D premiums.

### **Conclusion:**

This case study demonstrates the importance of a comprehensive approach to retirement income planning. By proactively considering the utilization of after-tax funds and implementing tax-efficient strategies, the clients could generate higher retirement income while minimizing taxes and eliminating IRMAA surcharges. This highlights the value of working with a knowledgeable advisor who understands the intricacies of tax planning and can develop personalized strategies tailored to individual circumstances.

## **Gain the confidence and peace of mind that you deserve**

Ready to take control of your finances and achieve your retirement goals?

Schedule a free consultation with us today. Our team of experienced advisors will work with you to create a customized financial plan that meets your unique needs and helps you build a secure financial future.

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