

CONFIDENT CONVERSATIONS® on Retirement:

360° Retirement Tax Planning: Minimize Lifetime Taxes and Extend Your Portfolio

Jessica Sclafani: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. I'm Jessica Sclafani, and I'm excited to be your host. As a retirement strategist, I've spent years helping people make sense of retirement, both the numbers and the emotions behind them. Together with my colleagues, we'll explore practical insights to help you retire confidently. Tax planning isn't just paperwork, or so I've been told.

It's actually a proactive strategy that can add hundreds of thousands to what you keep. Hundreds of thousands. That certainly got my attention. Whether you're still earning, newly retired, or drawing down, today's 360 tour will help you build and keep refining a tax-efficient retirement roadmap. I'm delighted to be joined by two of T. Rowe Price's leading tax and retirement strategists, CERTIFIED FINANCIAL PLANNER® professionals Roger Young and Mycha Marshall. Welcome, Roger and Mycha.

Roger Young: Great to be here. Thanks for having us.

Mycha Marshall: Thank you. I'm glad to be here as well.

Jessica Sclafani: Okay. Well, let's get started. Roger, what does a true comprehensive view of tax planning in retirement look like?

Roger Young: Well, we're calling this a 360-degree tour. And I was thinking, how do we explain that? So let's start with 225 degrees. That's behind you and to your left. That's where you'll find taxes related to charitable activities. No, I'm kidding. We're not going to take the metaphor that deep, but I do think there's some value in thinking about this somewhat comprehensively and recognizing that any direction you turn in retirement, taxes are a consideration. We often talk here about the five Ws of retirement: what, who, where, when, and why. Taxes shouldn't drive those decisions, but they certainly interact with them.

So here are a few examples. Where you live: all states have some sort of taxes, but the different types of taxes vary widely by state, so that could be a consideration in determining where you live. What you want to do with your time affects how you're going to need money from your assets and how you're going to draw on your income tax-efficiently. When to take certain actions is very important. Of course, when you retire is a big one, but when you claim Social Security is another. Taxes are actually, surprisingly, a consideration in that decision.

Who are the most important people in your life? How can you help them both during your lifetime and with an after-tax legacy? And on a related note, the why question might not fit as neatly with taxes, but what is your sense of purpose? In addition to the important people in your life, you might be thinking about charities or causes that are important to you, and you want to support them as efficiently as possible, both for you and for the charity. So perhaps that's a little more touchy-feely than our audience was expecting from this episode. But I promise people will get plenty of numbers, plenty of details, and practical tips. Mycha, maybe you can start us down that path a little bit.

Mycha Marshall: Sure, I'm happy to dive in. So let me start by saying that there are a lot of factors to consider when talking about taxes. The first is that there are actually several types of taxes. There are income taxes, estate taxes, as well as property and sales taxes. For this conversation, we'll mostly focus on income taxes, but it's important to note that the others are also worth considering as part of your tax planning.

Another factor is time. Let's think about retirement in three phases. There's the accumulation phase, which is when you're working and accumulating assets; the decumulation phase, when you're retired and withdrawing from your assets; and legacy, which is when you're passing on your assets to your heirs. And I'm going to go a little deeper into the decumulation, or retirement, phase because there are also three sub-phases I want to mention. The first is early withdrawals, usually before age 59.5, which is the age when you can generally take money out of your retirement accounts penalty-free. The second is the period before you must take required minimum distributions, more commonly known as RMDs. And the third is post-RMDs, which is when you must withdraw your required minimum distribution from your retirement accounts.

There's also a lot to consider regarding the tax treatment of your investments. It's important to understand the tax efficiency of different investment products, like mutual funds and ETFs. We have a great episode this season on ETFs because they've become quite popular with investors, and tax efficiency is one of their many benefits.

Jessica Sclafani: You're spot on, Mycha. We did talk about ETFs in another episode this season. That was a big topic for us, so thank you for the shout out there.

Mycha Marshall: Of course. Another factor I want to discuss is that there are different types of taxable income. All dollars are not taxed the same. I want our listeners to keep in mind that ordinary income is generally taxed at higher rates than long-term capital gains, and we'll discuss that further later in the podcast. But for now, I want to highlight how important it is to look at the big picture when you think about income in retirement.

A helpful first step is to take inventory of what you have. Look at your assets, all your income sources, and your retirement timeline, because getting that full view can make it much easier to start building a smart plan for managing taxes and getting the most out of your retirement income. I'm sure many of you have heard that it's not about how much money you've accumulated for retirement, but how much you actually get to keep.

Jessica Sclafani: Words of wisdom there, Mycha. Both you and Roger have given us a lot to think about already. And, Roger, I have to say I really appreciated your five Ws. I love a good who, what, where, when, why. I think that's a great way to remember some of the considerations you pointed out. And I also just want to respond to your use of the phrase touchy-feely.

For me, one of the things that I'm trying to reinforce throughout several of our episodes this season is that the numbers matter, but the emotions behind those numbers matter almost just as much. In some cases, they might matter even a little bit more. Very few of us are 100% rational beings. So again, I appreciate you acknowledging that there is a personal component to this.

Mycha, I'm going to come back to you. I think you suggested that maybe a good starting point is to take an inventory of our assets. So how should retirees think about their different income sources and their tax treatment?

Mycha Marshall: Okay, so let's go a little bit deeper into the different types of taxable income that many retirees may encounter in retirement. That means really considering not only the traditional sources like Social Security, pensions, or even part-time work, all of which are typically treated as ordinary income for tax purposes, but also the income you receive from your investment accounts.

For instance, withdrawals from tax-deferred accounts, such as traditional IRAs and 401(k)s, are also taxed as ordinary income. But with taxable accounts, you might have interest, dividends, and capital gains, which have varying tax treatments. Interest is generally taxed as ordinary income, while qualified dividends and long-term capital gains generally receive the lower long-term capital gains rates. And if you're drawing from a Roth account, those distributions can be entirely tax-free if you meet the age and holding requirements, which are age 59.5 and having held the account for five years.

Bringing all these pieces together is crucial for smart tax planning and for making your retirement assets last. So let's take Social Security as an example. Since that's a key income source for many retirees, depending on your total income, including those withdrawals and earnings we just talked about, up to 85% of your Social Security benefits could be taxable as ordinary income. Now, the upside is that at least 15% of your benefit is tax-free at the federal level, and many states don't tax Social Security at all. So it really pays to optimize your Social Security strategy.

Roger Young: Mycha, I think that's a great foundation. One aspect of your income sources I wanted to mention is the level of control you have over the timing and the amount of those different income sources. So, for example, Social Security is a big one. You control when you first take Social Security, when you claim your benefits. But at that point, the amounts are essentially fixed. They're adjusted for inflation, but they're essentially fixed. And you can't control the type of income you get on those; it's ordinary income, like you said.

And I know there's another episode where we talked last season about unlocking the power of Social Security benefits, and then again this season about Social Security for women. So we're not going to get too much into detail on Social Security, but listeners might want to check out those episodes for some more information.

Jessica Sclafani: Roger, I didn't even have to ask you for that shout out. Thank you so much. I think our conversation related to Social Security, particularly for women, was really informative. It was a great group.

Roger Young: In terms of other types of income and the timing and the control, you can choose, for example, whether to work. But when you do work, you can't really change the type of income, and generally you can't change the timing of when you report that income from year to year. In terms of taking money out of investments, until you face required minimum distributions, which we'll talk about a few times, you can choose which accounts to draw from. And even after you have those required minimum distributions, or RMDs, you might have some flexibility - less, but some flexibility.

So all of this is to highlight that it's helpful to have multiple income sources and multiple account types in terms of managing your taxes. As one example, it's nice to have a taxable buffer account - perhaps some cash on the side - that can help you smooth out your cash flow and make sure you are reducing the income that incurs higher tax rates over the course of your retirement.

Jessica Sclafani: Roger, I've heard you both make reference to required minimum distributions a few times, and I just want to make sure the audience is with us here. Can you give us a quick overview of what that means?

Roger Young: Once you get to a certain age, the government requires that you start taking money out of your tax-deferred accounts, essentially. And when you do that, you're taxed on the money at that point. The government wants its money at some point, and you got the benefit of the deferral all of those years, so you have to start taking the money out.

Jessica Sclafani: Helpful. One of the other takeaways I have so far from our discussion is that each dollar can land differently on your tax return, depending on the type of account where it is and the type of investment. You mentioned that ordinary income rates are generally higher than capital gains rates. Can you remind us how those rates and tax brackets work?

Mycha Marshall: Sure, Jessica, I'm happy to take this one. Marginal tax rates are an important concept to understand. Our tax system is progressive, which means your tax rate, or bracket, increases as your taxable income increases. It's not taxed at one flat rate. So, for example, there's a 10% bracket, then 12% and 22%, and so on up to 37%.

And here's what sometimes gets confusing: when you move into a higher tax bracket, only the income above the threshold gets taxed at the higher rate. The rest of your income is still taxed at the lower rates that you've already passed through. So when you hear someone mention your marginal rate, they're talking about the tax rate applied to your last dollar of taxable income. That's the highest rate you've reached, not the rate on all of your income. This marginal rate is also generally the rate you will pay on your next dollar of taxable income. It's also a good idea to pay attention to where those jumps between brackets happen, like from 12% to 22% or from 24% to 32%, because they can have a big impact on your tax bill.

Long-term capital gains tax rates, which apply to things like profits from selling stocks, work in a similar way. Again, they're generally lower than ordinary income tax rates. For example, if your taxable income is on the lower side, you might pay 0% on capital gains, but most people fall into the 15% bracket, and higher-income households pay 20%. And if you have different types of accounts, you may be able to manage the division between your ordinary income and capital gain income together to reduce taxes over time.

Jessica Sclafani: That was a lot of great information, Mycha. And I just want to underscore something that you said, which is that when you go from one tax bracket to another, it's only that additional income that's taxed at the higher rate, correct?

Mycha Marshall: That's correct.

Jessica Sclafani: Okay. Well, now we know why it's called the marginal tax rate. This is good.

Mycha Marshall: Exactly.

Roger Young: Now I'm going to throw just a tiny bit of cold water on that.

Jessica Sclafani: Oh, Roger, I was just feeling really good about myself. But okay, well.

Roger Young: You should feel good about yourself. You're right about what you just said, but there is one little exception to what Mycha just described. It's not exactly a tax, but it is something that costs you more as your income increases, so it's kind of like a tax. What I'm referring to here is your Medicare premiums.

Those are subject to income-related monthly adjustment amounts, affectionately known as IRMAs. If your income exceeds certain set thresholds, those IRMAs increase your premiums two years after the income that you earned. That increase can be over \$1,300 per year going from one level to another. The reason I say it's an exception to the marginal tax idea is that going just \$1 over an income threshold can cost you that extra \$1,300-plus. So it's different, unfortunately, from the marginal tax rate. Especially if your income is close to one of those thresholds, it's worth some effort to manage your taxable income and stay below them. That's an area where a financial professional can really help.

Jessica Sclafani: Okay, well, that was worth clarifying, Roger. That's really helpful to understand, and it sounds like it might be a nuance that many people probably aren't thinking about during their working years. Earlier you mentioned taxes on Social Security, and I know that can be somewhat confusing as well. So how does that calculation affect someone's planning?

Roger Young: Well, let me try to explain it the best I can without taking too long here. Like Mycha said, at most 85% of Social Security benefits are subject to federal taxes. That percentage, though, can actually be anything from 0% up to 85%. It's based on a calculation called provisional income. That number basically means half of your Social Security benefits, plus all of your other taxable income.

At low levels of income, 0% of your benefits are subject to tax. Then, over a first threshold, 50% of the additional provisional income adds to what is taxable in your Social Security benefits. Then, at another threshold, it's 85% of the extra income. So an extra dollar of that other income - for example, a tax-deferred account distribution - adds ordinary income, plus it adds up to 85% of the amount in terms of extra Social Security that's taxed. So that's a lot. I want to be clear about this: you're not paying an 85% tax rate. It's adding that percentage in terms of what is taxable of your Social Security benefits. So here's an example. Suppose you're in the 22% bracket. An extra dollar of income may not just add a dollar to your taxable income; it can add \$1.85. So \$1.85 times 22% is actually 40.7%. Mycha talked about marginal rates, and your marginal tax rate in that case is effectively 40.7%. That's what we sometimes call the tax torpedo, in that it's an unexpectedly higher marginal tax rate than you thought you were going to pay.

Mycha Marshall: The so-called tax torpedo doesn't have to be something that scares you. But as Roger mentioned, it can get complicated. The reality is, not everyone has the time or bandwidth to worry about every detail of tax planning, especially with everything else going on in life. That's why it's important to consult a tax professional if you need guidance. And one thing that can help is having income sources that aren't taxable.

That way, you can have flexibility when planning around issues like this. For example, as we mentioned earlier, Roth accounts can offer tax-free withdrawals, which can be a big advantage. Keeping some cash on hand can also give you options. And if you have taxable investments with high cost bases, selling those down may not trigger much in the way of taxes. All of these strategies can help smooth out your retirement income and keep surprises to a minimum.

Jessica Sclafani: IRMAs and tax torpedoes. I'm taking copious notes here, and I'm just so glad that we have you, Roger and Mycha, to help explain all of this for our listeners. I think you really did a nice job painting a clear picture of how extra dollars can trigger outsized taxes. So now we're going to shift gears to drawing money out of your accounts.

What key tax-efficient withdrawal strategies should retirees consider? Roger, I'll go to you here.

Roger Young: We're talking about people who have multiple types of accounts, which is a nice thing to have. It's very important to say up front that these decisions are very specific to someone's individual situation. In fact, they're much more specific than a lot of the issues you face as you're leading up to retirement. When it comes to taking money out, there are a lot of situations where two people can have very different strategies for tax-efficient withdrawals.

So all of that said, I'm going to give you some tactics to consider, which may or may not apply to you. One is something we call bracket filling. The idea here is that you'll use tax-deferred accounts, like a traditional IRA or 401(k), and you'll fill a low or relatively low tax bracket - for example, 0%, 10%, or 12%, maybe even higher depending on your situation. And you would do that before tapping other sources. What that helps you do is lock in that relatively low rate today, and later it can reduce the amount that you have to take in required minimum distributions, which could potentially increase your tax rate at that point.

Jessica Sclafani: Roger, is this about the sequencing? Is that what you're getting at here?

Roger Young: Yes, absolutely. The sequencing of which accounts to take from and when over the course of your retirement. And it's something where your tactics could change over time as well. Mycha, you mentioned some of the specific phases within retirement. You could take very different approaches during those different phases.

Another thing you might do is supplement money you take out of tax-deferred accounts by selling taxable investments, especially when the gains fall into that 0% long-term capital gain bracket. Mycha mentioned that you tend to pay a lower tax rate on those long-term capital gains. In addition, the threshold where you even start paying taxes - where you go from the 0% rate to the 15% rate - is much higher than it is for ordinary income. So people might be surprised that even if they're not super low income, they may be able to take advantage of 0% taxes on some of their long-term capital gains.

Another tactic for some people is to reserve some of their Roth assets for later years. That can limit the spikes in your income, especially in years when you're taking required minimum distributions. It can also help a surviving spouse. When you're the survivor, you're going to go from the married tax bracket to the lower single brackets, so you have to be aware of the potentially higher tax rates you'll pay on your income. We've found that by doing a lot of analysis of different scenarios, you can potentially have a six-figure lifetime tax savings by applying a sensible strategy compared with what we call conventional sequencing. That conventional approach is very simple: take it all out of one account, then another, then another - specifically, taxable first, then tax-deferred, then Roth. That conventional sequence certainly isn't crazy, but I'd suggest that if anyone is telling you to just use a simple formula or sequence across all of your retirement years, you should know you can probably do better than that naive approach.

Jessica Sclafani: And that's where, Mycha, you already brought up the concept of a financial advisor and how that could potentially be helpful.

Roger Young: Yes, certainly.

Jessica Sclafani: And I just want to point out that we've covered a lot of ground and a lot of information today, but we're not asking individuals to figure all of this out by themselves necessarily.

Roger Young: Yes. In terms of what I was just talking about, we have software that runs thousands of different possibilities for people. So doing that yourself is pretty difficult.

Mycha Marshall: I'd also add that as Roger was outlining, there are a lot of different approaches to managing your retirement income, and you can really be creative with your strategy. Some options might not even seem like withdrawal strategies at first. For example, let's take tax-loss harvesting, which is a technique we've seen make a difference. That's where you intentionally sell assets in your taxable accounts at a loss to offset capital gains for the year, which can help lower your tax bill, especially in years when your income is higher.

Another useful tool is a qualified charitable distribution, or QCD. If you're at least age 70.5 and charitably inclined, you can send up to \$111,000 directly from your traditional IRA to a qualified charity in 2026. This amount counts toward your RMD, but it doesn't count as taxable income, so it can really benefit both the charity and your own tax situation.

I also think it's important to be flexible. If your spending needs change or the market shifts, it's okay to adjust the order in which you tap into your accounts. There is no one-size-fits-all approach that works forever. You have to keep up with your retirement income strategy and tweak it as necessary. And as you're probably noticing, these strategies can get complex. The good news is there are great tools and financial professionals who can help you navigate all these options and find the best fit for your situation. So talk to your advisor about what you want to accomplish and ask about the most tax-efficient strategy to make it happen.

Jessica Sclafani: One thing that I love about this podcast, and these types of conversations that we get to have, is that we can offer our listeners a few ideas they can go talk to their financial advisor about. Sometimes it's hard to get started when you don't even know what to ask. So I hope this is triggering some ideas for our listeners.

I'd like to come back to Roth. We have talked about that a little bit today. Just how and when should retirees incorporate Roth conversions into their plan?

Mycha Marshall: Jessica, I'll start with a general framework to consider. If you think you're in a low- to average-income year compared with what it will look like later with RMDs and other considerations, it could be a good time to do Roth conversions. And they can also go hand in hand with a broader retirement income or withdrawal strategy. One other thing I'll mention is that many of our clients don't come to us with significant Roth assets. So we've found these Roth conversions to generally be helpful for them.

Executing those conversions before you start drawing down Social Security could help reduce your provisional income later. Additionally, spreading conversions over a time period that aligns with your specific tax-efficient strategy is important because it allows you to gradually move through each tax bracket and potentially minimize the overall tax impact. You can cover the taxes from your Roth conversion by using funds from your taxable accounts or available cash, which allows you to preserve your Roth assets and maximize their long-term tax efficiency. And by completing conversions earlier and in a more proactive manner, you may be able to reduce your future Medicare premiums and required minimum distributions.

Roger Young: Mycha, I think you brought up a really important point, which is that it's helpful to target years where you have relatively low taxable income. You mentioned early in retirement, before you start claiming Social Security. That's a great example. Another one, which could also apply to people who are still saving for retirement, is if you have a year when your income is lower for some reason.

Maybe you're between jobs. Maybe you have more variable income and you didn't get as big a bonus or commission that year. Those would be good times to think about a Roth conversion. People also sometimes ask, should I do a Roth conversion during a market pullback? My response would be that market pullbacks shouldn't necessarily dictate the strategy. But if you are going to do Roth conversions, that could help you with the timing during the year. The reason a market pullback could help is that you're effectively converting more shares of your investments at the same tax cost to you. So that could affect your timing.

You do want to watch out, though. The flip side to saving on your Medicare IRMAs - those higher premiums potentially later in life - is that you don't want to accidentally trip a higher IRMA in the short term because you did a Roth conversion. So you want to keep that adjusted gross income under the surcharge triggers. That would be a reason why you might want to do a Roth conversion relatively late in the year, once you kind of know what your income looks like.

Jessica Sclafani: Okay, so let's pause for just a second here. I always like to make sure that I'm tracking, and what I'm hearing from both of you on Roth conversions is that we should be targeting years with relatively lower taxable income, and we can potentially think about market pullbacks. They shouldn't dictate the strategy, but they can be a consideration. Does that sound about right?

Roger Young: That's a great way to summarize it.

Mycha Marshall: Yes, absolutely it is.

Roger Young: So you'll want to reevaluate this annually as things change, both in your life and your spending and in the financial markets, and with what's happened in your investments.

Jessica Sclafani: Helpful. So at this point, I feel like we've covered how timing conversions around low-income years and maybe market dips can pay off - literally. And this is probably a great opportunity to transition to RMDs. So what should retirees know about RMDs - again, required minimum distributions - and what can retirees do to plan ahead for RMDs?

Roger Young: Yes, we've mentioned them a few times. First, I do want to say that people sometimes have a fear or dislike of required minimum distributions, or RMDs. Maybe not quite as much as they fear that IRMA cliff we talked about.

Mycha Marshall: It may be because they're actually required.

Roger Young: Yeah, it's the whole required thing, and it's more taxes. I would say RMDs aren't inherently bad, so to speak, but they do reduce your tax flexibility. And if you have very large required minimum distributions that you don't need for your spending, that could bump you into an unnecessarily high tax bracket. The key here is that you want to plan ahead.

You don't want to get to RMD age and all of a sudden say, oh, I didn't expect this to be so big. The RMD age we've been talking about is currently 73. In a little bit, that's going to rise to age 75 because of some recent legislation. That age could continue to change in the future with different legislation. But for now it's 73, and then it will be 75. Importantly, missing one of those required distributions carries a 25% to 50% penalty. Ouch. Almost like a cliff, you might think. So you don't want to run into that. RMDs are definitely something you want to be aware of and not miss.

As we said, they apply to tax-deferred accounts. The way they're calculated is based on the balance you have in that account at the end of the prior year and your life expectancy, according to an IRS table. So you do the calculation - or your financial institution does it for you - figure out how much you have to take out during that year, and then you're taxed on that required minimum distribution. In almost all cases, some of the tactics we've talked about relate to not having too big an RMD. That includes Roth conversions, filling up tax brackets, and, as Mycha mentioned, qualified charitable distributions, or QCDs, to fulfill the RMD without being taxed on it.

Mycha Marshall: Yes. And it's important to remember that those penalties can be assessed if you miss your required minimum distributions. Life can be busy, so setting calendar reminders or automating your RMDs can really help ensure that you don't miss those deadlines. And it's not just about your own retirement accounts. These rules also apply to inherited IRAs. So sometimes people inherit an account and are so focused on their own assets that they forget about the RMD requirements for those inherited accounts as well.

So if you find you don't need all your RMDs for spending, you have options. Instead of just letting that money sit in cash, consider investing it into a taxable account to keep your portfolio working for you. You could also use extra RMD funds for gifts, like contributing to a 529 plan to help save for your kids' or grandkids' education. And finally, if you're concerned about making your money last in retirement, your RMDs can serve as a helpful guideline. A lot of people wonder how much they can comfortably spend from their tax-deferred accounts each year, and the RMD amount is a good starting point for answering that question.

Jessica Sclafani: Roger, I can't help but reflect for a moment on something you just said about RMDs having a connotation that's maybe a bit negative.

Roger Young: Yeah, I think it's the surprise people have about the amount.

Jessica Sclafani: Okay.

Roger Young: It's the, oh, I forgot I had to take this out, and wow, that's more than I would like to take out in terms of my tax situation.

Jessica Sclafani: Sure. It makes me think about the reframing we like to do on this podcast. And maybe one way to think about those RMDs, too, if we want to put a more positive spin on it, is just to pat yourself on the back. You did a great job saving for retirement. And in a way, the RMD is almost like a milestone to be celebrated. You've reached your goal, and now you have to spend it. I know that's a vast oversimplification of what you and Mycha just shared, but it's one way to think about it.

Roger Young: Yeah, I think that's a nice positive spin. It's nice that you've accumulated that in your tax-deferred accounts. Absolutely, I agree.

Mycha Marshall: Yes, because the alternative may not be as great.

Jessica Sclafani: Yes. Very true. So I think we've covered how important it is to plan for RMDs long term. And then each year, how should someone factor their heirs' tax situations and legacy goals into their withdrawal strategy?

Mycha Marshall: A general principle is that if you expect to leave an estate, it's a great idea to consider your beneficiaries in your retirement income strategy. Sometimes that means you'll probably need to have some multigenerational conversations. And if your heirs' expected tax rate is higher than yours, you may want to draw down from your tax-deferred accounts for spending and preserve your taxable assets for a step-up in basis at death, as well as preserve your Roth assets.

So what is a step-up in basis? That means your beneficiaries will calculate gains based on the investment value at your death, rather than what you paid for it. In other words, your beneficiaries won't pay tax on the increase in value that you experienced during your lifetime. And conversely, if your heirs' tax rates are going to be lower than yours, you may want to consider leaving them your tax-deferred assets, which will be taxed as ordinary income.

Beyond retirement income, you can consider a gifting strategy. One fairly easy step is using the annual gift tax exclusion. In 2026, you can gift \$19,000 per beneficiary tax-free. It's important to note that these thresholds may change year over year with inflation, so make sure you're working with up-to-date numbers as you implement strategies.

Roger Young: You know, that reminds me, Jessica, earlier you were looking for a heartwarming tale, right?

Jessica Sclafani: Yes. Ideally one related to tax planning.

Roger Young: Well, good. We'll keep it with taxes. I think the heartwarming tale that comes to mind for me is having that multigenerational conversation after a holiday about your plans for when you die, and how much money people are going to get from you and how they're going to get it. I'm partly kidding - only partly. It is definitely nice to have those conversations, and it really puts people more at ease if they know what's happening. Maybe not right after the holiday meal, but at some point, having that conversation is a good thing to do.

Jessica Sclafani: I appreciate where you're coming from, Roger. I agree. Maybe this isn't the conversation immediately following Christmas dinner. But it is important to plan to have that conversation and make sure that it happens.

Roger Young: Yeah. And in all seriousness, it's helpful to have that in person. So it might be that after a big family get-together is actually a good time to do it.

Jessica Sclafani: All I can say is, I don't know if you're going to be invited to my Christmas dinner, Roger.

Roger Young: Oh, I'm sad, but I get it. Mycha brought up a lot of good points about thinking about your legacy. I wanted to point out that, especially since the SECURE Act a few years back, beneficiaries can face significant taxes when they inherit tax-deferred accounts.

Generally, for most beneficiaries who aren't the person's spouse, those assets have to be distributed over a 10-year period. It used to be that you could take that money out as a beneficiary over the course of your lifetime. Now, generally, it's 10 years. So if you have a significant amount of tax-deferred assets that you've inherited, that roughly one-tenth each year that you're taking out could add a fair amount of income for you. And, like we've talked about with other things, that could bump you into a higher tax bracket.

So if you have beneficiaries who are in significantly different tax brackets, you might consider a strategy where you leave different types of assets to each. The big example here would be to leave a tax-deferred account, which is heavily taxed, to your lower-income beneficiaries, and leave other assets like Roth and taxable accounts to your higher-income beneficiaries. That can further optimize the tax outcome across the board for all of your beneficiaries, potentially. I will caution people that strategy takes a fair amount of work over time. You'll want to talk to an estate professional, and probably a financial professional, about it. And if any of this would potentially make for bad feelings among people in your family, you probably don't want to apply that strategy.

Jessica Sclafani: But it is a helpful consideration, so I'm glad that you brought that up. My takeaway here is that legacy planning can also be a tax strategy. So let's continue with potential tax strategies. We talked a bit about charitable giving already. Now I'm thinking about muni investments or accounting for state and local tax rules. Mycha, maybe you can help us out here.

Mycha Marshall: Yes, I'm happy to start down that path and talk about those other tactics that you mentioned. We've talked about QCDs already for those who are charitably inclined, and we talked about using QCDs in conjunction with withdrawal strategies. Another thing people can do, if they itemize, is consider donor-advised funds. That deduction can be especially helpful in high-income years, and you can grant the contributions over time.

Another strategy could be to donate appreciated securities in a charitable way. What's great about that is you avoid the capital gains tax you would normally have to pay when you sell them. You can also consider investing in municipal bonds. The great thing about muni bonds is the tax-free interest they can provide in higher income brackets. So we see that as a beneficial investment for investors who have a high income tax rate. And we haven't talked much about estate taxes thus far, which many people no longer pay because of the high lifetime exclusion. But if you might be subject to estate taxes, either at the federal level or the state level, I would say it's very important to consult an estate attorney to develop a strategy, because it can get complicated.

Roger Young: All of those are great points, Mycha. And, Jessica, you mentioned state tax effects as something to talk about. There's definitely some overlap between state taxes and those other tax types we mentioned earlier on. Some of those include property taxes and sales taxes. As you're thinking about where to live, they're a factor. We wouldn't advocate basing it all on taxes, of course, but it could sway things if you're considering a few different places.

You do want to understand the state-specific rules, such as whether Social Security income is excluded. We mentioned that the majority of states exclude Social Security income, but some do tax it. In some states, there are exclusions for certain amounts of pension income or withdrawals from retirement accounts. So you do want to think about your retirement vision and the relative importance of things like how much you're going to be spending on real estate, for example, to figure out whether income taxes are actually the most important thing, or whether property tax could be more important for your situation.

Mycha, you mentioned estate taxes. Again, the estate tax exemption at the federal level is now very high, and they've made it permanent. But at the state level, those could be very different and much lower. So you might potentially face an estate tax in your state. That's tough to say - estate tax in your state - but it could make a meaningful difference in how you think about your residence if that after-tax legacy is important to you.

Jessica Sclafani: Great reminders that where you live can materially affect taxes. And, Roger, you did say something that I wrote down here that I really liked. You asked our listeners to think about their retirement vision. I love that, and I hope some of our listeners maybe take that one away. What is your retirement vision?

So again, we've talked a few times about the value of having a financial advisor. So when should someone consider bringing in a professional, and what are some of the things they should be looking for?

Roger Young: Yes. Retirement taxes and the tax code are complex, and they change. Your situation changes, too. In my opinion, expert guidance is generally worth it, especially for people entering retirement and early in retirement. You do want to look for appropriate credentials. A few examples would be a CFP professional, possibly a CPA, or an enrolled agent, also called an EA. Those two are specifically for taxes and helping you with your tax returns in addition to your planning. You might use more than one of those types of professional.

You mentioned thought starters for conversations. For example, if you hear this and say, I want to hear about Roth conversions and avoiding the IRMA cliff, those could be questions you ask up front to see what the comfort level of the financial professional is in advising you on those topics.

Mycha Marshall: Yeah, those are some great considerations, Roger. Another one I'll mention is clarifying fees, or how you pay for professional advice. It can be a percentage of your assets, it can be a flat fee, or it can be hourly, which might be for tax work that's done for you. I think it's important to consider what structure works for you, and whether there are incentives or conflicts that the fee structure entails.

I also think it's important to ask how the provider serves clients like you, to try to get an understanding of what the experience is going to be like. And you also want to ensure coordination with estate attorneys. We talked earlier about estate planning and how it can get complicated, so you may need to bring in a professional to help you prepare those documents. And finally, you want to be consistent with an annual tax checkup. Sometimes you might have a CPA that you're working with and a CFP professional, and they might be in different places. So it's important to make sure that all the financial professionals you work with are in sync.

Jessica Sclafani: Perfect. Consistent, coordinated advice can make a huge difference. And, Mycha, I'm so glad you brought up fees because sometimes people get, as we know, a little jittery when talking about money. And the fee piece is just so important - understanding what the fee structure is and how there could be potential incentives or potential conflicts. So I'm really glad that we at least touched on the fee piece.

Mycha Marshall: Yes, absolutely.

Jessica Sclafani: So this brings us almost to the end of our time together. I'll start with you, Mycha. Any final takeaways before we say goodbye?

Mycha Marshall: Yeah. The first one I'll say is to seek clarity early. Know how each account is taxed, and map your retirement income sequence. Spend time thinking about your retirement vision while you're still in the accumulation phase, because it's important to consider the types of accounts you need to invest in to bring that vision to life.

We've also talked about the different tax treatments, so develop the strategy before you retire. It's also important - again, we talked about consistency - to review the tax brackets, losses, and conversion opportunities every year, because small moves compound over time.

Roger Young: That's great, Mycha. I'll echo the thought about the vision. And my first point would be about seeking fulfillment in your retirement. Again, taxes aren't the be-all, end-all, but in order to spend in line with your goals and meet your vision for retirement, tax efficiency can support that. Once again, it's a good idea to seek expert insight.

A seasoned advisor or financial professional can help you adapt as the laws and your life change.

Jessica Sclafani: Perfectly said, both of you. Today we heard an emphasis on clarity, consistency, and fulfillment. Specifically, think about your retirement vision, enlist expert insight, and recognize the value that can bring. These are all pillars that really capture the heart of tax-smart retirement planning.

Whether you're kickstarting savings, fine-tuning as retirement approaches, or actively managing distributions, hopefully today's conversation helped give you a roadmap to understanding your income buckets, sequencing withdrawals, timing Roth conversions, mastering RMDs, and leveraging somewhat more advanced tactics that we talked about, like QCDs and state tax strategies.

Again, I'm Jessica Sclafani. Thank you for listening. Please tune in to our next episode, which focuses on finding a financial advisor who shares your vision and goals. If you like this podcast - and I know you do - please rate us and subscribe wherever you get your podcasts. And remember, the numbers matter, but so does knowing you have the freedom to live with purpose and peace of mind.

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