



4 ways to decrease RMDs

By Debra Taylor, CPA/PFS, JD, CDFA

The government has become pesky about one thing—they want the tax dollars that have been locked up in traditional retirement accounts.



Brian M. Teta,
CFP®, ChFC®, RICP®, CLU®
Certified Financial Planner™
Oasis Financial Advisors

111 Grant Avenue
Suite 208
Endicott, NY 13760
607-645-4127

brian.teta@ceterainvestors.com
oasisfinancialadvisors.com

License #: 6142829
Reprint Licensee: Brian M. Teta

And think about it. Some of that money has been untouchable for decades. In light of budget woes and Washington wrangling, it makes sense that the government is eager for its long-awaited payoff.

Although, courtesy of SECURE Act 2.0, required minimum distributions (RMDs) don't begin until age 73 now (and age 75 in 2033) and the government is still very strict about exceptions to the RMD rules. And it is very difficult to decrease RMDs once you have accumulated that large account balance, which is why advanced tax planning is the best way to address these challenges.

But aside from really smart tax planning, ideally performed years in advance, there are just a few ways you can decrease your traditional retirement account balance, thereby decreasing RMDs and income taxes at the same time. These are the strategies we discuss below.

1. Distribution planning: Use it or lose it

Too many people head into retirement in the lowest or lower tax brackets: 10%, 12%, 22% and 24%. Paying taxes in these lower tax brackets while allowing your traditional retirement accounts to grow equates to a lost opportunity.

Throw out those rules of thumb that call for a drawdown of traditional accounts first. Why would you ignore opportunities presented by being in the lowest tax brackets if there is a good chance that the tax bracket could increase? Perhaps strategically draw down parts of that traditional retirement account while you can at these lower rates.

And just look at the numbers. Chances are that you may be in a higher tax bracket in retirement if you have a large retirement account balance of say \$2 million or more.

You could be in a higher tax bracket with even a lesser balance, depending on your age and tax filing status.

And don't forget the widow's penalty which can also push the surviving partner into a higher tax bracket once she is filing as Single. Also, the expiration of the Tax Cuts and Jobs Act looms on the horizon, complicating this analysis and throwing doubt on whether someone in the 24% tax bracket or above will stay in that bracket once we enter 2026.

2. Serial Roth conversions are very powerful tools!

Similar to the logic above, use those lower tax brackets or you will regret it. The goal is to pay taxes at the lowest overall tax rate throughout your life. The goal is not to pay the lowest taxes this year and kick that liability to a future date where it can be even more costly.

And serial Roth conversions go beyond simplified tax bracket management. Let's look at a basic hypothetical. I once had a prospect tell me that her previous financial professional (FP) converted \$30,000 to max out the 24% tax bracket.

That overly simplistic approach is completely ineffective at limiting the growth of a \$2 million traditional retirement account. That is not tax planning, that is a bandaid disguised to look like tax planning.

We must go deeper and be more thoughtful in the analysis by comparing today's lower tax rate against a projected future tax rate and finding the optimal Roth serial conversion amounts so that we can minimize the future tax rates. This is basic arbitrage. And it is a dynamic analysis to be performed on a year-by-year basis until the job is done.

3. QCDs allowed up to \$100,000/ person, but proceed wisely

The main benefit of a QCD is that it is the only distribution from an IRA that is tax-free when directly sent to a qualified charity. Therefore, QCDs are a tax-efficient way to donate to charity and reduce the traditional IRA balance, which will then lower future RMDs and taxes. And if RMDs are already being taken, the QCD can be used to satisfy the RMD and reduces taxes in the current year.

A QCD also excludes the contribution from taxable income. This is a beneficial tax treatment as compared to a regular distribution from an IRA (which is taxed as Ordinary Income) and then used to make a charitable contribution (which then may count as a deduction). Lower taxable income could help with other "income dependent items" such as taxation of Social Security, Medicare IRMAA surcharges and certain tax credits and deductions.

4. QLACs can decrease uncertainty of life expectancy and cut down on taxes

QLACs (Qualified Longevity Annuity Contracts) have been around since 2014, but have gained little traction. And no wonder. They are hard to understand, we are limited to the lesser of 25% of the IRA account balance or \$145,000, and they are fixed in nature (thus traditionally offering little growth). So it shouldn't be surprising that QLAC sales only reached \$234,000,000 in 2022. But that could, and possibly should, be changing as a result of two things: SECURE Act 2.0 and rising interest rates. As a result of both changes, QLACs are offering 100% to 250% more income when compared to December 2021, according to Kiplinger's.

A QLAC is technically a deferred income annuity purchased by your traditional retirement account. That tax-free transfer not only purchases a QLAC, but it also reduces your retirement account balances, thus ultimately reducing your taxable RMDs. They provide a special tax benefit while helping to ensure that part of the nest egg can last your entire life span. Essentially, the purchase of a QLAC transfers some of the market risk to the insurer, and can supplement Social Security or act as a partial replacement for a pension.

As a result of SECURE Act 2.0, individuals are able to contribute up to \$200,000 into a QLAC during their life, and there is no percentage limitation regarding the IRA balance. That is a nice start and could make a serious dent in an IRA balance, particularly if both partners take advantage of the increased contribution limit. In addition, courtesy of SECURE Act 2.0, you can include a "return of premium" feature in your QLAC so that the purchase amount,

less any payouts, goes to a beneficiary at your passing. This is a very nice feature and removes a typical objection to these types of annuity contracts ("What if I die young? What happens to the money?") Other objections could address the big upfront contribution or the concern about accessing money in the case of an emergency, which is why the QLAC only makes sense for a portion of your IRA money.

However, rising interest rates have now sweetened the growth of the QLAC, which are required to be withdrawn starting at age 85 (although they can be withdrawn sooner). QLACs are fixed annuities, and their returns are reliant on interest rates. Because interest rates have increased so significantly during the last year, the economics of the QLAC have dramatically improved.

For example, according to Kiplinger's, if in December 2021 a male aged 70 used \$135,000 (the 2021 maximum) to purchase a QLAC, it would have paid income of \$38,000 at age 85. Now, just a little more than a year later, you could purchase income of \$75,000 a year. That's because of the increase in the QLAC maximum to \$200,000 a year combined with the higher interest-rate-based payout.

Other examples of increased payouts according to the Wall Street Journal are that a 65-year-old can contribute \$200k and expect \$134,000 per year beginning at age 85. If the contribution is made when the investor is 75 years old, then he would receive \$84,000 in year one. Adding a death benefit reduces those annual payments to \$104,400 at 85 years (assuming the contribution at age 65) or \$62,400 a year (assuming contribution at age 75).

These increased payouts provide a nice supplement to possible long-term-care expenses or other end-of-life expenses starting no later than age 85 (although annuity payments can begin prior to that time). These end-of-life payments can also provide a useful add-on to Social Security, particularly benefitting women, who are expected to live longer.

When reviewing large traditional IRA balances that are poised to generate large RMDs, you are probably wondering, "What choice do I have?" Between good planning, SECURE Act 2.0 and higher interest rates, their options are expanding and can be meaningfully deployed in the hands of the right FP.

Debra Taylor, CPA/PFS, JD, CDFP, writes on tax and retirement planning for Horseshoorn, an independent organization providing insight into the critical issues facing financial professionals and their clients.

Cetera Investors is a marketing name of Cetera Investment Services. Securities and insurance products are offered through Cetera Investment Services LLC (doing insurance business in CA as CFG STC Insurance Agency LLC), member FINRA/SIPC. Advisory services are offered through Cetera Investment Advisers LLC. Cetera Investment Services LLC representatives do not provide legal, tax or estate planning services. Should you require such services, you should consult a legal, tax or estate planning professional.

The opinions contained in this material are those of the author, and not a recommendation or solicitation to buy or sell investment products. This information is from sources believed to be reliable, but Cetera Investment Services LLC cannot guarantee or represent that it is accurate or complete. Neither Cetera Investors nor Cetera Investment Services LLC are affiliated with Horseshoeth. Cetera is under separate ownership from any other named entity. 607.741.1216

Copyright © 2025 by Horseshoeth, LLC. All rights reserved.

IMPORTANT NOTICE: This reprint is provided exclusively for use by the licensee, including for client education, and is subject to applicable copyright laws. Unauthorized use, reproduction or distribution of this material is a violation of federal law and punishable by civil and criminal penalty. This material is furnished "as is" without warranty of any kind. Its accuracy and completeness is not guaranteed and all warranties expressed or implied are hereby excluded.