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How to **manage taxes** in retirement

16 July 2025

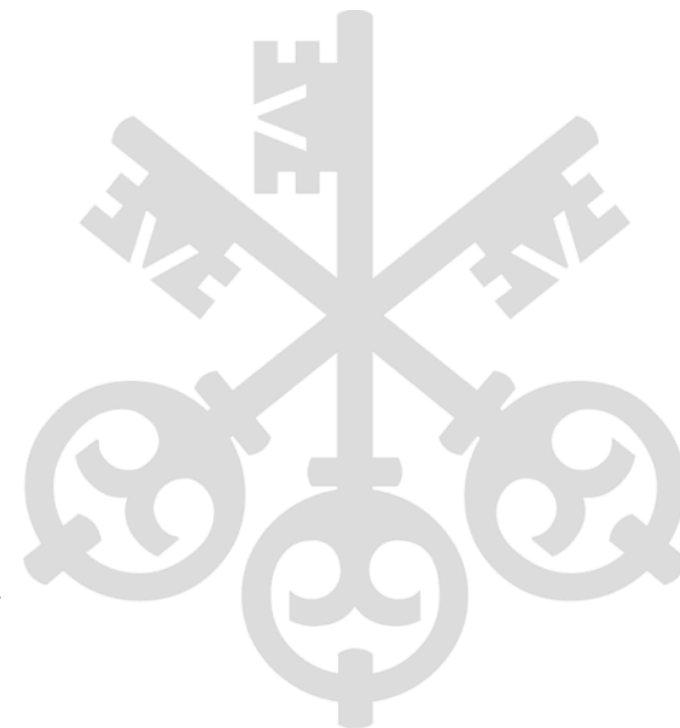
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Introduction

- When raising funds for retirement spending, a common approach is to defer taxable income as long as possible.
- Unfortunately, strategies that aim to defer or minimize taxes often create large "tax torpedoes" for later retirement years, forcing families into higher marginal tax brackets and incurring additional costs that can hurt after-tax growth potential.
- Another approach is to spread taxable income over time, filling up lower tax brackets and avoiding higher tax brackets.
- An "income smoothing" approach involves paying taxes earlier, but it can actively defuse tax torpedoes, help to protect against the risk of higher taxes in the future, and enhance after-tax growth potential.

Deferrers: Beware of "shark a-tax"

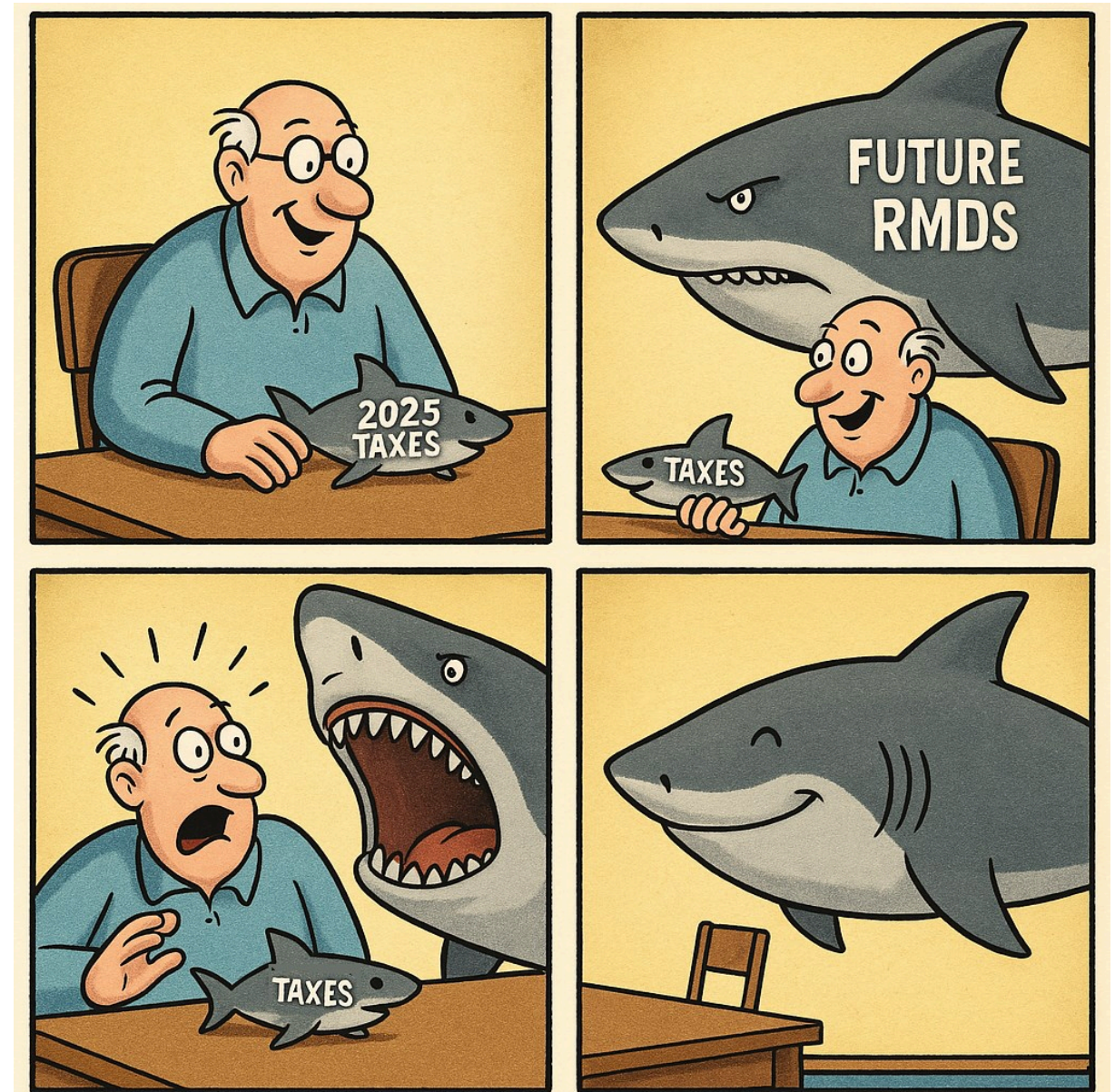


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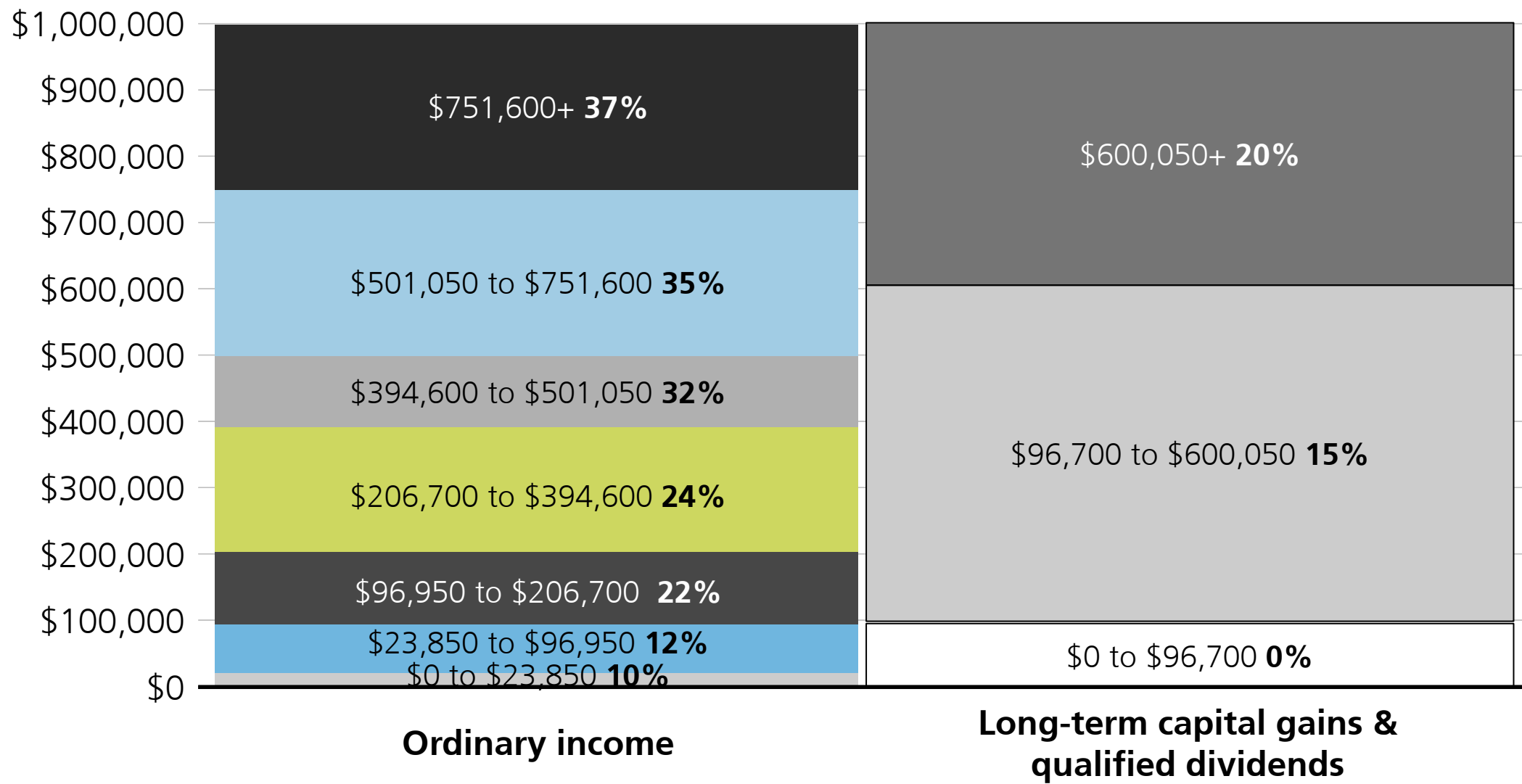
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Section 1

Why smooth taxable income?

Progressive marginal taxes mean that higher income is taxed at a higher tax rate

2025 federal tax brackets and tax rates for ordinary income, long-term capital gains, and qualified dividends



Higher taxable income = higher marginal tax rates

Marginal tax rates only apply to taxable income falling in a given range (i.e., "tax bracket")

Higher taxable income can also trigger higher Medicare premiums

2025 Part B and D Medicare premiums and income-related monthly adjustment amounts (IRMAAs), based on 2023 modified adjusted gross income (MAGI)

2023 MAGI	2025 Part B premiums		2025 Part D premiums	2025 Part B + Part D premiums
Joint tax return	IRMAA	Total monthly premium	Your plan's monthly premium + IRMAA	Total annual IRMAA surcharge, assuming both spouses are on Medicare
\$0 – 212,000	\$0.00	\$185.00	your plan premium	\$0.00
212,000 – 266,000	74.00	259.00	+13.70	2,104.80
266,000 – 334,000	185.00	370.00	+35.30	5,287.20
334,000 – 400,000	295.90	480.90	+57.00	8,469.60
400,000 – 750,000	406.90	591.90	+78.60	11,652.00
>750,000	443.90	628.90	+85.80	12,712.80

- Important note:** For IRMAA purposes, Modified Adjusted Gross Income (MAGI) is calculated by adding Adjusted Gross Income (AGI) **plus any tax-exempt interest income** (such as municipal bond interest).
- AGI includes all taxable income sources, including ordinary dividends, qualified dividends, realized long-term and short-term capital gains, wages, interest, IRA distributions, pensions, and the taxable portion of Social Security income.
- Each year's IRMAA is determined by looking at your MAGI from two years prior (e.g., 2025 IRMAA is based on 2023 MAGI)



Source: Center for Medicare & Medicaid Services, UBS.
Note: Both spouses will pay an IRMAA if they are both enrolled in Medicare and their combined income exceeds the thresholds.

Higher taxable income also incurs other **hidden costs**

- Higher marginal income taxes are not the only cost to having high taxable income in a given tax year.
- For example, you can also lose access to (or suffer reductions in) tax deductions, credits, and other benefits due to income phaseouts, limitations, or alternative taxes.
- When you defer taxable income into later retirement years, it can also trigger the “widow's penalty,” where the surviving spouse will face a higher income tax burden after their partner has passed away. The surviving spouse becomes a single tax filer, and single tax brackets are much “narrower,” meaning that the same level of income can push the survivor into higher tax brackets.

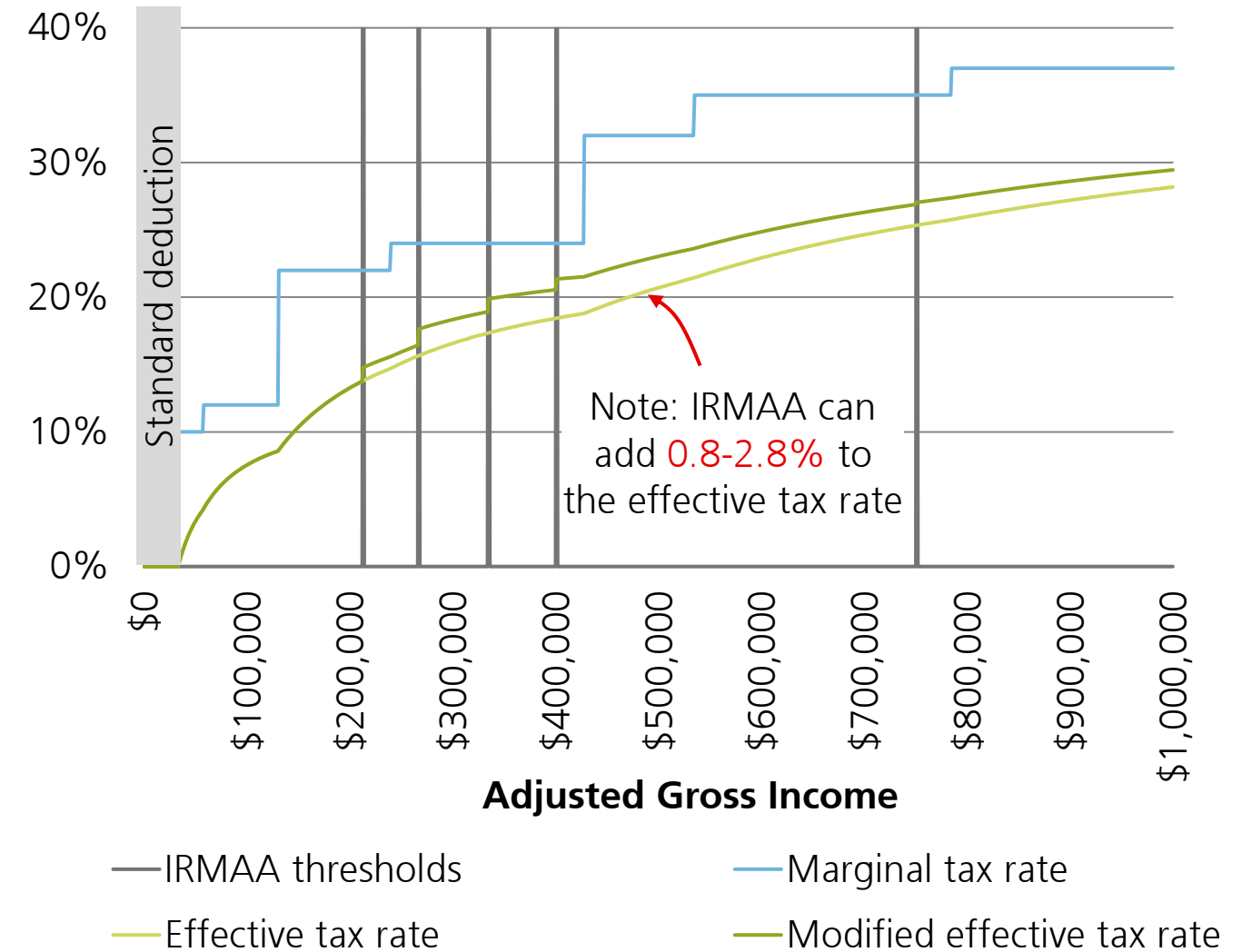
Common tax benefits lost/reduced at high levels of taxable income

Child Tax Credit	Phased out
Education Credits (AOTC, LLC)	Phased out
IRA Deduction	Phased out
Student Loan Interest Deduction	Phased out
Earned Income Tax Credit (EITC)	Not available
Saver's Credit	Phased out
QBI Deduction	Phased out for some businesses
Passive Loss Deductions	Phased out
ACA Premium Tax Credit	Phased out
Charitable Deduction	Limited by AGI
Alternative Minimum Tax (AMT)	May be triggered
Net Investment Income Tax (NIIT)	Applies above threshold
Medicare IRMAA	Higher premiums
Capital gains/dividend Rates	Higher rates at higher income
Social Security Taxation	More benefits taxable

To measure your tax burden, look at **effective tax rates**

- **Marginal tax rate:** The percentage of tax you pay on your last dollar of taxable income. This figure represents the highest tax bracket that applies to your income.
- **Effective tax rate:** The average percentage of your total taxable income that you actually pay in taxes. It's calculated as total tax paid divided by adjusted gross income.
- **Modified effective tax rate:** This figure is a more comprehensive view of your true "all-in" tax burden, reflecting both direct taxes and income-based Medicare premium surcharges. It is calculated by adding total federal income tax paid and any Income-Related Monthly Adjustment Amount (IRMAA) surcharges on Medicare Part B and Part D premiums and then dividing this sum by adjusted gross income.

2025 Federal marginal, effective, modified effective tax rates (including IRMAA surcharges), and IRMAA thresholds by adjusted gross income

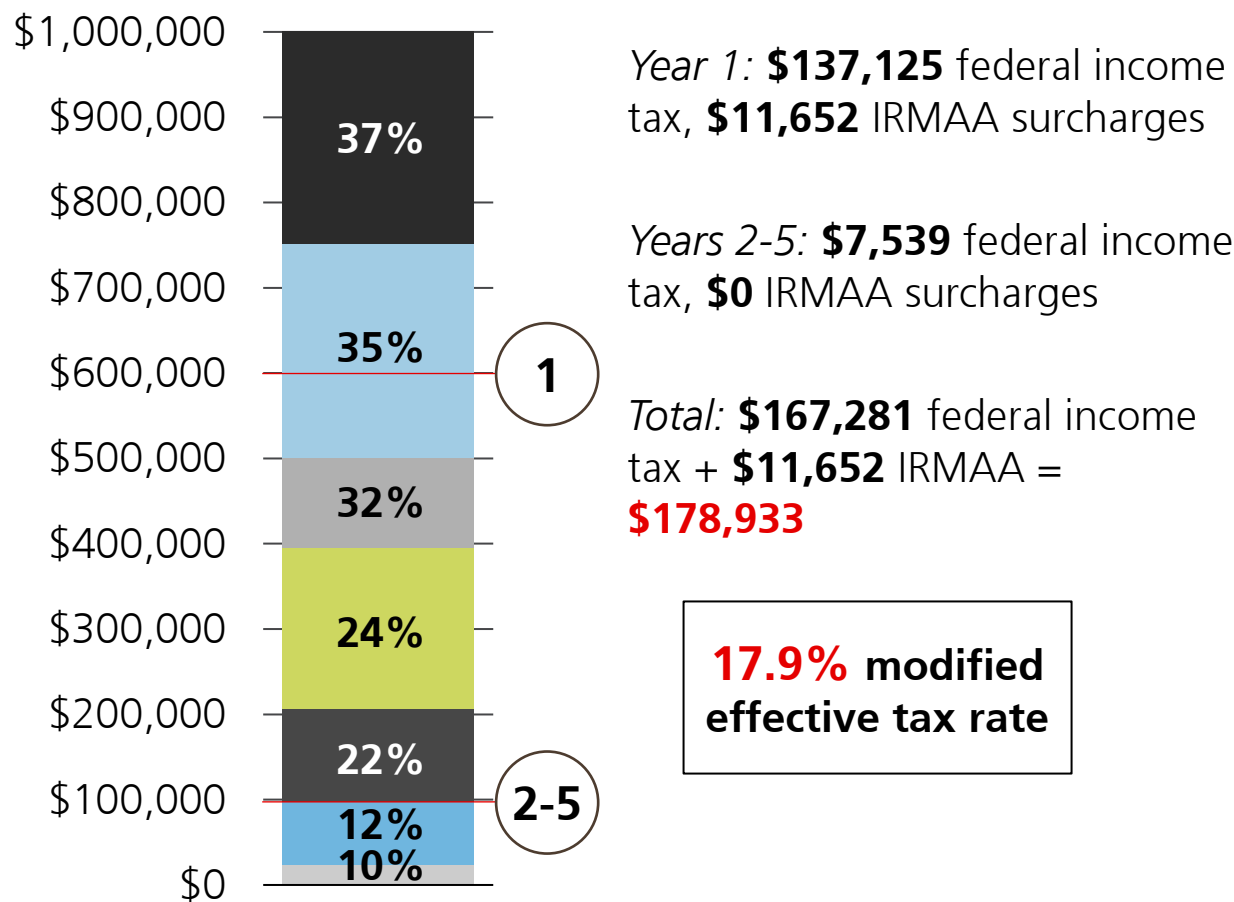


Having “lumpy” taxable income can be costly

Assessing the federal income tax and Medicare Part B and Part D premiums due on \$1 million of Adjusted Gross Income (AGI) over 5 years

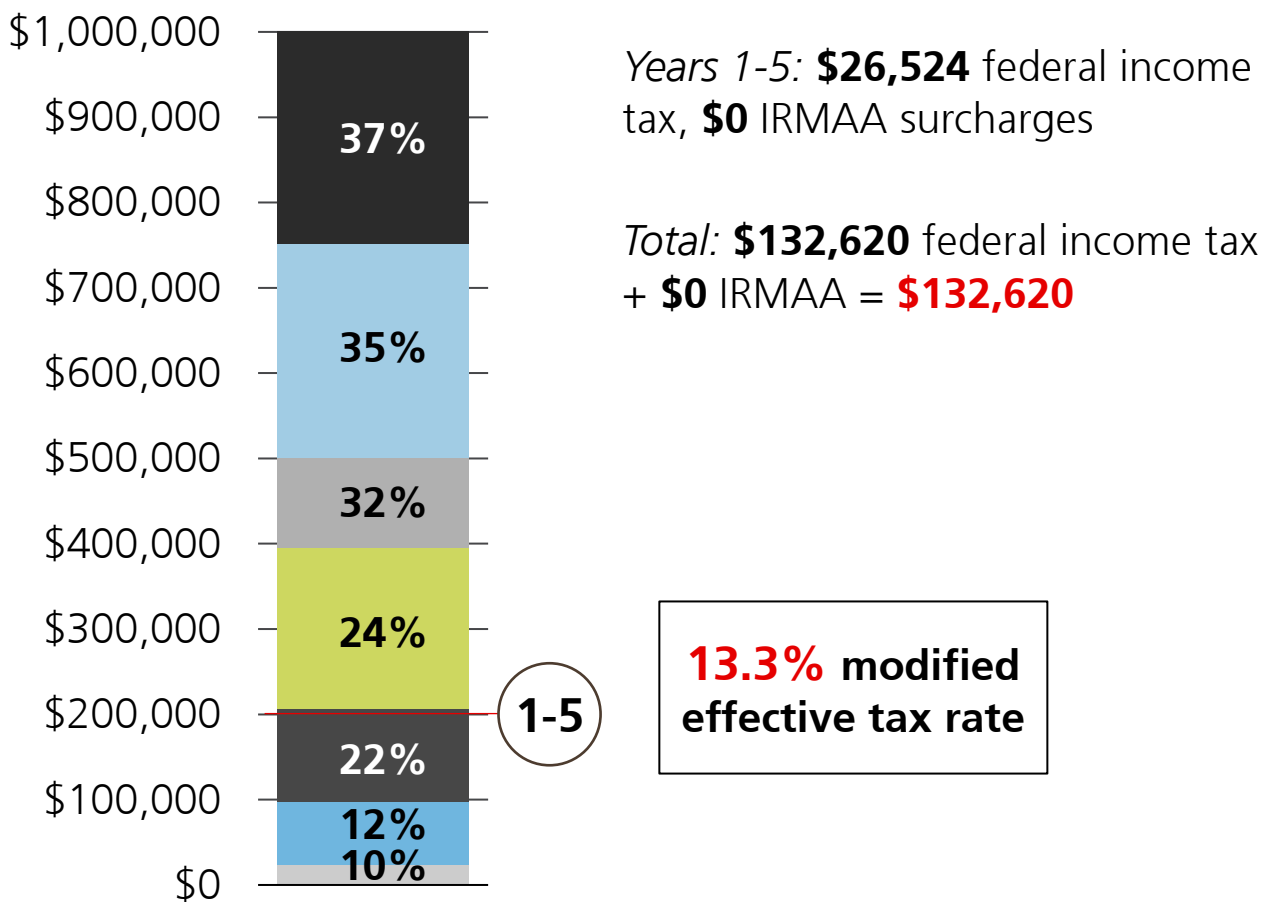
Example 1

\$600,000 AGI in Year 1, \$100,000 AGI in Years 2-5



Example 2

\$200,000 AGI in Years 1-5



Source: IRS, UBS. Illustration assumes a married couple filing jointly, with both spouses enrolled in Medicare. Reflects 2025 federal income tax rates, does not include state income taxes. IRMAA surcharges are based on your Modified Adjusted Gross Income (MAGI) from two years prior. For example, 2025 Medicare premiums are determined by 2023 MAGI. For the purposes of illustration, we are assuming that AGI is the same as MAGI, and ignoring the two-year lag.

Section 2

Managing retirement account withdrawals

Smoothing taxable income can help to defuse the RMD “tax bomb”

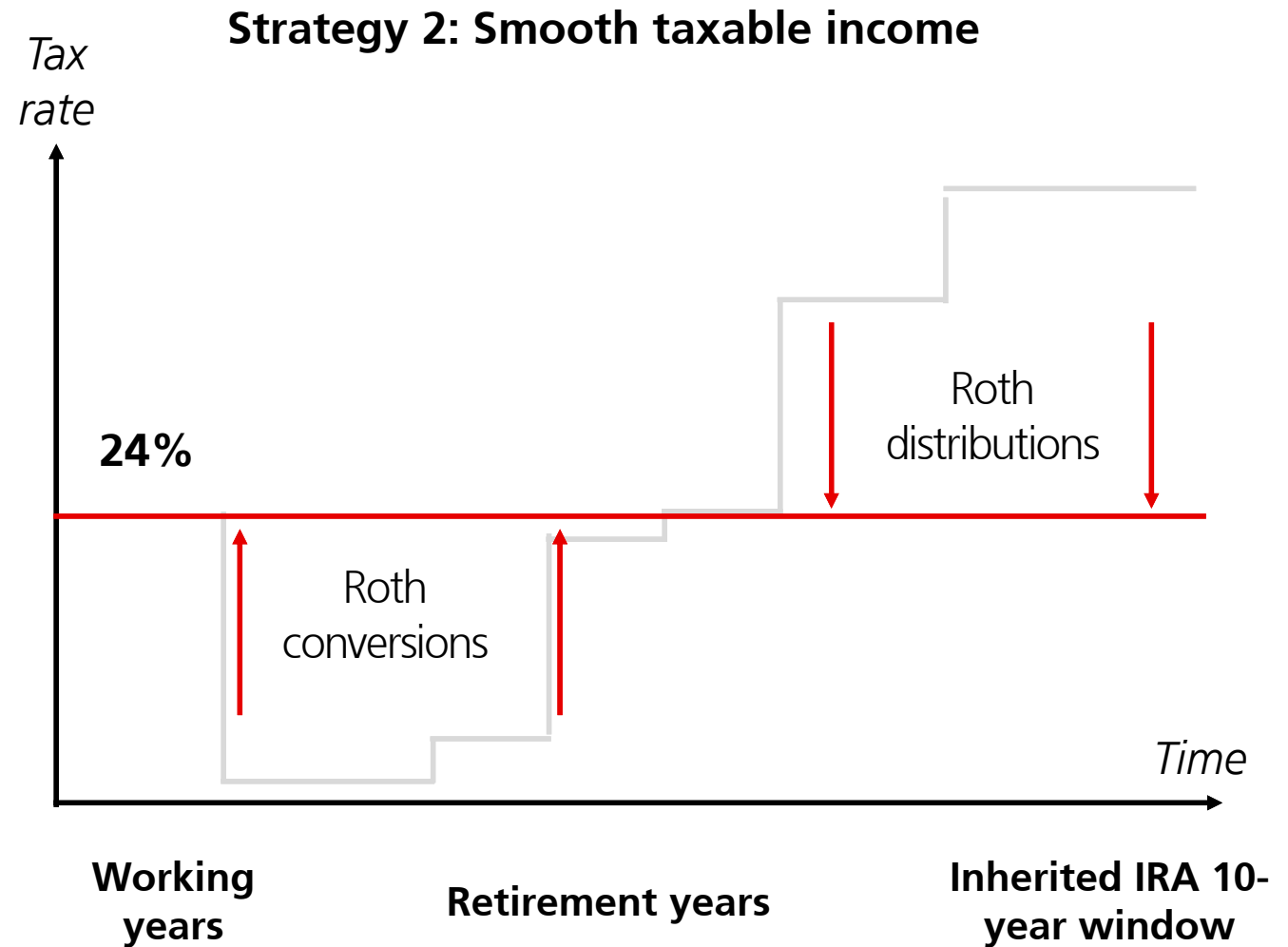
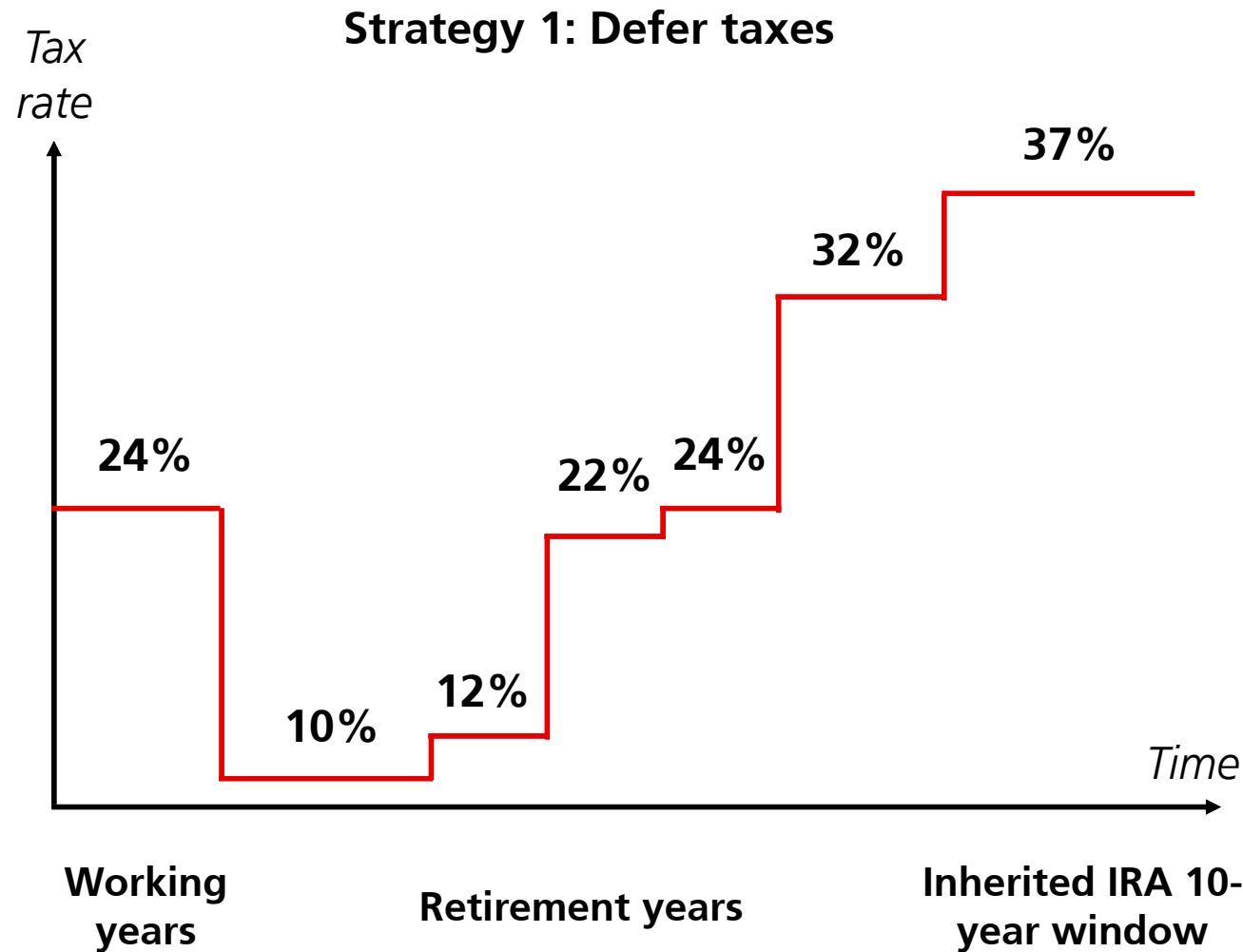
- You can't defer taxes forever. You'll eventually need to take Required Minimum Distributions (RMDs) from your tax-deferred accounts, which are taxed as ordinary income.
- RMDs start as a small percentage of your IRA and employer plan assets, but this number increases throughout retirement. Paired with a growing account balance due to market gains, this could mean lead to larger RMDs over time, pushing you into higher tax brackets later in retirement. This is sometimes referred to as a “tax bomb” or “tax torpedo.”
- Therefore, investors may wish to consider intentional strategies instead of an “RMD-only” approach.
- For example, it may be effective to manage retirement account withdrawals and implement partial Roth conversions to keep taxable income in a “Goldilocks” range over time—not too high, not too low.

2025 Uniform Lifetime Table for Required Minimum Distributions (RMDs)

Age	Distribution Period	RMD % (Approx.)
72	27.4	3.65%
73	26.5	3.77%
74	25.5	3.93%
75	24.6	4.07%
76	23.7	4.22%
77	22.9	4.37%
78	22.0	4.55%
79	21.1	4.74%
80	20.2	4.95%
81	19.4	5.16%
82	18.5	5.41%
83	17.7	5.65%
84	16.8	5.95%
85	16.0	6.25%
86	15.2	6.58%
87	14.4	6.94%
88	13.7	7.30%
89	12.9	7.75%
90	12.2	8.20%

Strategic Roth conversions and Roth distributions can help to smooth income

Marginal income tax brackets over time for two retirement withdrawal strategies: **Strategy 1** defers taxable withdrawals with an “RMD-only” approach, leaving significant tax-deferred IRA assets and therefore large RMDs for heirs during the “10-year window.” **Strategy 2** aims to smooth taxable income, targeting the 24% marginal income tax rate each year. This helps to alleviate the inherited IRA tax burden.



Here are some other strategies that may help **manage annual tax burdens**

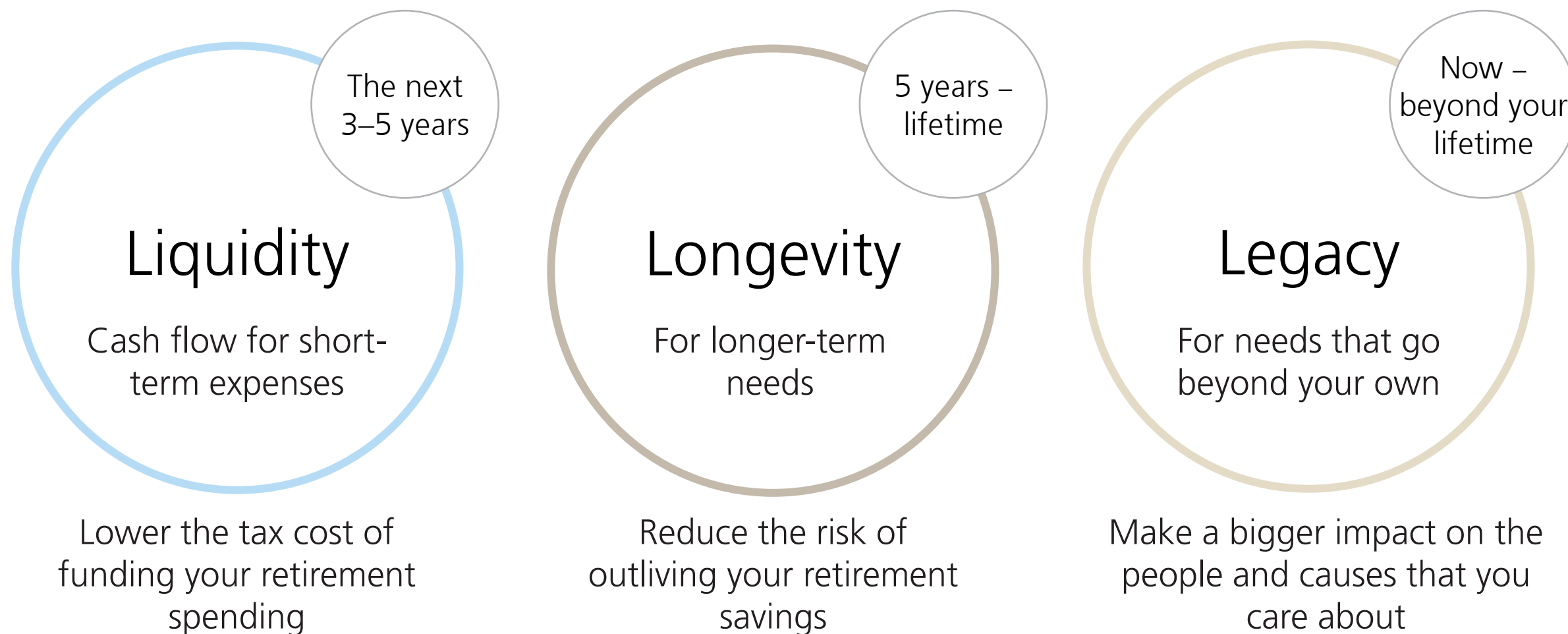
Strategy	How It works	Potential use cases	Risks and considerations
Roth conversions in low-tax years	Convert pre-tax IRA/401(k) assets to Roth IRA when income is low; pay tax at lower rates	Early retirement, gap years before RMDs/Social Security	Increases current-year taxable income; tax rates could fall
Roth IRA distributions in high-tax years	Withdraw from Roth IRA tax-free to meet cash needs, avoiding extra taxable income	Years with high income, large capital gains, or RMD spikes	Must follow IRS rules for qualified distributions to avoid penalties/taxes
Harvesting capital gains in low-income years	Realize long-term gains when income is low to take advantage of lower capital gains rates	Years with low taxable income, before large RMDs or sales	May realize capital gains that could have been avoided
Deferring income / accelerating deductions	Delay income or accelerate deductions to shift taxable income into lower-rate years	High-income years (deductions); low-income years (income)	Tax rates and rules may change, it's difficult to forecast taxable income
Delay Social Security and take earlier IRA distributions	Delay Social Security to control taxable income and/or take IRA distributions prior to RMD age	Early retirement, to fill lower brackets before RMDs	Delaying Social Security may not be optimal for all families
Qualified Charitable Distributions (QCDs)	Donate directly from IRA to charity; reduces taxable income (QCDs are tax-free and count toward RMD)	Charitably inclined, facing high RMDs	Must be age 70½+; annual QCD limit (\$108k for 2025) applies
Tax-efficient withdrawal sequencing	Withdraw from taxable, then tax-deferred, then Roth accounts to fill brackets efficiently	Throughout retirement, to reduce taxable income "lumpiness" and help manage taxes	Requires ongoing monitoring and planning
Installment sales	Spread large asset sales or income events over multiple years to avoid income spikes	Sale of business, real estate, or large stock positions	Buyer default risk; may complicate estate planning or liquidity needs

Section 3

The spending waterfall

Tax-efficient retirement withdrawals can help to improve your financial results

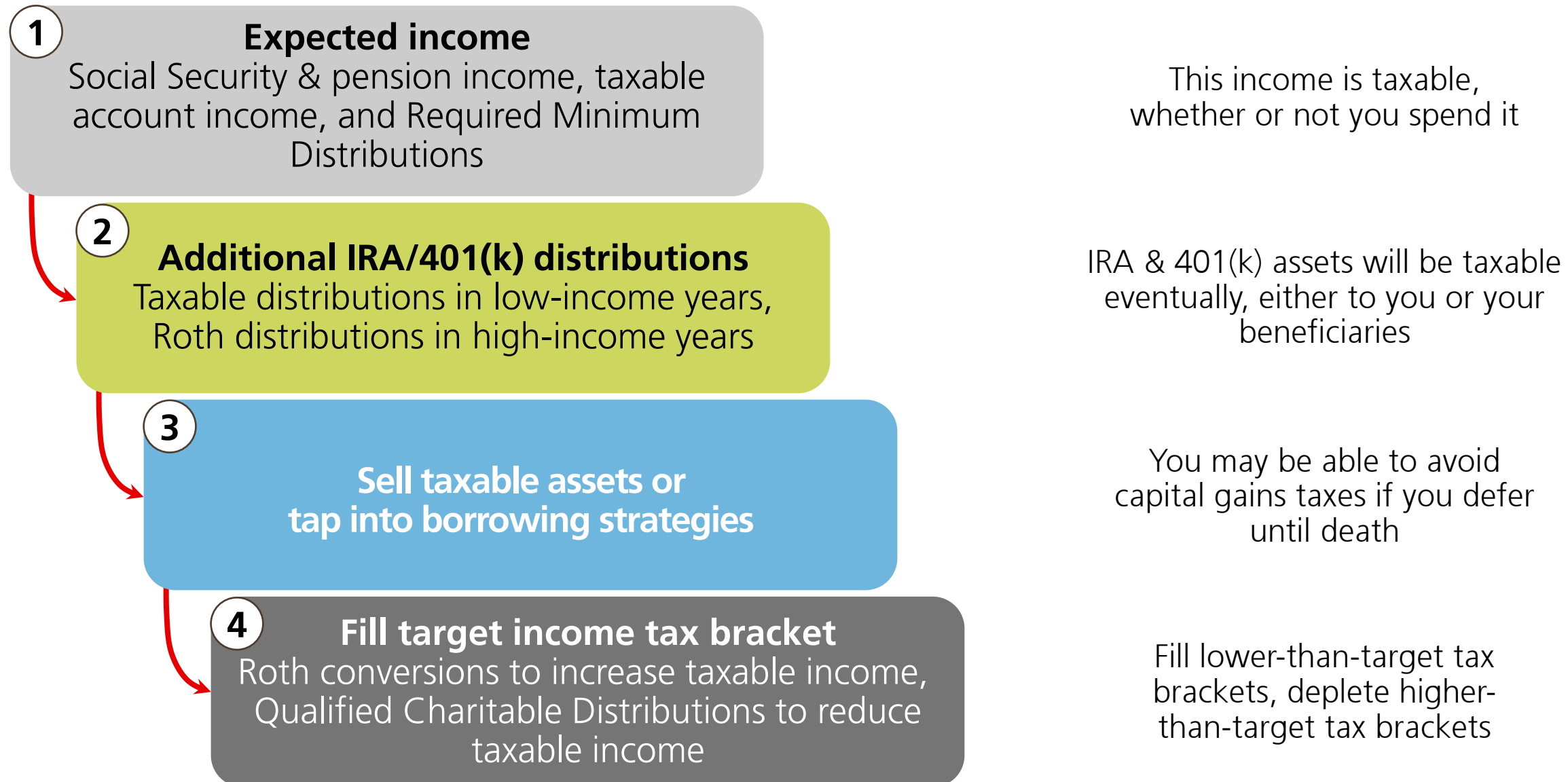
Organizing your financial life into three key strategies can help you understand where your money is and why. In the Liquidity. Longevity. Legacy. framework, tax-efficient retirement withdrawals can help you to achieve the following objectives for each strategy.



Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

A “spending waterfall” approach can help **manage retirement spending taxes**

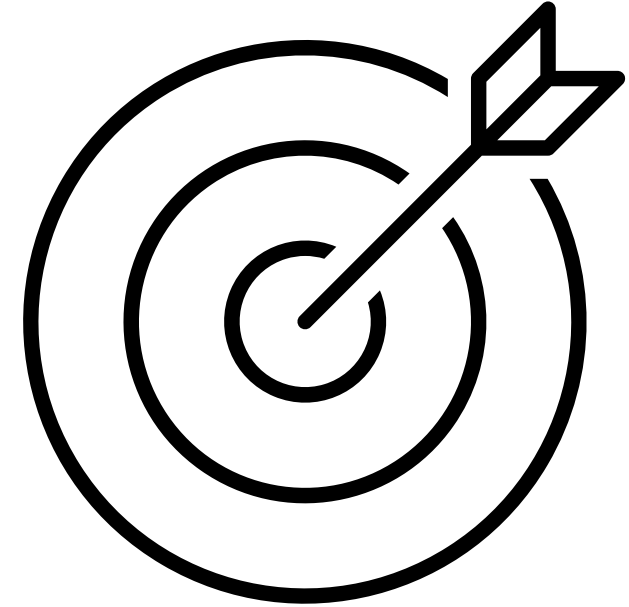
Potential sequence of withdrawals to help improve tax efficiency



How to **implement** a spending waterfall

#1. Compare your planned spending to your expected income.

- **Estimate your Liquidity strategy refilling needs.** Compare your cash flow needs for the next three to five years—including potential taxes—to your current Liquidity strategy funding.
- **Assess your expected income for the coming year.** Start by totaling your guaranteed income sources such as Social Security, pensions, and annuities. To this figure, add the income you'll receive from required minimum distributions (RMDs) as well as interest and dividends in your taxable accounts. These cash flow sources are taxed whether you spend them or not, so they are a priority for covering your spending needs using this approach.
- **Calculate how much cash you will need to raise** by taking the cash you need to refill your Liquidity strategy minus your expected income. This estimates how much you will need to fund using IRA withdrawals or selling taxable account investments.



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Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

How to **implement** a spending waterfall (continued)

#2. Identify your "target" tax bracket.

- Estimate your taxable income in each of your remaining retirement years, working with your financial and tax advisors to calibrate your estimate and map it out using a financial plan.
- Using this information, determine a target marginal income tax bracket that will help you spread your taxable income evenly over time. You may also want to factor in the risk that tax rates may increase in the future.

3. Determine which assets to draw from next.

- Plan your account withdrawals, bearing in mind where your spending needs (or, more specifically, the taxable income recognized when generating income for your spending needs) compare to your targeted income tax bracket.

#4. Review and adjust annually.

- Revisit your financial plan each year, especially if your spending needs or tax laws change.

Important note

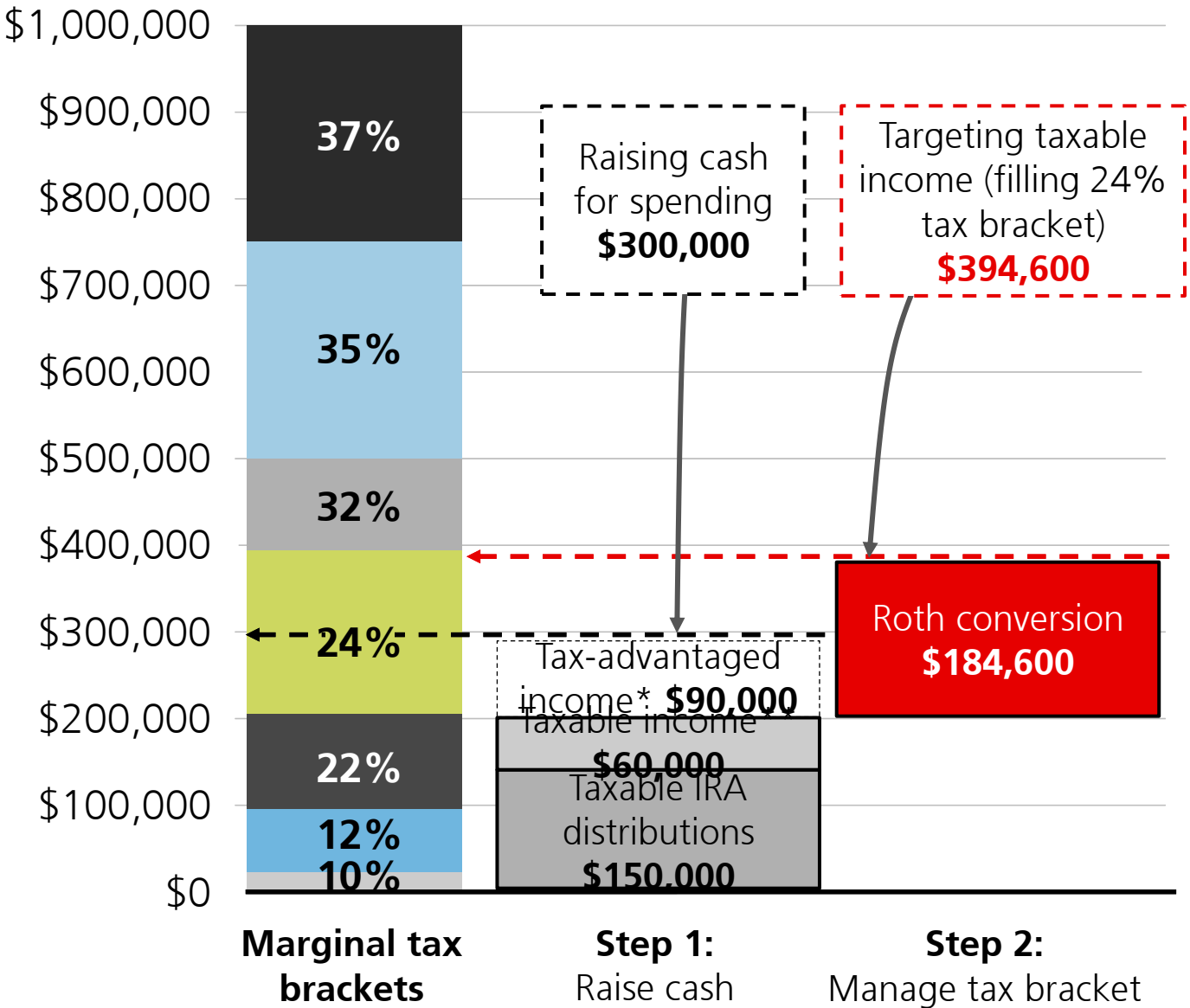
Don't let the pursuit of perfection get in the way of an effective, flexible strategy.

You do not need to fill your target tax bracket with precision every year.

Instead, focus on the overarching strategy: Look for opportunities to smooth taxable income, moving it from high-tax years to low-tax years.

Example 1: Spending needs **below** target tax bracket

- This family’s financial planner estimates that they will be in the 37% tax bracket in the future if they pursue an RMD-only approach, and concludes that they can improve expected results by targeting the 24% tax bracket.
- The family’s spending needs (\$300,000) are lower than the top of the 24% tax bracket (\$394,600).
- Their portfolio is expected to generate \$60,000 taxable income and \$90,000 of tax-advantaged income. To raise the balance of their cash needs, the family opts to distribute \$150,000 from their tax-deferred IRA accounts (this includes their annual RMD).
- This leaves the family with \$300,000 of cash for spending, and only \$210,000 of taxable income. To fill the target tax bracket, they opt to implement a \$184,600 partial Roth conversion to bring their taxable income to \$394,600.
- The Roth conversion is implemented at the 24% tax rate, adding \$44,304 to the family’s tax bill, due the following year. This conversion brings forward taxable income that is expected to fall in the 37% tax bracket, saving the family approximately \$23,998 of taxes, reducing future RMDs, and increasing the ability to generate federal tax-free income later in retirement.



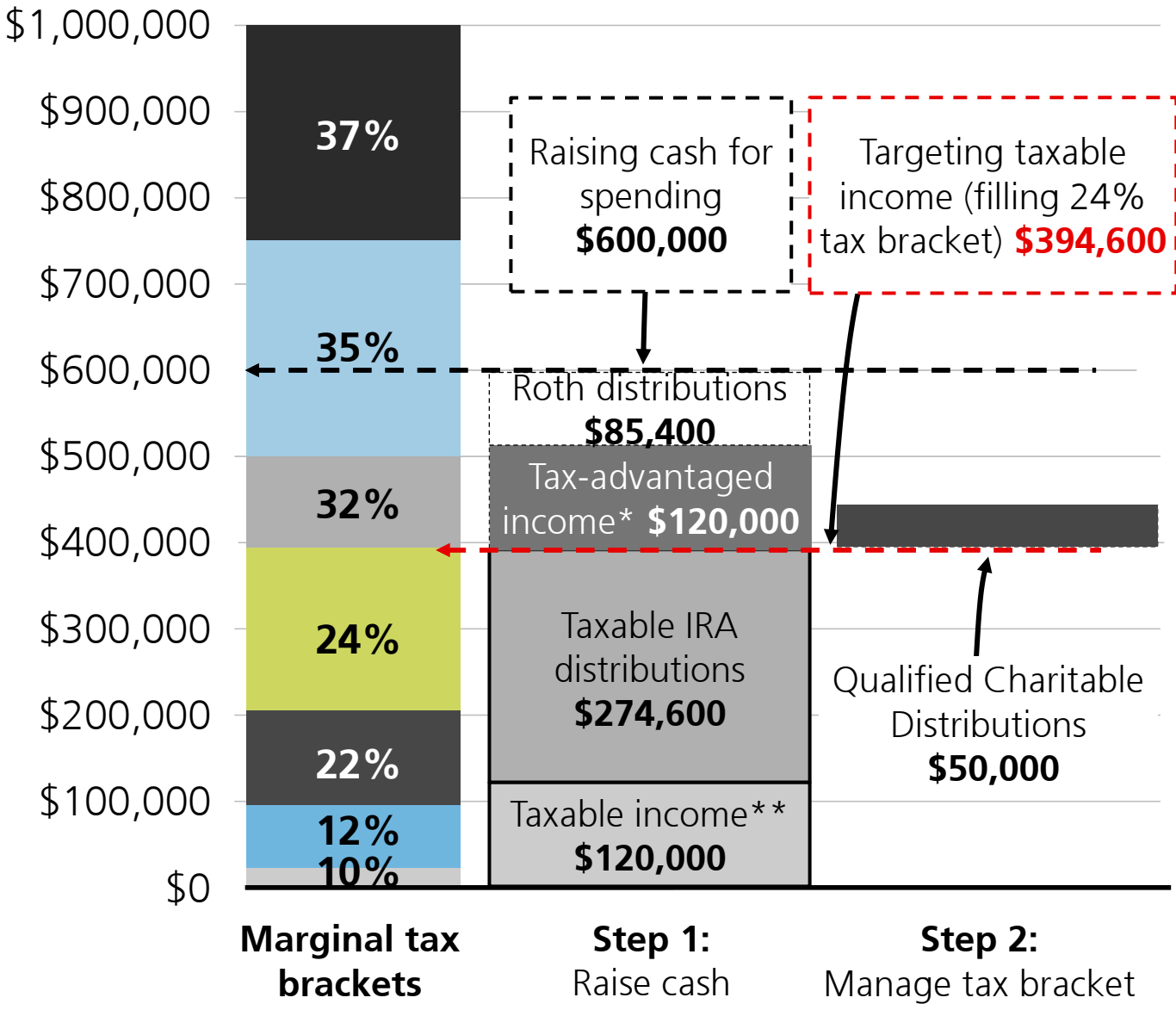
Source: IRS, UBS. For illustration purposes. Reflects 2025 federal income tax rates, not state taxes, for a married couple filing jointly.

* Income sources that are not taxed as ordinary income, such as municipal bond interest (federal income tax-free) and qualified dividends (taxed at preferential rates).

** Income from interest and non-qualified dividends in taxable accounts.

Example 2: Spending needs **exceed** target tax bracket

- This family’s financial planner concludes that they can improve expected results by targeting the 24% tax bracket.
- The family’s spending needs (\$600,000) exceed the 24% tax bracket (\$394,600). They also want to give \$50,000 to charity.
- Their portfolio is expected to generate \$120,000 taxable income and \$120,000 of tax-advantaged income. To raise the balance of their cash needs, the family opts to distribute \$274,600 from their tax-deferred IRA accounts (this includes their annual RMD).
- This leaves the family with only \$514,600 of cash for spending, but they’ve already reached the top of their target tax bracket (\$394,600). To raise cash without generating excess tax costs, they opt to implement a tax-free distribution of \$85,400 from their Roth accounts.
- To meet the family’s charitable giving goal, they opt to use a Qualified Charitable Distribution (QCD) from a tax-deferred IRA. QCDs are excluded from taxable income, so this keeps the family within their targeted tax bracket.



Considerations and potential risks

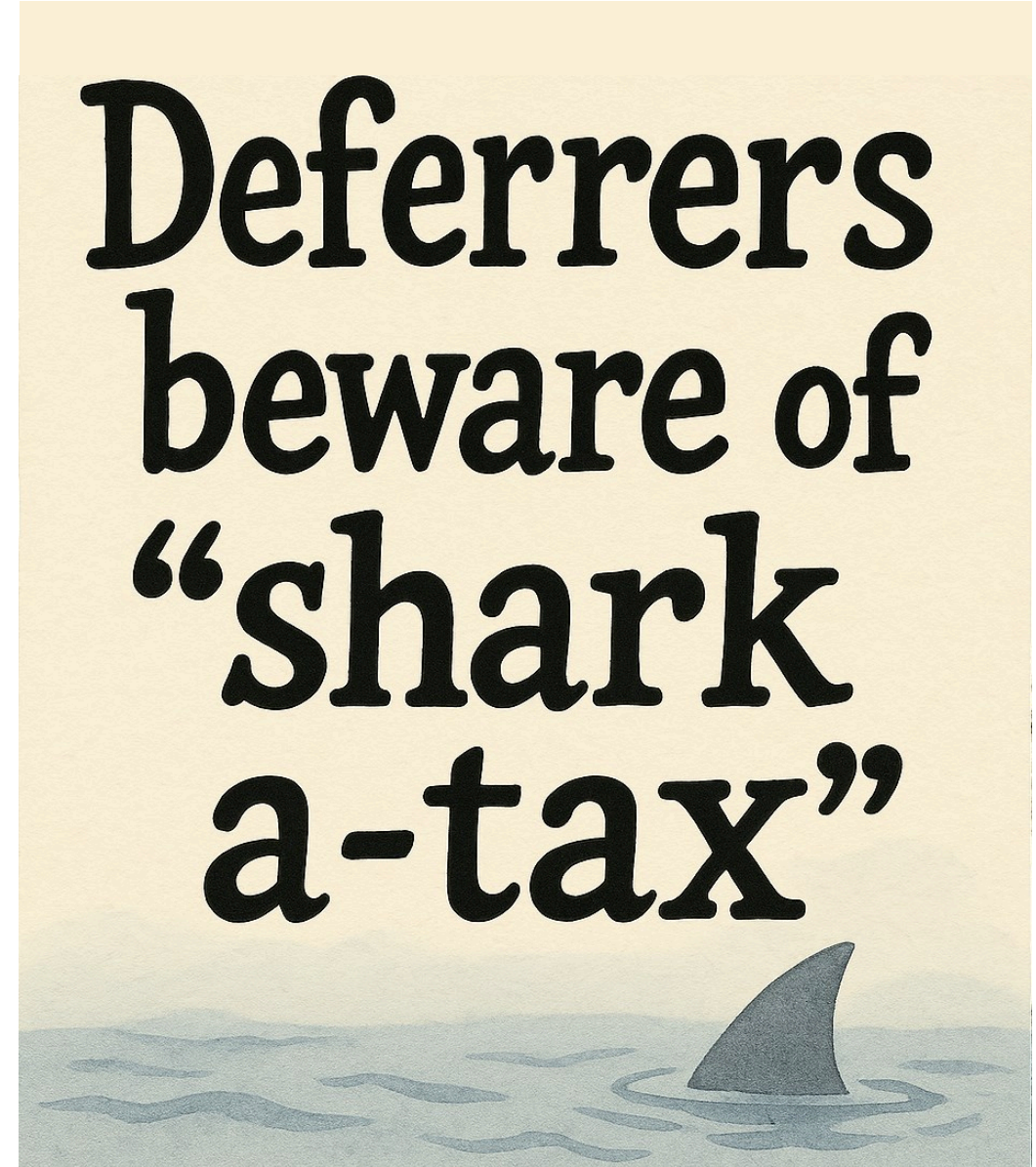
- 1. Tax changes.** A spending waterfall approach generally accelerates taxable income into early retirement years when compared to an “RMD-only” approach. This can help to manage the risk that tax rates go higher over time; however, if tax rates fall in the future, this could reduce the spending waterfall’s benefit. The same could happen if the family unexpectedly moves to a lower tax jurisdiction later in retirement (assuming the state tax difference is enough to outweigh the expected federal tax savings).
- 2. Complexity.** The spending waterfall strategy requires careful planning, monitoring, and adjustments. Mistakes or lack of attention could lead to missed opportunities or unexpected tax bills. With that being said, most of the potential benefits of a spending waterfall can be harnessed with a simple, flexible strategy that aligns with the overall philosophy: Aim to smooth taxable income and tax rates over time.
- 3. Charitable gifting trade-offs.** In some circumstances, a family may implement too many Roth conversions and later decide to give to charity. Missing an opportunity to use tax-deferred assets to fund charitable goals (either through Qualified Charitable Distributions or an end-of-life bequest). Proactively coordinating charitable giving, estate planning, and other considerations may help to avoid such issues.
- 4. Policy changes.** The spending waterfall is designed to spread taxable income based on current rules regarding taxes and RMDs. Changes to the rules governing retirement accounts or other tax rules could erode the spending waterfall’s potential benefits.

Section 4

Conclusion and next steps

Conclusions and next steps

- The “spending waterfall” framework can help to dynamically manage a family’s tax burden in retirement. Implementing the framework involves:
 1. Determining how much is needed to raise the Liquidity strategy (or amounts set aside for short-term needs)
 2. Identifying a “target” tax bracket
 3. Choosing which accounts to tap into, and raising cash from those account, and
 4. Reviewing and adjusting annually
- Families interested in this approach can start by discussing this framework with their financial advisor and tax advisor to understand how it can be aligned with their particular circumstances.



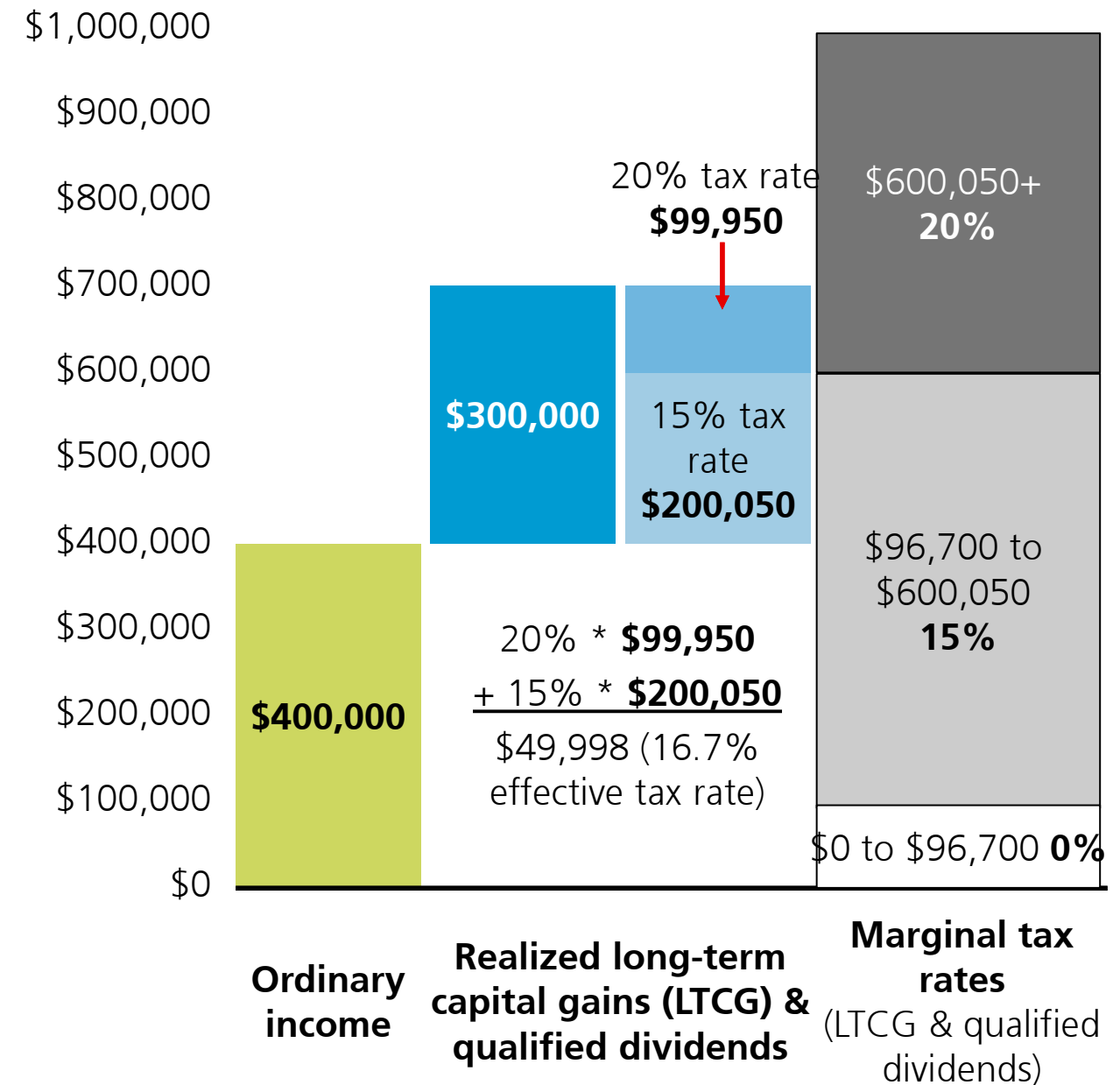
Section 5

Appendix

How realized long-term capital gains and qualified dividends are taxed

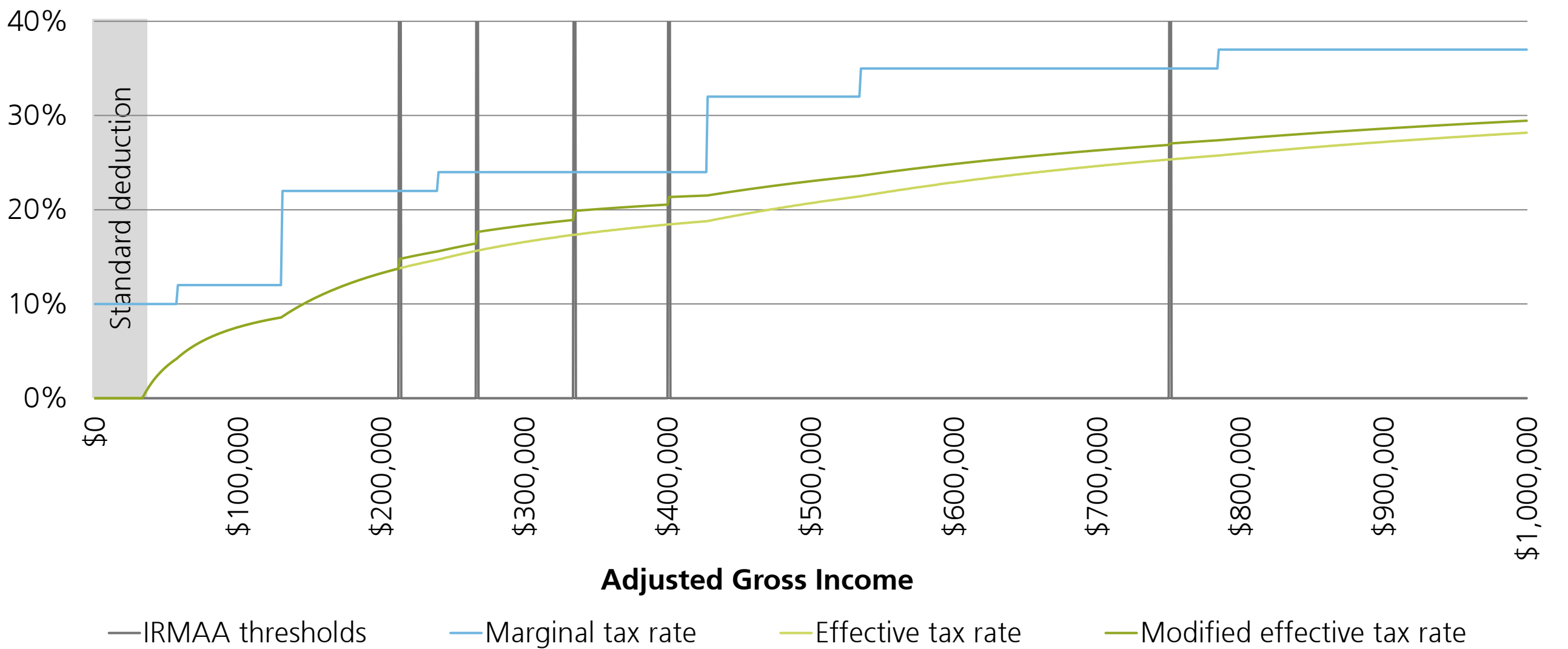
- For tax purposes, **ordinary income** (wages, interest, ordinary dividends, retirement income, and realized short-term capital gains minus adjustments, deductions, and exemptions) is taxed first.
- Realized long-term capital gains (LTCG) and qualified dividends** are then “stacked” on top of your ordinary income, which then determines which marginal tax rate applies to each.
- The figure on this slide shows an example of a married couple filing jointly with \$400,000 of ordinary income (after the standard deduction) and \$300,000 of realized long-term capital gains and qualified dividends.
- In this example, ordinary income fills the 0% marginal tax bracket and a portion of the 15% marginal tax bracket. Then, qualified dividends and long-term capital gains are taxed starting at the 15% bracket. \$200,050 of this income is taxed at 15%, and the remaining \$99,950 is taxed at the 20% marginal rate.

Example: Taxes on realized LTCG and qualified dividends



A closer look at tax rates

2025 Federal marginal, effective, modified effective tax rates (including IRMAA surcharges), and IRMAA thresholds by adjusted gross income



Source: IRS, UBS. Illustration assumes a married couple filing jointly, with both spouses enrolled in Medicare. Reflects 2025 federal income tax rates, does not include state income taxes. IRMAA surcharges are based on your Modified Adjusted Gross Income (MAGI) from two years prior. For example, your 2025 Medicare premiums are determined by your 2023 MAGI. For the purposes of illustration, we are assuming that AGI is the same as MAGI, and ignoring the two-year lag.

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