SFL Solutions For Life

Weekly Insight
June 30, 2025

# *How to Avoid Tax Traps in Retirement*

## This Week's Focus

You saved for retirement. You did the hard part. But there's one silent threat that could take more of your money than you realize: Taxes.

Many retirees do not lose money to bad investments. They lose it to bad timing—taking withdrawals from the wrong accounts, at the wrong time, in the wrong order.

This week's SFL Weekly Insight shows you how to stay in control.

We will explain why Roth conversions can be a powerful tool, how to plan for Required Minimum Distributions (RMDs), and what you can do today to lower your lifetime tax bill.

Because retirement is not just about what you saved—it is about what you keep.

## Content Overview

- What really triggers a tax trap in retirement
- How Roth conversions can lower your tax burden long-term
- A smarter way to sequence withdrawals from your accounts
- Free tools you can use right now to stay protected

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# Taxes Do Not Retire
## *But You Can Plan Around Them*

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Retirement does not mean your taxes go away.
In fact, for many retirees, taxes increase in retirement. *But why?*

Most retirement savings—like 401(k)s and Traditional IRAs—are tax-deferred. That means every dollar you withdraw is counted as ordinary income. Once you turn age 73, the IRS requires you to start taking annual Required Minimum Distributions (RMDs). These mandatory withdrawals can push you into a higher tax bracket—even if you do not need the money. And if you are married, losing a spouse can make the situation worse. A surviving spouse typically gets moved to a single filer tax bracket, meaning the same income may now be taxed at a higher rate.

### *That is where ROTH CONVERSIONS come in...*

For many retirees, these forced withdrawals result in a sharp increase in taxable income. This can push you into a higher tax bracket, increase the portion of your Social Security that gets taxed, and even trigger surcharges on your Medicare premiums. And for surviving spouses, the problem often gets worse. After the loss of a partner, filing status changes from joint to single—meaning the same income is now taxed at a higher rate. This is known as the widow's tax penalty.

A Roth conversion helps prevent this. When you convert funds from a Traditional IRA or 401(k) into a Roth IRA, **you pay taxes on the amount today, but your future withdrawals become completely tax-free**. Roth IRAs have no required minimum distributions during your lifetime, which means you stay in control of how and when you withdraw your money. They also allow your savings to grow tax-free and be passed on to heirs without creating a tax burden.

Timing is everything. The best window for a Roth conversion is often in your early 60s, after you stop working, but before RMDs or full Social Security benefits begin. This is your window to convert to a Roth IRA at the lowest rate possible, reducing your future tax burden, protecting your spouse, and potentially saving your family thousands.

# Make A Withdrawal Strategy **That Saves You *More***

Many retirees ask, "*Should I convert my IRA to a Roth?*"
Here's what to you need to know: the order in which you take money out of your retirement accounts can make or break your long-term plan.

Most retirees have three types of accounts: tax-deferred (like Traditional IRAs and 401(k)s), tax-free (like Roth IRAs), and taxable brokerage or savings accounts. When you start withdrawing money, the instinct is to use whichever account feels most liquid or convenient. But that can be costly. Taking withdrawals in the wrong order can trigger avoidable taxes, bump you into a higher bracket, and increase what you pay for Medicare. Instead, the goal should be to create a strategy that keeps you in control—not just this year, but every year going forward.

Many experts recommend a blended withdrawal approach. This means drawing smaller amounts from multiple account types each year to manage your tax bracket and prevent sudden income spikes. For example, withdrawing from your tax-free account and a small amount from your Traditional IRA might keep you in a lower bracket than pulling everything from one place. Coordinating your withdrawals with your Social Security start date, any Roth conversions, and your RMD timeline is key. If done correctly, this type of planning can reduce your lifetime tax bill by tens of thousands of dollars—and keep more of your retirement money working for you.

You do not need to do it alone. That is why we created the SFL Knowledge Vault and why we always offer no-cost consultations to help Kansans turn questions into confidence.

**Want help building your tax-smart withdrawal plan?**

**Book a free, no-pressure strategy session at:**

**www.SolutionsForLifeKS.com/book-appointment**

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## Mistake 1: Early Withdrawals

Tapping into retirement accounts before age 59½ can trigger steep penalties and unnecessary taxes.

**Exercise:** Reflect on your current retirement accounts and whether you've ever considered early withdrawals.

**Prompt:** What were the reasons, and what penalties or taxes might apply?

**Action Plan:**

- List alternatives to avoid early withdrawals.
- Calculate potential penalties for early withdrawal using this chart:

| Retirement Account | Balance | Potential Early Withdrawal Penalty (%) | Estimated Penalty Amount |
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