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Nationwide Retirement Institute® | Tax-efficient retirement income

10 tips to help build tax-efficient retirement income plans

Whether saving for retirement or drawing income from a nest egg, it's important to consider strategies that can help minimize what's lost to taxes. Tax efficiency can be complicated, and it may be necessary to work with a tax expert. In the meantime, here are a few helpful tips for potentially optimizing tax-efficient retirement income.

1 Diversify where you save for retirement

Review how much you've saved in tax-deferred accounts compared with tax-free accounts. If your marginal income tax rate today is lower than what it might be in retirement, consider saving more in Roth accounts now to provide tax-free income later.

2 Plan for Roth conversions

Retirees could have a higher tax liability in the future for reasons such as delayed Social Security benefits and large required minimum distributions (RMDs). In this case, doing a conversion now could lead to a lower tax rate later. Consider the temporary senior deduction[1] to convert with a lower tax impact through 2028.

3 Consider NUA for employer stock holdings

Net unrealized appreciation (NUA) rules allow those holding employer stock inside their 401(k) or an IRA to potentially receive a more favorable tax treatment on the sale of those shares that have grown in value. Consult a tax advisor for details.

4 Optimize Social Security benefits

If you have the financial flexibility, delaying Social Security benefits until later in retirement may generate a greater lifetime benefit. It may also reduce the likelihood of those benefits being taxed, especially if you continue working in retirement.

5 Consider the tax efficiencies of life insurance

While the primary purpose of life insurance is death benefit protection, it can also create supplemental tax-free income, which may reduce the death benefit amount; withdrawals to basis and loans are tax free if the policy isn't a modified endowment contract (MEC).

6 Optimize your health savings account (HSA)

If you have a high-deductible health plan, you have access to an HSA. Contributions are tax deductible and withdrawals for qualified medical expenses are tax free. But many overlook the opportunity to invest HSA dollars for the long term. To allow savings to grow, consider paying expenses out of pocket now and keeping the receipts for HSA credit later.

[1] The additional senior deduction is subject to income phaseouts.

7

Medicare surcharge avoidance

Medicare premiums may increase as retirement income increases. Those seeking higher levels of income in retirement should consider utilizing income sources that aren't included in modified adjusted gross income (MAGI), such as life insurance, Roth IRAs or a health savings account (HSA).

8

Consider possible tax-free income from long-term capital gains

Selling capital assets to generate retirement income may result in less tax owed versus an investment product with ordinary income taxation. In 2026, married couples filing jointly with a taxable income amount of $98,900 or less will have a capital gains tax rate of 0%.

9

Satisfy required minimum distributions (RMDs) with a charitable donation

For retirees who don't have a financial need to take their RMDs, donating to a favorite charity directly from an IRA account could help reduce income taxes. In 2026, individuals who are 70½ years old or older may use a qualified charitable distribution (QCD) to donate up to $111,000 to qualified charities directly from an IRA.

10

Leverage the new temporary senior deduction

A temporary new tax deduction is created for individuals who are age 65 or over, regardless of whether they itemize. Individuals with a modified AGI up to $175,000 and joint filers with a modified AGI up to $250,000 may take an additional deduction of up to $6,000 annually (per person) through 2028.

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