THE DOLINS GROUP, LTD.

certified public accountants

Turning RMDs Into a Strategic Advantage

Required Minimum Distributions, or RMDs, are one of the few unavoidable parts of retirement income planning. Once you reach age 73 (or 75 for those born in 1960 or later), the IRS expects you to start drawing down your tax-deferred retirement accounts whether you need the income or not.

For many retirees, the RMD feels like a penalty for building savings. You've spent decades funding IRAs and 401(k)s. Then the IRS steps in with a formula and a deadline - and penalties for getting it wrong.

But RMDs aren't just a compliance exercise; they're a planning challenge. And while they can lead to higher taxes and unnecessary friction, there are strategic ways to comply with RMD rules that don't leak thousands of dollars in avoidable taxes each year.

RMDs aren't just about math

RMDs are often described as a simple calculation. You take the year-end balance of your tax-deferred retirement account - say, $1 million in a traditional IRA - and divide it by a life expectancy factor based on IRS tables. At age 73, that factor is 26.5, which means you're required to withdraw just under $38,000 for the year.

It seems like simple math, but the consequences are anything but simple.

That required withdrawal raises much bigger questions, like:

- Which accounts should you draw from first?
- How will those withdrawals affect your tax bracket?
- Could they push you into higher Medicare premiums?
- And is there anything you can do now to reduce the size of future RMDs?

These aren't theoretical questions. They're the decisions that drive real tax costs in retirement. And answering them properly means looking beyond a single year and coordinating income, taxes, estate goals, and timing over decades, not just months.

Early retirement years = planning window

One of the most powerful planning opportunities around RMDs actually happens before they ever begin.

There's often a stretch of years between retirement and age 73 when income temporarily drops. Paychecks stop. Social Security may not have started. And required distributions haven't kicked in. From a tax standpoint, those years can be incredibly valuable.

During those years, retirees often have room inside lower tax brackets that will later be filled automatically by RMDs and Social Security. That space can be used intentionally - by taking IRA distributions up to the top of a target bracket, converting portions of an IRA to a Roth account, or strategically realizing capital gains.

The objective isn't to accelerate taxes unnecessarily. It's to smooth income over time so it doesn't spike later when flexibility disappears.

Because once RMDs begin, income stacking becomes much harder to control.

When income stacks: a practical illustration

Let's consider a simple example.

A married couple retires at 65 with $1.5 million in traditional IRAs. They delay Social Security until 70. Between ages 65 and 70, their taxable income is modest - perhaps $60-80,000 annually from part-time work and portfolio income.

If they do nothing during those years, their IRA continues to grow. By age 73, let's assume the balance has grown to $1.8 million. Their first RMD would be roughly $68,000. Add two Social Security benefits of, say, $45,000 combined, plus investment income, and suddenly their taxable income is well into six figures.

That higher income could push them into a higher marginal tax bracket, increase the taxable portion of Social Security, and trigger Medicare premium surcharges.

Now let's consider a different approach.

Between ages 65 and 70, instead of allowing the IRA to grow untouched, they gradually convert $100,000 per year to a Roth account - intentionally filling up a moderate tax bracket while income is still relatively low.

By age 73, their traditional IRA balance is smaller. Their RMD might be $45,000 instead of $68,000. That reduction alone can materially change long-term tax exposure and Medicare premium thresholds.

The math is different in every household. But the principle is consistent: when income is smoothed intentionally across years, retirees maintain control.

When it isn't, RMDs stack on top of everything else.

Why this matters: tax bracket creep

Tax bracket creep doesn't happen because retirees made mistakes. It happens because income sources converge at the same time, often including Social Security, investment income, and required withdrawals.

The only real way to manage that convergence is by thinking ahead.

Manage your tax bracket, time Social Security thoughtfully, make strategic Roth conversions, and plan for capital gains in lower-income years.

Each of these tools is most powerful before RMDs begin, not after.

Withdrawal sequencing and account rules

Another planning consideration comes from the withdrawal rules themselves.

IRAs offer some flexibility. If you own multiple traditional IRAs, the IRS allows you to calculate a total required amount and take it from one account or several. Employer-sponsored plans like 401(k)s don't work that way. Each plan generally requires its own distribution, and overlooking that distinction can lead to penalties.

For retirees managing multiple accounts with different rules and deadlines, this can create unnecessary complexity. But with a coordinated approach, it can also create opportunity.

In many cases, consolidating old employer plans into an IRA simplifies compliance and improves control over withdrawal timing, tax planning, and investment strategy. That said, consolidation isn't always the right move. Some plans offer unique protections or features worth preserving. What matters is understanding the rules and intentionally deciding which dollars to take, from where, and in what order.

Charitable giving as a tax lever

Charitable giving is another area where RMDs can be handled far more efficiently.

Once you reach age 70½, the IRS allows Qualified Charitable Distributions, or QCDs. These let you give up to $100,000 a year directly from an IRA to a qualified charity. The distribution satisfies your RMD but doesn't count as taxable income.

That distinction is powerful. Even if you don't itemize deductions, a QCD reduces adjusted gross income, which can help manage tax brackets, Medicare premiums, and overall income flexibility. For retirees who already plan to give, it's often one of the most effective ways to align tax strategy with personal values.

From reactive to proactive

RMDs aren't just a bureaucratic hurdle. They're a permanent feature of retirement - and one that touches taxes, healthcare costs, estate planning, and cash flow.

Handled reactively, they can lead to higher taxes and fewer options. But when handled strategically, they become part of a coordinated plan designed to preserve flexibility and reduce long-term tax exposure.

Next Step

If you're approaching RMD age or already taking distributions, this is the moment to move beyond minimum compliance. Thoughtful planning today can make a meaningful difference for your future. For more personalized guidance, please contact our office. We can help align your withdrawals with your broader tax and retirement goals.

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About The Dolins Group

Our Mission is to provide excellent tax and accounting services to our clients, enabling them to receive the most current tax saving benefits available by law.

We strive towards providing additional quality services such as incorporating new companies, tax planning, relocation tax expertise, and providing accounting software and training. We believe in networking with other businesses and actively refer quality businesses to our clients when the need arises.

We are the small to mid size company's accounting firm and gear many of our services towards those businesses. We pride ourselves in providing high quality, personalized service in a relaxed and friendly environment.

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