Investments

Here are some tax planning strategies on how you can keep more of that $1 million for yourself and away from Uncle Sam.

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I once had a guy reach out to me who said, "Joe, I've been reading your book, watching your videos and reading your articles. I'm ready to trust your team with the $1 million in my 401(k) that I've saved over the last 30 years."

This was a big moment for him, and he had done a *great* job up to this point. He was

working to accumulate that amount.

The problem? He was missing something: The guy had $1 million saved, but not all of that $1 million was his, because Uncle Sam expected a cut of that money. My new client needed a tax-smart plan to kick Uncle Sam to the curb before he was forced to take that money out of his 401(k) in the form of required minimum distributions (RMDs).

Why is tax planning so important for those with $1 million or more in their 401(k)s or IRAs? Because you likely won't be in a lower tax bracket in the future. (You can read more about this in my article Will You Pay Higher Taxes in Retirement?)

You're probably thinking, "I'll be in a lower bracket in retirement because I will no longer be working. That's what I've been told all my life." I'm sorry to break the news, but if you have significant money saved in your retirement accounts, your taxable income will include Social Security benefits and also withdrawals from your investments. (Even if you don't want to take money from your retirement accounts, the IRS will force you to take them as RMDs once you hit the required age.)

What can wreak havoc on your retirement

The combination of Social Security benefits plus withdrawals from tax-deferred accounts can wreak havoc on your retirement. Your Social Security income will most likely be fully taxable if you have $1 million or more in tax-deferred accounts like a 401(k) or IRA and must take RMDs. You'll be pushed into what I call the "Social Security tax torpedo," where you could pay a 40% to 50% tax rate by taking extra withdrawals from your tax-deferred investments.

Is there anything you can do to avoid the "tax torpedo?" Fortunately, you don't have to sit and hope for a better retirement. And you certainly don't have to put your trust in Uncle Sam. Here are some tax-smart planning strategies for those with $1 million

in 2026, following the expiration of the Tax Cuts and Jobs Act. Unless Congress acts before then, taxes will revert to 2017 levels, which were higher than they are today. (Read more about this in my article What You Can Do Now to Avoid Paying Higher Taxes in 2026.)

Also, our country has a spending problem and a massive amount of debt—both reasons why tax rates could increase even more in the coming years. How will the government come up with the revenue to cover our debt crisis? Higher taxes seem to be the obvious answer.

Strategy #2: Avoid paying higher Medicare premiums.

Another strategy we look at for our clients with $1 million or more in tax-deferred accounts is to prepare for increased Medicare premiums. Known as the Medicare income-related monthly adjustment amount (IRMAA), this is an extra amount you pay for Medicare if your income exceeds a certain level.

The IRMAA look-back period is two years, so you'll want to start thinking about how it could impact your Social Security benefits as soon as you become eligible to receive them. We've talked with people who are getting little to no Social Security income because they are paying surcharges on their Medicare premiums.

To reduce your taxable income and potentially avoid Medicare surcharges, you may want to get strategic with which accounts you take withdrawals from and in what order. You don't want to do a great job of saving just to pay more for health care in retirement.

Strategy #3: Avoid the 'Social Security tax

do *not* have to be taxable. Many of our clients pay no taxes on their Social Security income because we have implemented a plan to successfully lower their income in retirement by positioning their investments correctly.

Taking advantage of these strategies takes smart planning, and it must start today. My biggest advice is to get help from someone who specializes in working with people who have $1 million or more saved in retirement accounts. Your plan is more complex and will need more diligence than those who haven't saved as much in their 401(k)s or IRAs as you have.

ABOUT THE AUTHOR:

As founder and CEO of Peak Retirement Planning Inc., Joe Schmitz Jr., CFP, ChFC, has built a comprehensive retirement planning company focused on helping clients grow and preserve their wealth.

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