# Question of the Month
# ‘When What You Think is Good News is Actually Bad News”

T. BRIAN HAYES

*“Hi Brian. Some friends of ours called us the other day after getting their tax return back for last year. They both were ecstatic, jumping with joy as they owed zero dollars in taxes for 2025. They both retired at the end of 2024 at the age of 66. Together they saved 2 million in their traditional 401ks, and had plenty in savings and a brokerage account. They are healthy and waiting to turn on Social Security for a few more years. So last year they lived off dividend income from their brokerage account and their savings. When they got their tax return back and owed zero dollars, they felt like they finally won over Uncle Sam after paying a lot of taxes in their working years. How did they owe no taxes? It just does not sound right. Thank you.”* Don and Joan

Hi Don and Joan. Thank you for sending in your question. From the data you provided, it appears they used their after tax savings account money and dividends for income in 2025. Money that comes out of a savings account is not taxable as you already paid taxes on those dollars when you earned that money. And qualified dividend income is not taxable if you are in the lower two tax brackets. So, if that was the case, then they would not owe any taxes for that year. However, unfortunately for your friends, this is a classic case of ‘When what you think is really good news is actually bad news’. Let me explain.

All traditional retirement savings account dollars are taxable. So if they saved $2 million in a traditional IRA or a company-sponsored retirement savings plan, they have to pay tax on those dollars at some point. The IRS will force them to start paying tax on those dollars at RMD age, which is currently age 73. If they let that $2 million grow until that age and only earn 5% on that money, the RMD will be about $100,000 and they will be forced to withdraw that amount and pay taxes. When that is added to their Social Security income, they will pay tax on 85% of their Social Security income for the rest of their lives, and they will also now have to pay tax on their dividend income as they will be in the current 22 or 24% federal tax brackets. Plus, depending on the amount of their Social Security and dividend income, they also could be affected by IRMAA, causing their Medicare Part B premiums to spike for the rest of

their lives. This is Uncle Sam's plan, and you do not want Uncle Sam's plan.

However, between ages 59 and a half and the RMD age, you have complete control on these dollars and can withdraw any amount you want, from zero to any amount. Because of this, your friends lost out on a wonderful opportunity last year to actually withdrawal taxable money from their retirement savings without having to pay any tax at all! You see, if your friends had the proper advice last year, they could have drawn out $46,700 from their retirement savings without owing any tax at all, as that is the amount of the current standard deduction. And as you know, there is no better tax rate than zero percent. Thus, they lost out on being able to convert that amount of money over to a tax free Roth IRA, where it could grow tax free for the rest of their, and their beneficiaries' lifetimes.

In addition to this, they also lost out on the opportunity to pay tax on their retirement savings at a much lower rate than where they will be at in a few short years. With the current standard deduction amount, they could have withdrew or converted $143,000 (some at 0%, some at 10% and some at 12%), which would have been a net effective rate of 7.7%. That opportunity for last year is now lost, and pushed down the road a few years where they will pay tax on a lot more money at much higher tax rates.

So, Uncle Sam is the one who is actually smiling here as he will be collecting a lot more tax from your friends than necessary. This is the effect of not having a sound retirement plan and/or a bad advisor who did not advise your friends properly. The bottom line here is your friends have some major tax issues ahead, and by not starting to tackle this issue sooner rather than later, it can really cause the future tax issues to be much higher. The good news is there is still time to develop the proper plan, but the bad news is they cannot do anything about last year's lost opportunity.

For more detailed information on this question and to get answers to many more retirement planning questions submitted by our readers and listeners, join me on The Retirement Money Matters Show radio show, where we will answer this question in more detail as well as several more retirement planning questions. The show airs on Saturday morning at 6 on WIBC (93.1 FM), Saturday morning at 8 on 930 AM The Answer is Sarasota, Sunday morning at 8 on WWKI (100.5 FM), or online at www.theretirementmoneymattersshow.com.

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T. Brian Hayes is the Founder, Owner, and CEO of Hayes Advisory Group, boasting over 30 years of experience in guiding clients towards their retirement goals. Specializing in pre-retirees and retirees, he ensures clients understand their planning options and tailors strategies to their unique needs. A strong advocate for education, Hayes regularly writes and speaks on financial topics, hosts a weekly radio show on retirement, and instructs for The Prepare Institute, a 501-3 non-profit educational institution. He holds memberships in prestigious financial organizations like The Indiana Network of Estate Planning Professionals and The National Association of Insurance and Financial Advisors. Hayes is a distinguished member of the Million Dollar Roundtable (MDRT), with multiple honors recognizing his professional expertise and ethical standards. Based in Central Indiana, he serves clients across the U.S. and Canada, residing with his wife and three children.

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