6 Tax-Efficient Strategies to Keep More of Your Money in Retirement

Too many retirement-minded individuals focus on profits when what they really should be paying attention to is the bottom line. People need to craft a strategy on how to help keep their hard-earned dollars, instead of worrying solely about returns. It's something many people have never considered: Just by holding onto more of your hard-earned income, you could see a dramatic jump in your lifestyle and financial security.

Many people have done a great job of saving and paying off their debts. But they've forgotten about taxes. When it comes to 401(k)s and IRAs, many likely have not paid a dime of taxes, and the government will always want its share. Thanks to Social Security and required minimum distributions, some people find themselves jumping into in a higher tax bracket once they retire. Besides that, with their children now grown up and their house paid off, they probably won't have as many deductions.

Despite what you often hear, it is possible that you could have more control over your taxes and savings in retirement than at any other time in your life.

There are options to avoid taking a significant tax hit, and it's never too late to begin implementing valuable strategies available under today's tax laws. Here are some tactics to help you avoid paying extra to the tax man when you retire.

1. Reverse Rollovers

As we all know, Americans are living longer, and some of us may choose to work into our 70s. In many cases, individuals can avoid taking a tax hit from required minimum distributions that come knocking at age 70½ with a reverse rollover from their IRAs. If you are still working, you more than likely won't need the income from the IRA. It is possible that you could move your IRA accounts into your current employer's 401(k) or 403(b), although this depends on how your company has set it up. Every plan has its rules, and not all plans allow for this rollover. But, when allowed, this is a great strategy for some individuals to avoid or possibly reduce taxes, as you don't have to take required minimum distributions from your current 401(k) as long as you are employed. One major caveat: You cannot own 5% or more of the company that provides the 401(k) to enjoy this benefit.

2. Qualified Charitable Distributions (QCD)

A highly underutilized benefit. Once over age 70½, you can take the required minimum distribution and send it directly to a qualified charity instead of taking a tax hit. This strategy to help reduce your taxable income is for people who aren't reliant on the minimum distribution. One quick warning: The limit here is $100,000, and you do not qualify for a charitable deduction when you file your federal income taxes.

3. Roth Conversions

Taking your 401(k) or traditional IRA dollars and converting them into Roth IRAs is a great strategy if you want to avoid heavy taxes and leave a legacy to your family. It also helps with tax diversification and may keep you in a lower tax bracket. Contributing money to a Roth can also help with liquidity, as your contributions can always be accessed without penalty. The need for liquidity is a common concern for retirement-minded individuals. You should consider Roth conversions because they can be a significant part of your retirement planning as you look to avoid tax losses. Keep in mind, in most cases, when you convert funds from a tax-deferred account to a Roth, it's considered a taxable event, meaning you may owe taxes on some or all of the amount converted. The tax-free growth over your lifetime, however, will help you reduce your taxes in retirement when tax rates could very well be higher than they are today.

4. After-Tax Contributions to a 401(k)

If you max your 401(k), depending on your employer's plan, you might still be able to make after-tax contributions to it. You can roll those after-tax contributions directly to a Roth IRA. Think of it as a "mega Roth contribution." It's a great way to potentially create a huge reserve of tax-free money down the road. Take into account though that salary deferrals are not eligible for rollover before age 59½ by IRS regulations.

5. Health Savings Accounts

HSAs are a powerful vehicle to help avoid a significant tax bite. Individuals can max out their HSAs every year (in 2017 the annual limit is $3,400 for individuals and $6,750 for families, plus a $1,000 in catch-up contribution for those 55 and up), and you can get a tax deduction up front. Put money in your HSA to use whenever you have a medical expense. Currently, there are more than 1,000 over-the-counter (OTC) qualified medical expenses that HSAs can cover, everything from Band-Aids to eye drops. But think twice before pulling out that HSA debit card. You may be able to get a bigger bang for the buck if you let the money grow. You'd get the deduction for the contributions, taxes on growth are deferred and withdrawals are tax-free when used for qualified expenses. Under today's tax laws, if you keep a record of your medical expenses through the years, then come retirement, when you need income, you can cut yourself a retroactive reimbursement check for every medical expense you and your family incurred over the last decade, or several decades for that matter. In addition, your HSA can serve like an IRA once you turn 65, meaning you can use it for anything. While you will have to pay taxes on money you withdraw, you won't face the usual 20% penalty if you spend it on non-qualified medical expenses.

6. Non-Deductible IRAs

Too often, higher earners write off Roth IRAs, thinking they make too much (eligibility starts phasing out for incomes of $118,000 for individuals) or there won't be a tax deduction. That can be a big mistake. Money put into a non-deductible traditional IRA can be converted to a Roth IRA, which means a portion of those funds were already taxed when making the conversion. High earners are essentially putting money into a Roth IRA through the back door. It's a great strategy to help reduce your tax burden come retirement, because earnings and withdrawals from Roths generally are tax-free.

These are just a few tactics you can use to help prevent high taxes from burdening your retirement. Ask yourself this question: When was the last time your financial professional had a conversation with your CPA regarding your savings plan? Now may be the time to get their cooperation to navigate your retirement road map.