

Rethinking retirement: Why tax strategy is the missing link in wealth planning

Retirement planning often revolves around accumulating assets — maximizing savings, optimizing investment returns, and aiming for a comfortable lifestyle in later years. But too often, one critical element is sidelined in this process: tax strategy. Ignoring the tax consequences of retirement decisions can quietly erode wealth, while integrating smart tax planning can substantially enhance long-term outcomes.

The overlooked power of tax planning

For most individuals, taxes are a burden they hope to minimize. Yet, effective wealth management doesn't just reduce taxes — it strategically aligns them with a client's financial goals.

As financial planners, one of the most common pitfalls we see is decision-making that either ignores taxes altogether or is overly influenced by them. For example, investors may avoid selling a profitable holding simply to defer taxes, even if selling aligns with their broader financial strategy. This is what we call "letting the tax tail wag the dog." Taxes should be a factor, not the driver, of investment and retirement decisions.

IRA vs. Roth IRA: A strategic contrast

Understanding the difference between traditional and Roth retirement accounts is fundamental to long-term tax efficiency:

- **Traditional IRA/401(k):** Contributions are made with pre-tax dollars, reducing taxable income now. Funds grow tax-deferred, but taxes are due at withdrawal.
- **Roth IRA/401(k):** Contributions are made with after-tax dollars. The growth and withdrawals are tax-free — and there are no required minimum distributions (RMDs).

Each account type has distinct advantages. Traditional accounts offer short-term tax relief; Roth accounts offer long-term tax freedom. The key is knowing when and how much to contribute to each.

The Roth opportunity

Roth IRAs and Roth 401(k)s can be particularly valuable when used at the right time. If you expect your tax bracket to be higher in retirement — or if you value the flexibility of tax-free withdrawals — Roth contributions can provide significant benefits. But it's rarely an all-or-nothing decision. In many cases, dividing contributions between traditional and Roth accounts allows for flexibility, especially in an

unpredictable tax environment.

Tax rates change. Laws evolve. Personal circumstances shift. A diversified approach helps hedge against the unknown.

Roth conversions: A calculated strategy, not a rule of thumb

The Roth conversion — moving funds from a traditional IRA to a Roth IRA — is one of the most powerful tax planning tools available. But it's not for everyone, and it's certainly not a blanket solution.

The most effective time for a Roth conversion is typically after retirement but before RMDs and Social Security benefits begin — often a period of lower taxable income. However, converting funds triggers an immediate tax bill, as the transferred amount counts as income in that year. If not carefully managed, this can bump someone into a higher tax bracket, push capital gains to a higher rate or into surtax territory, or increase Medicare premiums.

Keys to a successful Roth conversion:

- **Pay taxes with non-IRA funds:** Using outside assets to pay the tax bill maximizes the converted amount and its potential for tax-free growth.
- **Evaluate annual thresholds:** Spreading conversions over multiple years can avoid bracket creep and help manage Medicare-related income limits.
- **Model scenarios:** Every investor situation is different. At Mesirow, we use scenario modeling to analyze the cost-benefit equation and determine the right level and timing of conversion.

Looking ahead: The policy landscape

The US national debt, currently over \$36 trillion, raises questions about the long-term sustainability of current tax rates. While it has long been assumed that individuals pay lower taxes in retirement, that assumption may not hold true for future generations. The likelihood of rising tax rates reinforces the need for tax-diversified retirement savings.

Moreover, Roth accounts offer advantages beyond personal savings. For charitably inclined individuals, keeping some funds in traditional IRAs can be beneficial, as Qualified Charitable Distributions (QCDs) allow IRA funds to be donated directly to charity tax-free — something Roth IRAs do not currently support.

Final thoughts

Integrating tax strategy into retirement planning is not a luxury — it's a necessity. Roth IRAs, traditional IRAs, and Roth conversions are tools, not solutions in themselves. Their value lies in how they are applied strategically, with a long-term perspective tailored to each individual's situation.

At Mesirow, our approach to planning goes beyond asset allocation. We guide clients through a dynamic, ever-evolving landscape where tax rules, market conditions, and personal goals intersect. When done right, tax planning doesn't just preserve wealth — it multiplies it.

Mesirow does not provide legal or tax advice. Past performance is not indicative of future results. The views expressed above are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Mesirow associates. This is not a solicitation to buy or sell the securities mentioned. Do not use this information as the sole basis for investment decisions, it is not intended as advice designed to meet the particular needs of an individual investor. Information herein has been obtained from sources which Mesirow believes to be reliable, we do not guarantee its accuracy and such information may be incomplete and/or condensed. All opinions and estimates included herein are subject to change without notice. This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing or using any of the information. If you receive this communication in error, please contact the sender immediately and destroy the material in its entirety, whether electronic or hard copy. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2025, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial Investment Management, Inc.'s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.