

Slash Retirement Health Care & Taxes: Your Essential Planning Checklist

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Plan smarter for retirement by proactively managing your biggest expenses. Explore Medicare choices, long-term care insurance and effective tax reduction techniques.

By Joel Russo

Calculating your expenses in retirement is key to ensuring you'll be able to afford to retire once that time finally comes. Retirement is likely the first time in your life that you'll be transitioning from relying on your earned income to relying on a fixed income. And with taxes and health care costs being the biggest expenditures for most, it's imperative that you focus on strategic planning to minimize their impact.

Managing Health Care Costs with Medicare Optimization

The first recommendation I have for my clients is to choose the right Medicare plan. Original Medicare, or Parts A & B, provide hospital and medical insurance. It covers inpatient hospital care, doctor's visits and some preventative services. Medicare Advantage, or Part C, is an alternative insurance plan that is offered by private insurance companies approved by Medicare. There are various plans ranging from HMOs (health maintenance organizations), which require you to be treated by a doctor who is in the network, to PPOs (preferred provider organization), which allow you to see doctors out of network, but at a higher cost. Original Medicare is offered directly through the federal government, whereas Medicare Advantage plans contract with the federal government to provide benefits. When it comes to prescription costs, Part D provides standalone drug coverage for those with original Medicare. There are also Medicare supplement plans, or Medigap plans, which help cover out of pocket costs that are not covered by original Medicare.

To find the best cost-effective plan for you, consider comparing Medicare Advantage plans with Original Medicare and Medigap. Medicare Advantage plans usually have lower premiums but higher out-of-pocket costs. Medigap provides better coverage but comes with a higher cost upfront. Utilizing Medicare's open enrollment, which runs from October 15th to December 7th, and reviewing and switching plans annually can also ensure you get the best deal. There are also Medicare savings programs available to help low-income retirees pay for Medicare premiums and expenses.

Create a Plan for Long-Term Care

In addition to Medicare, long-term care insurance should also be considered. There are two different types of long-term care insurance: traditional policies and hybrid policies.

Traditional policies only provide coverage for long-term care services such as nursing home care, in-home care and living costs at assisted-living facilities. With traditional policies, there is no guaranteed contract, so the cost of your premium isn't guaranteed and will likely rise overtime. They also have no cash value, meaning no withdrawals can be made in the event of a financial emergency and if you don't use your benefits, you've essentially lost the money you've paid for this kind of coverage.

Hybrid policies are different in that they combine traditional long-term care insurance with life insurance or annuities. They allow you to collect dual benefits and they also provide a death benefit to beneficiaries. It's best to purchase long-term care insurance in your 50s or 60s when premiums are lower. Some states even offer long-term care partnership programs that protect assets from Medicare spend-down rules.

Health savings accounts (HSAs) can also help cover medical costs. These self-funded accounts are typically offered as part of your employer's health plan. In your working years, it's wise to max out your contributions. The savings in this account grow tax-free, and you can take out the money tax-free as long as it's being used for a qualified expense. If you want to continue making contributions, delay enrolling in Medicare Part A.

In tandem with an HSA, another self-funding approach is to allocate investment to cover potential long-term care costs. Consider a Continuing Care Retirement Community (CCRC) that provides a range of care options.

Taking preventative measures when you're younger can also help you save on costs down the road. Staying healthy and fit will likely reduce your out-of-pocket costs in retirement. By prioritizing your health in your working years, you'll likely spend less on health care than someone who ignores their health.

Tax Planning Strategies to Reduce Tax Liability

Aside from health care, tax planning is another crucial area that could cost you. One tax-efficient withdrawal strategy is utilizing Roth conversions. Converting traditional IRAs and 401(k)s to Roth accounts in your lower-income years can reduce future required minimum distribution (RMDs) taxes in the future. RMDs are the minimum amounts you must withdraw each year from certain tax-deferred retirement accounts, i.e., traditional IRAs and 401(k)s once you turn 73. Consider converting traditional IRA/401(k) money into a Roth IRA before RMDs begin. Conversions create taxable income, but if done strategically, they can reduce taxes over time. Once in a Roth IRA, the money grows tax-free, and withdrawals are tax-free in retirement. The goal is to maximize lower tax brackets (e.g., 12% or 22%) before higher rates kick in. For example, a retiree in the 12% tax bracket might convert \$30,000 from a traditional IRA to a Roth IRA without pushing into the 22% bracket, depending on overall income.

Tax-efficient portfolio drawdowns can also help you reduce your tax bill if done in the right order. First, withdraw from taxable accounts with capital gains or where taxes have already been paid. Then, move on to your tax-deferred accounts like your traditional IRA or 401(k). Keep in mind that these withdrawals are taxed as ordinary income. Any withdrawals from tax-free accounts, like a Roth 401(k) or Roth IRA, should happen last. The funds in these accounts grow tax-free, so the idea is to allow them to grow for as long as possible.

There are also philanthropic opportunities that can provide you with tax benefits such as using Qualified Charitable Distributions (QCDs). For those who are at least age 73, these distributions count toward your RMD for the year. If you are 70 ½ or older at the time the distribution was made, donating directly from the IRA can reduce your taxable income. If charitable contributions are something you are interested in once you hit retirement, work with your financial planner to explore all of your options.

Social Security taxation can also cost retirees. Up to 85% of Social Security benefits can be taxed if your income exceeds certain thresholds. Single retirees with a Modified Adjusted Gross Income (MAGI) of \$25,000 or more will be subject to taxes. The threshold for married couples is \$32,000.

State tax implications should also be considered. Some states do not tax Social Security, pensions or retirement withdrawals. Others have high state income taxes. Moving to a tax-friendly state such as Florida, Texas or Tennessee can save thousands annually. Some states even offer retirement income exemptions.

Tax advantage of tax-free capital gains. If your taxable income is low enough, you may be able to take advantage of tax-free capital gains. For 2025, single filers with an income of

\$48,350 or less qualify for the 0% long-term capital gains tax rate. The threshold for married couples filing jointly is \$89,250. This means retirees can sell investments tax-free if they stay within these limits.

Managing tax and health care expenditures in retirement can help cut costs that can quickly deplete your savings without proper planning. If you are hoping to retire at some point, being proactive is crucial. However, it can be overwhelming. Consider meeting with a financial adviser who can assess your situation and help you create a comprehensive plan that meets your specific needs.

About the author: Joel Russo

Joel Russo is a New Jersey native and has been in the financial services industry for more than 35 years. He is dedicated to helping his clients reap the rewards of a well-planned retirement. Unlike many financial professionals, Joel specializes in the retirement market, “the over 50 crowd,” and has dedicated his practice to educating this community with workshops on topics relating to income from the right sources, taxes in retirement, RMD pitfalls and legacy planning.

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