

Smart Moves for RMDs: 6 Strategic Ways to Make the Most of Distributions You Don't Need

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Don't let unneeded RMDs inflate your tax bill.

By Greg Hammond

Reaching retirement means enjoying the fruits of your labor, but it also comes with financial obligations, including [Required Minimum Distributions \(RMDs\)](#). When you reach age 73 (or 75 if born in 1960 or later) and are retired, the IRS mandates you begin taking RMDs from your traditional IRAs and employer-sponsored retirement accounts, such as 401(k)s, potentially increasing your taxable income. But what if you don't need the extra money for living expenses? Instead of letting it add to your tax burden or languish in a savings account, you can put those funds to better use with smart, strategic moves that can grow your wealth, support loved ones or give back to causes you care about.

If you do not rely on RMDs for living expenses, there are several options to optimize the use of these funds while striving to minimize tax burdens. Here are six smart strategies for the RMDs you don't need. These include: reinvesting the funds in a taxable investment account; making a Qualified Charitable Distribution (QCD); purchasing life insurance to enhance the value passed to beneficiaries and charities; using the funds to cover the tax liability of converting a traditional retirement account to a Roth IRA; funding a 529 plan for grandchildren or other family members; and gifting funds to family members. Let's explore each option in detail.

1. Reinvesting RMDs in a Non-Retirement Investment Account

Leaving excess RMD funds in a low interest yielding savings account will lose purchasing power due to inflation over time. If you do not need funds from your RMDs for living expenses, reinvesting them in a non-retirement investment account can help maintain

your wealth and potentially grow it to outpace inflation. While traditional IRAs and employer retirement accounts offer tax-deferred growth, taxable investment accounts provide an opportunity for growth with more tax-efficient withdrawals without RMD requirements.

By moving RMD funds into a brokerage account, you have the flexibility to invest in stocks, bonds, mutual funds, exchange-traded funds (ETFs) or other investments. Although investments in a taxable account may generate additional income with capital gains, dividends, or interest income, [long-term capital gains and qualified dividends are taxed at preferential tax rates](#) which are often lower than ordinary income tax rates applied to RMDs.

Additionally, taxable investment accounts allow you to maintain control over when capital gains are recognized and can provide opportunities for tax-loss harvesting, which can offset capital gains with capital losses to reduce your tax liability. By reinvesting RMDs strategically, retirees can continue to potentially grow their wealth in a tax-efficient manner.

2. Giving RMDs to Charity with a Qualified Charitable Distribution (QCD)

A Qualified Charitable Distribution (QCD) is an excellent way to meet your RMD requirement while reducing your taxable income and supporting charitable organizations or causes you care about. [For 2025, a QCD allows individuals to transfer up to \\$108,000 per year](#) directly from their IRA to a qualified 501(c)(3) charity without counting the distribution as taxable income yet counting toward your RMD requirement.

Benefits of a QCD include:

- Reducing your federal adjusted gross income (AGI), which can reduce your Medicare premiums and taxability of Social Security benefits. QCDs are excluded from your taxable income.
- Lowering your state income tax liability if you reside in a state that assesses an income tax based on federal AGI.
- Satisfying your RMD requirement while fulfilling philanthropic goals.
- Avoiding the need to itemize deductions to receive a tax benefit, as QCDs are not tax-deductible but are excluded from taxable income altogether.

To qualify, the QCD distribution must go directly from your IRA custodian to the charitable

organization, and you must be at least 70½ years old. QCDs must be distributed from an IRA and cannot be paid from an employer retirement account. This strategy is particularly effective for retirees who do not need their RMDs and wish to make a meaningful impact through charitable giving.

3. Purchasing Life Insurance to Enhance Your Legacy to Family and Charity

Another effective use of RMD funds is purchasing a life insurance policy to provide a larger, tax-free inheritance for beneficiaries. By using RMDs to pay premiums on a permanent life insurance policy, such as whole or universal life insurance, retirees can create a more tax-efficient wealth transfer strategy.

Benefits of this approach include:

- Life insurance proceeds are generally income-tax-free to beneficiaries.
- The policy's death benefit can be structured to pass directly to heirs or be directed to a trust outside of a taxable estate. [Life insurance proceeds are generally considered part of an estate for tax purposes](#) if the policy owner and insured are the same person. The possible inclusion of the death benefit in a taxable estate can be addressed by creating an irrevocable life insurance trust to be the owner and beneficiary of the policy. Another option is to have the beneficiaries own the life insurance policy.
- The life insurance proceeds can be used in a wealth replacement strategy where family members receive an income-tax-free death benefit to replace some, or all, of a taxable retirement account balance designated to charitable beneficiaries or provide additional liquidity to a taxable estate.
- When family members receive a tax-free death benefit from life insurance, potential income taxes due on taxable retirement account funds can be eliminated by naming a charity or charities as the beneficiary of the account.

This strategy is particularly beneficial for retirees looking to maximize the impact of their wealth while ensuring their heirs and/or charitable causes receive a larger, tax-efficient legacy.

4. Using RMD Proceeds to Pay Taxes on Roth IRA Conversions

One of the most strategic ways to use RMDs is to cover the tax liability of converting traditional IRA funds to a Roth IRA. You can't convert your RMD itself, and you must take your RMD before making a Roth IRA conversion.

A Roth conversion involves transferring funds from a traditional IRA to a Roth IRA, which triggers a taxable event, potentially treating the converted amount as taxable income. Using RMD proceeds to pay the associated taxes lets you shift more assets into a tax-free account, reducing future RMDs and potentially leaving more tax-free assets to your heirs.

Advantages of a Roth IRA conversion include:

- Tax-free growth and withdrawals for the account owner and beneficiaries.
- Elimination of RMDs, providing more control over retirement income planning.
- Potential reduction in taxable income in later years, which can lower Medicare premiums and taxation of Social Security benefits.

This strategy is particularly valuable for retirees in a lower tax bracket who expect tax rates to rise in the future or want to leave a more tax-efficient inheritance.

5. Funding a 529 Plan for Grandchildren or Other Family Members

If leaving a legacy for education is a priority, retirees can use RMD funds to contribute to a [529 college savings plan](#) for grandchildren or other family members. While contributions to a 529 plan are not federally tax-deductible, the money grows tax-free, and withdrawals for qualified education expenses are also tax-free. Some states even offer tax deductions or credits for contributions.

This strategy allows retirees to help family members with education costs while reducing their taxable estate. If the beneficiary of the 529 plan doesn't use the funds, new rules allow unused amounts to be [rolled into a Roth IRA](#) under specific conditions.

6. Gifting to Family Members

For those looking to reduce their taxable estate, retirees can use their RMDs to make annual gifts to family members. The IRS allows [individuals to gift up to a certain amount per recipient per year \(\\$19,000 in 2025\)](#) without triggering gift taxes. Spouses can each give, effectively doubling the amount that can be gifted (\$38,000 in 2025).

This strategy helps shift assets to heirs during the retiree's lifetime while reducing future estate taxes. The gifted funds can be used for various purposes, including home purchases, debt reduction, retirement account contributions, or investments.

Choosing the Best Strategy for Your Needs

Selecting the best option for handling RMDs you don't need depends on your financial

goals, tax situation, and legacy planning priorities. Some retirees may benefit most from reinvesting in a taxable account, while others may prefer the tax savings and philanthropic benefits of a QCD or a wealth replacement strategy with life insurance. Life insurance, Roth conversions, funding education, and gifting to family members provide additional ways to optimize RMDs, particularly for those looking to enhance wealth transfer efficiency.

Before making any decisions, it's essential to consult with a financial adviser or tax professional to determine which strategy aligns best with your overall financial plan. By strategically managing RMDs, retirees can maximize their wealth, minimize taxes, and achieve their long-term financial objectives in a tax-efficient manner.

About the author: Greg Hammond

Greg Hammond, CFP®, CPA, is more than a financial adviser—he's a coach, author, and speaker dedicated to helping people turn their financial goals into meaningful impact. As CEO of [Hammond Iles Wealth Advisors](#), and co-author of [You Can Do More That Matters](#), Greg empowers investors with education and coaching, giving them the confidence to make informed financial decisions. His mission? To help people experience greater financial freedom, embrace new possibilities, and use their wealth to create a lasting impact—both for themselves, their families, and the causes they care about.

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