<u>Retirement Income: Order of Withdrawals</u>

A Guide to Managing Multiple Retirement Accounts Efficiently

In the past, retirement income planning was relatively simple. Most retirees relied on **Social Security** and **pension income** – steady income streams that often lasted a lifetime.

Today's retirees, however, typically have a more complex and mix of assets:

- **Taxable investment accounts** (funded with after-tax dollars)
- **Tax-deferred accounts** like IRAs and 401(k)s
- **Tax-free Roth accounts**

With people living longer and markets more volatile, it's more important than ever to develop a **strategic order of withdrawals** – a roadmap to help your money last and minimize taxes over time.

A General Rule of Thumb for Withdrawals:

While every situation is unique, the following withdrawal sequence can serve as a helpful starting point:

1) **Social Security & Pension Income**
   Determine the optimal age to begin receiving benefits. Consider:

   - Delaying Social Security to increase your monthly benefit.
   - Comparing pension income vs. rolling over to an IRA for more flexibility

2) **Dividends & Interest from Taxable Accounts**
   Rather than reinvesting dividends, interest, and capital gain distributions from your **personal investments,** consider taking them as **cash income.** These are taxed whether or not you reinvest, so you may as well use them to support your spending needs.

3) **Required Minimum Distributions (RMDs) from IRA/401(k)**
   At age 73, RMDs must begin with traditional IRAs and 401(k)s. These withdrawals are fully **taxable as ordinary income.**

4) **Tax-Efficient Withdrawals from Personal Investments**
   Return your **taxable accounts** for additional income if needed:

   - Take tax losses first
   - Manage capital gains wisely
   - Be mindful of **cost basis** and long-term vs. short-term gains

Capital gains are generally taxed at lower rates than ordinary income, making this step more tax-efficient than IRA distributions.

5) **Optional Additional IRA/401(k) Distributions**
   If needed, consider taking distributions **above your RMD** amount. This may make sense if you're trying to manage future tax brackets or avoid larger RMDs down the road.

6) **Roth IRA – Save for Last**
   Since Roth IRAs offer **tax-free growth and distributions,** it's usually best to **let this account grow as long as possible.** There are no RMDs during your lifetime or your spouse's.

   In our practices, I encourage clients to take the tax-free "income only" for life.

Why This Strategy Works

- **Taxable accounts:** Only gains are taxed upon withdrawal, and capital gains are typically taxed at lower rates.
- **Traditional IRA/401(k):** Withdrawals are 100% taxable, so it may be best to limit these to RMDs unless more income is needed.
- **Roth IRA:** These accounts are the most tax-advantaged, so preserving them can maximize long-term wealth and legacy planning.

What About Roth Conversions?

In certain cases – particularly early in retirement when you may be in a lower tax bracket – **converting portions of your traditional IRA to a Roth IRA** can make sense. This can reduce future RMDs and build your tax-free retirement bucket.

Roth IRAs can also be **passed on tax-free** to heirs (though estate taxes may still apply).

Work with Retirement Professionals for Optimal Results

Your **order of withdrawals** should align with your personal goals, income needs, and tax situation. That's why it's essential to work with both a **financial advisor** and a **tax advisor** on a regular basis. A tailored approach can potentially help reduce taxes, stretch your portfolio further, and build a more secure legacy for your family.