

## **Retirement Income: Order of Withdrawals**

### ***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.

### *Disclosures & Notes:*

*Before rolling assets from an employer-sponsored plan into an IRA, compare the guarantees and protections of each, including investment options, liquidity, fees and potential penalties.*

*There is no guarantee that the strategies mentioned will work for every investor or result in positive outcomes. Investment strategies involve risk, including possible loss of principal. Tax, legal, and Social Security claiming advice are not offered through, or supervised by, The Lincoln Investment Companies.*

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