which account when you're in retirement.

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By Evan T. Beach, CFP, AWMA, Kiplinger Consumer News Service (TNS)

When was the last time you went to the doctor feeling like you were on your deathbed and were told, "Hydrate, get lots of rest and, for goodness' sake, wash those hands!" The personal finance equivalents tend to go like this: "Save 15% of your pay. Have an emergency fund. Don't get into credit card debt." None of this common knowledge applies to actually getting your money out of your retirement accounts.

have an emergency fund equal to six months of expenses. For example, if you have monthly expenses of $10,000 and have $100,000 in the bank, your first $40,000 of income should come from cash or cash equivalents.

There are two main reasons for this: growth and taxes. Over long periods, cash will grow more slowly than almost anything else. You want your fast growers, which are typically your riskiest investments, to have time to grow. Tapping cash first allows that.

Drawing from cash will also keep your taxes low in your early years of retirement. This will allow you to move money from a traditional IRA, or any pre-tax account, into a Roth IRA at a potentially lower rate than what you would pay in the future.

2. Taxable accounts

Once you have withdrawn down to your emergency fund, you'll want to tap your taxable investments. These include individual, joint and revocable trust accounts.

Like the cash example above, this is based largely on taxes. Withdrawals are likely to be taxed at more favorable long-term capital gains rates if held for more than a year. Additionally, these accounts are not tax-deferred, meaning all else being equal, they will grow more slowly than a retirement account.

3. Social Security

Now things start to get tricky. I am not suggesting that once you tap out your taxable accounts, you should automatically turn on Social Security. There are breakeven points based on life expectancy, as well as tax and legacy considerations.

Social Security retirement benefits are available as early as age 62 and max out at 70. The Social Security Administration pays you handsomely for every month you wait to claim. Therefore, if the goal is to maximize income, typically the longer you wait,

Date of birth	Age for first RMD
6/30/49 or earlier	70½
7/1/49-12/31/50	72
1951-1959	73
1960 or later	75

5. Roth accounts

Roth accounts grow tax-free, and qualified withdrawals come out tax-free. Outside of a health savings account, this is likely your most tax-efficient savings vehicle. Continuing with the theme above, you want the vehicles that grow most efficiently to have the longest time to accumulate. Beyond that, Roth IRAs under the SECURE Act have become incredibly effective legacy transfer tools. Not only are the disbursements tax-free for beneficiaries, but withdrawals can typically be deferred for 10 years beyond your death.

Not to be confused with the SECURE Act above, the SECURE 2.0 Act eliminated the pesky minimum distribution rules (see table above) for all Roth accounts. Therefore, you can theoretically never withdraw from these accounts and let your kids enjoy your smart tax planning. But, where's the fun in that?

ABOUT THE AUTHOR

Evan Beach, a Certified Financial Planner professional and an Accredited Wealth Management Adviser, is a wealth manager at Campbell Wealth Management.
