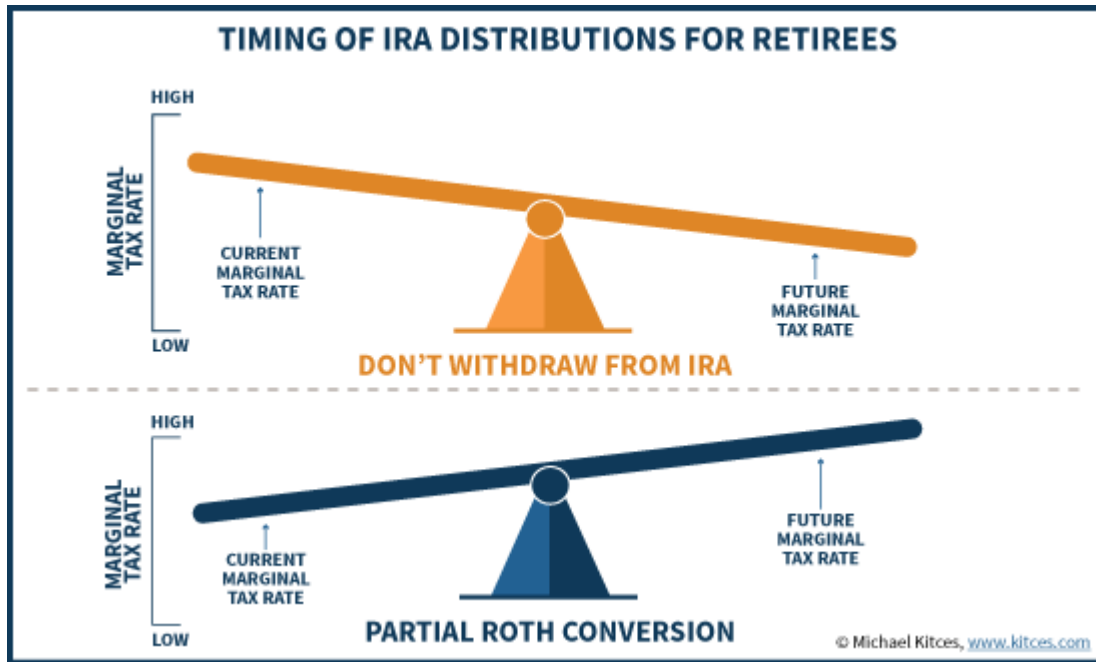


Optimal IRA Distribution Timing



Source: <https://www.kitces.com/blog/tax-efficient-retirement-withdrawal-strategies-to-fund-retirement-spending-needs/>

Investors must decide how to withdraw assets from their accounts to meet their spending needs during retirement. It is important to consider the type of accounts you own such as taxable, tax-deferred, or tax-free. It is also essential to consider whether the current tax-rate is higher or lower than your expected future tax-rate as you develop a strategic financial plan.

Vanguard conducted a study researching various distribution scenarios. They found as a general guideline that it is more advantageous to spend from taxable accounts before tax-advantaged accounts.¹ Regarding tax-advantaged accounts, they found that when current tax-rates are expected to be lower than future tax-rates, it is recommended to withdraw from tax-deferred accounts. Conversely, if future tax-rates are expected to be lower than current rates, it is advisable to withdraw funds from tax-free accounts before tax-deferred accounts.² Michael Kitces further shows how doing Roth conversions during low tax years can maximize your overall retirement growth. As shown in the above diagram, Kitces believes that when marginal tax-rates are low, doing a Roth conversion may be a strategic option. When tax-rates are high, he suggests that you do not withdraw from your IRA.³ These are general guidelines and should be evaluated within the framework of your portfolio and individual circumstances with your financial advisor.

1. Managing our accounts to lower taxes. Vanguard. Retrieved from <https://investor.vanguard.com/investor-resources-education/taxes/tax-advantaged-accounts>
2. Ibid.
3. Kitces, M. (2016) Tax-efficient spending strategies from retirement portfolios. Retrieved from <https://www.kitces.com/blog/tax-efficient-retirement-withdrawal-strategies-to-fund-retirement-spending-needs/>

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