



CREATING YOUR PAYCHECK IN RETIREMENT



Which account(s) or income source(s) should you pull from and by how much when cash flow is needed in retirement?



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Imagine you have saved during your professional career in a 401(k)/403(b)/457(b), IRA, Roth IRA and/or Taxable/Brokerage Account. Additionally, you have Social Security and/or pension income that can be used to meet expenses in retirement. Which account(s) or income source(s) should you pull from and by how much when cash flow is needed in retirement?

This is one of the most common and complex concerns faced by potential/existing retirees. It takes a deep understanding of investments, taxes and retirement planning to appropriately develop a plan. A customized and holistic approach of understanding one’s unique financial situation is necessary, and cannot be done when an investment professional has a sole focus on investing.

The above question can be a daunting task as each account type and income flow is taxed differently. However, there is a tremendous opportunity as a well-planned withdrawal strategy may potentially lower an individual’s tax bill in retirement. The usual source of one’s income, a paycheck, is removed in retirement allowing multiple withdrawal scenarios to be considered.

There are four major categories of taxation across account types and income sources;

- 1. Ordinary Income Tax** - withdrawals from a 401(k)/403(b)/457(b) and IRAs, as well as pensions, are taxed as ordinary income which usually has the highest relative tax rates
- 2. Partial Ordinary Income Tax** - up to 85 percent of benefits paid to Social Security recipients may be taxed at the applicable ordinary income tax rate
- 3. Capital Gains Tax** - selling stocks at a gain in a Taxable/Brokerage Account may be taxed at the applicable short or long term capital gains rate. Dependent upon the investment holding period and availability of a tax loss carryforward, among other factors, these rates can vary at the federal level from 0 up to 20 percent, but are usually lower than Ordinary Income Tax rates
- 4. Tax Free** - qualified distributions from Roth IRAs and/or municipal bonds held in certain account types may qualify for tax avoidance altogether



Similar to investment diversification across different stock markets, industries and companies, having a balance among some/all of the above account types and income sources gives retirees the most levers to pull when considering how to most effectively generate a tax efficient retirement paycheck.

For details on the withdrawal strategy options for your personal situation, please contact your wealth advisor team.

**FOR MORE INFORMATION**

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