

BE TAX WISE WHEN WITHDRAWING YOUR RETIREMENT SAVINGS

You've spent years saving for retirement, but now it's time to plan the best way to manage your retirement savings withdrawals. Here is a potential method to help maximize your funds using a tax-advantaged strategy.

First, look at Social Security and pensions. You can use these funds for daily living much the same as you used your salary and wages when you were working. These monthly sources of cash are considered taxable income by the IRS and should be your "go to" funds for living expenses.

Second, consider your savings. If you have some cash or investment savings outside of tax-deferred retirement savings accounts, these are readily available for you without extraordinary tax implications beyond investment interest, dividends, and capital gains taxes.

Third, look at tax-deferred accounts. And now the tricky part, if you have traditional tax-deferred retirement savings accounts such as IRAs and 401(k)s where your savings grew with pre-tax contributions and tax-deferred earnings, you will want to withdraw these funds as tax-efficiently as possible. Withdrawals from these accounts will be taxed as ordinary income, penalized if withdrawn too early, and severely taxed if not taken as required minimum distributions (RMDs) after you reach age 70½.

Fourth, consider tax-free retirement funds. You may have a tax-free retirement savings account such as a Roth IRA or Roth 401(k). These were built with your hard-earned "after tax" contributions. Those contributions and all the related earnings can be withdrawn tax-free. But more importantly, they can continue to grow tax-free with no RMDs after age 70½. These tax-free retirement savings should be your last resort.

Your retirement savings withdrawal strategy can get complicated. Each year you'll need to consider current tax rates, your overall taxable income, your age and your particular tax situation. Taxation of your Social Security benefits could be affected. Your available tax deductions and credits can change depending on your income tax bracket. Getting advice from a professional could prevent an unnecessarily taxing withdrawal mistake. Call us; we're here to help.