

How To Withdraw Money From Your Retirement Accounts in the Most Tax-Efficient Manner

Admin User · December 5, 2018

How To Withdraw Money From Your Retirement Accounts in the Most Tax-Efficient Manner Generating Income in Retirement: Rethinking Conventional Wisdom When it comes to generating income in retirement, many retirees rely on traditional withdrawal strategies. [...]

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Generating Income in Retirement: Rethinking Conventional Wisdom

When it comes to **generating income in retirement**, many retirees rely on traditional withdrawal strategies. The most common approach involves drawing money from taxable accounts first, followed by tax-deferred accounts, and finally Roth accounts.

At first glance, this strategy makes sense. According to Roger Young, a senior financial planner and vice president at T. Rowe Price Associates, this method allows your tax-advantaged accounts to grow for a longer period. In his paper, *Retirement Pulse: Tax-Efficient Withdrawal Strategies*, Young notes, “If you draw from taxable accounts first, your tax-advantaged accounts have more time to grow tax-deferred. Leaving Roth assets until last provides potential tax-free income for your heirs. Plus, it is relatively easy to implement.”

The Hidden Costs of a Conventional Approach

However, this strategy isn’t always that straightforward. Young highlights that the conventional method may actually lead to higher overall tax bills. It fails to consider the retiree’s specific tax situation—or that of their heirs.

In a recent episode of our **Retirement Daily podcast**, Young explored more nuanced

strategies for **generating tax-efficient income in retirement**. He emphasized the importance of tailoring withdrawal plans to meet three key retirement goals:

- Extending the life of your retirement portfolio
- Increasing after-tax income during retirement
- Efficiently transferring wealth to heirs

Leveraging Different Account Types

The key to building a more efficient retirement income strategy lies in understanding and leveraging the unique tax characteristics of your different retirement accounts. Investors typically hold three types of accounts:

- Taxable accounts (e.g., brokerage accounts)
- Tax-deferred accounts (e.g., traditional IRAs, 401(k)s)
- Tax-exempt accounts (e.g., Roth IRAs)

A flexible, tax-aware withdrawal strategy can help maximize after-tax income and reduce the tax burden on both retirees and their heirs.

How To Withdraw Money From Your Retirement Accounts in the Most Tax-Efficient Manner - Final Thoughts

Rather than following a rigid withdrawal order, retirees should evaluate their unique financial situations. With thoughtful planning and strategic account withdrawals, income in retirement can become more tax-efficient, sustainable, and aligned with legacy goals.

For more expert insights and practical tips on retirement strategies, check out our full Finstream retirement playlist on YouTube.
