

Retirement Withdrawal Strategy: Tax-Efficient Planning for Your Income

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Discover the ideal sequence for withdrawing funds from your 401(k), IRA, Roth IRA, and brokerage accounts.

By Beau Kemp

I was recently asked, “Where the heck will my money come from once I retire?” It’s a very common question! Many people have a mix of different types of accounts—tax-deferred, taxable and tax-free—and are left wondering what the best strategy is to withdraw their funds. We break it down below.

Start with Your Budget

Last time, we talked about nailing down your retirement budget. For example, let’s say you’re spending \$96,000 a year—some for basic needs, some for fun. Knowing that number is step one.

Non-Investment Cash Flows

Once you know your spending, start with non-investment cash flows like Social Security or a pension. Say you’ve got \$50,000 coming in from those—great! That leaves a \$46,000 gap to fill from your portfolio.

Which Account to Use?

Your portfolio likely has three buckets: taxable (like brokerage accounts), tax-deferred (like a 401(k) or IRA) and tax-free (Roth accounts). The general rule? Spend the taxable assets first, then tax-deferred, then tax-free. Why? You avoid yearly taxes on growth in tax-deferred and Roth accounts, keeping your taxable income lower early in retirement. You also only pay tax on the gains in the taxable account, whereas IRA distributions are all

taxable at your ordinary income rate.

Exceptions Matter

Rules are great, but there are always exceptions. For instance, a [Roth IRA](#) is perfect for big, one-off expenses—like an \$80,000 car—since withdrawals won't push you into a higher tax bracket. Or, if leaving an inheritance isn't your goal, you might tap your Roth earlier. One strategy is to use it for extra cash once required minimum distributions (RMDs) kick in, allowing you to avoid increasing your taxable income any more than you need to.

What if you don't have a taxable brokerage account? Many don't. In that case, we'd typically start with your tax-deferred accounts, like a 401(k) or IRA.

The best withdrawal strategy depends on your situation. That's why it's worth running your plan through a few scenarios—seeing how different patterns play out can show you exactly where the savings lie.

Other Factors to Consider

Age – if you are between ages 55 and 59 ½, you'll want to leave your funds in the 401(k) plan. This will allow you to withdraw these assets and avoid the 10% early IRA withdrawal penalty.

Pre-Medicare – if you are retiring before age 65, you will not be eligible for Medicare. Depending on your portfolio, you may be able to keep your AGI (adjusted growth income) low enough to qualify for the health care tax credit.

Unrealized Gains – your long-term capital gains tax bracket may be lower than your ordinary income bracket.

How Often Should You Get Paid?

Most people like monthly withdrawals from their portfolio to a checking account—it mimics a paycheck and keeps spending in check. Some prefer twice a month or quarterly, depending on their bills and discipline. Funnel all sources—Social Security, pensions, portfolio withdrawals—into one account for simplicity.

The Goal: Pay Less Tax

No one wants to pay more tax than they owe. Building a tax-efficient retirement paycheck means weighing options, running scenarios, and aligning with your goals. It's not one-size-fits-all, but with some planning, you can squeeze the most out of your money.

Ready to Optimize Your Retirement Withdrawals?

Retirement planning isn't a one-size-fits-all approach. Every financial situation is unique, with its own set of complexities around taxes, account types and personal goals. A financial professional can help you reach the best outcome.

About the author: Beau Kemp, CFP, RMA

Beau Kemp, CFP®, RMA®, is a financial planner with Sensible Money. At [Sensible Money](#), we specialize in helping our clients navigate the nuances of creating a tax-efficient retirement income strategy. We're here to help.
