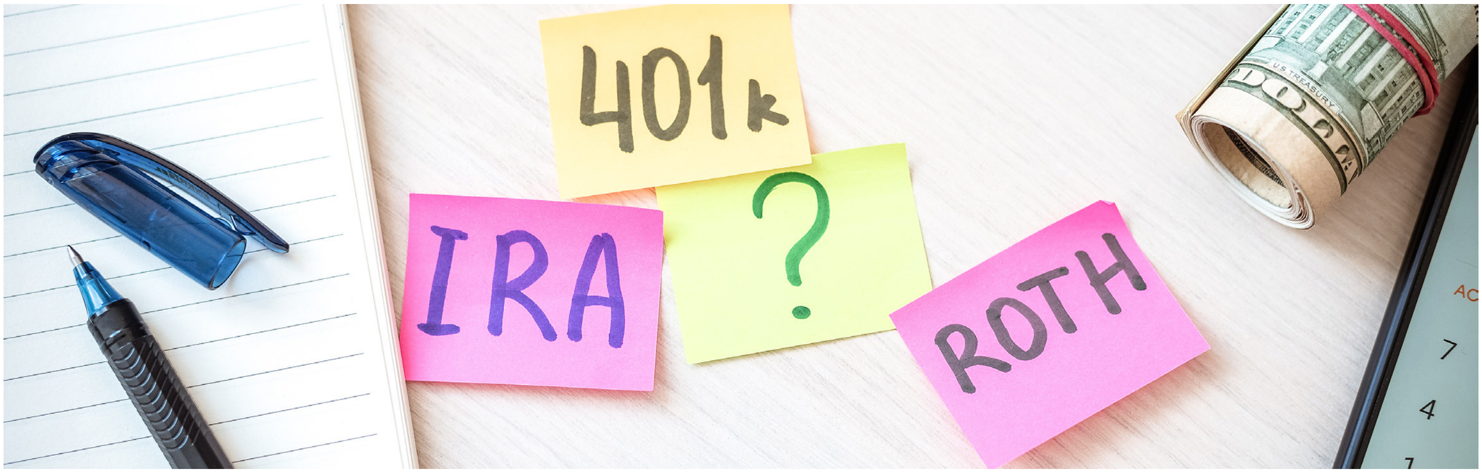

ACTION FINANCIAL STRATEGIES LLC

Retiring? Which Account Do You Draw From First?

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When it comes time to retire, which of your investments should you draw from first?

I must admit that this question is a bit of a teaser, in that the answer is, “it depends.” What would be more helpful is to ask yourself a series of questions to determine how best to structure your retirement plan so that it fits your personal preferences. This will ultimately answer where your money comes from to fund your retirement lifestyle.

1. What accounts do I have? What money have you consciously set aside for retirement? This typically accounts for personal IRAs or ROTH IRAs as well as company sponsored retirement plans. Secondarily, you should also list accounts you hadn’t specifically earmarked for retirement spending but could be used if needed. These include accounts such as: savings accounts, liquid brokerage investments, annuities, and other similar investments.

2. What are the tax ramifications and rules surrounding my accounts? Am I taxed on all, some, or none of the distributions from my accounts? Make a list of these accounts from most tax to least tax on withdrawals.

3. What promised income sources do I have, and when do they start? I say promised, because rarely is anything guaranteed. Promised income might be Social Security income, pensions, or other guaranteed payments from an annuity or other income stream.

4. What are your living expenses? You’ll need to have a good handle on living expenses when entering retirement as this will determine the longevity of your portfolio. The amount of money you need to fund your lifestyle in retirement will also determine the taxes you’ll most likely be paying to fund your lifestyle. I believe it to be an extremely rare retirement scenario where every dollar was coming from a tax-free source, with the only taxable income coming from social security.

5 Begin to question how much tax you want to pay in retirement by determining where money will come from to fund your living expenses from question four. You can mix and match your accounts to determine how much your tax liability will be. This isn't an easy thing to figure out without some tax help or financial modeling software, but it can be done.

6 Lastly, if you've determined your expenses, and have solid answers to all the questions, then you can begin to build your distribution plan. One such blocking method would be to create spending buckets. For example, you might have a cash buffer bucket with a year's worth of expenses covered. Then you might put a short term 5-7 year spending bucket in place that, depending on your own appetite for risk, would possibly have a different profile than money earmarked for the last 20-30 years of retirement.

If all these questions and steps seem a bit overwhelming, I completely understand and sympathize with you. Investing seems relatively straightforward when you are trying to accumulate funds for retirement, but when it comes to spending down everything effectively and efficiently, the task can be wrought with pitfalls, taxes and unaccounted for risks which can derail the best laid plans.

Nobody plans to run out of money or run into these risks in their retirement years, but nonetheless it still happens. Its best to tread carefully here and work with a professional to sort out your plan. The 3 or 4 bucket approach is only one method, and depending on attitudes and preferences towards portfolio safety, liquidity, and retirement longevity, you may have a different strategy.

In any case, I hope you found these questions useful.
If you'd like more information, please reach out to us.

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