# How Should You Pull From Your Retirement Income Sources?

Not all retirement income is equal. Some you're required to take. Others carry tax consequences. So it's important to know how to structure your retirement income in the potentially choice order.

## **5 Factors** that influence retirement income

How do you know which income source to take and at what time? The answer depends on five factors:

**Age at retirement**
Is there a gap between when some of the sources kick in and your last paycheck? That lull in income may necessitate pulling more assets from flexible sources.

**Required distributions**
Some sources mandate that you take a specific portion by a certain age. Pensions typically start at 65; retirement accounts, at 73.

**Income needs**
Generally, the lower your income needs, the more flexibility you have with where you pull from.

**Taxes**
Are taxes a concern, and do you want to minimize what you may owe?

**Legacy**
Do you wish to leave money to heirs or a charitable organization?

### What are RMDs?

Retirement accounts require minimum distributions (RMDs) each year. Your plan administrator typically calculates the amount, which is determined by the account's prior end-of-year fair market value and the distribution period or life expectancy. Distributions are taxed at ordinary income rates. And even for individuals who do not need the income, they must take them each year, or suffer a severe penalty.

## Choice order for pulling retirement income

Some sources of retirement income require withdrawals start at a specific age. Others are variable depending on income needs—they can be taken whenever you need them, or never.

| Fixed Sources | Flexible Sources |
|---|---|
| **Social Security:** Benefits can start at age 62 but must be taken by age 70. And once you start receiving them, you cannot stop payments. | **Investment Assets:** Individuals can increase or decrease withdrawals depending on income needs. The remaining assets stay invested and have the potential to grow. |
| **Required Minimum Distributions (RMDs):** Required distributions start at 73 years old. If you fail to withdraw the full amount, the amount not taken is taxed at 25%. | **Whole Life:** The cash value can offer loans or become annuitized, but it is the income of last resort. |
| **Pensions:** Most plans require that participants receive benefits at 65 years old, unless they are still working. | |
| **Annuities:** Often have a predetermined start date. | |

## Don't need it? Want more income flexibility?

There are ways to structure some of your fixed income sources to potentially maximize your benefits, lower your taxes, or transfer them to variable income.

**Social Security:**

Wait to receive.

For every year above full retirement age (age 66 or 67) that you wait until age 70, your future monthly benefits increase 8%.*

**RMDs:**

Convert to a Roth.

You're still obligated to take your annual distribution (and pay taxes on it). But then, you may be able to contribute up to $8,000 to a Roth IRA, if you satisfy the Roth requirements. For instance, you'll need earned income of at least the amount you contribute but not exceeding $161K (individual) or $240K (couple). Additionally, converting will raise your taxable income that year. However, it could potentially provide tax-free growth for you and your beneficiaries.

Gift to charity.

A qualified charitable distribution (QCD) satisfies your RMD and is nontaxable if made directly from your traditional IRA to a qualified charity.

*Social Security Administration, Retirement Benefits. Accessed July 22, 2024.

**Pension:**

Consider a lump sum payout.

Reinvest in an IRA to control your income flow. You'll still need to take annual RMDs, but there's always a Roth conversion option if you don't need them.

**Annuities:**

Sell on secondary market.

Convert your annuity from a fixed income stream to a lump sum cash option. But beware: You won't receive the full cash value—it's usually discounted between 10%-20%, so consult with your annuity professional.