Tax-Efficient Withdrawal Strategies

A blue square labeled Tax-Deferred appears. Next to it, a green square labeled Taxable appears. A faucet moves back and forth between the two squares. **Narrator:** "When you retire, you may have assets in tax-deferred accounts, such as an individual retirement account, and fully taxable accounts, such as an individual brokerage account. Which assets you tap into first can make a big difference in how long your savings last."

The faucet comes to a stop on the green square and begins to dispense a corresponding green liquid. Then the figure $500,000 appears on the screen. The blue and green squares appear briefly behind the figure. Once the squares disappear, half of the figure is colored blue and the other half is green. The screen then says 6% Return, followed by 24% Tax on Returns. **Narrator:** "Consider the following example, where a hypothetical retired couple have their $500,000 nest egg evenly divided between tax-deferred and fully taxable accounts. Their investments earn a return of 6% annually, and returns in the taxable account are taxed at 24%."

A chart displays with a vertical axis ranging from $0 to $500,000. The chart's horizontal axis is labeled Life Span of Assets and ranges from zero to 35 years. A blue line starts out from the $500,000 mark and arcs downward. Between 15 and 20 years, part of the line becomes green. The line is fully green when it reaches $0 at about 28 years. **Narrator:** "In the first scenario, they withdraw and deplete the tax-deferred assets first, before withdrawing any of the taxable assets. Assuming they withdraw $25,000 of their total balance the first year and increase that amount by 2% each year to keep pace with inflation, their money would last for over 28 years."

A green line starts out from the $500,000 mark and arcs downward. Between 20 and 25 years, part of the line becomes blue. The line is fully blue when it reaches $0 at about 34 years. **Narrator:** "Now consider what may happen if they withdraw the taxable assets first. Using the same assumptions, their savings could last for over 34 years -- an additional six years."

The blue and green squares reappear on the screen. The word Tax moves across the top of them. When it reaches the green square, the X in Tax turns into a pair of scissors and snips off the top of the green square. Then a faucet appears at the bottom of the green square and starts dispensing green liquid until the square is almost gone, while the blue square gradually grows larger. **Narrator:** "Why the difference? Investment gains in fully taxable accounts may be subject to tax every year. Yet gains in tax-deferred accounts are exempt from tax until you withdraw them. So withdrawing assets from taxable accounts first -- and allowing your tax-deferred investments to potentially compound for several more years -- may help your money last longer."

Percentages between 0% and 37% display. Then Less Than 1 Year and Greater Than 1 Year display, followed by symbols for a 1040 tax form, the Internal Revenue Service, and a generic document. Finally, blue and green squares appear and change position as arrows are drawn, resembling a football strategy being diagrammed on a blackboard. **Narrator:** "Keep in mind that tax rates on taxable assets vary, depending upon the type of investment, how long it is held, your annual income, and other factors. There are also IRS minimum distribution requirements and estate planning aspects to consider. So be sure to consult a financial or tax professional before finalizing your retirement income withdrawal strategy."

The final screen appears, which reads: This illustration is hypothetical. Your results will differ. It is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.