



CIO asks the question: *Should you wait to make IRA and 401(k) distributions until the IRS forces you to?* (UBS)

Three strategies to improve your after-tax wealth potential

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In searching for an ideal IRA distribution strategy, the UBS Chief Investment Office (CIO) looks for opportunities to help you reduce the “tax drag” on your assets and harness the full potential power of compounding growth. They explore this topic and share strategies you can discuss with your financial advisor in the latest “Modern Retirement Monthly” report.

When it comes to spending from your portfolio, it's important to develop a dynamic withdrawal strategy that reduces the tax drag on your investments.

A common rule of thumb is to distribute from taxable accounts (i.e., after-tax dollars), then from tax-deferred accounts (e.g., Traditional 401(k)/IRA), and finally from tax-exempt accounts (Roth 401(k)/IRA, Health Savings Account, etc.).

Unfortunately, most retirement accounts won't allow you to defer your taxes forever. At the very minimum, you will eventually have to distribute the funds from your tax-deferred accounts to satisfy the government's required minimum distributions (RMDs), and these distributions will generally be subject to ordinary income taxes.

The applicable age for these distributions recently increased from age 72 to 73, thanks to the SECURE 2.0 Act of 2022. Read the [2024 retirement guide](#) to learn about a few SECURE 2.0 Act provisions that become effective this year.

As a result of the SECURE 2.0 Act, you may be able to leave your retirement assets invested longer than you had anticipated. This brings us to the question: *Should you wait to make IRA and 401(k) distributions until the IRS forces you to?*

Strategies to discuss with your financial advisor

If you aren't yet taking RMDs, the delayed RMD age means that you can delay taking assets from your retirement accounts, but that does not necessarily mean that you should.

After all, deferring your taxable retirement account withdrawals—and thus compressing your taxable income into fewer years—could push you into a higher tax bracket in later years, increasing the overall tax cost of funding your retirement.

Instead of sticking to the minimum distributions required by the government, we recommend working with your financial advisor and tax advisor on an IRA distribution strategy that maximizes your after-tax wealth potential.

With this in mind, here are some strategies that you should discuss with your financial advisor:

1. **Accelerate IRA distributions to “fill up” your tax bracket in lower-than-normal tax years.** This can help you to increase the after-tax distributions from your retirement assets versus an “RMD-only” approach.
2. **Use Roth conversions and irrevocable life insurance trusts (ILITs) to boost the after-tax wealth you can leave to your heirs.** Roth IRA assets can grow income tax-free and if a life insurance policy is purchased and owned by an ILIT, then the policy's death benefit will not be included in the insured's gross taxable estate at death.
3. **Make qualified charitable distributions (QCDs) to meet your philanthropic objectives and maximize the value of your charitable contributions, while simultaneously satisfying all or a portion of your RMD.**

When it comes to determining how these distributions will be taken and where the funds will be used, there are many factors you'll need to consider with your financial advisor. For instance, upcoming cash flow needs, investment strategy, current and future projected tax rates, and the beneficiaries who are currently designated for the account can all affect whether a particular strategy will lead to better outcomes for your particular situation.

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For more, read the full report [Beyond RMDs: Strategies for IRA owners and beneficiaries](#) 28 March 2024.

Review the [2024 Tax fact sheet](#) as you aim to improve your after-tax wealth potential.

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