

Economics' Guide to Withdrawing Retirement Account Assets

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Key Question

Which Moves Generate the Highest Sustainable Living Standard?

To Answer this Question

You Need Software that Calculates
Sustainable Living Standards

Each is Retired and Age 60

House is Paid Off – \$5,500 in Annual Housing Expenses

\$400K in Regular Assets

Each Has \$200K in a 401(k) and \$200K in a Roth IRA

Each Collects \$20,719 at Age 62 From Social Security

Immediate and Smooth Retirement Acct Withdrawals

They Take their 401(k) Money Out First

Bill and Belinda's Sustainable Spending
After Taxes, Medicare Premiums, and
Housing Expenses

is

\$72,236

Bill and Belinda's Sustainable
Spending If They Take Roth First

is

\$71,089

Lesson 1

Withdrawal Order Matters

\$71,089 is 1.6 Percent

Smaller than \$72,236

Why Is Withdrawing First from the 401(k) Better?

A Priori It's Unclear Which is Best

Taking the 401(k) First Means Higher
Current Taxes and Lower Future Taxes

Taking the Roth the Opposite

Tax Deferral Argues for Taking Roth First

Social Security Benefit Taxation Argues the Opposite

So Does Taking, But Not Immediately Spending

Withdrawals

(Future Tax Hikes Provides Stronger Case for Roth)

Bill and Belinda's Sustainable
Spending If They Take 401(k) First,
But Start Withdrawals at Age 65

is

\$73,516

Lesson 2

Withdrawal Timing Matters

\$73,516 is 1.8 Percent

Larger than \$72,236

Bill and Belinda's Sustainable
Spending If they Take 401(k) First, But
Start Withdrawals at Age 70

is

\$71,674 Before Age 82
and \$80,074 After Age 82

Lesson 3

Waiting Too Long to Withdrawal Can
Preclude Consumption Smoothing

\$71,674 is 2.5% Less than \$73,516
and \$80,074 is 8.9% More

Lesson 4

Withdrawal Decisions Affect Timing and Level of Taxes

Taxes at Age 65 Are

\$13,906 if Withdrawals Start at Age 60

\$13,996 if Withdrawals Start at Age 65

\$825 if Withdrawals Start at Age 70

If Bill and Belinda Start Withdrawing
at 60 and Take Social Security at 70

Spending is \$70,334 Before Age 70

Spending is Over \$83,000 After Age 70

Lesson 5

Social Security and Withdrawal

Decisions are Interdependent

If Withdrawals Start at 60 and Stop at 69
and Social Security Is Taken at 70 ->

Spending is Smooth and Equals \$76,113, which is

3.5% Above \$73,516 (Take SS at 62 and Withdrawals at 65)

and 5.4% Above \$72,236 (Take SS at 62 and Withdrawals at 60)

Lesson 6

Optimize

If Bill and Belinda Start Withdrawing at 65, Stop
Withdrawing at 75, and Take Social Security at
70

Spending is Smooth and Now Equals \$78,282
– 8.4% Higher than \$72,236

Lesson 7

What's Best for Bill and Belinda
May Not Be Best for Others

Maximizing One's Living Standard is
a Highly Precise Business

Need Dynamic Programming, Not Rules of Dumb