2025 · WHERE SHOULD I WITHDRAW MY NEXT DOLLAR FROM FOR RETIREMENT EXPENSES?

CESTIA WEALTH MANAGEMENT

START HERE

Do you need this money to pay for an education expense, and do you have access to a 529 account?

No

Yes

Consider using your 529 account to pay for qualified education expenses, as withdrawals will generally be tax-free and penalty-free.

Do you need this money to pay for a medical expense, and do you have access to a health savings account (HSA) that is earmarked for current medical expenses?

Yes

No

Consider using your HSA to pay for qualified medical expenses, as withdrawals will generally be tax-free and penalty-free.

Do you need this money in order to make a gift to charity?

Yes

No

Are you over the age of 70.5, and do you have money in a traditional IRA?

No

Yes

As an alternative to cash, consider donating appreciated assets (e.g., stocks, ETFs, etc.) in-kind, as doing so will avoid triggering unrealized capital gains.

Consider making a qualified charitable distribution (QCD) from your IRA to the charity, as QCDs are tax-free and penalty-free and can also help satisfy your required minimum distribution (if applicable).

Which option best describes your tax situation?

My taxes are currently lower and are expected to be higher in the future.

In general, consider withdrawing from sources that are taxed as ordinary income (e.g., traditional IRA, annuity, etc.) while in a lower tax bracket, as it may help reduce the cumulative taxes you pay over your lifespan.

I'm not expecting my taxes to change much between now and the future.

In general, consider withdrawing from sources that have favorable tax rates (e.g., long-term capital gains, etc.) compared to your ordinary tax rates, as it may help you maintain your overall tax rate and potentially prevent triggering your next marginal tax bracket.

My taxes are currently higher and are expected to be lower in the future.

In general, consider withdrawing from non-taxable sources (e.g., Roth IRA, cost basis, line of credit, etc.) while in a higher tax bracket to help preserve your taxable assets for periods when your tax rate is lower and to avoid unnecessary increases to your AGI or MAGI.

If your tax bracket is low enough to qualify, consider sourcing funds by selling assets with long-term capital gains at the 0% tax rate (if it makes sense for your situation).

If you plan to withdraw from a retirement account, make sure you are not subject to a 10% early withdrawal penalty (e.g., over age 59.5, down payment on a house, hardship withdrawal, etc.).

Be mindful of triggering additional AGI/MAGI tax consequences (e.g., 3.8% net investment income tax, IRMAA surcharges, additional Social Security taxation, etc.) when withdrawing from taxable sources.

Disclosure

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