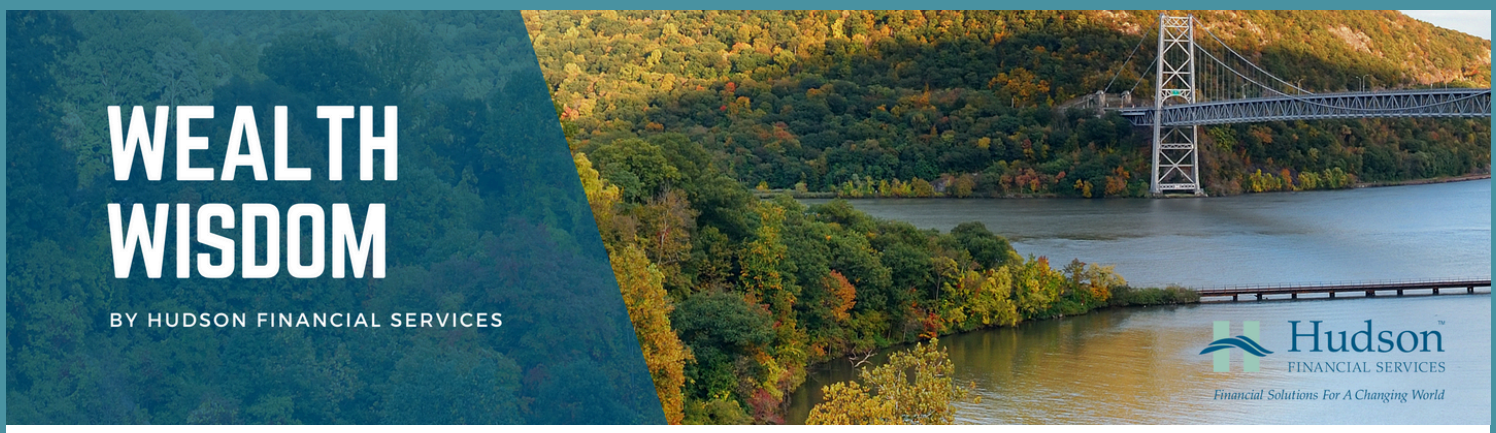


June 23, 2025

You've likely spent years building your retirement nest egg—saving diligently, investing wisely, and contributing to retirement accounts along the way. But transitioning from earning a paycheck to relying on your savings can feel overwhelming. It's a major life change, and having a clear strategy can help ease the stress. As financial advisors, we help clients navigate this shift by developing strategies that turn the wealth they've accumulated into reliable retirement income. In this blog, we'll outline some key considerations to keep in mind as you make this transition.

Social Security as One of the Foundations of Your Retirement Income Strategy

While Social Security may not be your primary source of income in retirement, it can provide a steady stream of supplemental income—adding an important layer to your overall financial strategy.

In 2025, the maximum monthly Social Security benefit at full retirement age is $4,018, or roughly $48,000 per year.[1] For some retirees, this can help cover basic living expenses and reduce the need to withdraw as much from retirement savings. That's why Social Security can be an important factor when structuring your retirement cash flow.

Most people become eligible to claim Social Security benefits at age 62. However, to receive your full benefit, you will need to wait until your full retirement age—currently 67. If you delay benefits until age 70, your monthly payments will be even higher. Several personal factors should influence the timing of your claim, including your health, marital status, financial needs, and your plans for continued work. Taking benefits early can reduce your monthly payout by up to 30 percent, so it's wise to consult a financial professional to help you evaluate your options before making a decision.[1]

The Art of a Smart Withdrawal Strategy

Once you've determined the monthly benefit you can expect from Social Security, the next step is to evaluate your other potential income sources and decide how best to access them. Withdrawing money from your accumulated assets is often more complex than it appears. We frequently remind clients that creating an effective withdrawal strategy is both an art and a science—requiring a careful balance of longevity, tax efficiency, and income needs.

A good starting point is to develop a withdrawal sequence tailored to your personal circumstances.

Retirement portfolios are typically divided into three broad categories based on their tax characteristics:

- Taxed
- Pre-tax
- Post-tax

Before reviewing the specifics of each category, remember that this blog is intended for informational purposes only and is not a substitute for personalized financial advice. Be sure to consult with your tax, legal, and accounting professional—as well as a financial advisor—before making any decisions regarding your retirement withdrawal strategy.[2]

The Taxed Portion of Your Portfolio

This part of your portfolio has no special tax advantages. It includes nonqualified or taxable accounts, such as savings, checking, and brokerage accounts funded with after-tax money. When you sell investments from these accounts, you may be required to pay capital gains tax on any profits, depending on how long you've held the assets and your overall tax situation.

The Pre-tax Portion of Your Portfolio

Your pre-tax portfolio comprises qualified retirement accounts like 401(k)s and IRAs that were funded with pre-tax dollars. Contributions to these accounts were tax-deductible at the time they were made, and the investments have grown tax-deferred over time. However, withdrawals in retirement are taxed as ordinary income.

The Post-tax Portion of Your Portfolio

Post-tax accounts include Roth IRAs and Roth 401(k)s, which are funded with after-tax dollars. While contributions to these accounts are not tax-deductible, the key advantage is that both the growth and qualified withdrawals are tax-free. A withdrawal is considered qualified if the account has been open for at least five years and the account holder is either age 59½ or older, permanently disabled, or using a portion of the funds for a first-time home purchase.

A general rule to consider is to create a withdrawal strategy that allows your most tax-advantaged accounts to grow for as long as possible. This typically means withdrawing funds in order of their tax treatment—starting with fully taxable accounts. By doing so, you allow your tax-advantaged accounts more time to potentially grow. Once your fully taxable accounts are depleted, you can begin withdrawing from pre-tax accounts, preserving your post-tax accounts for longer growth. Finally, withdrawals can be made from Roth accounts.

Control What You Can, and Be Flexible When You Can't

A well-thought-out withdrawal strategy should take many factors into account—some within your control, and others outside of it.

While you can't control market performance, you can adjust your withdrawal strategy to manage "sequence risk," which arises from market fluctuations during retirement. If you need to withdraw money from your portfolio while the market is down, you may be forced to realize losses. This could leave your portfolio with fewer assets to benefit from a potential market recovery.[2]

If the market enters a prolonged downturn as you approach retirement, there are several actions you can consider:

- **Diversify Assets**—Maintaining a diversified portfolio may help mitigate the impact of a market downturn. However, keep in mind that diversification is a strategy to help manage—not eliminate—investment risk when security prices decline.
- **Increase Reserves**—To avoid withdrawing too much from your portfolio early in retirement, consider building short-term reserves designed to cover essential expenses as you transition into retirement.
- **Flexible Withdrawals**—Instead of taking fixed withdrawals, adjust the amount you withdraw based on market conditions—taking less when markets are down and more when they're performing well.
- **Spending**—Being flexible and intentional with your spending can help limit withdrawals and preserve your portfolio, especially in the early years of retirement.

Understanding Required Minimum Distribution Rules

Regardless of whether you need to withdraw money from your qualified accounts to support your desired lifestyle in retirement, the IRS mandates that you take an annual Required Minimum Distribution (RMD). The age for starting RMDs was recently raised from 70 to 73, following the approval of the SECURE Acts by Congress.[3]

RMDs apply to accounts such as traditional IRAs, SEP IRAs, SIMPLE IRAs, and retirement plans like 401(k)s. They are not required for Roth IRAs, although beneficiaries of Roth accounts are subject to RMD rules.[4]

Generally, your RMD for each qualified account is calculated by dividing the account balance as of December 31 of the previous year by a life expectancy factor published by the IRS.[4]

Failure to take your RMD by the required deadline can result in a 25 percent penalty on the amount not withdrawn (reduced to 10 percent if corrected within two years). Your first RMD must typically be taken by April 1 of the year after you turn 73, with all subsequent RMDs due by December 31 each year.[4]

Working with a financial professional can help you stay updated on RMD requirements and incorporate them into your broader withdrawal strategy when you reach age 73.

What Is the "10-year Rule?"

The SECURE Act made changes to how inherited IRAs must be withdrawn. For most non-spouse beneficiaries of IRAs inherited from someone who passed away on or after January 1, 2020, the entire balance must be distributed by the end of the 10th year following the original account holder's death—this is known as the "10-year rule."

While there was initial uncertainty about whether annual RMDs were necessary during those 10 years, the IRS waived penalties for missed RMDs in 2021–2024. However, starting in 2025, annual RMDs will be required for those beneficiaries during the 10-year period.[5]

Some beneficiaries—such as spouses, minor children, disabled individuals, and those less than 10 years younger than the decedent—may be subject to different rules.

Please note that specific circumstances can vary, so consider working with a financial professional or tax professional to understand how these rules apply.

Should You Consider a Roth Conversion?

Depending on your expected tax bracket in retirement and other factors, you might want to consider converting a traditional IRA to a Roth IRA. As you prepare to make the most of your retirement assets, it's worth weighing the potential pros and cons of a Roth conversion.

The key difference between Roth IRAs and IRAs is how they're taxed. Roth IRAs are funded with after-tax dollars—meaning you pay taxes before making a contribution—and those contributions aren't deductible from your current income. In return, the money grows tax-free, and qualified withdrawals in retirement are not subject to income tax, unlike distributions from a traditional IRA.[6]

The IRS does allow you to convert funds from a traditional pre-tax IRA into a Roth IRA. However, any amount you convert is treated as ordinary income in the year of the conversion and is taxed. This could result in a tax situation, so timing and preparation are key.[6]

Should You Convert?

- **Contribution Limits**—For 2025, if your income is under $150,000 (single filers) or under $236,000 (joint filers), you can contribute up to $7,000 to a Roth IRA (or $8,000 if you're age 50 or older). If your income exceeds these limits, contribution phaseouts apply. However, there are no income limits on Roth conversions. A taxpayer with a pre-tax IRA can convert any amount of those funds in a year to a Roth IRA.[7]
- **Managing RMDs**—The original owner of a Roth IRA is not required to take RMDs. This means that there are no mandatory withdrawals from these retirement accounts beginning at age 73, like other qualified accounts.[6]
- **Longer Growth Potential**—Since RMDs are not required, assets in a Roth IRA can remain invested longer, offering more potential for tax-free growth over time.
- **Estate Strategy Benefits**—Roth conversions can offer significant estate planning advantages, including no RMDs for the original account holder and tax-free inheritance for beneficiaries.[8]

Some reasons to wait on converting to a Roth IRA:

- **Current Taxes**—Converting a traditional IRA to a Roth may trigger a taxable event, which may not work in some instances.
- **Five-Year Rule**—If you're younger than 59½ and take a distribution within five years of the Roth conversion, you'll have to pay a 10 percent penalty. There are a few exceptions. You can use up to $10,000 to pay for your first home or higher education for yourself, a spouse, a child, or a grandchild. There are also healthcare exceptions.[9]
- **Lower Tax Bracket in Retirement**—Roth IRA conversions may not be appropriate if you find yourself in a lower tax bracket once you retire.[6]

If markets are experiencing a downturn, you may want to consider converting an IRA to a Roth. Since you have to pay taxes on the amount you convert, if markets are lower, you might be able to manage your tax bill.[10]

If done correctly, Roth conversions may be a powerful estate tool. But they are not for everyone. A financial professional who knows your financial situation and legacy goals can help you determine if you should consider converting.

Conclusion

You've worked hard to build your savings—and whether retirement is years away or just around the corner, the decisions you make now can have an effect on your future income. Creating a thoughtful withdrawal strategy is one way to help your savings support the lifestyle you envision.

You don't have to navigate this alone. As financial professionals, we're here to help you prepare with clarity and confidence.

If you'd like to explore a customized strategy, schedule a consultation with us today.

As a reminder, there are factors to consider with certain accounts:

- With a 401(k), once you reach age 73, you must begin taking required minimum distributions (RMDs) from your 401(k) or any other defined contribution plan in most circumstances. Withdrawals from your 401(k) or any other defined contribution plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10 percent federal income tax penalty.

- With a traditional IRA, SEP-IRA or SIMPLE IRA, once you reach age 73, you must begin taking RMDs from a traditional IRA in most circumstances. Withdrawals from traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10 percent federal income tax penalty.

- With a Roth 401(k), to qualify for tax-free and penalty-free withdrawal of earnings, Roth 401(k) distributions must meet a 5-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. Employer matching is pretax and not distributed tax-free during retirement.

- And with a Roth IRA, contributions are phased out for taxpayers with adjusted gross incomes above a certain amount. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a 5-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

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