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The Order You Tap Your Accounts

Why the sequence of your retirement withdrawals can quietly reshape your lifetime tax bill — and the years before RMDs when it matters most

A guide to **tax-efficient withdrawal strategy** and **retirement income planning** for pre-retirees and recent retirees, ages 55–70.

"Two retirees can own the same accounts, earn the same returns, and spend the same amount each year — and still part with six figures more in lifetime tax, simply because of the order in which they withdrew."

— NORTHWEST FINANCIAL GROUP

EXECUTIVE SUMMARY

Most of the attention in **retirement income planning** goes to two questions: how much to save, and how to invest it. Far less goes to a third question that can matter just as much once the paychecks stop — **which account you spend from, and in what order**. Yet that

single decision quietly drives how much of your savings reaches you and your heirs, and how much goes to taxes.

Most retirees hold their money in three different "tax buckets": **taxable** brokerage accounts, **tax-deferred** accounts such as a traditional IRA or 401(k), and **tax-free** Roth accounts. Each is taxed differently on the way out, so the sequence of withdrawals is itself a planning lever. Vanguard's research found that simply using a tax-efficient withdrawal order can reduce the cumulative taxes a retiree pays by about **14%** compared with a careless one — without changing how much is saved, earned, or spent.

For many households approaching or newly in retirement, the larger opportunity is in timing. The years between your last paycheck and the start of **required minimum distributions (RMDs)** are often the lowest-income years of your adult life. Drawing from — or converting — tax-deferred money during that window, enough to fill up the lower tax brackets, can shrink the RMD that would otherwise erupt into higher brackets a decade later.

The sequence is the strategy.

~14%

Lower cumulative taxes a tax-efficient withdrawal order produced in Vanguard's retirement-income modeling

73 / 75

Ages required minimum distributions (RMDs) now begin (born 1951–1959 / 1960 or later)

\$111,000

2026 qualified charitable distribution (QCD) limit per person, available from age 70½

WHAT IT IS: THREE TAX BUCKETS AND TWO DEADLINES

A **tax-efficient withdrawal strategy** starts with recognizing that not all retirement dollars are taxed alike. Understanding the three buckets — and the deadlines that govern them — is the foundation of **how to potentially reduce taxes in retirement**.

The three tax buckets

- **Taxable (brokerage) accounts.** You have already paid tax on the money you contributed. When you sell, only the *gain* is taxed — often at the lower long-term capital gains rates. In 2026, a married couple filing jointly can realize long-term gains while taxable income stays at or below **\$98,900** and pay a 0% federal rate on those gains.
- **Tax-deferred accounts (traditional IRA / 401(k)).** Contributions were generally pre-tax, so **every dollar withdrawn is taxed as ordinary income** — and the balance is eventually forced out through RMDs.
- **Tax-free accounts (Roth IRA / Roth 401(k)).** Funded with after-tax dollars; qualified withdrawals are tax-free, the balance grows tax-free, and a Roth IRA has no lifetime RMDs. Since 2024, Roth 401(k)s are also exempt from lifetime RMDs.

The conventional order — a sensible default

The long-standing rule of thumb is to spend **taxable first, tax-deferred next, and Roth last**. The logic: let the tax-advantaged accounts keep compounding while you live on dollars that are taxed most lightly, and preserve the tax-free Roth for the end. This is the order Vanguard's research supports as a strong baseline, and it is the reason a Roth is usually the *last* account to touch rather than the first.

The two deadlines that force the issue

Two rules make this more than an academic exercise. First, **required minimum distribution planning**: RMDs begin at age **73** for those born 1951–1959 and age **75** for those born in 1960 or later. The first RMD may be delayed until April 1 of the following year, but every subsequent RMD is due by December 31, and the penalty for missing one is a **25% excise tax** (reduced to 10% if corrected within two years). Second, the **inherited-IRA 10-year rule**: most non-spouse heirs must empty an inherited traditional IRA within ten years — often during their own peak earning years, at their own higher rates. Tax deferred is not tax avoided; it is tax postponed, and someone eventually pays it.

WHY IT MATTERS: THE RMD "TAX TORPEDO"

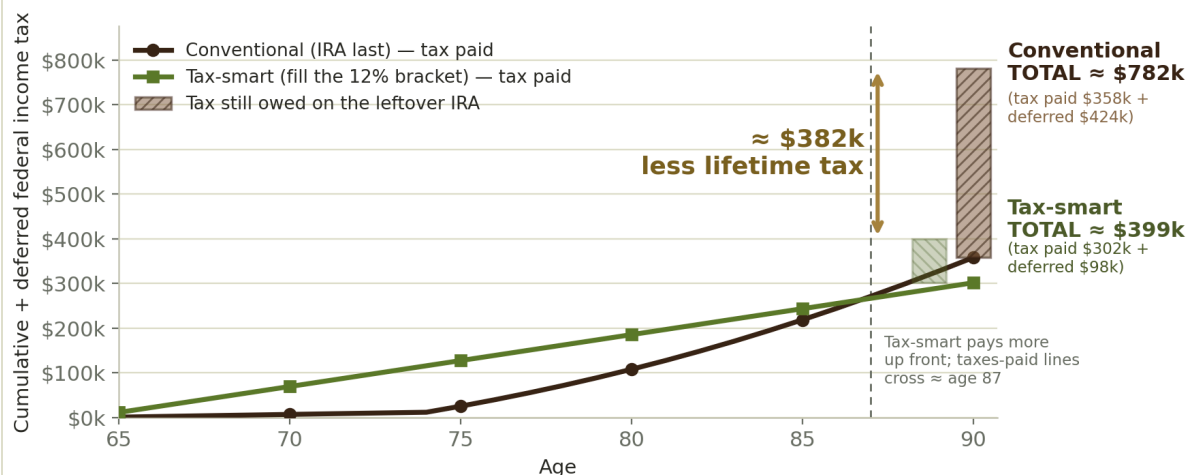
Leaving the traditional IRA untouched feels prudent, and for a while it is. But an account that compounds for a decade without withdrawals becomes a large account — and at 73 or 75 it begins forcing out distributions whether you need the money or not. Those distributions **stack on top of Social Security and any other income**, and can push a household from the 12% bracket into the 22% or 24% bracket, cause a greater share of Social Security benefits to become taxable, and trip the income thresholds that raise Medicare premiums (IRMAA, which uses a two-year income lookback). Advisors sometimes call this the "tax torpedo."

Sequencing is how you defuse it. By drawing measured amounts from the tax-deferred account during the lower-income years — "filling up" the 10% and 12% brackets rather than leaving them empty — a household can reduce the balance that would later drive those oversized RMDs. The trade-off is real and worth stating plainly: **you pay a little more tax now in exchange for less tax later**. Whether that trade pays off depends on how long you live and on future tax rates. The hypothetical illustration below shows both sides of that trade for one example household.

The Order You Tap Your Accounts

Hypothetical total lifetime federal income tax from the IRA withdrawal pattern — through age 90

HYPOTHETICAL ILLUSTRATION · FOR EDUCATIONAL PURPOSES ONLY

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Assumptions: Married couple, both age 65, filing jointly · \$1,400,000 starting traditional IRA · 5% constant annual growth · \$47,600 constant taxable Social Security (ordinary income) · 2026 MFJ standard deduction of \$35,500 (incl. age-65 add-on), held constant · Conventional path: no IRA withdrawals until RMDs begin at age 75 (Uniform Lifetime Table), then RMDs only · Tax-smart path: draw the IRA each year from age 65 to the top of the 12% bracket (\$100,800 taxable income), never less than the RMD · Withdrawals assumed spent; other spending funded by taxable/Roth accounts (excluded here) · Federal income tax only; state tax, capital-gains interactions, IRMAA and the temporary OBBBA senior deduction excluded for clarity · 2026 brackets held constant · "Tax still owed on the leftover IRA" = income tax on the age-90 traditional-IRA balance, at an assumed 22% (a conservative figure; an heir's rate under the inherited-IRA 10-year rule is often higher) · Nominal dollars, not discounted for time value.

This is a hypothetical example for educational purposes only. It is not a prediction or guarantee of future results and does not represent any specific investment, security, or client. It assumes a constant 5% annual return and unchanged tax law; actual returns fluctuate (including possible loss of principal) and tax laws change, which would materially alter these results. The tax-smart path pays more tax in the early years; its advantage depends on longevity and on the tax rate that ultimately applies to the remaining IRA, and a shorter life or lower future rates would narrow or reverse it. Individual results will vary. Consult your financial advisor, tax professional, and estate attorney before acting. Securities, Asset Management, and Advisory services offered through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Northwest Financial Group, LLC and LPL Financial are separate entities.

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Figure 1. Hypothetical illustration of total lifetime federal income tax arising from the traditional-IRA withdrawal pattern — a conventional "IRA last" order versus a tax-smart order that fills the 12% bracket each year — for one example household. The tax-smart path pays more tax up front; its advantage depends on longevity and on the rate that ultimately applies to the leftover IRA. See the assumptions and important disclosures shown within the chart.

Two features of the illustration are worth underscoring, because they are what keep it honest. First, the tax-smart line sits *above* the conventional line for years — the household deliberately pays more tax early. The two taxes-paid paths do not cross until roughly age 87. Second, most of the long-run gap is not tax *avoided* but tax that the conventional path merely *defers*: it leaves a far larger traditional IRA behind, and the income tax still owed on that balance (shown as the hatched capstone) is counted here so the comparison is complete.

KEY PLAYERS

- **The IRS and U.S. Treasury.** They set the brackets, the standard deduction, the RMD tables, and the inflation adjustments that change the numbers each year.
- **The Social Security Administration.** How much of your benefit is taxable depends on your other income — which your withdrawal sequence directly affects.
- **The Centers for Medicare & Medicaid Services (CMS).** CMS sets the income thresholds (IRMAA) that can raise Medicare premiums when a year's income runs high.
- **Custodians and asset managers.** Firms such as Vanguard, Fidelity, and Schwab process distributions and conversions and publish much of the research behind these strategies.
- **Your advisory team.** A coordinated financial advisor, CPA, and estate attorney turn these moving parts into a sequence tailored to your brackets, your account mix, and your goals.

WHAT'S NEXT

- **Year-end deadlines.** RMDs for the year and any planned Roth conversion must generally be completed by December 31; QCDs, too, must be made by year-end to count for the year.
- **Annual indexing.** Brackets, the standard deduction, and the capital-gains thresholds adjust for inflation each year, so the "room" in each bracket shifts; revisit the plan annually.
- **The age-75 cohort.** Those born in 1960 or later will not face RMDs until 75 (beginning in 2035), giving them an even longer window to sequence withdrawals deliberately.
- **Legislative risk.** Today's relatively low brackets are set in current law, but any future Congress can change them — one more reason the value of acting within a known window is time-sensitive.

A PRACTICAL CHECKLIST

- Inventory your three buckets — taxable, tax-deferred, and Roth — and the unrealized gains and cost basis in the taxable account.
- Map your "trough" years: the span between your last paycheck and your RMD start age (73 or 75).
- Consider whether drawing or converting tax-deferred dollars in those years — filling a target bracket without overflowing it — could reduce future RMDs.
- Preserve the Roth where possible, for tax-free flexibility and for heirs.
- Check each year's withdrawal plan against the Social Security taxation and IRMAA thresholds, remembering IRMAA's two-year lookback.
- If charitably inclined and 70½ or older, weigh qualified charitable distributions, which can satisfy RMDs without adding to taxable income.
- Review the sequence annually with your advisor, CPA, and estate attorney, since the numbers and your circumstances change.

FREQUENTLY ASKED QUESTIONS

What is the best order to withdraw from retirement accounts?

A common default is **taxable first, tax-deferred next, and Roth last**. Vanguard's research found a tax-efficient withdrawal order can cut the cumulative taxes a retiree pays by roughly 14% versus a careless one. For many households, drawing or converting some tax-deferred money during the lower-income years before RMDs begin is even more efficient, because it shrinks the future RMD. The right order depends on your brackets, your account mix, and your goals, and should be reviewed with a qualified advisor and tax professional.

How can I avoid a big tax bill from required minimum distributions?

RMDs begin at 73 (born 1951–1959) or 75 (born 1960 or later). A traditional IRA left untouched can grow into large, highly taxed RMDs that stack on top of Social Security. Drawing from the tax-deferred account earlier — filling lower brackets in the years before RMDs — can shrink the future distribution and smooth your lifetime tax. Once eligible, qualified charitable distributions can also satisfy RMDs without increasing taxable income.

Should I spend my Roth account first or last in retirement?

Roth accounts are generally the most valuable to keep for last: they grow tax-free, are generally tax-free to withdraw, and carry no lifetime RMDs. Spending the Roth first can forfeit years of tax-free compounding and leave more in tax-deferred accounts to be taxed later. Many plans preserve the Roth as a flexible, tax-free reserve — though individual circumstances vary.

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Based in Corvallis, Oregon, Northwest Financial Group provides **wealth management services** to pre-retirees and recent retirees across the Pacific Northwest — and, increasingly, families beyond it who prefer to work with us virtually. We help households design multi-year, tax-aware withdrawal sequences — coordinated with your CPA and estate attorney and grounded in our commitment to transparency, accountability, and clarity. To see how a tax-efficient withdrawal strategy might apply to you, [contact our team](#) to schedule a conversation.

SOURCES

- [Vanguard — Principles for Retirement Income \(tax-efficient withdrawal order; ~14% lower cumulative taxes\)](#)

- [Kiplinger — 2026 Long-Term Capital Gains Tax Thresholds \(IRS\)](#)
- [Colorado PERA — IRS 2026 Tax Brackets & Standard Deduction](#)
- [Schneider Downs — RMD Rules for 2026 \(SECURE 2.0: ages, deadlines, penalties\)](#)
- [Fidelity — Qualified Charitable Distributions \(2026 limit \\$111,000; from age 70½\)](#)
- [IRS — Required Minimum Distributions FAQs](#)
- [T. Rowe Price — Tax-Efficient Retirement Withdrawal Strategies \(2026\)](#)

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