Systematic Withdrawal Strategies

Should you arrange automatic distributions from your retirement or investment accounts?

Provided by David Smith, CFP®, CRPC®, AIF®

Some retirees wish they could simplify money management. Estimating investment income, annual retirement plan distributions, and quarterly taxes can be a chore.

This is why some retirees choose to make systematic withdrawals. Just as they contributed a set amount per month to their retirement accounts while working, they now withdraw a set amount from their accounts each month, quarter, or year.

The simplicity of this may appeal to you. The potential drawback is that a systematic withdrawal strategy can risk oversimplifying the complex matter of retirement income distribution.

How do these strategies work? A specific monthly, quarterly, or annual withdrawal amount is established, and then assets are sold or liquidated to generate the cash. As people commonly have multiple retirement or investment accounts, a comprehensive systematic withdrawal strategy arranges proportionate withdrawals from most or all of them. Sometimes, federal or state taxes can be withheld from the withdrawals.[1]

Remember, investments will fluctuate in value and when sold, they may be worth more or less that their original cost. This article is not intended as tax or legal advice, and may not be used for the purpose of avoiding any state or federal tax penalties. Please consult a professional with legal or tax experience regarding your situation.

These withdrawals often take time to arrange. Most investment custodians will permit them, but paperwork is necessary. In some cases, they are only allowed when the account balance is above a certain level.[2]

In the big picture, tax issues must also be considered. Withdrawals from retirement accounts may be characterized as taxable income.[2]

There are times when systematic withdrawal strategies may not work well. For example, say some of your investments have lost value, but your withdrawal amount stays the same. This means that a greater percentage of your investments may have to be sold to generate that income you have set up.

So during this period, you are selling a greater percentage of your invested assets – assets that have the potential to grow in the future.[1]

Also, note that required minimum distributions (RMDs) may apply to certain accounts after you reach age 70½. That implies an end to systematic withdrawals, as your RMDs will almost certainly vary per year.[2]

There are pros and cons to adopting a systematic withdrawal strategy. A financial or tax professional may help you make an informed decision.

David Smith, CFP®, CRPC®, AIF® may be reached at 972-865-6944 or dsmith@upstreamip.com. www.myadvisordavid.com

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Citations.

1 - thebalance.com/what-is-a-systematic-withdrawal-plan-2388788 [6/29/18]
2 - investopedia.com/terms/s/systematicwithdrawalplan.asp [4/19/19]