



TAX-EFFICIENT RETIREMENT

Strategies to Help Make Your Money Last Longer

Retirement starts with how much you saved—but the conversation moves quickly to how much you get to keep. We have seen retirees unknowingly pay more in taxes than necessary, depleting their portfolios faster than expected.

A well-planned withdrawal sequence in retirement can mean the difference between running out of money too soon and preserving wealth for decades. By drawing down assets in a tax-efficient order, you can reduce your tax burden and help make your retirement funds last longer. This strategy considers the tax rate at the time of distribution as compared with the tax rate at the time of contribution. While we can't predict the future, we can help design an accumulation plan to provide the optionality to have multiple assets with different tax characteristics.

Azura Wealth Advisers helps high-net-worth individuals structure their withdrawals with precision, helping to ensure their financial plans align with tax efficiency and long-term security. In this article, we'll break down a tax-optimized withdrawal strategy that can help you better position your accounts to fund your retirement and how you may be able to apply it to your own retirement plan.

I. Why the Order of Withdrawals Matters

Many retirees believe that having a large portfolio means they're set for life, but failing to account for taxes on withdrawals can erode wealth faster than expected. Without a plan, you may:

- Pay higher taxes than necessary.
- Trigger unnecessary capital gains by selling taxable investments at the wrong time.
- Miss opportunities to let tax-free accounts compound longer.

The order in which you experience losses and gains can be more important than the losses and gains themselves. A structured withdrawal strategy helps to protect your assets from excessive taxation and maximizes the potential of what you keep. No two situations are the same, but we've provided some of the factors we consider at Azura to help create the most appropriate plan for our clients.

II. Consider Your Social Security Payments

Social Security benefits can begin at 62 but provide full benefits at 70. At a certain point, this is an inevitable income source and it should be accounted for in connection with distribution from other assets. Social Security

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benefits can be partially tax-free, but up to 85% can become taxable depending on your total income.¹ And the more you withdraw from taxable sources, the more of your Social Security benefits will be taxed.²

III. Withdrawal from Tax-Deferred Accounts (Traditional IRAs and 401(k)s) Beyond RMDs

Required Minimum Distributions (RMDs) from tax-deferred accounts (starting at age 73) such as traditional IRAs and 401(k)s are taxed as ordinary income. Strategic timing with this cash-flow distribution is crucial in helping to avoid pushing yourself into a higher bracket.

While it is the case that the longer you defer these withdrawals, the more time they have the potential to grow tax-deferred, your future tax bill is also growing. This means these funds should be taken in a way that keeps overall taxable income within an optimal range when considered along with the tax character of distributions from your other assets.

IV. Tapping into Dividends and Capital Gains from Taxable Accounts

Your taxable brokerage accounts are generally taxed at the capital gains rates rather than ordinary income tax rates. Because long-term capital gains rates (typically 15-20%) are more favorable than ordinary income tax rates for individuals with a sizable portfolio, choosing when to tap into these accounts is a strategic decision depending on when you plan to retire and the values of your tax-deferred accounts and other income streams.

V. Using Cash Value from Permanent Life Insurance for Tax-Free Income

Permanent life insurance policies, such as whole life, indexed universal life or variable universal life, offer a tax-efficient way to supplement retirement income. Cash value can be accessed via withdrawals or policy loans, neither of which trigger taxation. Why is this beneficial? Because it provides liquidity without increasing taxable income, keeping you in a lower tax bracket. Of course, however, access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

VI. Roth Withdrawals as the Ultimate Tax-Free Withdrawal Benefit

Roth IRAs offer the ultimate tax-free withdrawal benefit, making them the last asset class we typically advise our clients to draw from. Since Roth accounts continue growing tax-free and have no RMDs for their original owner, preserving them for later retirement years maximizes compounding potential. In fact, we sometimes advise pre-retirees to consider converting traditional IRAs to Roth IRAs – meaning, they will pay tax upon

¹ Source: Merrill Lynch, <https://www.ml.com/articles/taxes-and-your-social-security.html>

² Source: Merrill Lynch, <https://www.ml.com/articles/taxes-and-your-social-security.html>



conversion but not on distribution or further asset growth. Part of that determination will be based on the tax qualification of your asset makeup and the future trajectory of tax rates. You should consult your own personal attorney legal or tax counsel for advice on whether this option should be considered your personal situation.

VII. The Bottom Line: Withdraw Wisely, Potentially Keep More

While there is no cookie-cutter plan that works for everyone, having a financial strategy with several asset types with different tax implications provides optionality for your distribution strategy as it can help you better position your accounts to fund your retirement. The right approach allows for the potential to extend your portfolio's longevity, minimize unnecessary tax drag and create financial security throughout retirement. Your specific situation and/or use of certain financial vehicles may have different tax implications than what we discussed. You are encouraged to seek advice from your personal tax or legal adviser.

At Azura, we specialize in structuring personalized accumulation and withdrawal strategies that help our clients navigate these decisions with confidence. By following the right sequence for you, you can have the opportunity to help maximize your financial potential and mitigate your tax burden over time.

Not sure if your current strategy is optimized? Let's build a plan that is designed to help your money lasts as long as you do.

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