

Episode 215: Are You Paying More in Retirement Taxes Than You Should?

Tue, Feb 10, 2026 11:39AM • 35:46

SUMMARY KEYWORDS

Retirement income, tax planning, Roth conversion, effective marginal rate, taxable brokerage, tax deferred accounts, tax exempt accounts, preferential income stacking, Secure Act, inherited IRA, lifetime stretch, tax maps, financial personality, retirement guidebook, taxable accounts.

SPEAKERS

Briana Corbin, Alex Murguia, Wade Pfau

Briana Corbin 00:00

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Briana Corbin 00:41

The crowd showed up, and the questions poured in, and the webinar ended without time to answer them all. In this episode, Wade and Alex dig into the most pressing questions from the recent tax planning in 2026 webinar and share even more insights from the third edition of the retirement planning guidebook.

Alex Murguia 01:00

Hello, everyone. Welcome to retire with style. I'm Alex, and I'm here with my trusted companion, Wade. Wade, how are you doing good? How are you and have you survived the wintry mix the past week or so?

Wade Pfau 01:17

Yeah, yeah. Weather's warm back up again. But I had a trip during all that to Phoenix, and that was not the most pleasant of trips, but yeah, made it home safely and ready for spring.

Alex Murguia 01:27

Ready for spring. What did Punxsutawney Phil say the other day?

Wade Pfau 01:31

I believe he did say six more weeks of winter, but that's a second hand report on my part, so I hopefully I'm not wrong on that.

Alex Murguia 01:39

Well, I've got you, babe, do you like that movie Groundhog

Wade Pfau 01:44

Day? Oh yeah, that's classic. Yeah.

Alex Murguia 01:48

All right. Wade, so what are we talking about today? Big Guy,

Wade Pfau 01:52

well, we're talking about a follow up from we hosted a big webinar the tax planning in 2026 to celebrate the launch of a third edition of the retirement planning guidebook is really great event. We had more than 1000 people on the call. More than, I think about 2400 people had registered for the webinar. So there were so many questions that came in naturally with such a large audience, we didn't really have time to get into the questions, since there's so much content. So we thought we'd use the podcast to answer the questions that came in on tax planning topics, and also on the third edition of the retirement planning guidebook, to give everyone that information this way.

Alex Murguia 02:28

So why don't we do this? Why don't we begin with the quick hits, which I would imagine are the book questions, since you just had your recent book launch, and that way, folks that are thinking about that, since it's top of mind, we can just knock those out. What do you say?

Wade Pfau 02:43

Yeah, sounds good. We'll try to get to the book related questions quickly, and then get into the tax planning topics. All right,

Alex Murguia 02:49

first one would be, what is the difference between the second and third editions?

Wade Pfau 02:54

Well, lots changed, and really it comes down to a lot of positive comments have come in over the years, but the negative feedback was generally that I was too wordy or that I needed an editor, and so I spent a lot of time just editing, trying to make it as succinct as possible. I cut 100 pages out of the third edition without really removing any substantive content, just by streamlining things so shorter book, which has also helped then get a lower price point as well, the books the lowest price it's ever been. The third edition, the paperback is retailing for \$25 and the ebook is retailing for 999, so it's an opportunity to upgrade there. But really the big change is shorter, less expensive. Really positioned to help you get that best possible retirement. So you went from Proust to Hemingway, that's right. Succinct is the key. Brevity is a soul of wit.

Alex Murguia 03:48

Oh, Shakespeare. Now Shakespeare, all right, Hamlet, no, I think Polonius or something like that, right, speaking to his son. I don't know if his son is Polonius or the father is Polonius, but one of those. All right, are the tax maps in the book?

Wade Pfau 04:07

Yeah, and that's a reference to in the webinar. A lot of the discussion was around tax maps that webinar. We usually don't post our webinars online, but it is available on our YouTube channel,

so we'll have a link in the show notes if you'd like to catch the webinar. All the tax map images, really all the tables and images from the webinar are indeed in the third edition of the retirement

Alex Murguia 04:28

planning guidebook. There we go. And is a print edition easier to read because of the charts, etc?

Wade Pfau 04:37

Yeah, this could really go either way of like to be able to see the charts best. Do I go with the print edition or the ebook? The print editions in black and white? So that does make it a bit of a struggle with some of the charts, but we do have a link in there. If you go to our retirement researcher.com/taxes you can download a PDF that has the color images of all the charts now that. Ebook, The charts are in color. They don't come out in black and white in the eBook. So you can see those color charts unless you have one of those old fashioned ebook readers, it's in black and white. As long as you have a color screen, you'll get color charts in the eBook. But then it may be harder to zoom in on things, I don't know, depending on your ebook reader. So I think either way, you'll be fine. And always you can get that PDF file and print out the those tax planning images, which are the ones that are probably the hardest to really understand in black and white.

Alex Murguia 05:29

Well, that was a the next question, which is, will a PDF of the new book numbers be available as you have in prior years?

Wade Pfau 05:36

Now that's a different topic. So we have a PDF of the tax charts, but yes, we do have a PDF of all the numbers that update every year. I continue to prepare that, and I will create that in future years as well. So if you have the third edition and you're part of our retirement research or email list, you'll get that PDF with the updated annual numbers. And indeed, by the time this email or actually by the time this podcast episode airs. All the readers of the retirement researcher weekly newsletter will have gotten that PDF with the updated 2026, numbers. And yes, I'll continue to do that in future years as well.

Alex Murguia 06:12

Okay, and then I don't know. Were you able to solidify Morgan Freeman yet on reading the book for Audible,

Wade Pfau 06:21

right, right? And so the question that comes in, is there an audible version of the book? At this point, we've not created an audio version of the book, but I'm seriously considering it. No timetable or anything, but yes, at some point, there probably will be an audio version for the retirement planning guidebook. Third Edition.

Alex Murguia 06:41

Will you release a spiral bound version of the third edition?

Wade Pfau 06:46

Now that's a reference to with the second edition. When you're on the Amazon page, you could click and get a spiral bound edition as well. Now, to be clear, I had nothing to do with that. That's a third party seller who purchases paperback copies and then runs them through a machine to get spiral bound copies. And so I have no involvement with that. I don't know if that will be available or not, but I don't think it's necessary you have the hardcover or the paperback. And now that the books is shorter, it's shorter now. So I think with a 500 page version of the book, sometimes people would have issues where a page might fall out. I don't think that's really a concern. Now, maybe the concern is folding the book out. It's maybe easier to read in a spiral bound version. I don't know at this point whether there will be one, but possibly, possibly not. I guess. Stay tuned to see whether that third party seller decides to move forward with that.

Alex Murguia 07:40

Yeah, and how do we tell what version we're buying to have the latest and greatest?

Wade Pfau 07:44

So the third edition has a slight modification to the cover. The first and second edition. The cover was black. The third edition is more of a teal color. Think it's really snazzy, and it clearly says third edition on the top. So if you're on a bookseller page and it's the third edition. You will get the third edition. And now some confusion like why that question was asked when the first when the book first came out on Amazon, for like, a day, Amazon was going wonky, and you'd click on the third edition and it switched to the second edition. And I'm concerned maybe about a few people got the wrong book that way. But that's all. Amazon's Got that work through their system. So at this point, if you're on a third edition page, you'll get the third edition. You don't have to worry about somehow getting switched to an older edition.

Alex Murguia 08:31

Okay, and do you have an automated tool for a person to generate personal tax maps, as you mentioned in the in the book,

Wade Pfau 08:42

yeah, in the book, and in the webinar, and also with our Q and A discussion today, yes, that's an important question. And with our retirement researcher Academy, the membership website, we have, we do have a tax map calculator, which can create the same types of tax map images that you see in the book?

Alex Murguia 09:01

Well, I would also take a step further that your book mentions the RESA, your book mentions the funded ratio, and those are all applications that we have on retirement researcher as well, yeah.

Wade Pfau 09:14

Tax map calculator, Risa, funded ratio, calculator tool,

Alex Murguia 09:19

we have a couple of other cool things as well. Payroll calculator, yeah, yeah, hey, stop showing off. Man. Can you make the book available through bookshop.org? To support local bookstores and have an out an option outside of Amazon?

Wade Pfau 09:36

Yes, done and done. Now with that, books.to.read.com/retirement which is an aggregator that shows all the different retail outlets for the book. That bookshop.org is alongside Amazon as two places where you can get a paperback edition. So indeed, if you're trying to stay outside of the Amazon universe, you can do so with that bookshop.org link and

Alex Murguia 09:58

ladies and gentlemen, this concludes. Includes this portion of the Book questions in our outline when you

Wade Pfau 10:04

say, Wait, yeah, now we can dig into the the tax planning questions.

Alex Murguia 10:08

Now the fun begins. All right, all right. So these were questions, just to reiterate that were we had a huge workshop, webinar that Wade, that Wade did, and there were just 1000s of registrants and many attendees, over 1000 and so we couldn't answer all the questions, and we, I say generously, Wade couldn't answer all the questions. So we're getting to some questions that we thought were worth mentioning and answering, and do that within the construct of a podcast. So the first one is, when you withdraw from your taxable brokerage, how do you show the IRS that you're just withdrawing the cost basis of the taxable investment?

Wade Pfau 10:53

And with the way that question is worded to be clear, you're not allowed to just simply withdraw the cost basis. You have to sell shares. And there's three different sets of rules to choose from with the IRS about how you sell those shares. You can do First In, First Out, which means your oldest shares, the ones you bought first, get sold. They often will have higher gains embedded, so maybe a bigger tax bill that way. That's like FIFO, FIFO, or LIFO, the other one last in first out the most recent shares that you bought or sold first, which could be in trouble with a short term capital gains. So you be careful about that one, the one that gives you the most control, though, it's the lot specific lots where you say, I will sell, sell these specific shares, and then the shares that you pick have a cost basis, have a value. You can see exactly what the cost basis is and what the capital gains are, and then that gets reported on your brokerage tax form at the end of the year. But that gives you the most control over which shares you're selling. To get the most control over how much capital gains you're realizing and how much cost basis is being sold, which is not, not taxable to you.

Alex Murguia 12:02

And I wouldn't switch around from those reporting things. If not, you will be doing fafo.

Wade Pfau 12:08

Yeah, you can't really switch between them, going from the beginning, and the specific lots is gives you the most control. And in most brokerage accounts, you then when you're selling shares, you go into the list of all your shares and pick which ones you want

Alex Murguia 12:25

to sell. Does the standard advice on drawdown order assume the person has children and wants to leave assets to them? Yeah.

Wade Pfau 12:34

So the I guess the standard advice, which I usually term the conventional wisdom, is you spend down taxable accounts, first, then tax deferred accounts, and then taxable brokerage accounts. And no, it doesn't really necessarily assume you have children and want to leave assets to them. It's just focused on what's going to give you the most after tax spending power from the assets, which means, you know, if you still have assets when you pass away, this would give you more assets than otherwise. They don't have to go to the children in that context, if they're left to charity or whatever the case may be, but it's really if you have more legacy at the planning age, you can translate that into really you could have been spending more throughout retirement. It doesn't necessarily require you to specifically plan for a legacy. It's just you want the most after tax spending power from your asset base, and at the end, if there's a remainder, whether you assume it goes to children or charity or charities, that's not really necessarily a required assumption in the analysis.

Alex Murguia 13:40

No way we have here in parentheses, asked together, I assume you don't mean you and I asking the question in unison. Them both kind of concurrently.

Wade Pfau 13:52

Yeah, it was two questions touching on the side.

Alex Murguia 13:56

So it would be fun, though. All right, should I roll over 50,000 into my Roth this year, considering that I will lose half the couple's \$12,000 senior deduction and push me from 12 to 22% MFJ bracket. Is it better to do a Roth conversion and forego the extra \$6,000 new deduction? And can you talk about the acronym too? I said an acronym, which is a sin in our podcasting rules.

Wade Pfau 14:25

Yeah, married filing jointly. They're just, they're a couple, married filing jointly with their taxes. Yeah, both of these questions are about the we have this new temporary if you're age 65 and older, you have a \$6,000 bonus deduction for a couple, if you have 265 and older, then that's \$12,000 but it phases out. And if you're single, it phases out in a range from 75 to \$175,000 if you're a couple, it phases out from a range of 150,000 to \$250,000 and when it's phasing out. For each dollar of ordinary income that you generate, or in this case, it's because it's adjusted grossing ordinary or preferential income for each dollar you generate, your below the line deduction would decrease by either six cents or 12 cents, depending on if you had one or two people eligible for that so it increases your effective marginal tax rate, and it's going to really begin when you're getting in that ballpark of the 22% bracket. So really it's your effective marginal tax rate becomes 22 times either 1.06 or 1.12 again, depending on if you have one or two people over age 65 if it's two people, we're talking about a 24.64% effective marginal rate. So the question is like, should I not do Roth conversions? If it's going to cause me to phase out that age 65 plus bonus deduction, and this wouldn't clearly end your desire to do Roth conversions. It really depends on the situation, because what is, what's happening again is, instead of paying at a 22% rate, you're really paying at a 24.64% rate. If that gets you over the threshold of what you view as a reasonable rate to pay, you would not do the Roth conversion, but if you feel like it's acceptable to you're willing to pay that rate, because maybe you're

targeting a 32% bracket. Then, then it would be acceptable to deal with the phase out of your age 65 plus bonus deduction.

Alex Murguia 16:31

Okay? And how does preferential stacking work? Does it act like a cliff where all gains are taxed at either zero or 15% I'd also define preferential stacking, because it's one of those terms that I think, at least I take for granted, but I realize that's not, that's not an a nomenclature of everyday living,

Wade Pfau 16:48

right, right? The preferential income stacking is actually the the tax issue that probably is going to impact like the most podcast listeners, because it's something you don't have to be extremely wealthy TO to have to deal with the whole idea is your preferential income, is your long term capital gains or qualified dividends, and it stacks on top of your ordinary income and has a different set of tax brackets for married filing jointly, you switch from a 0% to 15% tax bracket when your preferential income stacked on top of your ordinary income pushes over \$98,900 and no, it's not a cliff. It's just \$1 at a time. It doesn't if you get over that threshold, it doesn't automatically trigger all your gains to be taxed at 15% instead of 0% in that regard, it's just like ordinary income tax brackets, where, if you go into a new tax bracket, say you go from the 12 to 22% bracket, it doesn't cause all of your income to be taxed at 22% instead of 12% it's just the portion that exceeds the threshold. So the portion of your preferential income that exceeds the 15% tax threshold would be taxed at 15% not it doesn't act like a cliff. It acts in the same manner, in that regard, as ordinary income. But the problem with it is so I'm in the 12% ordinary income bracket. I take \$1 out of my IRA, and then when this becomes an issue, that dollar is taxed at 12% but then, if it's uniquely pushing \$1 of my gains from zero to 15% then I'm really paying a 27% effective marginal tax rate on that dollar. And this is something that's probably going to impact our listeners more so than even the Social Security tax torpedo or the Medicare Irma surcharges to increase premiums related to Medicare when your income exceeds certain thresholds.

Briana Corbin 18:50

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Alex Murguia 19:16

Okay, now here, let me see here, all the things that are in place for just three years. Do you think they will become permanent instead of expiring? I guess a re a review of what is in place for the next three years. And then, do you think they'll become permanent? Will they sunset? Yeah.

Wade Pfau 19:38

So we had the significant tax legislation last year, July 2025 that created all these temporary new below the line tax deductions, things like the tips, your tips, income over time, auto loan interest, higher ceiling temporarily on the state and local taxes, although I think that gets one. One year longer into 2029 this the age 65 bonus deduction that we were just talking about, that's also temporary until 2028 so there's all these new below the line deductions that are

temporary until 2028 or state and local tax until 2029 and the question is, well, are they going to become permanent, because when it gets to be 2028, is Congress going to pass legislation to make them permanent? I think it's really too soon to try to predict that that's going to be an election year, and it's just the way politics will play out. I for this point in time, I would assume they're not going to be permanent, just as a conservative assumption about what your future taxes may look like. But that's not a prediction on my part. I just it's too soon to tell whether or not those are going to be made permanent.

Alex Murguia 20:49

This brings up a good point, and it's a question that's asked with regards to planning. How do you if you're doing your Wade plan, your retirement plan, what do you do with regards to tax planning assumptions and future rates and things like that? Do you, do you ever assume? Well, I think this is going, this is going to sunset, so I'm going to revert back. Or, oh, they'll, they'll, this will be in perpetuity. Like, do you play with tax rates based on what you think is going to happen? Or what's your overall philosophy on taxes inside of financial planning, when something's when some things look wobbly, perhaps.

Wade Pfau 21:26

So my philosophy has been, just follow the current law. So if the current law says something's going to go away, I haven't go away because we don't know what's going to happen. So that in the case of we had the permanent extension of the tax cuts and Jobs Act tax rates. Originally, we're going to go back to the older tax rates in 2026 but the new rates from new as in from 2020 2018 were made permanent. So yeah, maybe you could have guessed that might happen, but I didn't want to guess about legislative changes. I just want to follow the legislation as it exists today. And that's like in this example, all these below the line deductions are going to phase out in 2028 or 2029 so I'm not going to assume they'll be extended. I would just have them phase out

Alex Murguia 22:18

Fair enough. And here we have, would it be worthwhile to do a Roth conversion if you don't have external monies to pay the taxes on the conversion, ie, you have to pull additional money to pay for the conversion. Yeah.

Wade Pfau 22:38

So the issue here is, ideally, when you do a Roth conversion, you could pay the tax bill from a taxable brokerage account. But if you don't have a taxable brokerage account, you may have to pay the tax bill by a further withdrawal from your IRA to pay the tax bill, and as long as you're at least 59 and a half so you don't have the early withdrawal penalty on the money you're taking out to pay taxes. I think it works fine. I know that Dave Ramsey's been on record as saying, never do a Roth conversion if you have to pay the tax bill out of an IRA distribution. But in all the simulations I've done, usually it works a little better if you could pay the tax bill from from your taxable brokerage account, but you may not have one, and it works out fine. You can still pay the tax bill through the IRA itself. I don't have any strong reason to say there's a problem with paying the tax bill from your IRA. It can be a reasonable way to get those assets moved over to a Roth still. So So to conclude, no, I think it's okay if you have to pay the tax bill through the IRA as long as you're at least 59 and a half and don't have an early withdrawal penalty, no problem. That's not a reason to not do a Roth conversion. Okay.

Alex Murguia 23:52

Wait, I see your point about doing the Roth conversion. But why do you hate Dave Ramsey so much? That's a very insightful, biting question.

Wade Pfau 24:04

There just that kind of the thing about, well, he's had other issues too, like his believe in the 8% safe withdrawal rate, but

Alex Murguia 24:12

because he's confusing arithmetic, arithmetic and geometric averages,

Wade Pfau 24:16

I think, Yeah, but you're an egghead if you're worried about something like that, as he's said on his show, anyway, just I was kind of surprised that he was very emphatic never do a Roth conversion if you had to pay the tax bill out of the IRA. And I've never seen any reason to suggest why it's a problem. So just don't agree on that point.

Alex Murguia 24:39

He likes to, I don't think he's a stir of the pot. Yeah, I

Wade Pfau 24:43

don't think he did any sort of quantitative analysis to reach that conclusion. I think it was more of an instinct. He was using the Force.

Alex Murguia 24:53

All right, his intuition is

Wade Pfau 24:58

amazing, but intuition.

Alex Murguia 25:02

Um, a disabled beneficiary can withdraw from a Roth IRA over their lifetime, not the 10 year window. Will this make it more worthwhile to convert if you have this a disabled child beneficiary?

Wade Pfau 25:17

Yeah, so good question, and I would say the answer is no, but let me give a little more detail. So it used to be when you inherited either an IRA or a Roth IRA, you could use the lifetime stretch, which meant the the recipient of that could spend it down over the remainder of their lifetime. The Secure Act changed that where for adult child beneficiaries who do not otherwise become eligible designated beneficiaries such as disability. Could be a reason for that. There's now a 10 year window, and with that 10 year window, if you had an adult child receiving an inherited IRA when they're say, in their 50s, in their peak earnings years, they might end up paying a very high tax rate on that and so that could encourage Roth conversions. There's still a 10 year window on an inherited Roth IRA. It's just not going to be taxable income at that point. So if the retiree could pay tax at a lower rate than their adult child beneficiary, that would encourage the Roth conversion. Now this question's saying because a disabled beneficiary who meets the requirements to be an eligible designated beneficiary, because they can still use the lifetime

stretch, wouldn't it be better for them to receive a Roth IRA instead of a an IRA, an inherited Roth IRA instead of an inherited IRA? I think, generally speaking, though, the answer is going to be no, that maybe it's okay for them to go ahead and receive the inherited IRA because they get to use the lifetime stretch on that. It's really a matter of who's going to be able to pay taxes at a lower rate, and if they have a lifetime ahead of them, and maybe they're not otherwise, in a high income type category, they might be able to cover the tax bills from the lifetime stretch on the inherited IRA in a more tax efficient manner than you, as the retiree, could do. So in that regard, you'd you wouldn't worry about the Roth conversions. You'd provide that inherited IRA to your eligible, designated beneficiary, and then they could take advantage of the lifetime and they take advantage of paying taxes using the lifetime stretch. So I think that would be the more standard outcome, that if you were an eligible, designated beneficiary with a long lifespan potentially ahead of you, you might want to receive that inherited IRA. Of course, the inherited Roth IRA would mean you never pay any taxes. But the point is, always after tax wealth, if you could pay taxes at a lower rate than than your parents, it's kind of better for you, ultimately, to get that inherited IRA instead of an inherited Roth IRA.

Alex Murguia 27:57

All right, this one's gonna test my powers of reading out loud.

Wade Pfau 28:02

Yeah, longer, but you're very important point actually,

Alex Murguia 28:07

okay, just so most retirement distribution planning advice and or calculators seem to promote or assume a distribution sequence that exhaust, first taxable, then tax deferred, and finally, tax free accounts, presumably to allow the tax free Roth accounts the most time to grow. Yet past experience and simulations of our future situation once Social Security kicks in suggest that strategically using Roth IRA funds can result in an immediate return of 3030, plus percent on those distributions in parentheses. Example, distributing 5000 of tax free Roth, instead of tax deferred income, would save 1500 in taxes. It appears the Roth could survive this type of targeted drawdown for quite a while, right?

Wade Pfau 29:07

And so this is a very important point, and with the limited time we had on the webinar, I didn't probably get a chance to really develop this point in detail. But the tax efficient strategy is not just about doing Roth conversions and otherwise, following the conventional wisdom of taxable, tax deferred, tax exempt, which is actually where a lot of the consumer facing financial planning software that markets how they have a Roth conversion tool included, gets this wrong. They don't take the next step, which is, it's about blending. You don't just spend the tax deferred and then tax exempt. You blend them once you reach that effective marginal rate, where, if I now RMDs, you can't avoid but if I have some voluntary discretion, I still want to meet my spending needs. Do I take that money from the IRA or from a Roth? I. Ira I blend. Once the IRA distribution gets me up to where I no longer want ordinary income because it's going to be too high of effective marginal rate, I cover the rest of my spending need through a Roth IRA distribution, so that what this individual was stating in the question is absolutely right, and that's because you blend distributions from the tax deferred and tax exempt account. You don't simply keep barreling on and taking from the tax deferred account to meet an entire spending goal in that stage of life where you're dealing with tax deferred and tax exempt assets, and could

impact earlier as well, when you still have taxable assets. But this is generally going to be more an issue when you don't have a taxable account anymore. You blend. You take from the tax deferred account until you hit the the EMR threshold, the effective marginal rate threshold, and then if you still have more spending need beyond that, you take it from the Roth IRA. Now, if you met your spending need and you still have some more capacity before your your target. That's when you consider a Roth conversion. But if you hit that target and you still need more money to spend, then you draw from the Roth IRA. So it's a blending of the two accounts. And that's a very important point, and that's most of the consumer facing software misses that entirely, and

Alex Murguia 31:21

I just want to make sure everyone understands, when do you hit your EMR? Because those that differs,

Wade Pfau 31:28

well, that's a case by case basis. But the point

Alex Murguia 31:32

is, like I would just want people to think that there's a universal EMR for everyone.

Wade Pfau 31:37

No, no, no, there's not the but we'll have to, because of all the nonlinearities in the tax code, that's it could be the tax torpedo from Social Security that triggers this. It could be the preferential income stacking that triggers it. It could be an Irma surcharge that triggers it. It's kind of hard to know what's going to be the triggering event, but when you get there, if you want to take it from the right

Alex Murguia 31:58

and so what I'm sorry, what I'm getting at is there's some tax planning involved in terms of just, you know, trying to assume when you're going to hit that rate. So it's, you know, so then you know when to blend, yeah.

Wade Pfau 32:09

And that's what the the tax map calculator tool can help you with. That's okay, here's where I don't want to voluntarily go over this threshold. Well, if I've got the Roth money available, that's when I start spending from the Roth to avoid going over that threshold. It works both ways. Is really the point. We're not just looking for opportunities to do Roth conversions. If we already hit the threshold before we met our spending goal, then we blend by switching over and spending from the Roth IRA as well. So what this person was stating in their question is absolutely the right way to be thinking about this, but it is a detail that most, as far as I'm aware, consumer facing Roth conversion tools ignore entirely.

Alex Murguia 32:53

Okay, would it be a good idea to pull money out of regular IRAs and use distribution to purchase assets in a taxable account?

Wade Pfau 33:06

Yeah, this question came up kind of more than once, but in the answer is a pretty emphatic, no taxable accounts are the least tax efficient for you. So if you already went to the effort, once you have money in a qualified or protected space, you don't want to be voluntarily moving it back to a taxable brokerage account. So no, it wouldn't really be a good idea to pull money out of a regular IRA and use the distribution to purchase assets in a taxable account. This is kind of the scenario where you do a Roth conversion instead and get that money over to the Roth account instead of a taxable brokerage account.

Alex Murguia 33:43

The only comment I would make, and it's, it's not related to this question, but I it's something that confuses folks is, when they're taking RMDs and they don't need the money to spend, they can invest it in the taxable account, you know, right?

Wade Pfau 34:00

Oh yeah, yeah, so that, but that wouldn't be a good idea to if you're forced to do that because of RMDs. Yeah, Roth, convert your RMD so yeah, you would. Your only alternative is to invest it in a taxable brokerage account. But I, my sense from this question was, more instead of conversion, should I just invest it in my taxable brokerage account?

Alex Murguia 34:20

I agree with you. I just saw an opportunity to clarify something that we know always comes up.

Wade Pfau 34:25

Yeah, you can't Roth convert required minimum distributions.

Briana Corbin 34:31

Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general, informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you. Consult your financial advisor all investing come. With the risk, including Risk of Loss past performance does not guarantee future results.