

How to take IRA distributions: Put the Lime in the Coconut

Do you remember a song by Harry Nilsson called “Coconut”? It goes a little like this:

*She put the lime in the coconut, she drank 'em bot' up
She put the lime in the coconut, she drank 'em bot' up*

Kind of a catchy tune, huh? While I don't know if retirees have a problem of making adult beverages, but what I do know is the vast majority of retirees probably have three or four different qualified type plans (i.e. IRAs, deferred comps, 401(k)s, 403(b)s, etc.). Indeed, many retirees I've met have anywhere from 5 to 12 different plans.

“John, Where Do I Take My Distributions From?”

Whether somebody is doing an RMD (which is forced distributions at 70½), or somebody's doing volunteer distributions – they want to know the big question. The question I always get is – “John, I've got all these different IRAs, where should I take the money or should I take it all out of them?”

You know, if you have 10 or 14 multiple IRAs, it's probably best to get it down to a more manageable level such as 3 or 4 just from a paperwork standpoint. Maybe you cannot because maybe the investments have early penalties or early withdrawals.

“Fee Here or Fee There, Fee Fees Everywhere”

Many IRA custodians charge a separate fee to help administer the IRA type plan. The fee is not charged per value, but per plan. So you get charged if you have \$10,000 the same as somebody who has half a million dollars. In fact, in many cases, if they half a million dollars, the fee is exempted. So if you have 10 or 14 different IRA type plans, chances are you're being charged for each by each custodian, maybe just \$25 to \$100, but every little bit adds up.

“Look at You a Millionaire”

Let's say you have five different IRAs split equally with \$200,000 in each, and congratulations, you've got \$1 million. And for simplicity's sake let's say that your RMD or your volunteer distribution is going to be \$40,000. The easy solution would be to take \$8,000 out of each account.

“IRS Wants Their Cut”

The IRS is only concerned that you take the Required Minimum Distribution out. They don't care if it comes out of one or all of them or different variations. They just want to make sure that it's all been done, and there are some pretty big penalties if you don't. But what I have found out over the years is it's better to have somebody examine the different accounts and see if it's more advantageous for you to take distributions from one or from all of the accounts equally. I've done this for my clients for years. Every year, when we get ready to do RMD's for

our clients, I examine their different accounts, and I always tell them, “look we’re going to try to take the money out of the things that are the weakest or that have the least potential for this year. We are not only examining the past return but the expected return going forward. If it’s an equity type IRA, what kind of market are we in, in a bull market, bear market or sideways trading market.”

- Let’s factor in what phase the stock market is in.
- Let’s factor in are interest rates rising or are interest rates falling.
- Let’s factor in whether we’re in a recession or is the economy going good.

Keeping the above factors in mind, I would probably recommend liquidating the weakest performing in the expected return. Sometimes, you have to think of yourself as a football coach. As a coach, you might have about three or four different quarterbacks and you’ve got a depth chart. Your job is to put the best quarterback today on the field. That’s why you have a depth chart. Well, it’s the same thing with your investments. You need to have a depth chart on your investments. As an example: if you have a chance to liquidate a low-yielding money market at 1% versus a much stronger performer (let’s say we’re in a bull market and your equities are doing extremely well, then you probably want to liquidate the money market IRA).

So, what does the song have to do with IRA distributions? Well, really nothing. I was just trying to lighten up a pretty dry subject.

Sincerely,

John Romano, CFP®

John Romano, CERTIFIED FINANCIAL PLANNER™, has over 30 years experience in the financial field. John is a Registered Representative with Securities America, Inc. (member of the FINRA and SIPC), and an Investment Advisor Representative with Securities America Advisors. He has prepared hundreds of reports for retirees to assist in their retirement income planning needs. He is dedicated to providing portfolio analysis, dividend and income information, and investment management services to retirees (and those preparing to retire) in The Villages, Florida, and throughout the United States.

Securities offered through Securities America, Inc. Member FINRA/SIPC, John Romano CFP® Registered Representative. Advisory Services offered through Securities America Advisors, Inc. John Romano Investment Advisor Representative. Romano Income Strategies and Securities America are not affiliated. Trading instructions sent via e-mail may not be honored. Please contact my office at (352)753-8590 or Securities America, Inc. at (800) 747-6111 for all buy/sell orders. Please be advised that communications regarding trades in your account are for informational purposes only. You should continue to rely on confirmations and statements received from the custodian(s) of your assets. The text of this communication is confidential and use by any person who is not the intended recipient is prohibited. Any person who receives this communication in error is requested to immediately destroy the text of this communication without copying or further dissemination. Your cooperation is appreciated.

John Romano, CFP®
305 Skyline Drive, Suite 3, Lady Lake, FL 32159
Phone: 352-753-8590

Email: John@RomanoJohn.com

=====
Most retirees are concerned today about outliving their income. Very few have a written income plan. Most realize we are the tail end of a great bull market, but all good things come to an end. This may be a good time to stress-test your retirement plan. Maybe I can help. Send me an email or schedule a phone time.
I will get back with you within one business day.
=====