



## IRA Insights

# But what if I don't *want* my RMD?

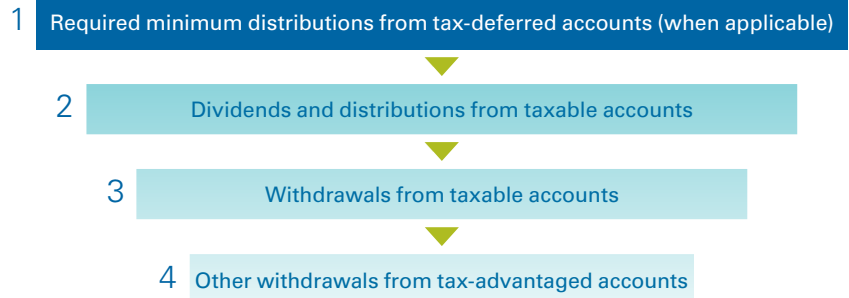
Vanguard research | September 2014

Retirees who need income from their investment portfolios should start by spending their required minimum distributions (RMDs).

The IRS requires that investors in traditional tax-deferred accounts begin to draw them down when they reach age 70½.

Since these withdrawals are already subject to income tax, it makes sense for retirees to spend this money before withdrawing assets from other sources.

A framework for withdrawing from a retirement portfolio



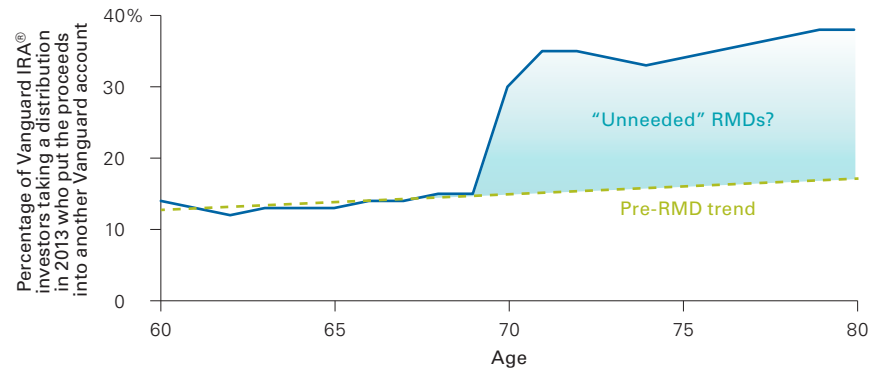
Note: Withdrawal-order preferences may vary based on personal situations and goals.

However, investors are not actually required to spend what they withdraw.

Investors who don't need to supplement their retirement income from their investment portfolios can simply direct their RMD proceeds into taxable accounts.

This graph indicates that as many as 20% of Vanguard investors who take an RMD may move the money to a taxable Vanguard account because they don't need to spend it.

When RMDs start, more distributions just go to other investments



Notes: Roth conversions are not counted as distributions. Data include only clients who had an IRA balance at both the beginning and end of 2013.

Source: Vanguard.

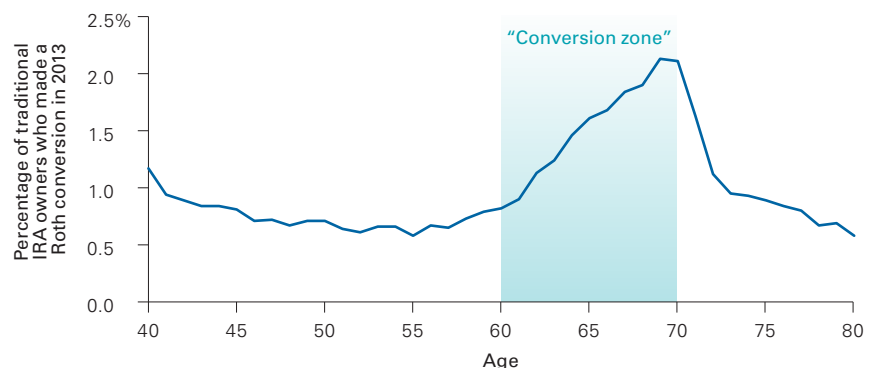
Investors who don't need to spend their RMD should consider converting traditional IRAs to Roth IRAs before age 70½.

Roth IRAs are not subject to RMD requirements. Converting to a Roth before RMD age means paying taxes sooner, but the converted amount can remain tax-free throughout retirement and even when passed to heirs.

One strategy is to convert portions of your traditional IRA strategically over time after retirement by "filling up" lower marginal tax brackets with Roth conversion dollars.

Roth conversions increase as RMD age approaches

A 65-year-old investor is three times more likely to make a Roth conversion than a 55-year-old



Source: Vanguard.

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*The authors acknowledge John Rykaczewski in Vanguard's Client Insight Group for providing the data used in this analysis.*

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We recommend that you consult a tax or financial advisor about your individual situation.

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ISGIRA7 092014