

# I JUST RETIRED — NOW WHAT?

## Planning for Retirement Income

**Sharon Appelman, CFP®**  
Senior Managing Director, Wealth Advisor,  
Co-Head of Wealth Planning

**Christopher Dende, CFP®**  
Managing Director, Wealth Advisor,  
Co-Head of Wealth Planning

**If you are approaching retirement or have recently retired, you may have found yourself asking a version of this:**

“ This may be a basic question, but how do I actually access my money now that I’m retired? ”

**It is not a basic question. In fact, it is one of the most common—and most important—questions we hear.** The process of accessing your money efficiently in retirement is not always intuitive. It can feel nerve-racking to shift from saving and accumulating to withdrawing and living off the funds you have worked hard to build. You are giving up the consistency of earned income, and for many, there is no instruction manual for replacing your paycheck.

**Clients will sometimes ask us,**

“ Do I just call you when my checking account balance is low? ”

In this white paper, we explore a few key considerations before any distributions are made. Once the amount is determined, there are several

ways to structure those distributions based on individual preferences—such as monthly or quarterly automated transfers that replicate a regular paycheck.

“ Do I need to shift into income-generating assets? ”

You may have heard that retirement requires a move away from growth-oriented investments toward dividend- or interest-producing ones. That was once a more common approach—especially when interest rates were higher, dividend payouts were more generous, and pension plans were widespread. While income-producing investments can still play a role, we believe there is often a more sustainable and flexible approach.

### The Total Return Approach

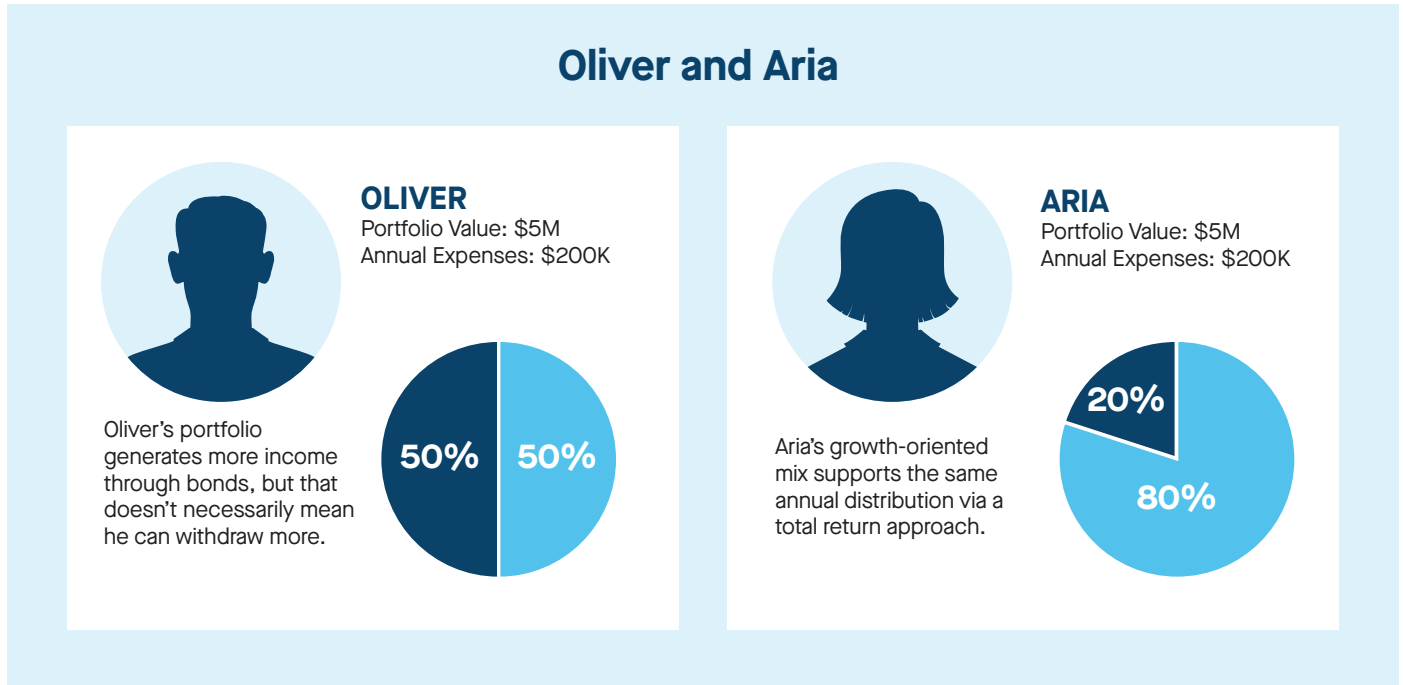
The term income can mean different things in this context. One version refers to the interest and dividends a portfolio generates. Another refers to the client’s need to receive income from the portfolio to cover expenses. These two concepts are often conflated. For clarity, we will refer to money sent to a client from their portfolio as a distribution.

It is a common misconception that distributions should only come from interest and dividends, while principal or capital gains should be left untouched. With that in mind, there are two key questions to consider:

1. How much can you safely withdraw from your portfolio each year? (read our separate article on the [4% rule](#)) and

2. What are the sources of those funds?

The income generated within a portfolio depends on how the portfolio is constructed. And in our view, one should not feel constrained to distribute only that income.



Consider two individuals, Oliver and Aria. They are the same age, each with a \$5M portfolio, both with annual expenses of \$200K.

Oliver has a 50/50 mix of stocks and bonds, while Aria—who has a higher tolerance for risk—has an 80/20 allocation. Oliver's portfolio is likely to generate more

income via the bonds. But does that mean he can distribute more from his portfolio each year than Aria?

We would say no.

With a total return approach, the annual distribution could be supported not just by interest and dividends, but also by growth.<sup>1</sup>



<sup>1</sup>And in some instances, principal.

**FIGURE 2: COMPONENTS OF RETURN AND THEIR TAX TREATMENT**

Component	Asset Type	Taxation
<b>Interest</b>	Treasuries	Federally taxable, generally state tax-exempt
	Corporate Bonds	Taxed as ordinary income
	Municipal Bonds	<ul style="list-style-type: none"> <li>• Typically exempt from federal income and in-state taxes (if in-state resident)</li> <li>• Certain local municipalities have a third layer of tax exemption</li> </ul>
<b>Dividends</b>	Certain Stocks	<ul style="list-style-type: none"> <li>• Qualified = Taxed at long-term capital gains rate</li> <li>• Non-qualified = Taxed as ordinary income</li> </ul>
<b>Capital Appreciation</b>	Stocks & Bonds <sup>2</sup>	Taxed when sold: <ul style="list-style-type: none"> <li>• Short-term (held less than a year) = ordinary income</li> <li>• Long-term (held one year and a day) = capital gains</li> </ul>

## Asset Allocation: More Than a Formula

There is plenty of debate—and an abundance of formulas—about the “right” asset allocation in retirement. Some clients are told to subtract their age from 100 to determine how much of their portfolio should be in stocks. However, we believe a more nuanced and customized approach is often more appropriate. Each client’s circumstances are unique, and those circumstances should drive the asset mix.

One important factor in determining one’s allocation is looking at short- to medium-term distribution needs. We aim to avoid the need to sell equities at depressed values during down markets. That is why we recommend setting aside a few years of planned spending<sup>3</sup> in fixed income or cash equivalents. This allows us to work backward into a customized allocation that is aligned with your goals and situation, rather than forcing your

goals to fit an arbitrary formula. Of course, risk tolerance remains a key factor in the final portfolio construction.

## Tax Considerations For Retirement Income

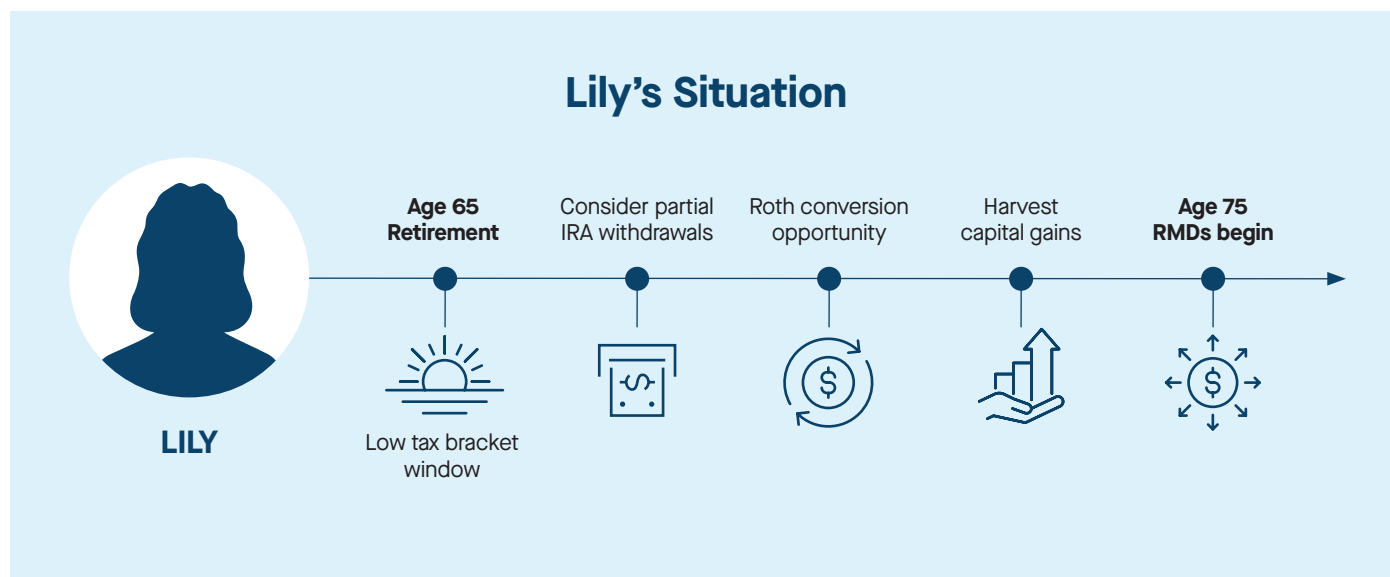
### The Retirement-to-RMD Window

If you retire before your required minimum distributions (RMD) begin, that window can create meaningful planning opportunities.

There is often a default recommendation that taxes should be deferred for as long as possible—such as delaying 401(k) and IRA withdrawals until RMDs start. While this is sometimes the right strategy, the years between retirement and RMD age and/or social security retirement benefits can be a uniquely low-tax period. That makes it a window to potentially pull income forward at a lower rate.

<sup>2</sup>Stocks have historically demonstrated higher appreciation than bonds. With that, of course, comes increased volatility. For simplicity, we are not commenting here on other asset types such as real estate or private equity.

<sup>3</sup>The number of years’ worth of expenses to set aside will depend on your cash flow needs, time frame, and risk tolerance.



Lily is 65 years old and just retired. Throughout her career, she was in the highest tax bracket and contributed pre-tax to her 401(k). She now has about \$6M, split between her 401(k)/IRA and a taxable (non-retirement) account.

Between now and when RMDs begin at age 75, she is projected to fall into the 12% marginal tax bracket<sup>4</sup>. Ironically, this low-tax period presents an opportunity—not to celebrate—but to act.

Since IRA withdrawals will eventually be required (and taxed), Lily might consider making partial withdrawals now—while she is in a lower tax bracket.

### Later Retirement & Legacy Planning

For clients focused on leaving assets to heirs, the structure of distributions matters.

After satisfying RMDs, some retirees lean toward drawing from taxable assets to preserve IRAs. However, for most non-spouse beneficiaries, inherited IRAs must be fully withdrawn within 10 years—and taxed as ordinary income.

By contrast, taxable (non-retirement) accounts generally receive a step-up in cost basis at death. That makes them more tax-efficient assets to leave to heirs. In some cases, it may make sense to prioritize IRA distributions to preserve those benefits. (View our [Tax Diversification Visual](#) for more information.)



### 3 Strategies for Tax-Efficient Retirement Income During Lower-Tax Years

1

#### Partial Withdrawals

Strategically draw from tax-deferred accounts (401(k)/IRA) before RMDs begin to manage tax brackets.

2

#### Roth Conversions

Convert portions of traditional IRAs to Roth IRAs to lock in lower tax rates.

3

#### Capital Gains Realization

Realize long-term capital gains, where appropriate, from concentrated stock positions and/or highly appreciated assets.

<sup>4</sup>Using the Tax Cut and Jobs Act tax brackets.



## Common Client Question

Clients sometimes ask whether highly appreciated assets in taxable accounts are considered liquid. From our perspective they are—even though you may be holding them to defer capital gains taxes. We view these assets as liquid because you can access the funds on short notice if needed. This is different from truly illiquid investments, such as private equity, which cannot be easily sold or valued in real time.

### Closing Thoughts

We recognize that while retirement can be exciting, it can also feel daunting. If you have been wondering about how to create income in retirement—or whether your current strategy aligns with your goals—we are always here to discuss.

**Let's talk about how to build income for your retirement goals.**

## FIRST MANHATTAN

Founded in 1964, First Manhattan is a \$34B+ AUM investment advisory firm that seeks to deliver strong financial returns through an investment approach aligned with clients' goals and driven by in-house, proprietary research, customized wealth planning advice, and personalized client service. For more than six decades, the Firm has been a trusted partner to individuals, families, and fiduciaries, as well as partnerships and charitable trusts and foundations. For more information, please visit [firstmanhattan.com](https://firstmanhattan.com).

Through various operating subsidiaries, FMC Group Holdings LP ("First Manhattan") provides a range of brokerage and investment advisory services. First Manhattan Securities LLC (Member SIPC, FINRA, NYSE, and MSRB), a wholly owned subsidiary of First Manhattan, is a registered broker-dealer. First Manhattan Co. LLC, a wholly owned subsidiary of First Manhattan, is an investment adviser registered with the SEC. None of First Manhattan, its affiliates, and its or their personnel provide banking services or legal, tax, or accounting advice.

All content is for informational purposes only and should not be construed or interpreted as a solicitation to sell or offer to sell advisory services to any residents where First Manhattan is not appropriately registered, excluded, or exempted from registration or where otherwise legally permitted. It is also not intended to provide any tax or legal advice. Nor is it intended to be a projection of current or future performance or an indication of future results. Moreover, this material has been derived from sources believed to be reliable, but it is not guaranteed as to accuracy and completeness and it does not purport to be a complete analysis of the materials discussed. An investor must carefully consider objectives, risk tolerance, and time horizons. Investing always involves risk and possible loss of capital.