Q. I'm confused about how to decide which accounts to take money from when I retire next year. I'm 61. I have $730,000 in my 401(k), $129,000 in a Roth, $200,000 in taxable mutual funds and about $50,000 in cash accounts. I will have about $24,000 a year in Social Security but not until age 65.
— Almost there

A. Congratulations on your upcoming retirement.

The good news is that you are permitted to start taking distributions from your 401(k) without penalties once you reach age 59 1/2. So next year when you retire, you are permitted to take money out of all of these accounts without any tax penalties, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

She said you should keep in mind that distributions from your 401(k) will be subject to ordinary income taxes, while distributions from your Roth IRA will not be subject to income taxes upon distribution.

The money that you have accumulated in taxable funds is also available, but if there are embedded capital gains in these holdings, you will incur taxable capital gains upon sale of the funds, Aznar said. If you have any capital loss carry-forwards, you could use them to offset future capital gains on your tax returns.

If your taxable account is generating some interest and dividends that you could have transferred into your checking account automatically each month, Aznar suggests you start with that in terms of covering your basic living expenses.

"The longer that you are able to leave the money within your 401(k) plan or IRA rollover — if you choose to roll it over — the longer it will remain invested on a tax-deferred basis," Aznar said. "This means that you can avoid paying taxes for longer which will result in accumulating more funds."

She said you may want to consider withdrawing just enough from your 401(k) plan to keep your tax burden as low as possible.

Without knowing more about your situation, Aznar made some assumptions to give a more detailed example.

Let's assume you file your tax return "married filing jointly" and have no other income starting next year.

If you then hypothetically earned $100 of interest income and $4,000 of dividend income annually and claimed the standard deduction, and if you were to withdraw $30,000 from your 401(k), you would be subject to a total federal and New Jersey tax bill of less than $1,500 for the year, she said.

If you were to withdraw $20,000 from the 401(k) plan, this would result in avoiding federal taxes completely and paying less than $400 in New Jersey state taxes, she said.

And once you start taking Social Security, your tax situation will change.

"Determine how much you need to withdraw to live on each month and then ideally, pull from the various buckets in the most tax-efficient manner," she said.

If you'd like some help with more specific projections for your situation, consider participating in a free money makeover. Just send us a note at Ask@NJMoneyHelp.com.

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