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RMDs Explained: 5 Common Questions

Understanding the nuances of your retirement accounts today can make a massive difference in your wealth decades from now.

The choice between pre-tax and after-tax accounts is essentially a decision about when you want to pay the IRS. By choosing the right "tax bucket" for your current income level and future expectations, you can potentially keep a much larger slice of your hard-earned nest egg. Here is a quick breakdown of how these two heavy hitters compare.

Tax-Deferred Retirement Savings Accounts

If you have a tax-deferred retirement savings account, also referred to as a pre-tax retirement account, you will not pay income taxes on the money in the account until you begin making withdrawals. Traditional IRAs and 401(k)s are tax-deferred retirement accounts.

What are the advantages of this type of retirement account?

- **Accelerated Growth:** By investing money before it's taxed, you have a larger initial principal working for you, fueling the power of compound interest.
- **Immediate Tax Savings:** Every dollar you contribute reduces your taxable income this year, keeping more cash in your pocket now.

After-Tax Retirement Savings Accounts

Unlike tax-deferred accounts, after-tax retirement accounts are funded with after-tax dollars. This means you have already paid taxes on the money you contribute to the account. Roth IRAs are after-tax retirement accounts.

What are the advantages of an after-tax retirement account?

- **Tax-Free Income Later:** Since you pay taxes upfront, every penny you withdraw in retirement—including all the growth—is yours to keep, tax-free.
- **Total Flexibility:** With no Required Minimum Distributions (RMDs), you decide when and how to use your money, providing a powerful tool for estate planning.

Every financial journey is unique, and the "perfect" account depends entirely on your specific goals and timeline. If you're ready to optimize your savings strategy and ensure your plan is working as hard as you are, let's chat.

Financial Planning may help your dreams come true!

Simple, Smart, and Effective financial planning may help you build wealth. Our strategies and hands-on approach may help you increase savings, lower taxes, provide customized investment advice, help you secure your retirement and more. Together, we will help you build a plan toward making your dreams come true.

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