

How Your Roth IRA Is Like A Fine Bottle Of Wine

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I help people on their path to Financial Freedom. [FULL BIO](#)

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Roth IRA's, subject to certain conditions being met, allow for tax-free growth and tax-free withdrawals. As a result, they have justifiably gained tremendous popularity over the years, and a lot has been written on their benefits. Most of the conversation revolves around the tax advantages as well as who should invest in a [Roth IRA](#).



There is also a lot of coverage on [Roth conversions](#) which is when an individual chooses to make a taxable withdrawal from their IRA or Qualified Retirement Plan and send the proceeds to their Roth IRA.

But as investors age, the benefits of the Roth IRA diminish largely due to the smaller number of years the money has to potentially grow tax-free.

And this leads us to the biggest question for Roth IRA account holders: “when should I withdraw from my Roth IRA?” The answer is complex and unique to each individual because each person’s cash flow needs, tax situation and outlook on the investment markets are unique to them. As such, there is no one size fits all.

The Roth is such a valuable tool in an investors tax avoidance arsenal that many folks find it difficult to withdraw from the account. This is understandable since for most retirees, once they stop working, they cannot make contributions into their Roth IRA and they don't want to lose the chance to grow money tax-free.

In this way it is like that special bottle of wine that many connoisseurs have in the back of their wine closet – it’s almost too special to drink. But the Roth IRA, like that special bottle of wine, should be enjoyed. Here are three questions retirees can ask themselves to help make the difficult ‘when should I withdraw from my Roth IRA’ decision.

1. **Is this one of my higher-earning years that I will have between now and the end of my life?** If you need to withdraw from your investment accounts, and if you believe that you are in one of your higher earning years (between now and when you die), then this could be a good year to make a Roth IRA withdrawal since those could be tax-free. The logic is that due to your high income, withdrawals from a taxable account will likely face a higher marginal tax rate than in a lower earning year. Furthermore, withdrawals from a taxable account could move you to a still higher marginal tax rate whereas the Roth withdrawals have no impact on your tax situation.
2. **What do I think the stock market will do?** I know this is impossible to accurately predict, but if you think we're headed for a big decline, then it may make sense to withdraw from the Roth IRA. This is because Roth IRA funds do not offer any tax benefit against losses. For example, someone who deferred making Roth IRA withdrawals in 2007 just before the stock market crash missed a chance at maximizing the value of this tax-free account. On the other hand, withdrawals near a market peak (and before a decline) can realize gains without paying income taxes.
3. **Do I have other assets that I can convert into my Roth IRA in the future?** If you have other qualified plan assets that can be converted to a Roth IRA, this can reduce the hesitancy and reluctance around the Roth IRA withdrawal decision. Consider an investor who reluctantly withdraws from their Roth IRA. In a subsequent lower income / low tax year, they can convert a portion of their 401(k) or IRA into the Roth. This would be a de facto replacement of any assets previously withdrawn from Roth IRA. And, in some ways, like that special bottle of wine, if we have one of a similar vintage, we may be more likely to pop it open.

As we age, we face different financial planning decisions than when we were accumulating assets. And when to withdraw from a Roth IRA is one such question. So, consider several variables including your cash flow needs, taxable income, current and future tax rates, your stock market expectations, and other factors before completing either a Roth IRA withdrawal or a Roth conversion.

Contributor’s Bio

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