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MONEY NOTES

Decumulation Strategies: A Guide to Drawing Down Your Wealth in Retirement

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As retirement approaches, the question shifts from "How much should I save?" to "How much can I spend, from which accounts, and for how long?" That phase is called decumulation, and it calls for a different plan. Spending too little is a risk just as real as spending too much. Among retirees who entered retirement with \$1 million or more, the median household had spent down only 11.8% of its assets about 20 years later.¹

The Mental Shift from Saving to Spending

For decades, every good financial habit pointed one way: save more, spend less, and never touch principal. Those habits build wealth, and they can quietly work against you once paychecks stop. Watching a balance decline can feel like failure, even when the decline is exactly what the plan intended. Spending the money you worked hard to accumulate is not a departure from your discipline. It is the endpoint of the goal all along.

The research shows how real the struggle is. In the 2026 Employee Benefit Research Institute Retirement Confidence Survey, 73% of retirees felt confident they had enough, down five points from 2025, and 40% said their spending ran higher than expected. Some retirees spend too freely, and others hold back far more than they need to. A few reframes can help:

- **Your portfolio's job has changed.** It used to grow. Now it funds the life you want, and a balance that declines on plan is a sign the plan is working.
- **Build a paycheck.** Turn dividends, interest, and capital gains into a monthly paycheck. Recurring deposits from your investment accounts into your checking account can recreate a normal paycheck.
- **Sort spending by purpose.** Match essential expenses to guaranteed income, such as Social Security and pensions, and let the portfolio fund discretionary spending, gifts, and legacy goals.
- **Give yourself permission in advance.** Agree on a spending range, and on what would cause you to adjust it, before the first withdrawal. Decisions made calmly are easier to follow when markets are not calm.
- **Spend on what matters.** Travel, family, and giving are the reasons you saved. Wealth that is never used serves no one's goals.

Revisit Your Plan Before the First Withdrawal

We suggest a full plan review 12 to 24 months before your last paycheck, then annually. Several things change at retirement:

- Spending and income sources
- Tax bracket
- Health coverage
- Asset allocation

Which Accounts to Draw from First in Retirement

The right sequence depends on your tax bracket now and later, your Social Security timing, and your legacy goals. The order does matter: tax-efficient withdrawal strategies may extend portfolio longevity by about three years compared with the conventional approach of spending taxable accounts first.² The guide below walks through the questions to ask about your next dollar.

Do you need this money for an education expense, and do you have a 529 plan?

- Consider using the 529 plan. Withdrawals for qualified education expenses are generally tax-free and penalty-free.

Do you need this money to give a gift to charity?

- **If you are age 70½ or older with money in a traditional IRA:** Consider a qualified charitable distribution (QCD). QCDs are excluded from taxable income and can help satisfy your required minimum distribution (RMD), if applicable.
- **If that IRA route does not apply:** Consider donating appreciated assets, such as stocks or ETFs, in kind. Doing so avoids realizing capital gains.

Do you need this money for medical expenses, and do you have a health savings account (HSA)?

- If applicable, consider using your HSA. Withdrawals for qualified medical expenses are generally tax-free and penalty-free.

What is your tax situation?

- **My taxes are higher now and expected to be lower later.** Consider withdrawing from your least appreciated after-tax sources. This helps preserve qualified assets for years when your rate is lower and avoids unnecessary increases to your adjusted gross income (AGI) or modified adjusted gross income (MAGI).
- **My taxes are lower now and expected to be higher later.** Consider withdrawing from sources taxed as ordinary income, such as a traditional IRA, while you are in the lower bracket. This may reduce your cumulative taxes over your lifetime. If your bracket is low enough, selling assets with long-term capital gains at the 0% rate may make sense.
- **I do not expect my taxes to change much.** Consider sources with favorable tax rates, such as long-term capital gains, rather than ordinary income. This helps you maintain your overall tax rate and avoid triggering your next marginal bracket.

Before any retirement-account withdrawal, confirm you are not subject to a 10% early withdrawal penalty. Also watch for added AGI or MAGI consequences, such as the 3.8% net investment income tax, Medicare Income-Related Monthly Adjustment Amount (IRMAA) surcharges, and additional taxation of Social Security. This is general guidance, and your own answers will depend on details a chart cannot capture.

Building a Retirement Withdrawal Strategy

The 4% rule is a starting point, not a plan. General guidance is to withdraw 4% of your portfolio in year one, then adjust that dollar amount for inflation.³

- FINRA notes that expert opinion clusters between 3% and 5%.⁴
- Stanford research found that a fixed rule leaves 10% to 20% of initial wealth as surpluses that are never spent, and 2% to 4% as overpayments.⁵
- Dynamic approaches trim spending after bad years and raise it after good ones, trading steadier income for a portfolio less likely to run short.

Sequence of returns risk. The order of returns matters once withdrawals begin. Holding one to two years of spending in cash is a common response, not a recommendation for any individual.

Key timing facts.

- **Social Security:** For those born in 1960 or later, full retirement age is 67. Claiming at age 62 reduces the benefit by 30%, and delayed credits add 8% a year until age 70.⁶
- **RMDs:** They begin at age 73 for those born from 1951 to 1959 and at age 75 for those born in 1960 or later. A missed RMD carries a 25% excise tax, reduced to 10% if corrected within two years.⁷
- **IRMAA:** Surcharges are based on your tax return from two years earlier. In 2026, they begin above \$109,000 of MAGI for single filers or \$218,000 for joint filers.⁸
- **QCDs:** The 2026 limit is \$111,000 per person.⁹

The gap years between your last paycheck and Social Security or RMDs are often your lowest-income years, which can make them a window for Roth conversions. Because of the IRMAA lookback, a large conversion at age 63 can raise Medicare premiums at age 65.

When to Bring in a BLBB Advisor

Taxes, Social Security, Medicare, and charitable goals interact within the same tax year, and a decision in one area can change the outcome in another. If you are within a few years of retirement, or already drawing on your savings, a BLBB advisor would be happy to help you model your options and build a plan that helps you move forward with confidence.

Frequently Asked Questions

What is decumulation of wealth?

Decumulation is the process of turning savings into retirement income. It involves deciding how much to spend, which accounts to draw from, and in what order, so your wealth supports your lifestyle and your goals.

When should I start planning my withdrawals?

We suggest a full plan review 12 to 24 months before your last paycheck, then annually.

Is the 4% rule right for me?

It is a starting point. Expert opinion clusters between 3% and 5%, and the right figure depends on your spending, other income, and flexibility.

Which account should I draw from first?

It depends on your needs and tax outlook. Education, charitable, and medical needs may point to a 529 plan, a QCD, or an HSA, and your expected tax bracket then guides the rest. A BLBB wealth advisor can help you map out a plan.

Should I claim Social Security at 62, 67, or 70?

Claiming at age 62 reduces your benefit by 30%, while waiting beyond full retirement age adds 8% a year until 70. The best choice depends on your health, your spouse's benefit, and your other assets.

Can a Roth conversion affect my Medicare premiums?

Yes. IRMAA is based on income from two years earlier, so a conversion at 63 can raise premiums at 65.

¹ <https://www.ebri.org/content/asset-decumulation-or-asset-preservation-what-guides-retirement-spending>

² <https://www.investopedia.com/tax-efficient-drawdowns-for-retirement-income-11744703>

³ <https://www.schwab.com/learn/story/beyond-4-rule-how-much-can-you-spend-retirement>

⁴ <https://www.finra.org/investors/learn-to-invest/types-investments/retirement/managing-retirement-income/managing-your-retirement-portfolio>

⁵ <https://longevity.stanford.edu/>

⁶ <https://www.ssa.gov/benefits/retirement/planner/1960-delay.html>

⁷ <https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs>

⁸ <https://incomelaboratory.com/irmaa-brackets-2026-guide/>

⁹ <https://www.fidelity.com/retirement-ira/required-minimum-distributions-qcds>

Disclosures

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BLBB's investment approach may incorporate, among other things, asset allocation and portfolio diversification. While these strategies are designed to limit risk, there is no guarantee that such strategies alone, or in combination, will guarantee against a loss of principal in a declining market.



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