This guide will show you how the system draws money from assets to cover expenses. First, we'll cover what the default liquidation order is, then how to define a liquidation order, and lastly the liquidation strategy definitions.

**Default Liquidation Order**

At the end of the year, if your Core Cash Account has a negative balance, funds are drawn from any available liquid assets. Unless otherwise specified, funds are generally withdrawn in the following order:

1) Cash  
2) Taxable  
3) Tax-Deferred Assets  
4) Qualified Annuities  
5) Roth Accounts (including Annuities, Roth 401(k)s, and IRAs)  
6) Qualified Assets where penalty tax applies  
7) Health Savings Accounts  
8) Non-Qualified Deferred Compensation (during retirement only)

**Please Note:** Each asset will be fully liquidated before moving on to the next asset type. However, if an asset stores funds across different asset types, it may not be liquidated all at once.

For example, a Roth 401(k) might have money under both Tax-Deferred and Roth Account asset types. In this case, the Tax-Deferred funds would be withdrawn first, while the Roth Funds would be saved for later liquidation (after any Qualified Annuities have been liquidated).
Defining a Liquidation Order

In Advanced Facts under Expenses > Liquidation Strategy, you can prioritize the order of asset liquidation. There are two Liquidation Modes to choose from: **Strategy** and **User-Defined Schedule**.

1. **Strategy** allows you to define a general plan to guide the liquidation order pre- and post-retirement (and optionally semi-retirement and advanced age). Choosing a **Strategy** from the drop-down menu, other than By Type, will override the system’s default liquidation order.

**Please Note:** See page 4 for full definitions of each Strategy.
2. **User-defined Schedule** allows you to define a specific order in which assets will be liquidated. Select the asset from the drop-down menu, then click **Add Asset** to add it to the table. Once assets are in the table, they can be given a liquidation priority for pre- and post-retirement (and optionally semi-retirement and advanced age).

![Image](image_url)

**Please Note:** Any assets not added to the **User-defined Schedule** will revert to the system’s default liquidation order listed earlier in this document.

**Exclusion:** Use this tab to remove an asset from liquidation. Assets added to the **Exclusion** tab will NEVER be liquidated, regardless of the Client’s financial condition in later years.

![Image](image_url)

**Please Note:** You can specify liquidation for Real Estate and Personal Property but note that the asset is not sold and converted into a liquid asset. Instead, it works similarly to a liquid asset in that the value is reduced each year by the amount required and can be viewed in the detailed balance sheet.
Liquidation Strategy Definitions

1. **By Type (By Liquidity):**
   a. This is the default liquidation strategy as listed on page 1 of this document.
   b. In most cases this will be the most efficient way to fund cashflow shortfalls from a liquidity and tax standpoint.
   c. If multiple accounts have the same type, the system will liquidate the one with the higher basis ratio.
   d. If multiple accounts have the same type and basis ratio, the system will liquidate the one with the higher growth rate.
   e. If multiple accounts have the same type, basis ratio, and growth rate, the system will liquidate in alphabetical order.

2. **Qualified/Non-Qualified:**
   a. This strategy is ONLY applicable in retirement. Do NOT select as a pre-retirement strategy. See point d. below.
   b. Allows you to specify a percentage of spending deficit that will be covered by qualified assets by entering a ratio in the Qualified Spending Ratio field.
   c. For example, a spending ratio of 25% means your needs will be covered 25% by qualified assets, and 75% of your needs will be covered by non-qualified assets.
   d. The simulation will not liquidate any qualified assets if a penalty would occur in that year. The system will only liquidate qualified assets during a year where an excise tax would occur if there are no other non-qualified assets to liquidate.
3. **By Liquidity, then Lowest Performance, and then Highest Risk:**
   a. First, the system will liquidate according to the default order listed on page 1 of this document.
   b. If multiple accounts have the same liquidity, the system will liquidate the one with the lowest growth rate.
   c. If multiple accounts have the same liquidity and growth rate, the system will liquidate the one with the highest standard deviation.

4. **By Liquidity, then Highest Risk, and then Highest Performance:**
   a. First, the system will liquidate according to the default order listed on page 1 of this document.
   b. If multiple accounts have the same liquidity, the system will liquidate the one with the highest standard deviation.
   c. If multiple accounts have the same liquidity and standard deviation, the system will liquidate the one with the highest growth rate.

5. **By Liquidity, then Lowest Tax Impact:**
   a. First, the system will liquidate according to the default order listed on page 1 of this document.
   b. If there are multiple accounts with the same liquidity, the simulation will liquidate the one with the highest basis ratio.

6. **By Lowest Performance, then Highest Risk:**
   a. First, the system will liquidate the account with the lowest growth rate.
   b. If there are multiple accounts with the same growth rate, the system will liquidate the one with the highest standard deviation.

7. **By Highest Risk, then Lowest Performance:**
   a. First, the system will liquidate the account with the highest standard deviation.
   b. If there are multiple accounts with the highest standard deviation, the system will liquidate the account with the lowest growth rate.

8. **By Lowest Tax Impact, then Lowest Performance:**
   a. First, the system will liquidate the account with the highest basis ratio.
   b. If there are multiple accounts with the same basis ratio, the system will liquidate the one with the lowest growth rate.

9. **By Lowest Tax Impact, then Highest Risk:**
   a. First, the system will liquidate the account with the highest basis ratio.
   b. If there are multiple accounts with the same basis ratio, the system will liquidate the one with the highest standard deviation.

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**Please Note:** The system will re-assess the liquidation order annually. Therefore, the exact liquidation order may change year-by-year if an account’s characteristics (like basis ratio, growth rate, etc.) change.
Miscellaneous Liquidation Information:

- If you choose to liquidate qualified assets and the system detects that you would incur a penalty for their withdrawal, those assets will not be liquidated until all your remaining non-qualified assets are liquidated.

- You can specify liquidation for Real Estate and Personal Property but note that the asset is not sold and converted into a liquid asset. Instead, it works similarly to a liquid asset in that the value is reduced each year by the amount required and can be viewed in the detailed balance sheet.

- If qualified assets are liquidated before the age of 59.5, you are subject to a 10% penalty on the withdrawal. If Health Savings Account assets are liquidated before the age of 65 and the owner is not disabled, the withdrawal is treated as a non-qualified expense and is subject to a 20% penalty.

- For non-qualified deferred compensation, we are not supporting the penalties associated with the violation of the normal non-statutory constructive receipt rules associated with IRC Ruling 409A. If a Client is in deficit spending during retirement and default spending logic kicks in, we will automatically liquidate deferred compensation in order to cover expenses as the final asset type. Due to IRC Ruling 409A you may be penalized for early withdrawals from non-qualified deferred compensation. To properly model the distributions please enter a transfer flow. If you do not want to include the deferred compensation plan in the default spending logic during retirement you can exclude it under Liquidation Strategy.
  - Contributions to the plan do not incur any tax until taken out of the plan. Only the amount that is transferred/liquidated from the deferred compensation plan is subject to earned income tax.