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Protecting Seniors News letter - March 28, 2014

1 message

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Fri, Mar 28, 2014 at 9:02 AM

With help, seniors can keep some of their assets in the family rather than lose their entire life savings to the costs of long term care.

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Protecting Seniors News

IRAs and 401Ks – Withdrawing Money Too Slowly

Last week, I explained that IRAs (and 401Ks, and 403Bs, and, I assume, the new MyRAs) help people time their taxes but not avoid taxes altogether. ([IRAs and 401Ks are not for tax avoidance. They are for tax timing.](#)) (Like I did last week, I'll write about IRAs, but I mean to include 401Ks, 403Bs, etc. I just don't want to repeat all of the different names for these accounts over and over in my writing.) I tried to explain how to withdraw the assets of the your tax-deferred account over 3 to 10 years (depending on the size of your IRA.) To clarify my advice, I want to consider how keeping too much money in your IRA can cost you or your family more in taxes.

Many people take out the Required Minimum Distribution ("RMD") and no more. That RMD is calculated to have the IRA last as long as your life expectancy, i.e., the "average" life expectancy for someone 70 1/2 years old. (Roth IRAs do not have the same RMD requirements.) A life expectancy pay-out makes sense because IRAs were created to support retired people during their retirement to the end of their lives. IRAs were not created as a way to pass money to a retiree's children and grandchildren (assuming that is who most retirees will name as their IRA beneficiaries.) The money in the IRA is supposed to be used up before you die — if you're the "average" person with an "average" lifespan.

If you have better than average investments that provide more growth or income than "average," your RMD won't empty your account before your life expectancy. A well-invested IRA will leave money to your beneficiaries.

Similarly, if you die before your life expectancy (i.e., you're unhealthier or unluckier than the "average" person,) your IRA will still have money in it because you didn't reach your life expectancy. Your beneficiaries will get your left over IRA money.

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So, why is it bad if your children or grandchildren get money from your IRA? It's bad because of taxes, of course. The beneficiaries of your IRA will have to pay the taxes on the IRA money. They can choose to spread out the payments (like an RMD) and, as a result, spread out the taxes the same way that I suggest you spread them out. Even with spread out payments, though, your beneficiaries will probably pay more taxes than you would have paid.

Your beneficiaries will probably pay more in taxes because, after your death, your beneficiaries will probably be in a higher tax bracket than you were before your death. Your children may still be working at the time of your death. Your grandchildren will almost certainly be working at the time of your death. The added income from your IRA will get taxed at your children's or grandchildren's top tax rate or maybe even push them into a higher tax bracket.

For example, you might be in the 15% tax bracket during retirement. (I'm not including state taxes in this discussion. There's too much variation.) One dollar in your IRA is worth 85 cents to you after withdrawal. At the same time, your still-working children and grandchildren could easily be in the 25% tax bracket. Someone in the 25% tax bracket receiving one dollar of your IRA will get only 75 cents after taxes. That's an extra 10% loss in money because you left untaxed money to someone with a higher income than yours. That extra tax loss will be worse for children and grandchildren in the 28%, 33%, 35%, and 39.6% tax brackets.

Unless your children and grandchildren are in the same or lower tax bracket as you (and stay in that tax bracket for the foreseeable future,) your family will lose more money from your IRA if you leave it behind than you would lose if you withdrew it yourself. And it's rare for a children and grandchildren to be in lower tax brackets than their retired parents and grandparents.

In addition, tax rates are (from a historical perspective) pretty low right now. It's likely that the tax rates will be higher in a few years. Money withdrawn now will have the benefit of today's low tax rates. Money withdrawn (by you or by your children or grandchildren) after rates go up will be taxed at those higher rates.

So, I repeat my advice: Take your money out of your IRA during the first 3 to 10 years after retirement. Don't leave money in your IRA to your heirs. Leave them money outside your IRA instead. If you manage the withdrawal of your IRA, the whole family will lose less money overall to taxes.

Social Media Posts from the past week

3-27-2014 Preventing #IdentityTheft by people using new #Technology
#SeniorFraud <http://ow.ly/uOOgN>

3-26-2014 Preparing to be your Parent's #Caregiver #SeniorCare <http://ow.ly/uOFHw>

3-25-2014 Why people don't buy #LongTermCareInsurance
#SeniorCare <http://ow.ly/uOJSM>

3-24-2014 #NursingHome residents have fewer hospitalizations than people with
#InHomeCare (but WHY is the question) <http://ow.ly/uOMH6>

3-23-2014 #VeteransPension (aka #AidAndAttendance) can help pay for #LongTermCare #SeniorCare <http://ow.ly/uOHU3>

3-22-2014 How #Medicaid treats gifts (but #ElderLaw attorneys can overcome this) #SeniorCare <http://ow.ly/uOGNN>

3-21-2014 IRAs and 401Ks are not for tax avoidance. They are for tax timing. <http://wp.me/p47F09-3j>

Older social media posts can be found in the [social media post archive](#) on the firm's website, ProtectingSeniors.com.

The Koewler Law Firm News

3-28-2014 Jim Koewler will start a 4-year term as President of the Richfield Joint Economic Development District, an area of Richfield Township, Ohio for which Richfield Township, Richfield Village, landowners, and employers are cooperating to bring economically beneficial businesses.

4-3-2014 Jim Koewler will present the continuing education program "Preventing Senior Fraud" at Hillcrest Hospital. Continuing Education credit is available for Certified Case Manager, social workers, counselors, and nurses.

4-9-2014 Jim Koewler will present the continuing education program "Veterans Benefits for Long Term Care" at University Hospitals Parma Medical Center. Continuing Education credit is available to social workers, counselors, and nurses.

5-1-2014 to 5-31-2014 Jim Koewler will appear on "Your Health and Wellness" on WCTV in Wadsworth, Ohio discussing Managing Money and Preventing Fraud for Seniors. The show will appear several times throughout the month.

5-7-2014 Jim Koewler will speak to the Richfield Chamber of Commerce about the Affordable Care Act and its requirements as well as opportunities for employers

5-14-2014 Jim Koewler will present the continuing education program "Helping Patients navigate Medicaid, Medicare, and Healthcare Changes" at the Cleveland Clinic. Continuing Education credit is available to Certified Case Manager, social workers, counselors, and nurses.

5-21-2014 Jim Koewler will present the continuing education program "Preventing Senior Fraud" at the Blue Canyon Kitchen & Tavern in Twinsburg. Continuing Education credit is available for Certified Case Manager, social workers, counselors, and nurses.

9-26-2014 Jim Koewler will present "Preventing Senior Fraud" at the meeting of Eldercare Professionals of Ohio at Heart Home Care in Euclid, Ohio.

Older items of firm news can be found in the [news archive](#) on the firm's website,

ProtectingSeniors.com.

Jim's available presentations

- Preventing Senior Fraud (Continuing Education credit available for social workers, counselors, nurses, and Certified Case Managers)
- Navigating Medicaid, Medicare, and the Affordable Care Act (Continuing Education credit available for social workers, counselors, nurses, and seeking approval for Certified Case Managers)
- My Care Ohio and Medicare/Medicaid “Dual Eligibles” (Continuing Education credit available for social workers, counselors, nurses, and seeking approval for Certified Case Managers)
- Government Benefits that can help Pay for Long Term Care (Continuing Education credit available for social workers, counselors, nurses, and seeking approval for Certified Case Managers)
- Legal Issues for People with Dementia (Continuing Education credit available for social workers, counselors, and nurses)
- Protect your Life Savings from the Costs of Long Term Care (Continuing Education credit available for social workers, counselors, and nurses)
- Veterans Benefits for Long Term Care (Continuing Education credit available for social workers, counselors, and nurses)
- Advance Directives – Powers of Attorney, Living Wills, etc. (Continuing Education credit available for social workers, counselors, and nurses)
- Buying Long Term Care Insurance Wisely (Continuing Education credit available for social workers, counselors, and nurses)
- Planning Ahead to Protect against Long Term Care Costs (Continuing Education credit available for social workers, counselors, and nurses)
- Protecting your Money when you need Long Term Care and Essential Estate Planning Considerations (with free living wills for the audience)
- Myths about Long Term Care
- How to help your Parents Manage their Affairs

Upcoming meetings

- 3-28-2014 Eldercare Professionals of Ohio, Crossroads Hospice, Valley View, 9:00 a.m.
- 4-2-2014 Stark Senior Services Network, Canton Baptist Temple, 9:00 a.m.
- 4-2-2014 Richfield Chamber of Commerce luncheon, Richfield Days Inn and Suites, 11:45 a.m.
- 4-2-2014 Medina County Senior Services Network's Client Services Committee, Sully's 3:00 p.m.
- 4-8-2014 Professional Networking Group's Health Fair, Marymount, 10:00 a.m.
- 4-9-2014 Medina County Senior Services Network, Medina Community Recreation Center, 8:00 a.m.
- 4-9-2014 Summit Senior Sales, Administrators and Marketers Association, National Church Residence at Bath Road, 2:30 p.m.
- 4-10-2014 Lorain County Senior Services Network, AbbeWood Assisted Living, 8:30 a.m.
- 4-11-2014 Eldercare Professionals of Ohio, Hanson Services, 9:00 a.m.
- 4-16-2014 PASS, 8:30 a.m.

4-21-2014 Medina County Senior Services Network's Education Committee, Tres Potrillos in Medina, 11:30 a.m.

4-22-2014 Summit County Senior Services Network, Anthony Kucko Kertesz Funeral Home, 8:00 a.m.

4-22-2014 Professional Networking Group, Solon Senior Center, 8:30 a.m.

4-24-2014 Portage Senior Services Network, Coleman Adult Day Services, 8:30 a.m.

4-24-2014 Parma Hospital Senior Resource Network, North Park Retirement Community, 8:30 a.m.

4-24-2014 The Association of Specialists in Aging, Mentor Senior Center, 8:30 a.m.

4-25-2014 Eldercare Professionals of Ohio, The Village at Marymount, 9:00 a.m.

Newsletter Archive

Past issues of this newsletter can be found in the [newsletter archive](#) on the firm's blog site, ProtectingSeniors.com.

Contact Jim Koewler

If you'd like to contact Jim, this newsletter has a dedicated [contact page](#) on the firm's blog site, ProtectingSeniorsNews.com.

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