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Protecting Seniors News letter - April 4, 2014

1 message

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Fri, Apr 4, 2014 at 9:03 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 Quickly

My prior two newsletters have discussed how to withdraw money from your IRA (or 401K, or 403B, or MyRA, when it arrives, or any other tax-deferred account.) See "[IRAs and 401Ks are not for tax avoidance. They are for tax timing.](#)" from March 20, 2014 and "[IRAs and 401Ks – Withdrawing Money Too Slowly](#)" from March 27, 2014. (As I've done before, to preserve what little sanity I have, I will call them all IRAs, but the discussion will apply to 401Ks, 403Bs, MyRAs (I assume, subject to seeing the rules when they get written,) and other tax deferred accounts, except perhaps Roth IRAs.) This week, I want to continue the discussion to consider the consequences of withdrawing money from an IRA too quickly.

It's simple. Too quick an IRA withdrawal will cost you more in taxes. In a sort-of mirror image of too slow a withdrawal, in which your family will pay more in taxes, too fast a withdrawal will cost YOU more in taxes.

Your guide to how quickly (and, at the same time, how slowly) to withdraw from your IRA is the federal system of tax brackets. (I'm ignoring state taxes in this discussions because there are too many variations among the states.)

The tax brackets are the guide because they are graduated. For 2014, the tax brackets look like this:

Rate	Single Filers	Married Joint Filers	Head of Household Filers
10%	\$0 to \$9,075	\$0 to \$18,150	\$0 to \$12,950
15%	\$9,076 to \$36,900	\$18,151 to \$73,800	\$12,951 to \$49,400
25%	\$36,901 to \$89,350	\$73,801 to \$148,850	\$49,401 to \$127,550
28%	\$89,351 to \$186,350	\$148,851 to \$226,850	\$127,551 to \$206,600
33%	\$186,351 to \$405,100	\$226,851 to \$405,100	\$206,601 to \$405,100
35%	\$405,101 to 406,750	\$405,101 to 457,600	\$405,101 to \$432,200
39.6%	\$406,751+	\$457,601+	\$432,201+

(From <http://taxfoundation.org/article/2014-tax-brackets>)

So, any single person making more than \$406,751 is in the 39.6% tax bracket.

Remember, though, that the taxpayer is NOT paying 39.6% of all of his or her income. He or she pays 10% on the first \$9,075 of income, 15% on the income between \$9,076 and \$36,900, 25% on the income between \$36,901 and \$89,350, etc.

So, if your income is \$50,000 (after deductions, etc..) you'll pay \$907.50 (for the first \$9,075 of income) plus \$4,173.75 (on the income between \$9,075 and \$36,900) plus \$3,275 (on the income between \$36,900 and \$50,000,) for a total of \$8,356.25. Jack Dorsey (the founder of Twitter and Square) pays the same taxes on the first \$50,000 of his income. He just has additional income above that first \$50,000, some of which is taxed at 25%, some taxed at 28%, some taxed at 33%, etc. Although a sizable amount of Mr. Dorsey's income is taxed at 39.6 percent, some of it is not. (I'd have used the more recognizable (to me, anyway) billionaires Warren Buffett or Bill Gates, but they're both married and, therefore, in a different set of brackets than our hypothetical taxpayer who is single.)

So, how does this graduated tax system help you choose how much to withdraw from your IRA? The key is to stay close to a bracket cut-off amount. (It's okay to be a little over or a little under, but try to stay close.)

So, let's say you have a \$300,000 IRA at the time you retire. You can withdraw \$30,000 a year for 10 years and (depending on your other income) stay in the 15% tax bracket the whole time. (You may have to adjust your annual withdrawals now and then to account for growth inside your IRA and income outside the IRA as more assets are held outside.)

Ignoring revisions in the tax brackets (because I don't want to get that fancy, nor do I want to make economic projections on inflation, etc..) a 10-year withdrawal would cost \$31,397.25 in taxes.

Because you can take an IRA withdrawal late in the year, you can know what your other

income is for the year, and take enough out of your IRA to get right up to the \$36,900 bracket cut-off and give yourself a buffer in later years for income growth.

If you took that same \$300,000 out of the IRA in 3 years, that would mean \$100,000 withdrawn each year, resulting in taxes of \$67,606.62 because lots of the money is in higher tax brackets. If you did the withdrawal in one year, the taxes would be \$82,858.25. (Boy, I hope I did the math correctly on all of those.)

The key is to find the balance of haste (to avoid tax losses to your heirs) and patience (to minimize your own tax losses) on your IRA withdrawals by considering the size of your IRA, your other (non-IRA) income, your age at the time you start systematic withdrawals, and then stay close to the tax bracket cut-off that makes the most sense.

Social Media Posts from the past week

4-3-2014 Most seen #Scams of 2013 #SeniorCare #Fraud <http://ow.ly/uQQw3>

4-2-2014 #Alzheimer's sufferers and their #FamilyCaregivers struggle for normalcy #SeniorCare <http://ow.ly/vaEmF>

4-1-2014 #LifeInsurance that is also #LongTermCareInsurance <http://ow.ly/uQvZI>

3-31-2014 Talking with #AgingParents about #AssistedLiving and the #NursingHome #SeniorCare <http://ow.ly/vjIFr>

3-30-2014 Discussions to have and plans to make for #EndOfLife #SeniorCare <http://ow.ly/uQwNm>

3-29-2014 How not to outlive your #Retirement Money <http://ow.ly/uQvmK>

3-28-2014 Don't withdraw money too slowly from your #IRA or #401k #SeniorCare <http://wp.me/p47F09-3t>

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

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

- 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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