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Protecting Seniors News letter - April 11, 2014

1 message

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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

IRA and 401k Withdrawal Strategy - Don't be Stupid about It

My prior three posts 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, "[IRAs and 401Ks – Withdrawing Money Too Slowly](#)" from March 27, 2014, and "[IRAs and 401Ks – Withdrawing Money Too Quickly](#)" from April 4, 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, and even MyRAs (assuming that they act like IRAs when the rules eventually get written,) and other tax deferred accounts, except perhaps Roth IRAs.) (As before, I will ignore state and local taxes because there is so much variation among them.) This week, I want to discuss some special circumstances that might require an adjustment of my earlier advice for particular situations and also to discuss what to do with the money after you withdraw it from the tax-deferred account.

First, why be so systematic about withdrawals? Steady withdrawals from an IRA that are measured by tax brackets are like investing in the market with a dollar cost averaging approach. With dollar cost averaging, you invest the same amount of money every month or every quarter. By investing the same amount of money each time, you get more shares when share prices are low and fewer shares when share prices are high. Over time, you build up a significant position in the market with a lower-than-average cost per share. Applying the same theory to IRA withdrawals, you can withdraw a significant amount of previously-untaxed money and pay lower-than-

average taxes on the withdrawals by stretching them out over time and watching the tax brackets (and watching your other income as well.) You aren't necessarily trying to withdraw the same exact amount each year. Instead, you are trying to have your money in the same tax brackets each year.

Second, aim for the 15% tax bracket as much as possible. The next tax bracket is 25%. That 10% jump will be a big bite out of your savings. No other tax bracket is more than 5% above the bracket below. (If your IRA is less than \$100,000 and you're still a young retiree, then aim for the 10% bracket.) If you've got more than \$400,000 in your IRA you're probably going to have to pay 25% on some of your withdrawals, or you can stretch it out farther than 10 years, but your risk of needing long term care (and having to do something drastic with your IRA) goes up significantly as you get older. If you've got millions of dollars in the IRA, you're going to take a bigger tax hit, but you knew that. (You'll still have millions of dollars though, just not as many millions.) If you're Jack Dorsey, Warren Buffett, or Bill Gates, you've got plenty of advice from others (and, because you're not in Ohio, you weren't going to be my clients anyway.)

Third, you can make much larger withdrawals as a married couple (twice as large in the 10% and 15% brackets.) Don't wait until your spouse has passed away to start IRA withdrawals.

Fourth, if an IRA investment has a penalty attached to it for early surrender (other than the taxes on the withdrawal,) wait until the penalty is gone (or at least is low.) For example, if you've invested in an annuity inside the IRA, and the annuity has a 12% surrender charge, don't surrender the annuity (unless you have other reasons to make the IRA withdrawal.) KEEP IN MIND, though, that many annuities that have surrender charges still allow a withdrawal of a certain percentage (10% is what I hear most often.) of the principal each year without penalty. If your annuity has that option, use it.

Fifth, don't let small transaction costs freeze you into inaction. You'll probably have some transaction costs. They go with investing. They are small, though, compared to the tax hit you or your family will take if you handle IRA withdrawals unwisely. (If you've got big transaction costs, please consider my discussion above about surrender charges. Also, if you have big transaction costs, I sure hope that investment is giving you a big return.)

Sixth, now that you've made a withdrawal, what do you do with the money? Use what you need for your expenses, and invest the rest. Yes, I know it was invested before the withdrawal, and it seems illogical to move the money and then simply reinvest it.

Still, reinvesting (even in the same investment as you had inside the IRA, if you like that investment) is not as illogical as you might think (even with transaction costs.)

You're making the withdrawals for a combination of good tax planning and an effort to

get the withdrawals completed before the risk of long term care gets high. You still have a long life ahead and will need most or all of that money to support yourself.

Now, though, each dollar you've got invested is worth a dollar. In the IRA, each dollar was only worth 90¢ or 85¢ or 75¢, or even less. It still needs to be invested and grow. Now, though, only the growth will be taxed, not the principal.

Overall, try to be smart about implementing my suggested strategy of withdrawing over 3 to 10 years. Don't be "penny wise and pound foolish."

Social Media Posts from the past week

4-10-2014 #Fraud and #ElderAbuse against #Veterans #SeniorCare <http://ow.ly/vqEkc>

4-9-2014 Ideas for #FamilyCaregivers #SeniorCare <http://ow.ly/vqCM7>

4-8-2014 Some #Employers offer #LongTermCareInsurance as an #EmployeeBenefit <http://ow.ly/vqHBW>

4-7-2014 Despite your emotional reaction, maybe a #NursingHome is a good idea for your #AgingParent #SeniorCare <http://ow.ly/vaENd>

4-6-2014 Can you depend on the #Equity in your #Home to pay for #Retirement? #SeniorCare <http://ow.ly/vqpbk>

4-5-2014 #Alzheimer's disparate impacts on men and women #SeniorCare <http://ow.ly/vaEwe>

4-4-2014 Don't withdraw money too quickly from your #IRA or #401k #SeniorCare <http://wp.me/p47F09-3E>

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

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

4-11-2014 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.
5-6-2014 Aging Services Network of Euclid, Euclid Hospital's Waltz Auditorium, 8:30 a.m.
5-7-2014 Stark Senior Services Network, Canton Baptist Temple, 9:00 a.m.
5-7-2014 Richfield Chamber of Commerce luncheon, The Taverne of Richfield, 11:45 a.m.
5-7-2014 Medina County Senior Services Network's Client Services Committee, Sully's 3:00 p.m.
5-8-2014 Lorain County Senior Services Network, Lake Pointe, 8:30 a.m.
5-9-2014 Eldercare Professionals of Ohio, Berea Towers, 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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