

THE COMPLETE CARDINAL GUIDE

TO PLANNING FOR AND LIVING IN RETIREMENT

The financial complexities we face in retirement can be daunting. The landscape of Social Security, Medicare, insurance, benefits, investments, and planning for long-term care presents many choices, challenges, and opportunities. The Complete Cardinal Guide gives you the tools you need to understand how to make informed decisions that are right for you.

The purpose of this book is to guide you through the major retirement options that retirees face. It explains simple and effective strategies you can put in place now, with the help of professionals, to make your retirement financially successful.

Author and founder of Cardinal Retirement Planning Hans "John" Scheil, a Certified Financial Planner™ (CFP®) and Chartered Advisor for Senior Living (CASL®), calls upon his 40 years of experience in the business to answer the following questions in depth, and he illustrates each with real-life stories:

- At what age should I start receiving my Social Security check?
- What's the best way to supplement my Medicare coverage?
- Can I receive long-term care and stay at home? How do I afford it?
- How should I handle my IRA and/or 401k accounts?
- What's a smart investment strategy for financing my retirement years?
- How do my income taxes change after I retire?
- What if I live longer than my retirement savings last?
- What's the best way to transfer my life insurance and other assets to my children and grandchildren?
- How do I ensure my survivors are OK after I die?
- How should I approach choosing financial and legal professionals to help me plan my retirement?



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TO PLANNING FOR AND LIVING IN RETIREMENT



Navigating Social Security,  
Medicare and Supplemental Insurance,  
Long Term Care, IRA,  
Life Insurance,  
Post-Retirement investment  
and Income Taxes



Hans Scheil

THE COMPLETE CARDINAL GUIDE

TO PLANNING FOR AND LIVING IN  
**RETIREMENT**

NAVIGATING SOCIAL SECURITY,  
MEDICARE AND SUPPLEMENTAL INSURANCE,  
LONG-TERM CARE, IRA, LIFE INSURANCE,  
POST-RETIREMENT INVESTMENT AND INCOME TAXES

*Cardinal, an adjective*—“of the greatest importance; fundamental”

Synonyms: fundamental, basic, main, chief, primary, crucial, pivotal, prime, principal, paramount, preeminent, highest, key, essential.

- When do I start my Social Security check?
- How do I supplement Medicare?
- Should I purchase Long-Term Care Insurance?
- What should I do with my IRA or 401(k)?
- Am I investing and creating enough income in retirement?
- What about income taxes after age 65?
- How do I handle life insurance and transferring assets to children and grandchildren?
- How do I choose financial and legal professionals to help me?

**The information presented in this book is not intended to be used as investment advice, legal advice, tax advice, or insurance recommendations. Consult a qualified professional, like a Certified Financial Planner™, for advice specific to your needs.**

# THE COMPLETE CARDINAL GUIDE TO PLANNING FOR AND LIVING IN RETIREMENT

NAVIGATING SOCIAL SECURITY,  
MEDICARE AND SUPPLEMENTAL INSURANCE,  
LONG-TERM CARE, IRA, LIFE INSURANCE,  
POST-RETIREMENT INVESTMENT AND INCOME TAXES

**Hans Scheil**

Leapfolio

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The Complete Cardinal Guide to Planning for and Living in Retirement  
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**A** **traditional IRA** is an Individual Retirement Account (or sometimes, Arrangement), established in the United States by the Employee Retirement Income Security Act of 1974 (ERISA). The IRA is held at a custodian institution such as a bank or brokerage, and may be invested in anything that the custodian allows—for instance, a bank may allow certificates of deposit, and a brokerage may allow stocks and mutual funds. The key feature of an IRA is that taxes due on the money are deferred until the money is withdrawn. Similarly, a 401(k) is a workplace savings plan that lets employees invest a portion of their paycheck before taxes are taken out. The savings can grow, tax free, until retirement, at which point withdrawals will be taxed as ordinary income. In my experience, clients who come to Cardinal for retirement planning are keenly interested in talking about how their IRA or 401(k) is invested and whether or not they are growing. That's because the average client has a large amount of financial assets held in IRAs and other types of qualified plans. This chapter will fully cover the details of

*Gerald R. Ford.*

IRAs, including distribution plans, beneficiaries, transfers and rollovers, and Roth conversions. The next chapter will cover other types of investments.

### **ORIGIN OF THE IRA (INDIVIDUAL RETIREMENT ARRANGEMENT)**

Gerald R. Ford signed into law the Employee Retirement Income Security Act (ERISA) on September 2, 1974. Here's how he explained the importance of the law that created what we know as IRAs, which have become a foundation of our national retirement system:

Dramatic growth in recent years has thrust private pension plans into a central role in determining how older Americans live in their retirement years.... Growth in pension plans has brought with it a host of new problems. Many workers have ultimately lost their benefits—even after relatively long service—because when they left jobs, they thereby gave up rights to hard-earned pension benefits. Others have sustained hardships because their companies folded with insufficient funds in the pension plan to pay promised pensions. In addition, some pension funds have been invested primarily for the benefit of the companies or plan administrators, not for the workers. It is essential to bring some order and humanity into this welter of different and sometimes inequitable retirement plans within private industry. Today, with great pleasure, I am signing into law a landmark measure that may finally give the American worker solid protection in his pension plan. Under this law, which is entitled the Employee Retirement Income Security Act of 1974, the men and women of our labor force will have much more clearly defined rights to pension funds and greater assurances that retirement dollars will be there when they are needed. Employees will also be given greater tax incentives to provide for their own retirement if a company plan is unavailable. It is certainly appropriate that this law be signed on Labor Day, since this Act makes a brighter future for almost all the men and women of our labor force.



To put IRAs in perspective:

- Americans hold \$24.2 trillion in retirement assets. By comparison, the entire national debt in 2014 was \$18.1 trillion.
- \$7.3 trillion is held in IRAs; \$6.6 trillion is held in 401(k)s, 403(b)s, 457(b)s, and other defined contribution plans.
- Americans rolled over \$324 billion from plans to IRAs in 2013.

Your IRA may be one of your largest financial assets and you may be counting on it for your retirement income. The biggest mistakes in handling these assets usually are not about how your IRA is invested; rather, mistakes are usually made in other areas, such as account transfers, beneficiary designations, and required minimum distributions. **If one wrong transaction is made with an IRA or other retirement plan, it might well be irreversible and cause big tax liabilities and possibly penalties. Don't try IRA planning on your own—consult with a trained and knowledgeable IRA expert.**



**The three main IRA planning areas our clients need help with are rollovers and transfers, beneficiary designations, and required minimum distributions (RMDs). IRA money is referred to as “qualified,” which means the taxes due on principal and earnings are deferred.** (Exceptions are Roth IRAs and nondeductible IRA and 401(k) contributions, see below). Qualified money is held by a custodian who is responsible for following Internal Revenue Service (IRS) rules. In order to retain the tax-deferred status, the money must stay in the IRA and be titled in the IRA owner's name. **If the owner takes possession of the money and fails to precisely follow every step of very complex rules, the owner will be pushed into a high tax bracket, the IRA will be canceled, and the taxes on the IRA will all come due in one year. A very high income resulting from a full distribution creates a host of other problems as well.**

Ed Slott has developed a well-deserved reputation as “America's IRA expert.” In addition to publishing books and educating consumers through Public Television specials, Ed's company provides extensive training about the complexities of IRAs to financial advisors nationwide. I went into Ed's Elite Advisor training thinking I already knew most of what he was going to teach me. Was I wrong! The premise of the Elite Advisors is that most professionals don't have the specific training needed to help clients get the most of their IRAs. The training highlights case after case in which the advisor or attorney messed up through ignorance of the law and IRS rules. At Cardinal, when we prepare financial

## SUMMARY: IRA STRATEGIZING

- Ed Slott, a CPA, has developed a reputation as “America’s IRA expert” (see IRAHELP.com). I have completed IRA-specific training with Ed beyond my Certified Financial Planner™ training, and we continually receive training in IRA planning. Don’t try IRA planning on your own. Seek an advisor and attorney who know what they’re doing with IRAs.
- Transfer IRA money from custodian to custodian. Don’t touch the money unless you want to risk paying taxes on it.
- Update your beneficiary forms regularly. IRA money goes straight to the named beneficiary after death, bypassing the will.
- Required minimum distributions (RMD) must start after age 70½. In simple terms, you are now old, you have avoided taxes for years, and the government wants its money. Mistakes are costly and it is very hard to plead for mercy from the IRS.
- Stockpiling money in an IRA and taking only the minimum distributions so you can leave it to your kids is not a smart estate planning strategy. There are ways to pay the taxes during your lifetime and leave tax-free money to your heirs.
- Long-term care implications for IRAs: This is the second place your caretakers usually go for money to pay the long-term care bill (after your Social Security check). IRA withdrawals are taxable as ordinary income, and the long-term care bill creates a corresponding tax deduction as a medical expense. But you need smart planning to optimize using your IRA for long-term care.

plans we consult with Ed’s team of technical experts to make sure we are advising clients correctly. As just noted, mistakes can be costly and the IRS allows little or no leeway. I have great confidence in our work knowing that Ed and his team are at my disposal when solving problems for my clients. **It bears repeating: Don’t try IRA planning and management at home—seek professional advice from an IRA trained expert.**

## The Nuts and Bolts of IRAs

I'll explain the nuts and bolts of how IRAs work, and illustrate with a number of real stories the kinds of expensive problems that result from carelessness or a lack of understanding of complex IRS rules.

### Rollovers and Transfers

A rollover or transfer of an IRA is when it is moved to a new account at a different custodian. This is a transaction that's very easy to mess up and cause income taxation on the whole balance. Don't take possession of the money! Make sure the money transfers custodian to custodian and you don't touch it. You might hear about the 60-day rule, but I suggest ignoring it. If you want or need some of the money, the new custodian can distribute only the amount you need after the whole of the IRA is protected from income tax. Give us a call at Cardinal (or find us on the web at [Plan-WithCardinal.com](http://Plan-WithCardinal.com)); or you can find another Ed Slott Elite Advisor at [IRAhelp.com](http://IRAhelp.com).

Marshall and Elizabeth (whom we met in chapter 4) had just rolled over \$180,000 of their IRAs into an annuity/life hybrid policy that paid long-term care insurance for life, and set up minimum distributions to happen automatically for as long as they live. Marshall especially liked not having to worry about arranging for minimum distributions every year. He told me he did not anticipate ever needing his IRAs and wanted to leave any principal remaining to his three sons after Elizabeth and he were gone. Marshall also had a secret IRA that he was using to support Christian Missions of the World via his distributions. On Marshall's recommendation, I studied Ed Slott's books and quickly came up with an additional plan to sell them two more policies. The first used the remaining \$300,000 of his IRAs to buy an annuity guaranteeing Marshall and Elizabeth \$18,000 per year as long as either of them is alive. The annual payments mean that minimum distributions are set for life for both of them. The second policy, a survivorship life insurance policy owned by their son who lives closest to them, will pay \$300,000 to all three sons tax free when the second of Marshall and Elizabeth dies. The annual premium for this policy is \$10,000, and it is being paid by the remaining after-tax portion of the \$18,000 annuity payment. See what a savvy knowledge of investment and insurance products can accomplish?

Only a month after I delivered these policies, I learned that Marshall had passed away suddenly. Based on what Marshall had told me about his secret IRA, I helped his son direct the entire balance to the charity he was supporting. Even though I didn't know Marshall long, we hit it off really well. I am very grateful to him for introducing me to the work of Ed Slott. As it turned out, Marshall was mentoring me while paying me to plan his estate.

In Rebecca's case, an employer not well versed in the rules made a mistake that cost her a lot of money. Rebecca retired early in 2012 and relied on her employer for advice about her qualified money. The employer told her the \$90,000 in her 401(k) could be rolled over to an IRA, so she rolled it over through her local bank. Her pension plan had a cash-out option of \$150,000 and the employer told Rebecca the check had to be made out to her to relieve the employer of the liability. Rebecca went ahead and took the check. The employer withheld 20% federal tax and 7% state tax, leaving Rebecca with \$110,000. The IRS got \$10,000 more when she filed her taxes, netting her about \$100,000. Feeling flush—with money she never should have been given—she bought a \$25,000 car she didn't need and over the past two years has spent \$25,000 more. She now has \$50,000 left of what was a \$150,000 IRA. Because Medicare uses 2012 income to calculate 2015 higher-income surcharges (a stealth tax) for Part B and Part D premiums, Rebecca was assessed an additional \$200 monthly for her 2015 Medicare (see appendix D). My firm appealed to Medicare on her behalf about the surcharges and got them refunded. I wish we could do the same for the missing \$100,000 of her IRA money. To satisfy the employer's need to make the check out to Rebecca, we could have requested instead that it be made out to a bank for the benefit of (FBO) Rebecca for \$151,000. It's a simple solution, and we do this all the time for clients when handling rollovers and transfers.

Kevin and Vanessa are a couple whose somewhat unconventional relationship is a good example of the complicated real-world scenarios we encounter all the time. Kevin had been married twice before and Vanessa once. They met when they both worked for a large power company. While they are not married to each other, they have a long-term relationship and intend to stay together for the rest of their lives. When Kevin retired at age 65, he no longer had money in 401(k) accounts because they were given to two ex-wives. Lucky for him, he had a pension plan offering him either \$2,800 per month for life or a cash-out option of \$405,000. But the cash-out was risky because if he died before age 65, no one in his family would receive the \$405,000, and Vanessa couldn't get it because they're not married. I helped Kevin roll the \$405,000 into an IRA, custodian to custodian, so no taxes are currently due. We split the money up into four buckets of \$100,000 each. The first \$100,000 went into an immediate annuity that pays Kevin \$870 per month for ten years until he is 75. The second \$100,000 is in a deferred annuity with guaranteed growth and guaranteed income available to Kevin anytime he wants it. The third \$100,000 is in an FDIC-insured interest-paying CD (certificate of deposit) linked to a basket of stocks that matures in five years. The fourth \$100,000 is in a managed account split between stocks and bonds. Vanessa is the beneficiary on one of Kevin's accounts. Taking these buckets together, we've spread out Kevin's financial risk, provided for some growth in his assets, given him a monthly income in retirement, and provided for his life partner.

Vanessa became sick with cancer soon after I met her and had to retire before she turned 65. Vanessa decided she didn't need any income beyond her Social Security. She was interested in growing her retirement money, postponing income taxes, and providing long-term care benefits with her retirement savings. Vanessa had \$170,000 in her 401(k) and another \$100,000 in what she thought was a 401(k) from a former employer. She thought it was earning 6% so she let it sit there. When we got on the phone with the plan administrator, we learned this was actually a pension plan with a cash-out option having no survivor benefits. Had Vanessa died from the cancer, this \$100,000 would have been lost. We immediately cashed it out and rolled it into her IRA. Vanessa currently has \$200,000 of her IRA in annuities guaranteed and growing, and \$75,000 of her IRA in a managed account of short-duration bonds. The whole \$275,000 is protected from income tax until she is 70½. When and if she needs long-term care, the annuity portion of Vanessa's savings has an enhanced long-term care benefit. We were able to provide some long-term care benefits from an insurance company for an otherwise uninsurable client. This made Vanessa very happy.

## Minimum Distributions

Minimum distributions from an IRA can be a confusing subject. **You must take your first Required Minimum Distribution for the year in which you turn age 70½.** However, the first payment can be delayed until April 1 of the following year. For all subsequent years, you must take the RMD by December 31 of the current year. Retirement plan participants and IRA owners are responsible for taking the correct amount of RMDs from their accounts on time every year, and they face stiff penalties for failure to take them.

A big misconception is that it is somehow wrong to take out some of your balance before you turn 70½. But depending on your tax situation and your need or desire for the income, starting sooner might make sense, as long as you are over 59½. Another big misconception is that one should only take the minimum after age 70. Withdrawing more than the minimum distribution, and paying the tax slowly, may make more sense in the long run and be better for your heirs.

If the IRA is the inheritance you are planning to leave the kids, consider purchasing some life insurance that will come to them tax free—you can use the minimum distributions to pay the premiums. There are a lot of options, so it's worthwhile to consult a professional who is trained in IRAs.

If you have more than one IRA, the required minimum distribution is calculated by adding up the balances in all your IRAs as of December 31 of the previous year. The total distribution for the current year can be taken from just one of the multiple IRAs. It can be taken anytime during the year. This calculation becomes harder as you age,



and mistakes are costly. Consider combining your IRAs and creating a distribution plan that will last a lifetime. A trained IRA advisor can show you how to do that.

Victor's story highlights several important aspects of IRA planning. Victor passed away in 1995 at age 68 and left his IRA to his wife, Edith. Because Edith was a spouse beneficiary, she was able to retitle Victor's IRA into her own name. This further delayed the start of minimum distributions because she was younger than Victor. Edith also had her own IRA. Edith changed the beneficiaries on both IRAs to her two children right after Victor passed; Sybil was 36 and Jackson was 30 at the time. In 2003, Edith began taking required minimum distributions from both of her IRAs and continued RMDs until her death in 2012. Jackson and Sybil, as beneficiaries, split the two IRAs in half, creating inherited IRAs from Edith. Both Sybil and Jackson started RMDs in 2013, at different amounts because Sybil was 54 and Jackson was 48. Minimum distributions on inherited IRAs must be calculated using IRS tables of life expectancy over the life of the beneficiary; life expectancy cannot be recalculated each year on an inherited IRA. An inherited asset like this is known as the "Stretch IRA."

In 2014, Jackson decided to open a business with the nonqualified cash portion of his inheritance. He went through the \$400,000 he inherited in cash pretty quickly. As with most new small businesses, the launch required much more money than he had thought. In January 2015, Jackson emptied both of his inherited IRAs to fund the business. He netted another \$400,000 of the \$550,000 IRA balance after tax withholding. His net taxes when he files for 2015 will exceed the withholding because a distribution of \$550,000 in one year pushed him into a very high tax bracket. Hopefully he has a good tax advisor who can write off some of the business losses, because he does not have the money to pay the additional tax. **The lesson from Jackson's part of the story is to involve your adult children in your IRA planning and make your IRA advisors available to them before and after you pass away.** In this particular situation, an IRA beneficiary trust might have been a good option to prevent Jackson's tax liability. But stretch IRAs are complicated, and you need to set up this type of account correctly to ensure that the trust is eligible to carry out the stretch IRA for your kids into retirement.

Sybil is in the fortunate position of having \$570,000 in inherited IRAs and \$600,000 in her own IRA. She is 56 now and plans to retire at 66. In her financial plan, we showed Sybil how the distributions on the inherited IRA will play out for her between now and age 84 when, under the standard government distribution plan, her inherited IRA would be empty. Concerned about the possibility of a market correction or two like the one that occurred in 2008, Sybil decided to shop for an annuity that would offer guaranteed payouts larger than the uncertain payouts in her investment account, and also guarantee those larger payments for the rest of her life. She decided to transfer her own \$600,000 IRA to a fee-based account that will be managed to grow, and to start

receiving income at age 66 and possibly delayed to age 70½ (which would allow the principal to continue growing). We also wrote Sybil a \$500,000 life insurance policy with a \$6,300 annual premium that names her two children as beneficiaries. If she pays the premium as long as she lives (or up to age 100), the policy will pay \$500,000 tax free to her beneficiaries. If Sybil needs money for long-term care during her lifetime, she can draw upon the \$500,000 life insurance tax free.

The story of Victor and his family is probably different from your own story, and your financial planning needs may be different from theirs. But this example shows you how complicated IRA planning can be, and underscores the importance of planning in partnership with trained and experienced advisors.

## Beneficiaries

It seems like it should be a simple thing to make sure that the beneficiaries you choose to inherit your assets get the money. But because multiple documents are often involved, this can trip people up. In 2009, the U.S. Supreme Court unanimously ruled that an ex-spouse was entitled to receive retirement plan money because she was named on the beneficiary form, even though she had waived her rights to that money in a divorce decree (*Kennedy v. Plan Administrator for Dupont Savings and Investment Plan*, No. 07-636, decided January 26, 2009). As a result, Kari Kennedy lost a \$402,000 inheritance, even though her father intended her to be the beneficiary and thought he had made that desire official. In my training with Ed Slott we studied case after case demonstrating that the money goes to the person named on the beneficiary form. Beneficiary designations trump the will, trump divorce decrees, and trump remarriages.

**Beneficiaries need to be updated after births, deaths, marriages, divorces, remarriage, illness, job change, a child reaching age 21, an inheritance received, gifts made, the purchase or sale of a home...** any conceivable change in personal or family circumstances that affects the status of one's assets. When we prepare financial plans, we discover that many clients hadn't even thought about updating beneficiaries since they originally enrolled in their plan. Most of them think the will, divorce decree, marriage license, etc., takes care of this for them, but that's incorrect. **Your beneficiary designation is for your family; get it right.** Most clients name their current spouse as primary beneficiary and their children as contingent beneficiaries. A surviving spouse can delay distributions until 70½ and recalculate life expectancy after that. If there is no spouse, the children are usually the beneficiaries. But you can choose to name anyone as beneficiary to your IRA. Any living beneficiary who is a real person can spread distributions over their lifetime, further deferring taxes. When a client passes away, the heirs are often shocked to learn that beneficiary designations trump the will.

## THE VALUE OF AN INDEPENDENT FINANCIAL PLANNER

Robert and Sarah (whom you met in chapter 2) had started moving all of their remaining financial assets under the management of a large national investment advisory firm. Robert had responded to an advertising pitch highlighting their dislike of annuities. He told this firm that he and Sarah needed \$80,000 per year before taxes to live on. The firm's recommendation was to invest all of their money in blue chip stocks. Before we gave our opinion, we created a cash flow projection for Robert and Sarah for the next five years. We showed them that Social Security, existing annuity income, and Robert's pension will create more income than \$80,000 without touching their investments until his IRA requires it.

We did a risk tolerance exercise with Sarah and Robert that showed us that their investment preferences are more conservative than when Robert had consulted with the large national firm. Since he was only two years away from having to take required minimum distributions at age 70½, we invested his IRA in a moderate growth portfolio. Sarah was nine years away from 70½, so we invested her IRA in a growth portfolio.

As soon as the custodian receives proof of death, they get in touch with the named beneficiary and offer them a check, a transfer, or a retitling of the existing account. By the time a will goes to probate, the IRA has already been distributed. A good advisor communicates with you regularly and will stay on top of this situation for you.

### Roth IRAs

Roth IRAs differ from traditional IRAs in that they are tax free instead of tax deferred. Sounds pretty good, doesn't it? The money going into a Roth IRA is already taxed up front, where the traditional IRA is pre-tax money. Roth IRAs also have no required minimum distributions. **You can convert your traditional IRA into a Roth IRA by simply paying the income taxes.** But that means you need to have enough cash sitting on the sidelines to pay the income taxes, or a Roth conversion does not make much sense. We can space the conversion out in pieces over several years if that works best for you. I suggest that you gift some money to your kids and grandkids to set up their own Roth IRAs, and encourage them to contribute as well.



## Learn from the Mistakes of Others

A technical expert from Ed Slott's company wrote an article about private letter rulings that I have paraphrased below.

Learn from the mistakes of others. You can't live long enough to make them all yourself.

—Eleanor Roosevelt

We like to paraphrase this quote. Learn from the mistakes of others—it's cheaper that way. Here's what I mean. During one week in 2015, the IRS issued five private letter rulings (PLRs) dealing with IRAs. PLRs don't have the force of precedent—they only apply in the specific, individual case—but they strongly suggest how the IRS views a given situation and how it is likely to rule in a similar case. Don't let these problems happen to you or to your clients.

The first one dealt with the distribution of plan assets from a bankrupt company. The employee provided information for a direct transfer of the plan assets to another plan. The custodian could not reach any of the contacts listed, so they issued a check to the plan participant—minus the 20% mandatory tax withholding. The participant did not receive the check. He did not discover anything was wrong until he received IRS Form 1099-R for the distribution. **The moral of the story: Always, Always, ALWAYS follow up on your transfers.** This man's failure to follow up caused the loss of 20% of his retirement account (i.e., the amount of income tax that was sent to IRS). He will get back any overpayment of taxes when he files his tax return, but he cannot put the funds back in his plan (he did not ask IRS to allow him to do this).

Another PLR dealt with a very common problem. The wrong box got checked. The IRA funds went into a nonqualified account. This was a direct transfer. The account owner did not get a 1099-R for the distribution. But he got a love letter from the IRS asking for taxes on the amount of the distribution. **The moral of the story, again: Always, Always, ALWAYS follow up on your transfers.** Also make sure you follow up on rollovers. This mistake happens all too frequently with rollovers as well.

The next PLR involved another direct transfer for a new investment. **The account owner thought the new custodian could hold IRA funds.** Custodian 1 did not follow its own internal procedures and Custodian 2 was not an IRA custodian. No 1099-R was issued since this was a "direct transfer." The account owner discovered the problem when he inquired about his required distribution for the year.

Another PLR was also for a new investment. The account owner was assured that the new investment could be made with IRA funds. This one was done as a 60-day rollover, so the 1099-R did not alarm the account owner. Her clue came when she

got a K-1 from the new investment that did not indicate that her shares were being held in the name of her IRA. **The moral of the story for these two mistakes: Ask for a beneficiary form. If you are opening a new IRA investment, you should have an IRA agreement AND a beneficiary form. If the custodian can't give you a beneficiary form, then you do not have an IRA account. It's as simple as that.**

This last example is a common required minimum distribution (RMD) error. The individual had three retirement accounts—an employer plan, a SEP IRA (Simplified Employee Pension; it is designed for small employers and uses an IRA as the receptacle for the money), and a traditional IRA. **His tax advisor told him to calculate the RMDs separately and that he could then take the balance from any one of his accounts.** He elected to take the distribution from his SEP IRA. **The problem: You cannot take an RMD for one type of account from a different type of account.** Your IRA distribution cannot come from an employer plan and vice versa (SEP and SIMPLE accounts are considered IRA accounts for RMD purposes). Therefore, he had not taken an RMD from his employer plan for the year. **Unfortunately, the lesson here is that even a trusted advisor may not know all the RMD rules.**

These mistakes cost the account owners anywhere from \$3,000 to \$10,000 *in IRS fees alone* for filing a PLR request, not to mention the substantial income lost as a result of the errors. They also had to pay a professional to prepare the PLR request. Hopefully you can learn from these mistakes of others and avoid them—it's cheaper that way. And Cardinal stands ready to guide you through the thickets of IRA and IRS rules and regulations.

## SUMMARY: IRA STRATEGIZING

- Ed Slott, a CPA, has developed a reputation as “America’s IRA expert” (see IRAHELP.com). I have completed IRA-specific training with Ed beyond my Certified Financial Planner™ training, and we continually receive training in IRA planning. Don’t try IRA planning on your own. Seek an advisor and attorney who know what they’re doing with IRAs.
- Transfer IRA money from custodian to custodian. Don’t touch the money unless you want to risk paying taxes on it.
- Update your beneficiary forms regularly. IRA money goes straight to the named beneficiary after death, bypassing the will.
- Required minimum distributions (RMD) must start after age 70½. In simple terms, you are now old, you have avoided taxes for years, and the government wants its money. Mistakes are costly and it is very hard to plead for mercy from the IRS.
- Stockpiling money in an IRA and taking only the minimum distributions so you can leave it to your kids is not a smart estate planning strategy. There are ways to pay the taxes during your lifetime and leave tax-free money to your heirs.
- Long-term care implications for IRAs: This is the second place your caretakers usually go for money to pay the long-term care bill (after your Social Security check). IRA withdrawals are taxable as ordinary income, and the long-term care bill creates a corresponding tax deduction as a medical expense. But you need smart planning to optimize using your IRA for long-term care.