

## Order Counts When It Comes to Tapping Into Assets

The Order in Which you tap Into Accounts can Make a Difference

By JOHN WAGGONER

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Sooner or later, you'll need the money you've been saving and investing. Sometimes, you'll spend it on happy things: college, a trip, a remote-control lawn mower. Other times, you'll spend savings on more mundane items: retirement, long-term care.

By the time you need to spend your savings, though, you'll probably have several sources to tap: IRAs, for example. Taxable brokerage accounts. Your home equity. The question: How to make your assets last as long as possible? It's a particularly urgent question if you're drawing down your elderly parents' money to help pay for their care. The order in which you tap the accounts can make a world of difference.

The general advice for taking withdrawals is to tap taxable accounts first, notes Stuart Ritter, a financial planner at T. Rowe Price. Long-term gains - profits from assets you sell after you've held them more than a year - are taxed at 15%, lower than the rate most people pay on ordinary income. As taxes go, the 15% tax on long-term gains isn't terribly onerous. The one exception to this rule: If you're required to take a withdrawal from a traditional IRA or a 401(k), take that money before drawing on any other account. Most tax-deferred retirement plans require you to start taking withdrawals at age 70½. If you don't take the minimum withdrawal, which is based on your life expectancy, the IRS will hit you with tax penalties.

Once you've exhausted your taxable assets, start to draw down tax-deferred retirement accounts, such as traditional IRAs or corporate 401(k) plans. You'll owe taxes on your withdrawals at your current income tax rate. Typically, though, your tax rate is lower in retirement than when you're working full time.

If you're managing the money of a parent in a nursing home, bear in mind that your parent will be able to deduct some of those expenses from federal income tax. Suppose, for example, that your father is in a certified long-term care facility and that you paid for his care by withdrawing \$30,000 from his IRA.

Your father can deduct from his income the portion, if any, of that \$30,000 in medical costs that exceeds 7.5% of his adjusted gross income. He can use other unreimbursed medical and dental bills to surpass the 7.5% barrier, if he needs to.

Leave Roth IRAs for last. Withdrawals from Roths aren't taxed at all, provided you're 59½ when you take the withdrawals and you've held the account for at least five years. By saving the Roth for last, you enjoy the maximum benefit of tax-free growth. Should you or the person you're caring for die before the Roth is exhausted, you can pass those assets on to your heirs. Assets in a Roth, though, will still be counted as part of your estate and therefore subject to estate tax, if any.

If you're managing money for a parent, the task is complicated by long-term care planning. If your parent is wealthy enough, he'll be able to pay for long-term care by himself. But if it looks as though

your parent will exhaust her money, you need to plan for eventually having her receive Medicaid benefits.

Medicaid will pay for nursing home care, but only for people with little or no money. You might seek out a nursing home that will let Medicaid take over payments once your parents have paid the nursing home all their remaining assets.

Be prepared to spend nearly every bit of your parent's assets before Medicaid takes over. In New York, a single person must have \$700 or less in monthly net income and \$4,200 or less in assets to qualify for Medicaid. States define income and resources differently, though, so you need to check your state requirements.

If your parent has a healthy spouse at home, the house won't count as an asset for Medicaid planning, notes Vincent Russo, an elder-care attorney in Westbury, N.Y. But what if your parent is single and in a nursing home and yet refuses to sell the house? In that case, the state could put a lien on the home for the amount of care received from Medicaid. The lien would reimburse the state once the house is sold.

Spending your own assets in retirement is tricky enough. Spending a parent's assets can be even more treacherous. If you need help, consider consulting an elder-law attorney. You can find one in your area at the website for the National Academy of Elder Law Attorneys: [naela.com](http://naela.com).

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