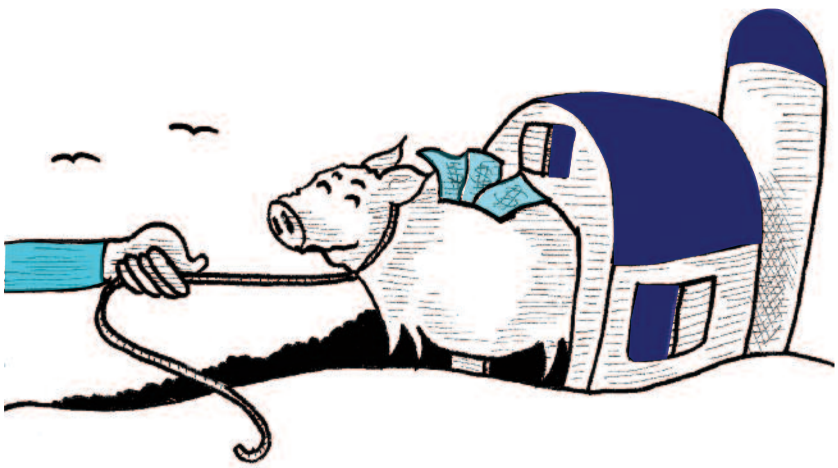
WISERWoman
Winter 2014
A Quarterly Newsletter from the Women's Institute for a Secure Retirement

Nearing Age 70½? The Law Requires You to Start Pulling Out Your Retirement Savings

Most tax rules seem overly technical and make little sense to the average tax payer. This is likely the way many retirees feel about the current rules for "required minimum distributions" (RMDs) from retirement plans. But experts remind us that today's rules are simple compared to the old law which was considered a nightmare full of traps and consequences.



So why does the IRS require you to start drawing on your retirement savings? What does it matter to Uncle Sam when we spend our retirement money anyway, right? Well, it comes down to fairness. The tax benefit you receive for saving money in IRAs, 401(k)s and 403(b)plans, and other tax-deferred plans is a government provided incentive to promote retirement savings.

As you enter your 70s, the government is ready for you to start paying taxes on those pretax contributions and earnings. It is important to understand that this is not an optional process. The rules state that you must start taking money out of your account by April 1 of the year **after** you turn 70½. However, this rule may not apply to your 401(k) plan if you are still working and your plan allows you to defer the start date. It also does not apply to Roth IRAs.

Also, even if you have been taking money from your account prior to turning age 70½, you still have to calculate what your required minimum is and take out that amount once you hit age 70½. If you don't take the distribution, or don't take enough, you will likely take a big tax hit. The IRS will assess a penalty equal to 50% of the amount you did not take out but should have.

So how do you figure out how much to take out? The amount is based on your current age and your account balance as of December 31st of the prior year. Then you divide your account balance by your "age factor" or what the IRS calls the "applicable distribution period" schedule. (See IRS publication 590, Appendix C.)

Here's an example. Let's say your IRA has a balance of $26,500 on December 31, 2012, and you're due to take out your required distribution in 2013. Here's how the math works for you:

IRA balance as of 12/31/12	IRS "applicable distribution period" figure	Required minimum distribution
$26,500	26.5	$26,500 divided by 26.5 = **$1,000**

You have until April 1, 2014, to take this required minimum distribution amount out of your account. Going forward, you'll have to take your distribution by December 31st of each year.

If you inherit an IRA, the rules are different. Generally, you would have to start taking required minimum distributions beginning in the year following the death of the original IRA owner.

The rules are a little different for some couples. If your spouse is more than 10 years younger than you and is the sole beneficiary of your IRA, then you use a different IRS

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Inside

From WISER's President

Dear Readers,

At WISER, we talk about the "lifetime financial journey." Much of your lifetime is spent planning and saving for retirement. Once you retire, you still have to manage the money you've saved. And that is not as easy as it may sound. We receive lots of questions from women about how to take distributions from their retirement accounts: What are the rules? How much will I have to pay in taxes? How can I minimize those costs?

We begin to tackle this topic in our Winter newsletter. There are also great resources for tax information and help available at local libraries. The Tax Counseling for the Elderly Program (1-888-227-7669) also offers free tax help to those who are 60 years of age and older. It can be complicated but there is help available.

Cindy Hounsell

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WOMENS INSTITUTE FOR A SECURE RETIREMENT

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National Resource Center on Women & Retirement Planning

Information from the WISER/Administration on Aging's National Resource Center on Women & Retirement Planning

Online Financial Tool Available

The National Council on Aging (NCOA) has created an online tool, EconomicCheckUp® to help older adults with their finances. Go to **www.economiccheckup.org** to find ways to reduce debt, find work, cut expenses, and identify benefits and services that could save money. An NCOA survey found that EconomicCheckUp® on average saved seniors up to $3,000 annually.

Two Important Resources from the CFPB

Resources for Caregivers

The Consumer Financial Protection Bureau (CFPB) published a series of four booklets on *Managing Someone Else's Money*. Each booklet is targeted to a different type of financial caregiver: court-appointed guardians of property and conservators; trustees under a revocable living trust; representative payees and VA fiduciaries; and agents under a power of attorney. Each booklet offers guidance on :

- Your duties as a financial caregiver
- How to watch out for scams and financial exploitation
- What to do if someone is a victim of financial fraud or abuse
- Where you can go for help.

These booklets can all be found online: **www.consumerfinance.gov/managing-someone-elses-money** or by calling 1-855-411-CFPB (2372).

Health Care Credit Cards: What You Should Know

The Affordable Care Act is providing millions of people with much needed access to health care, but many people may still face daunting out-of pocket heath care expenses. To help pay the bills, health care providers may suggest "health care" credit cards. These deferred interest cards are not new –many retailers have long offered zero rate promotional cards.

But many people do not read the fine print before signing up and may end up paying fees they did not expect and cannot afford.

The Consumer Financial Protection Bureau reminds "health care" credit card users:

1. Avoid paying interest by making on-time payments and paying off the balance by the end of the promotion period. (Know that date.)
2. If you do not pay off the balance before the promotional period ends, you will be charged interest for every month since you made your first purchase.
3. Find out if you have a "grace period" before making other purchases. If there is no grace period, you will pay interest on all new purchases on the date they are made.
4. Pay attention to the details. Track minimum payments and payment addresses so small errors do not cost you a large amount of money.

Women's Fear of Becoming a Bag Lady is Real and Persistent

A recent study "Women, Money and Power" released by Allianz Life Insurance explored how changes in the workforce, family structure, and other social roles have impacted women when it comes to their financial responsibilities. It is not surprising to learn that more and more, women are finding themselves in roles where they must be responsible for long-term financial needs and planning.

...the thought of running out of money in retirement is what nearly six in ten women (57%) say keeps them up at night.

The study also found that nearly half of all women (49%) still fear losing all their money and becoming homeless. The fear is strongest among single (56%) and divorced women (54%), but the rate is still more than 40% for the majority of women surveyed. Additionally, the thought of running out of money in retirement is what nearly six in ten women (57%) say keeps them up at night.

This study confirms what WISER's targeted retirement education efforts have found: women want personalized information specific to their personal situation. Our workshops, trainings and everyday conversations with women find they are eager to learn ways to improve their retirement outcomes. Women understand that real challenges exist when it comes to having enough money to live on in their later years and they want to find the most effective way to take action. They are scared about the future but often do not know what to do or who to trust to get information. The demand for financial help is strong but it is not easy to find.

Several studies also confirm that women want simple, straight forward and basic information in easy-to-understand language. In the Allianz survey, 90% of women believe they need to be involved in the financial planning process. But while financial service providers and even retirement plan sponsors are doing more to engage women and better serve their needs – the Allianz study found that 62% of women surveyed do not have a financial professional, and among those who do, 69% do not view that professional as a go-to source for information.

The financial services industry has a long way to go to service women – the Bureau of Labor statistics has found that only 36% of financial advisers are female. Investor surveys for decades have shown that while a large number of women prefer to work with a female adviser, it is still a male dominated industry.

President Announces "MyRA" Accounts

"Today, most workers don't have a pension" ... "That's why, tomorrow, I will direct the Treasury to create a new way for working Americans to start their own retirement savings: MyRA. It's a new savings bond that encourages folks to build a nest egg. MyRA guarantees a decent return with no risk of losing what you put in."

In the State of the Union address on January 28th, President Obama announced the creation of a new type of retirement bond savings account. "My Retirement Account," or MyRA, is geared toward workers who lack access to any type of retirement plan or 401(k)-type savings plans. Currently, that's about half of all workers.

So what is a "MyRA" anyway? Think of it as a starter retirement savings account. Workers can open an account with as little as $25, and then contribute $5 or more a month through payroll deduction. (Emphasis here is on "starter" account.)

When a worker changes jobs, she can continue contributing to her MyRA or roll it into a plan offered by her new employer. In addition, the worker can withdraw funds from her MyRA at any time, tax-free. There are no fees to erode savings which is the usual problem for small accounts.

Once the MyRA balance hits $15,000 or has been open for 30 years, the account holder will have to roll it into a private sector Roth IRA.

The President's proposal for MyRAs doesn't need congressional approval to move forward. The Treasury expects to see a pilot program rollout in late 2014. Households earning $191,000 or less will be eligible to participate.

Some experts complain that the MyRA doesn't go far enough in solving the retirement savings problems we face, or that we don't need yet another type of retirement savings account. Time will tell what impact MyRAs will have. But for now, let's appreciate the importance of small but meaningful steps in helping more Americans save for retirement.

Pulling Out Your Retirement Savings

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table that takes into account your ages together.

So, what happens if you have more than one IRA? You need to calculate the minimum distribution for each, but generally you can take the withdrawal from any one or more of the IRA accounts.

The RMD "must know": you cannot take an RMD for one type of account from a different type.

The RMD mistakes you can make are legendary. Retirement experts say that even a trusted advisor may not know all the RMD rules. Many people make the mistake of thinking they can aggregate all of their accounts together and take one distribution.

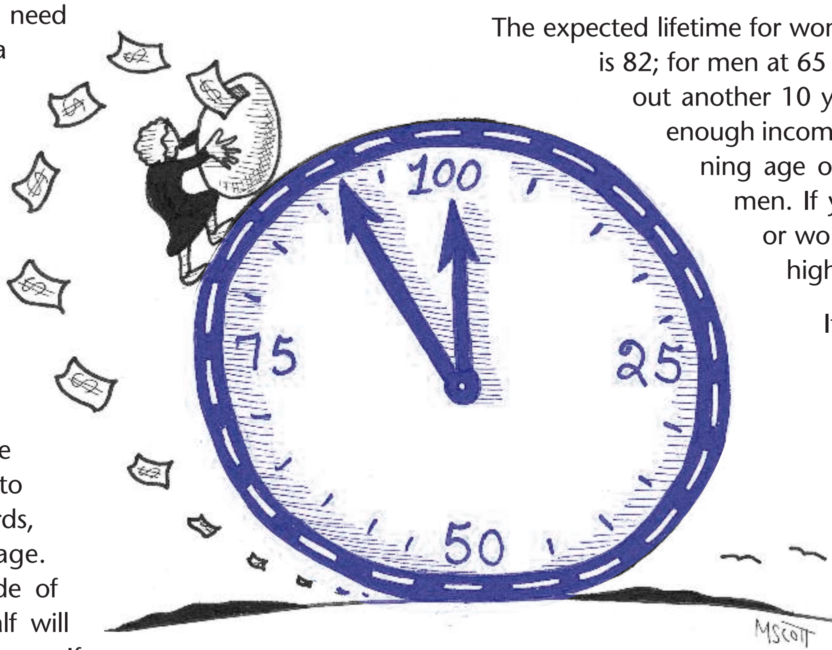
A well-known IRA guru, Ed Slott, answers *the RMD "must know": you cannot take an RMD for one type of account from a different type*. IRAs and employer plans are different. So your IRA distribution has to come from your IRA account and your 401(k) distribution has to come out of your employer plan. It's also tricky if you are still working.

So make sure you ask lots of questions. If you cannot find a knowledgeable advisor, try visiting a local library or Volunteer Income Tax Assistance (VITA) sites which provide free tax help if you meet certain requirements (**http://irs.treasury.gov/freetaxprep**).

If you miss withdrawing the required minimum distribution, you may get a reprieve from the IRS. You can submit a request for a waiver with your income tax return. Once you start getting into the exceptions and complications, however, you may need to work with a tax professional.

Living to 100: The longer you live, the longer you live…

Living longer is both good news and sobering news. We can expect to live, on average, longer than our previous generations. But living longer also means you need more money to last a lifetime. To help people "do the math" and plan for the number of years that they are likely to live, actuaries and financial planners refer to a phrase called **"expected lifetimes."**



"Expected lifetime" is the age at which half the people are expected to have died. In other words, it is just an average. Naturally, the other side of that statistic is that half will still be alive after that age. If you only plan to have enough income for your expected lifetime, you easily may not have enough. Keep in mind, too, that the expected lifetime of a person who reaches 65 is longer than what their expected lifetime was at birth. In other words, the longer you live, the greater the chance you will continue living to advanced ages.

So how do we plan for our expected lifetime? And to what age should a retirement planning projection extend so that it will be meaningful?

The expected lifetime for women who are age 65 in 2012 is 82; for men at 65 it is 79. But, you should plan out another 10 years to ensure you will have enough income. This would result in a planning age of 92 for women and 89 for men. If you are especially risk averse or worry a lot, you could plan to a higher age.

It is impossible to know for sure how long we will live. Yet, the fact is that at age 65, more than half of us will need to fund a retirement that could be longer than 14-17 years. For 25% of us, it could be as much as 19-22 years longer, or more. The 10 years beyond expected lifetime is not a perfect projection, but it gets us closer to where we need to be to ensure we don't run out of money.

Thanks to Beth Pickenpaugh, actuary and financial planner, for contributing this article.

Don't Forget These Tax Tips!

The Saver's Tax Credit

You might be eligible for a federal tax credit for your retirement contributions. It's called the Saver's Tax Credit, and it's geared toward middle- and lower-income taxpayers. It could be worth up to $1,000 for you.

So, what's a tax credit? It cuts down the taxes you owe dollar for dollar. If you owe $500 in taxes, a $500 tax credit would mean you owe nothing. If you do not owe taxes when you complete your tax return, then it will not be of value to you. This means the tax credit is "nonrefundable."

To claim this credit, you must be at least 18 and not a full-time student. You cannot be claimed as a dependent on someone else's tax return. And you must have contributed to a qualified retirement plan (like a 401(k) or 403(b) plan) or an Individual Retirement Account (IRA) last year.

As with most tax credits, the Saver's Tax Credit is not just a straightforward amount. Its value to you depends on your income and your filing status. The credit amount ranges from 10 percent to 50 percent of your eligible savings contribution (for amounts up to $2,000).

Learn more at: **www.irs.gov** and look for Form 8880.

Senate Bills Seek to Boost Retirement Savings

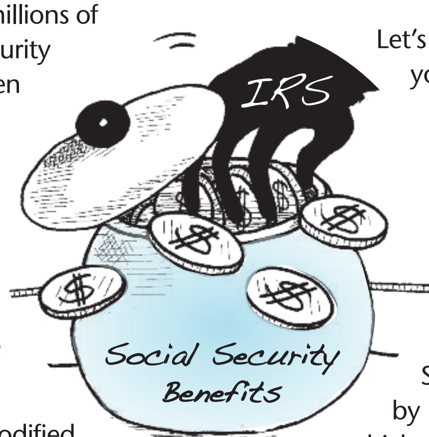
Two Senate bills that would improve the ability of workers to build retirement savings have recently been introduced.

The Universal, Secure, and Adaptable Retirement Funds Act of 2014, (the USA Retirement Funds Act), introduced by Senator Tom Harkin, D-Iowa, would provide all workers with access to a retirement plan through automatic payroll deduction. The Act states that an employer would be required to provide automatic access to a USA retirement fund if the employer does not offer a pension or a 401(k) with automatic enrollment and a lifetime income option.

The Retirement Security Act of 2014, introduced by Senators Ben Nelson, D-Florida, and Susan Collins, R-Maine, would expand saving opportunities by refining existing laws governing the administration of retirement plans for small businesses. The Act includes provisions making it easier for small businesses to join Multi Employer Plans (MEPs) and for taxpayers using the 1040 EZ return form to claim a credit for retirement plan contributions.

What? My Social Security Benefits May Be Taxable?

You have probably heard or read that Social Security retirement benefits were always meant to be the foundation of your retirement income and never intended to be your only source. But we know that millions of women rely totally on their Social Security check, and without it nearly half of women age 65 + would be living in poverty.



For those of us trying to save as much as we can for retirement, we may find it surprising that some of our Social Security benefits will be taxable. It is important to know this for planning purposes in order to anticipate the amount we actually will have to live on.

When you file your tax return, your "modified adjusted gross income" (MAGI) is what determines if your Social Security benefits are taxable. This will include your taxable income, like pensions, interest and dividends, and income from work. It also includes tax-exempt interest. Combine this amount with half of your Social Security benefit. If the amount is above the MAGI threshold for your filing status, some of your Social Security may be taxable.

Let's say you are filing as a single tax filer and your MAGI for 2013 is $24,500. That's under the $25,000 threshold for single filers, so your Social Security benefit isn't taxable. But if your MAGI is $25,500 – just $1,000 more — up to 50% of your benefit may be taxable.

The tax will apply at your income tax rate on either one half of your Social Security benefit or one half of the amount by which your income is over the threshold, whichever is smaller.

To learn more about this issue, go to the Social Security Administration's website at: **www.ssa.gov/planners /taxes.htm** or IRS Publication 915, *Social Security and Equivalent Railroad Benefits.*

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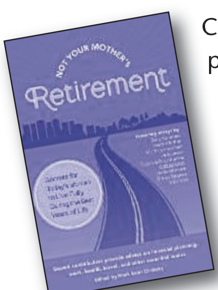
WISER Contributes to New Book

Cindy Hounsell, WISER President, contributed to a great new book on retirement for women, *Not Your Mother's Retirement*. Released on March 1, 2014, this book is a user-friendly collection of 20 essays aimed at women in their 40s and 50s.



Cindy's essay, "No Pie in the Sky" offers five tips for women to help them prepare for a successful retrement. The five steps are:

- Figure out how much income you'll need. (Do the math.)
- Protect yourself and your future. (Insurance)
- Save as much as you can in company-sponsored savings plans. (Take advantage of workplace plans.)
- Understand how to get the most from your Social Security benefit. (When to claim and other options.)
- Take advantage of the Saver's Tax Credit. (A great benefit if you are eligible.)

Hear from the experts how to start preparing for retirement. Royalties from the sale of the book will benefit cancer research and prevention. The list of contributors includes Sally Abrahms, Marci Alboher, M. Cindy Hounsell, Julie Jason, Suzanne Braun Levine, Kali Lightfoot, Dorian Mintzer, and Shirley Sagawa, and more.

WISER®
Women's Institute for a Secure Retirement

WISER's Mission

To improve the long-term financial security of all women through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure fair pensions and adequate retirement income through research, workshops, and partnerships.

Next Issue: Rolling Over Retirement Accounts–Keeping Your Money for Retirement