ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Medicaid Planning for IRAs

The best retirement plans can be jeopardized by a long nursing home stay. The 2015 Genworth Cost of Care Survey puts the average cost of a private room in a nursing home at $91,250 a year, or more than $7,500 a month. $91,250 may be the national average, but in high-cost areas the tab will much steeper. For instance, the cost of the same private room in a nursing home will run a client nearly $160,000 a year in Connecticut, and over a whopping $180,000 in Manhattan. To make matters even worse, the cost of nursing home care – be it in a private or a semi-private room – has not only been rising faster than inflation, but has also been increasing at a rate higher than either home health care or assisted living facilities.

With the stakes so high, it's no surprise that many clients want to make sure they guard against any prolonged health event derailing their overall plan. Thankfully, some savvy planning may be able to help clients (and clients' elderly parents) deal with nursing home fees and other costs of long-term care. That planning should include suggestions for handling IRAs and other tax-advantaged retirement plans.

IRA Distributions Used to Pay Medical Expenses Can Significantly Increase Taxes

Clients who have most of their assets in IRAs or other tax-deferred retirement accounts face an added problem when dealing with large expenses. If they have to withdraw IRA dollars for nursing home bills, the net cost is often increased.

For example, suppose that Walt and Vera Thomas, a married couple in their late 60s, must pay $90,000 a year for Walt's nursing home fees. In 2014, the couple lived comfortably on cumulative Social Security benefits of $40,000, $25,000 of qualified dividends, and $7,000 of interest. Although the Thomas' total income was $72,000 ($40,000 + $25,000 + $7,000 = $72,000), amazingly – thanks to the tax efficiencies of Social Security income, their personal exemptions and standard deduction, and a 0% long-term capital gains rate on qualified dividends for taxpayers in the lowest two ordinary income tax brackets – their tax bill for 2014 was $0!

Now, however, despite the medical expense deduction, if Walt and Vera

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