Learn What You Are Not Allowed To Do In Your IRA

It sure feels like the IRA, or at least the traditional individual retirement account, not the Roth, has been around forever. In fact it originated in 1974, and its selling points—the possible tax-deductibility of contributions and tax-deferred growth—quickly made it a centerpiece of retirement planning. However, even though this tax-advantaged saving vehicle may seem like a permanent part of the landscape, it's possible you don't know as much about it as you think you do.

In particular, many retirement savers aren't aware of the strict rules relating to "prohibited transactions," and the restrictions against holding certain types of investments in an IRA.

Prohibited Transactions

Typically, a "disqualified person" can't engage in any prohibited transaction with regard to a self-directed IRA. That includes the IRA owner, but it also extends to others on a long list: the owner's spouse, the owner's "ancestors" and "lineal descendants" (in other words, parents, grandparents, children, and grandchildren), spouses of lineal descendants, investment managers and advisors, anyone providing services to the IRA (for example, an IRA custodian or trustee), and any corporation, partnership, trust, or estate in which the IRA owner has an interest of 50% or more.

One wrong step could jeopardize the tax-deferred status of the account, as well as trigger penalties and taxes. The transactions on the IRS's no-no list include any direct or indirect:

- Sale, exchange, or leasing of property between a plan and a disqualified person;
- Lending of money or other extension of credit between a plan and a disqualified person;
- Furnishing of goods, services, or facilities between a plan and a disqualified person;
- Transfer to—or use by or for the benefit of—a disqualified person of the income or assets of a plan in the person's own interest or for the person's account;
- An act by a disqualified person who is a fiduciary in which he or she deals with the income or assets of a plan in the person's own interest or for the person's own account; or
- Receipt of any consideration for a personal account by any disqualified person who is a fiduciary from any party dealing with the plan in connection with a transaction involving income or assets of the plan.

You will want to avoid prohibited transactions at all costs. If you don't, you may lose the tax-exempt status of the IRA, plus you'll be treated as if you had received a distribution on the first day of the tax year in which the prohibited transaction occurred. In other words, the value of the IRA will be included in your taxable income for that year. To make things worse, you'll

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What Is Safe For You To Put Into A Safe Deposit Box?

Do you have a safe deposit box at your bank? That's a good idea if you need a secure place to store valuables and important papers. But be aware that a safe deposit box isn't the best place for everything.

What should you keep in the box? Unless you are an international spy needing multiple passports, currencies and firearms, mostly they are items you can't afford to lose or that would be extremely difficult to replace. This includes birth certificates, marriage certificates, a list of your insurance policies (usually, if you have the company name, insured and policy number, these can easily be replaced), trust and IRA documents, property deeds, rare coins, jewelry, stock or bond certificates, foreign currencies, treasured family photos, and other heirlooms. Don't worry about privacy because the bank can't snoop in its boxes. In fact, when you place items in the box, you can do so behind closed doors.

What should you keep out of the box? Basically everything else, including your will and related estate-planning documents. Depending on state law, a court order may be required to unseal the box if the owner dies. It's better to keep your will in a fire-proof safe accessible to other family members. You might also consider keeping a password protected electronic copy of any documents you hold in the box itself OUTSIDE of the box for ease in reference and access.

Also, don't use a safe deposit box to store documents such as a power of attorney that might be needed suddenly in case of an emergency.

What To Do After Your Bucket List

You hear a lot about how much money you should save to live the lifestyle you desire when you retire. But equally important, and maybe even more so, is the question of how you are going to live in retirement.

After you have checked off all of the items on your bucket list and taken all of the trips you can afford, how do you spend the rest of your time (which now is all leisure)? This happens to be a question some people overlook as they enter their retirement years, but it is critically important for pre-retirees to consider.

People are living longer these days, so you may be looking at a retirement period of 20 years, or even more. You will have a lot of leisure time. A long retirement period can take you into the advanced elderly years, a time when many retirees are physically unable to work part-time, serve as volunteers, or even keep up with their gardening. And watching TV, playing computer games, and emailing your friends and family can get boring when you do it all day—for a few years.

So, what can you do?

One answer is to move to a retirement community. This definitely could be a consideration when planning your retirement. Retirement communities are designed to alleviate a boring (and life-shortening) lifestyle. Found throughout the United States, they often are located close to medical facilities—another important consideration because you probably will require increased medical attention as you grow older.

Many people entering their retirement years want to remain near family members. So if you're considering a retirement community, you may want to look somewhere that's close to much of your family.

Six other things you may want to consider if you choose to move to a retirement community:

1. Facilities. What does the community offer in addition to the omnipresent community clubhouse? Many communities feature activities and facilities designed especially for retirees, such as swimming pools, tennis courts, bocce courts, arts and crafts courses, photography clubs, home-state clubs, woodworking shops, computer rooms, card rooms, bingo games, movies, little theater, community dinners, and special events. Some even provide golf courses.

2. Fees and taxes. Make sure you are financially comfortable with homeowner association fees, insurance rates, and property taxes (if applicable).

3. Resale value. What is the real estate sales history of the community? Have home and condo valuations generally trended upward during the years of its existence? Have home and condo prices recovered somewhat from the real estate bust of a few years ago?

4. Shopping. Is the community located near stores and shopping centers?

5. Restaurants. A lot of retirees like to eat out as frequently as they can afford. Are good restaurants conveniently located? Do many of these restaurants offer "early bird" menus at a discount?

6. Transportation. Some senior citizens may choose to give up their drivers' licenses as they enter the upper years of old age. Having public transportation available could be an important consideration.

And finally, what about the question of how much money you should save for your retirement? A better question may be: How much will you need to pay your retirement expenses each month? We can help you with that answer. And we can help you plan the retirement lifestyle choices that best suit you. ●

Don't Outlive Your Money: 7 Tips *By Bob McGinty*

The scariest financial risk people face in life is running out of money at an old age. I'm 83 and I'm speaking from personal experience. After a long career as a newspaper editor, I retired in 1991 at the age of 60, with my wife, who is 14 years younger and retired in 2004. I've learned about financial matters the hard way, and I ghost-write articles like this one to earn some extra income. I'm not scared about running out of money in my lifetime, but I am fearful of not leaving enough money to my wife, who is much younger than I.

Let me share with you some financial lessons I've learned. Of course, these are my personal opinions, not anybody else's.

1. DO NOT elect to take Social Security benefits early. If you do take early benefits, you probably will be shortchanged on what you would have received in total payments over the rest of your lifetime. People are living longer these days. You will add 8% a year in payment totals after full retirement age if you can wait until age 70 to take benefits.

2. Downsize your home at the earliest opportunity. Once you become an empty nester, the odds are that you do not need a house as large as the one in which you now live. Sell it and buy a smaller one. Pay cash if at all possible.

3. Consider moving to a retirement community, which can be a highly desirable and cost-efficient place for the elderly to live. Your neighbors in such communities most likely are like-minded and in your age group. Also, such communities are especially designed for elderly living, and most are located near good health-care facilities. Plus, they offer social, educational and recreational facilities designed specifically for the elderly.

4. If you are not already out of debt,

Choosing An Assisted Living Facility

Do you have elderly parents or in-laws who still live alone? They may have started to show signs of needing assistance on a regular basis, and before the situation becomes dire—with a fall resulting in a broken hip or worse,—it makes sense to investigate other living options for them. One popular choice is an assisted-living facility, or ALF.

As the name implies, an ALF is a residence that provides assistance with daily living activities such as cooking, cleaning, laundry, and transportation to doctor appointments. Set-ups vary widely, with some centers offering a range of accommodations on the grounds, from standalone homes to small, studio apartment-like units with scaled-down kitchens and living areas. Residents can usually choose how much help they receive, and are often self-reliant for most of their needs. Typically, a facility will offer security and around-the-clock access to healthcare as well as a full schedule of meals and recreational activities.

It's seldom easy to convince parents who are still mentally competent to pull up stakes and move to an ALF. They may hate the idea of moving away from friends and family, and dread going somewhere that will mean losing much of their independence. And they may have unrealistic expectations about what their new lives will be like. Though ALFs are designed to provide residents with essential services, the staff isn't there to wait on people hand and foot.

Because one ALF may be very different from another, finding a good fit may take considerable research. The range of costs is wide, from as little as $25,000 a year to more than $100,000 annually in some parts of the country. And while long-term care insurance may help with expenses for several years, most long-term care policies have a cap on total payouts and years of payment.

In exploring the pros and cons of facilities in a particular area, consider these questions:

What is the staff like? As important as the physical amenities are, the people may make even more of a difference. Look for a place whose staff members appear genuinely interested in residents, have the requisite qualifications and experience, and seem well equipped to handle emergencies.

What level of care will your relative require? Though you'll certainly have a say in this matter, many ALFs make an initial analysis of a prospective resident's needs and then recommend certain services. The higher the level of care, the greater the expense.

Is the facility comfortable? Sometimes, a smaller, cozy environment is preferable to being in a larger building. And what are the grounds like? Are there beautiful outdoor spaces that are well maintained throughout the year?

What activities are available to residents? Typically, an ALF will include amenities such as a small gym or workout room, a library, and a chapel. It may offer religious services and activities ranging from live entertainment to bingo and card games. And there may be field trips for those who want to shop or attend concerts or sporting events.

How's the food? Usually, an ALF will serve three meals a day and post daily or weekly menus. Is there sufficient variety, and do the meals seem nutritious and appetizing? Do residents have the option of eating in their rooms?

Does the facility comply with state and local licensing requirements? Does it rank highly in evaluations by state or local agencies? You can also check with the Better Business Bureau to see whether any complaints have been lodged against the operator.

How is security handled? Among an elderly population, personal property may go missing for a variety of reasons, some related to residents' cognitive lapses. But it's crucial to know that your relative will be safe and secure.

What are the hidden costs? Don't forget to factor in charges for haircuts, manicures, TV and phone services, and a range of other add-on expenses that tend not to be listed in facility brochures. Also, be sure to ask about projected fee increases, and the cost of a short- or long-term transfer to a facility's nursing home.

Convincing a relative that it's time to get more help and then choosing an ALF can be an extremely emotional process that puts stress on everyone involved. If you anticipate a move and are able to do most of the homework ahead of time, it may help you and your relative feel more comfortable with the idea and reassure you that you've made the best choice. ●

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get out as soon as possible. When you are not in debt you can live on much less month to month, thereby lessening your chances of outliving your money.

5. If you have two cars, sell one. If you only have one, drive it twice as long as you did in the past. You probably will be driving less at this time in your life, and you can most likely drive your current car much longer without encountering excessive repair bills. If you are in the practice of making monthly car payments, once you've paid off your vehicle you can put all of the payments you would have made before into your savings.

6. If you are part of a close-knit family, do not move very far from your children and grandchildren. Life-changing occurrences such as death, divorce and disabilities are easier experiences when you have the support of family members around you all the time.

7. Finally, and most important of all: Continue to save all that you possibly can. The amount that you can save if you follow the previous six recommendations may be considerable. Where and how should you invest it? Seek out a financial advisor that you are sure you can trust and that you are sure is competent, and turn investment decisions over to him or her. ●

Bob McGinty is a retired newspaper editor who occasionally ghost-writes articles for financial advisors.

Caveat Emptor: Long-Term Care Policies

Most long-term care (LTC) insurance policies today are much better than those offered in previous decades. Still, there remain potential drawbacks, and would-be buyers need to make sure they know what they're getting and that it suits their needs.

Many early LTC policies paid benefits only for "skilled nursing home care" for a limited period of time. Moreover, there were often stringent requirements to qualify for benefits, such as having to spend three days in a hospital before going into a nursing home.

Most states now require LTC policies to provide benefits for all levels of care, and competition among insurers has led to innovations that make LTC insurance a significantly better value. Yet these policies remain complex and expensive, and getting the right mix of benefits means understanding the LTC landscape. Consider these factors:

Range of coverage. Most policies offer benefits for care in a variety of settings, including at home, in an assisted living facility, and adult day care as well as in a nursing home. Payment may vary with the setting, so make sure the specified amounts cover the cost of care in your area. And beware of hospitalization requirements, because only about half of nursing home admissions follow a hospital stay.

Benefit triggers. Usually, LTC benefits are available once the insured needs assistance performing a specified minimum number of activities of daily living (ADLs) —commonly including eating, bathing, dressing, "toileting," continence, and mobility. Better policies kick in when someone requires help with just two or three ADLs. Some policies also begin coverage when there is "cognitive impairment."

Waiting period. Most policies specify a 90-day waiting period between the time need is demonstrated and the beginning of benefit payments. However, it is important to check the policy's definition of a "waiting period," as it could refer to either calendar days or service days.

Premiums. The younger you are when you begin coverage, the lower the premium, which will also be affected by the range of policy benefits you choose, including type of policy (reimbursement, indemnity, or cash); health status; waiting period; and inflation factor chosen (simple, compound, or none).

Inflation protection. The cost of all health care, including long-term care, is rising much faster than the overall cost of living. So it's essential that a policy increase benefits as costs rise—particularly if it could be years or even decades before care is needed.

Desirable policies are guaranteed renewable for life and cover pre-existing medical conditions. Additional riders and options may be worthwhile, but it's important to weigh the costs of extra benefits. We can help you make sense of this complicated insurance market and help you find a suitable policy at a reasonable price. ●

What Not To Do In IRA

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be socked with a 10% tax penalty on that distribution amount, unless you've reached age 59½ or the payment is made on account of death or disability.

Prohibited Investments

When you set up a self-directed IRA, you have a great deal of flexibility in choosing investments. Typically, you might use any combination of stocks, bonds, mutual funds, cash-equivalents, and other standard investment vehicles.

However, the tax law does prohibit several types of less typical investments. On the prohibited list are:

Life insurance. Annuities are allowed, but you can't acquire whole, universal, or variable universal life insurance inside any type of IRA.

Collectibles. You're not allowed to transfer priceless family heirlooms to your IRA, nor can you invest in other collectibles such as artwork, wines, stamps, precious stones, porcelain, pottery, jewelry, or collectible trading cards.

Personal residence. Your IRA can't hold any property that you personally use. That may include your primary residence, a vacation house, or a spare place in the city. Certain other types of real estate, such as undeveloped land, may be permitted.

Coins. Generally, you can't hold any type of coin made of gold, platinum, or any other precious metal inside an IRA. To be allowed in an IRA, a coin's actual currency value must exceed its value as a collector's item. (However, the IRS does provide a limited number of exceptions that are allowed in IRAs, including American Eagle coins that have never been in circulation and Canadian Maple Leaf coins.)

If you invest in any of these inside your IRA, the IRA won't be disqualified (as it would be in the case of a prohibited transaction), but you'll still face the taxes and penalties outlined above. So do your best to stay away from prohibited investments. ●