

RetirementRevised by Mark Miller

Reader mailbag: IRA beneficiaries and Medicare first payors

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Q: I have a substantial IRA that I'm leaving to my younger brother as beneficiary in the event of my death. I'm hoping that it can be a rollover IRA for him so he could stretch out liquidation and taxation over his lifetime. My husband is deceased, I have no children, and my other brother is deceased. Is it possible for my IRA to rollover to my brother in this fashion? - P.P., Los Angeles, Calif.

A: If your brother is designated as a beneficiary, he has two options, since he is a non-spouse beneficiary, according to Dan McGee, vice president and managing director of retirement distribution at the Principal Financial Group and Principal Funds.

"Your brother would receive the IRA as an inherited IRA-he cannot roll it into an existing IRA or make it his own," says Magee. "When a beneficiary inherits an IRA, distributions (are most often) based on his or her life expectancy." Commonly referred to as "stretching," there are several advantages to this option, according to McGee:

- By taking only the required minimum distributions, the assets have the potential to continue to grow tax-deferred throughout their lifetime distribution period.
- The beneficiary may receive income over an extended period of time.
- The beneficiary will be taxed only on the distributed amount each year.
- There is no 10 percent IRS early withdrawal penalty.
- The beneficiary will be able to name a remainder beneficiary to receive the assets remaining at their death.

The other option is to take distributions based on the IRA owner's life expectancy. This life expectancy is determined by the age the IRA owner would have been at the end of the year of death.

Q: I began Medicare, Parts A, B, and D, in March 2008. I still work and will continue for the foreseeable future. I have a major medical plan at work but it's not very good. Do I need the work plan or is it redundant? Any advantage to keeping it? Should I drop it and use the money from it to fund a supplemental plan?-B.H., Lakeland, Fla.

A: If you work for a large employer, the employer plan is considered your primary insurance, and Medicare is secondary under Medicare rules, so don't drop your employer coverage. Medicare

would be a secondary payer even if you drop the employer coverage—so don't drop it! How can that be? Congress, looking for ways to protect the solvency of Medicare, has established rules that make employer plans primary. And an employee's decision to opt out of the employer coverage does not change the fact that Medicare by law will adjudicate claims as if you were covered under the employer's plan and that plan is primary.

The experts at Watson Wyatt—the large global benefits consulting firm—add the following advice: If you work for a small employer (for example, with less than 20 employees), your employer can make an election with Medicare to have Medicare be the primary payor, and the employer plan becoming secondary. Even if you dropped your employer coverage, Medicare Congress is trying to protect the solvency of the Medicare and looked for ways to shift costs elsewhere. So the general rule is that the employer plan is primary. And an employee's decision to opt out of the employer coverage does not change the fact that Medicare by law will adjudicate claims for the employee as if he/she were covered under the employer's plan and that plan is primary.

In that case, you might want to opt out of the employer's major medical plan and pay the co-pays, coinsurance and deductibles associated with Medicare. You should check with your employer's Human Relations department to determine whether the company has elected to make Medicare the primary payer.

However, Watson Wyatt cautions that very few small employers fully understand Medicare's secondary payer rules, so you may have a tough time convincing them this is an option. You might want to direct your employer to [this page on the Medicare Web site](#), which explains the rules.

Q: I've already done my preliminary sign-up for Social Security. My birthday is near the end of November, and I was born in 1942. Since retirement age for me is 65 plus 10 months, does that mean I have to reach the same day in September as my actual birthday, or just the start of September, which is the 10th month from my birthday? I don't want to complete the rest of the sign up too early, nor do I want to wait too long and miss out on my actual start date. - S.H., Palm Beach, Fla.

A: The attainment of full retirement age occurs when the month begins, according to the Social Security Administration.

Q: I'm ready for retirement and my wife is continuing to work, earning \$75,000 per year. Would it be possible or beneficial for us to file separately on our federal tax return?—S.B., Shearwater, Fla.

A: There's no real benefit to filing separately, says Dean Harman, a certified financial planner based in The Woodlands, Texas. "The tax liability would end up getting lumped back together so there would not be any tax savings. If this strategy were of some benefit, then many more people would use it as a loophole. It is very common for two spouses to have very different incomes (especially at retirement)."

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1. *Kara Reed* Says:

[July 25th, 2008 at 1:50 pm](#)

What is the easiest way to find all the fees in a mutual fund? Is there a website besides msn money to get information on investing? If we have invested in IRAs and 40k plans and have contributed the max for this year where are other places to put money for tax deferred places that are safe? If we are going to sell our house this year and buy another is there a way to get out of paying taxes when we buy another house right away. I have heard there is a way of avoiding capital gains tax when you buy another house right away.

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