TRANSAMERICA®

Accessing Retirement Accounts Prior to 59½

To help encourage people to save for retirement, assets held within IRAs and qualified plans are permitted to grow on a tax-deferred basis. To promote the use of these assets for the intended purpose of retirement there is a 10% additional federal tax on the portion of withdrawals included in the gross income prior to age 59½.

For individuals needing to take withdrawals from their retirement accounts prior to age 59½, there are exceptions when the penalty is not assessed. It is important to note that there are different rules that apply to IRAs and to qualified plans.

Exceptions to the 10% Additional Federal Tax*	IRA, SEP IRA, SIMPLE IRA, SARSEP and Roth IRA	401k and Other Qualified Retirement Plans
Employee/account owner attains age 59½	✔	✔
Death of employee/account owner	✔	✔
Disability	✔	✔
Medical Expenses	✔	✔
Distributions to unemployed individuals for health insurance premiums	✔	
Higher education expenses	✔	
First-time home purchase (limited to a maximum withdrawal of $10,000)	✔	
Separation from service in the year employee reaches age 55, or later		✔
An alternate payee under a Qualified Domestic Relations Order (QDRO - generally issued due to divorce)		✔
Series of Substantially Equal Periodic Payments (SEPP)**	✔	✔

*Internal Revenue Code Section 72(t). There may be other limitations on taking withdrawals from IRAs and qualified plans (e.g., Simple IRA-two year rule). This list does not include all of the exceptions to the 10% additional tax.
**See other side for explanation of series Substantially Equal Periodic Payments (SEPP)

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Key Limitations and Definitions

Substantially Equal Periodic Payments: This exception, which is available to anyone, allows a stream of payments to escape the 10% additional tax if the following criteria are met Source: IRC Secs. 72(t)(A)(iv); 72(t)(4); Rev. Rul. 2002-62:

- Payments must be taken at least annually
- The amount of the payments are calculated according to one of three IRS-approved methods for determining SEPPs
- Payments must continue for the greater of five years or attainment of age 59½, which ever is longer; and
- You cannot make contributions, transfers (in or out) or rollovers into the account from which you are taking the distributions, nor can you take extra withdrawals from that account

The penalty for failing to meet the requirements can be substantial. If you fail to adhere to the rules, the entire sum of your SEPPs received before age 59½ may be subject to a retroactive application of the IRS 10% additional federal tax and additional penalties. Source: IRC Sec. 72(t)(2)(A)(iii).

When considering SEPP distributions, it is important to discuss the benefits, as well as the limitations, with your tax or financial professional.

What is meant by disability? The disability must be indefinite and prohibit the individual from gainful employment. The precise definition of disability is found in Internal Revenue Code Section 72(m)(7). Consult with your financial professional to ensure you meet this exception.

Are there limitations on Medical Expenses? Distributions are exempt to the extent they don't exceed the amount of unreimbursed medical expenses less 7.5% of your adjusted gross income for the withdrawal year. Source: IRC Secs. 72(t)(2)(B); 213.[1]

Higher Education Expenses: Payments for tuition, fees, books, and supplies for yourself, your spouse, or the children or grandchildren of you and your spouse are eligible for this exception. Source: IRC Secs. 72(t)(2)(E); 72(t)(7).

First-time Home Purchase: This exception can be used for the cost of acquiring or building a residence for you, your spouse, child, or grandchild. Limited to a lifetime maximum of $10,000. Source: IRC Secs. 72(t)(2)(F); 72(t)(8).

Payment of Health Insurance Premiums for the Unemployed: This exception is only available if you have received unemployment compensation for 12 consecutive weeks. Source: IRC Sec. 72(t)(2)(D).

Payments to an Alternate Payees Pursuant to a Qualified Domestic Relations Order (QDRO): This includes a judgement, decree or order that relates to child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of the participant. Source: IRC 72(t)(2)(C); 414(p)(1).

[1] Beginning Jan. 1, 2013, this percentage will increase to 10%.

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