



Is it possible to retire early before age 59 ½ and access your qualified retirement accounts, such as your 401(k), 403(b), TSP, 457 plan, and/or your IRA without paying the 10% IRS early withdraw penalty? The answer is yes, you can. Under the Internal Revenue Code (IRC) 72(t) early withdrawals are permitted under certain qualifying conditions.

It's quite easy to follow the IRS guidelines under a rule called a 72(t), "Equally Substantial Distribution". According to the IRS's rule 72(t) the 10% early withdrawal penalty normally due for withdrawals prior to age 59 ½ does not apply when taking distributions under this rule.

How does it work? Assume you have retired at the age of 55 and you need to access your 401(k) for retirement income. You're ready to set up a 72(t) distribution.

After you complete the appropriate forms and a qualified retirement income advisor completes the calculations, the IRS will offer you (3) optional payout amounts.

The (3) IRS optional payout methods will tell you how much the "equally substantial distribution" will be based on your age, the age of your beneficiary, the amount of money you have, the percentage rate used for the calculation and how long they expect you to live (based on IRS's mortality table).



See the example here:

An individual age 55 (with the same age beneficiary) who has \$250,000 and wants to set up a 72(t), (using a rate of 4.23% for example) this would be the payout options to choose from:

72(t) Annual Payments 29.6 Years Life Expectancy

1. Minimum Distribution Method
\$8,445.95 [\$703.83/mo]
2. Amortization Method
\$14,894.53 [\$1,241.21/mo]
3. Annuitization Method
\$14,797.28 [\$1,233.11/mo]

As the rule reads, once a 72(t) distribution is set up it must continue until the age of 59 ½ has been reached or for a minimum of 5 years, whichever is longer. Someone retiring at 53 would take 72(t) distributions to age 59 ½, whereas a person retiring a 57 would take 72(t) distributions to age 62.

Once you've met the requirements and have reached the age of 59 ½ or have taken your distributions for at least 5 years, you can then re-organize all of your income sources and do as you wish with your retirement assets. Remember, distributions from retirement accounts are taxable distributions at your marginal income tax rate.

A WORD OF CAUTION!

When done correctly and as part of a complete retirement income strategy, a 72(t) distribution can help someone retire without worry of additional penalties for accessing their retirement accounts before the age of 59 ½.

If not calculated correctly or by withdrawing too much from your accounts, you could be putting your future retirement plans

in serious jeopardy. In addition, the IRS may assess the 10% penalty on all amounts withdrawn, if the retirement account runs out of money before the end of the 72(t) scheduled timeframe. Therefore, it's imperative you work with a qualified retirement income specialist who understands the 72(t) distribution rules and how to position your retirement assets accordingly. There are no do-overs!

This is a very specialized area of practice for financial professionals and it's important to note that not all financial advisors, CPAs, and the like understand the 72(t) IRS rule. Choosing the correct custodian for your accounts is equally important as not all custodians are equipped to calculate 72(t) distributions.

The key to an effective 72(t) distribution is having your money properly invested without too much risk. The last thing you want to happen is to run out of money because you weren't investing efficiently to complete your 72(t) distribution.

Many companies and many advisors, simply do not know HOW to properly do a 72(t). Work with someone who is experienced and knowledgeable in this area. The IRS can be very unforgiving when it comes to 72(t) distributions.



TAX PLANNING IS NOT A ONCE-A-YEAR EVENT!

- Charitable Tax Planning Strategies
- Roth IRA Conversion Strategies
- Tax Planning Services
- Small Business Strategy Development
- 401(k) Strategies
- Social Security Taxation Reduction
- Estate Planning

2023 TAX CHANGES

Big changes to your retirement accounts are coming that will impact your taxes in retirement. The Secure Act 2.0 has delayed the Required Minimum Distribution (RMD) age. You can now take advantage of a tax strategy to reduce the taxes from future RMDs through retirement. Call today to receive a complimentary Retirement Income & Tax Strategy Analysis where we'll show you how to create a tax-efficient investment strategy that will potentially reduce your taxes in retirement.

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