

Exceptions to Penalties on Retirement Plan Distributions



Money withdrawn from a traditional IRA, 401(k) or other tax-deferred qualified retirement plan is taxable as ordinary income and is also subject to a 10% penalty tax if made prior to the account owner's age 59 ½ (unless it qualifies for a specific exception).

Exceptions to the 10% penalty for traditional IRAs include:

- ◀ Death or disability of owner.
- ◀ Payment of qualified first-time home purchase.
- ◀ Payment of qualified college expenses.
- ◀ Payment of qualified medical expenses that exceed 10% of Adjusted Gross Income.
- ◀ Payment of health insurance premiums for certain unemployed individuals.
- ◀ Payment due to IRS levy.
- ◀ A series of substantially equal payments over the life of the owner (or joint lives with beneficiary).

Exceptions to the 10% penalty for 401(k) and other qualified employer-sponsored retirement accounts include:

- ◀ Payment under a Qualified Domestic Relations Order pursuant to a divorce.
- ◀ Death or disability of owner.
- ◀ Payment of qualified medical expenses that exceed 10% of Adjusted Gross Income.
- ◀ A series of substantially equal payments over the life of the owner (or joint lives with beneficiary).
- ◀ Payment after separation from service if age 55 or over.
- ◀ Payment due to IRS levy.

Roth IRAs operate under different rules than 401(k)s and traditional IRAs because contributions are made with after-tax dollars and earnings grow tax-free.

The entire distribution from a Roth IRA is penalty-free and non-taxable if the account has been open for five or more years and one of the following:

- ◀ The owner is over age 59 ½.
- ◀ The owner has died or become disabled.
- ◀ Is used for the payment of qualified first-time home purchase expenses.

If distributions are made from a Roth IRA that is *less* than five years old, the original amount contributed is not taxable, but the earnings are taxable as ordinary income and subject to a 10% penalty tax. Here are some of the exceptions to the 10% penalty:

- ◀ Payment of qualified college expenses.
- ◀ Payment of qualified first-time home purchase.
- ◀ Death or disability of owner.