



TIPS FOR THE RETIREE

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INCOME:

If you are fortunate enough to be an “early retiree,” IRS Code Section 72(t)(2)(A)(iv) is a powerful planning tool that may be of benefit to you. 72(t) permits distributions from an IRA prior to age 59 1/2 without incurring a 10% premature distribution penalty. However, 72(t) is an irrevocable decision and once it has been implemented there are few options that would allow significant changes until the retiree has reached age 59 1/2 or 5 years, whichever is longer. Violation of 72(t) rules will result in significant tax and interest penalties for the IRA owner.

Work with a qualified planner who understands this tax code and can help you create flexibility while taking advantage of early IRA distributions penalty free. One example of flexibility planning is setting up multiple IRA accounts and structuring your retirement income across these various investment accounts. You can time when to start your income from the various accounts and you may consider different payout methods across the accounts.

401(k) ACCOUNTS:

At your retirement, it normally makes sense to rollover your 401(k) account to your own IRA. However, if you will attain age 55 in the year of your retirement, it may be an effective planning tool to leave your 401(k) in the existing qualified plan. IRS Publication 575 explains why: “Distributions from a qualified retirement plan (not an IRA) after your separation from service in or after the year you reached age 55 are exempt from the 10% premature distribution penalty.” Thus, if you have contributed to your 401(k) this may be a flexible way to access these funds penalty free without the restrictions

associated with IRS Section 72(t).

COLLEGE COST:

It is not unusual for a mariner to be eligible for retirement yet still have children with higher education costs. Illustrating some opportunity, IRS Publication 590 states: “Distributions to pay for the qualified higher education expenses of the taxpayer, spouse, child, or grandchild are exempt from the 10% premature distribution penalty.” The taxpayer should be aware that the ordinary income taxes due on these distributions must be paid with outside funds, not from the IRA. Also, these distributions for higher education cannot come from an IRA account that is paying out 72(t) income to the owner; a separate IRA account should be established and earmarked specifically for this purpose.

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