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FINANCE | Written by Phil Henry

Subtracting Insult from Injury

Premature IRA distributions can be injurious to one's retirement goals; available exceptions prevent insult in the form of penalties.

We have the privilege of managing IRA portfolios for many clients. Every so often, someone wants to tap into his or her retirement pool early, for a good, or even a not so good, cause. The problem is, those who have not reached the magical age of 59 1/2 are going to be faced not only with federal income taxes, but also with an additional 10% penalty tax!

There are circumstances whereby the 10 percent penalty may be averted. A potential savings of $2,000 on a $20,000 distribution is nothing to sneeze at! Summarized below are examples, with this key caveat – consult with your tax advisor first. A good resource is also available at www.IRS.gov.

Loan to Self: If you only have a short-term need and believe that you can "repay yourself", you may take a once per year, per IRA account, distribution and repay the funds back into your account within 60 days. If so, no harm and no foul. If your distribution was $20,000 but you only re-pay $12,000, you would owe taxes and a 10 percent penalty on $8,000.

Section 72T- Substantial Equal Periodic Payments: The SEPP provision entails a calculation designed to provide an income stream from your IRA that would span your life expectancy. Assume a 53 year old was eligible for taxable but penalty-free SEPP distribution of $15,000 per year. This $15,000 would have to continue yearly for at least

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SF's swimming program makes a splash.
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With plenty of families and plenty of recreation, Hunting Ridge is a neighborhood that people don't seem to want to leave.
By Kristina Kregiel

ODD JOBS: THE WORLD ON A STRING How a job at a kite store taught some valuable lessons to Commissioner Sue Caffrey.
By Tim McNellie

CHIP SHOTS AND BAD LIES
The strange world of the golfer psyche.
By David McElhinny

6 1/2 years, to age 59 1/2. If started at age 57, the distribution would be required for five years, to age 62. Once the five years or age 59 1/2 requirement is met, further distributions may be continued, modified or stopped.

Loss of Job: Individuals who have separated from service at age 55 or after are eligible to penalty-free distributions, so long as the departure qualifies as a separation from service.

Home Buyers: You may withdrawal up to $10,000 penalty-free from your IRA to assist in buying or building a first home. If your spouse also qualifies, $20,000 is available. The home in question doesn't have to be your first home, so long as you've had no home ownership for two years, prior to the date of acquisition. That $10,000 is the lifetime maximum.

College Expenses: Withdrawals for qualified higher-education expenses are eligible, sans the penalty. The student may be you or your spouse, or children or grandchildren of either.

Conversion to a Roth IRA: If your modified adjusted gross income is less than $100,000, you can roll a regular IRA (or a portion thereof) to a Roth IRA, pay taxes on the amount rolled, but avoid the 10% penalty.

Medical Expenses: Medical expenses are normally deductible to the extent they exceed 7.5 percent of one's adjusted gross income If you have an adjusted gross income of $100,000 for example, you may take penalty-free withdrawals from your IRA to cover medical expenses in excess of $7,500.

Paying for Health Insurance: This exception is available for persons receiving unemployment compensation for at least 12 weeks, to pay for medical coverage for themselves, their spouse and dependents.

Death: If you die before reaching age 59 1/2, your IRA can be distributed to your beneficiary without the penalty.

Disability: If you meet the IRS' definition of disability, you may receive penalty-free IRA distributions.

Divorce: Distributions made as a result of a qualified domestic relations order are taxable, but the 10% penalty is exempted. If the receiving party rolls the distribution over into their own IRA, then all taxation is avoided. •

Philip C. Henry, CFS is the President of Henry Wealth Management, LLC, an independent financial planning firm in Bridgeville offering securities and investment-advisory services through a non-affiliated firm, NFP Securities, Inc., a Broker/Dealer, Member NASD/SIPC, and Federally Registered Investment Advisor. Phil is also a licensed insurance agent.

DINING: NINE ON NINE
In search of culinary perfection.
By Tim McNellie

ON THE CLOCK
Recreating with Jerry Males.

He can be reached at 412-838-0200, by e-mail to Phil@HenryWealth.com. His web site is www.HenryWealth.com.

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