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DID YOU KNOW?

**There are two ways for your clients
to get money out of their retirement prior to
Age 59 1/2 without penalty?**

(all clients are under age 59 1/2)

Example One

Jane is in substantial debt and is going to receive one half of her spouse's retirement plan. No other cash is available. Money sitting in an IRA at this point will not help her situation.

Recommendation: Direct the Pension Administrator via the QDRO to pay part or all of Jane's share directly to her. The Plan must withhold 20 percent Federal Tax so be sure to ask for more cash than Jane needs. The distribution can be for part or all of Jane's portion. Jane must also make an estimated State tax payment for the State's "share" of the distribution. She will be taxed on the distribution, but there will not be a 10% penalty. Note that this is a one-time exception that is available only in divorce situations (IRS Code 72 (t)(c)(2)).

Example Two

John, age 53, needs additional income to make payments on a second mortgage recently obtained during his marriage. With support, it is extremely difficult to make ends meet. His only savings are his retirement accounts.

John can take a "series of substantially equal periodic payments" from his retirement plan (IRA). Distributions from such an arrangement are exempt from the ten percent penalty that normally applies to distributions taken before reaching age 59 1/2. The flexibility in this arrangement is that the payments must continue only for five years or until John reaches age 59 1/2, whichever is later. After that period ends, John can stop taking the payments or take smaller payments. Extreme care must be used in setting up this plan as there are stipulations regarding interest rate assumptions, payment modifications, and investment changes.