

Help your savings last longer.

If you need to take an early withdrawal from your IRA, consider 72(t) distributions.

If you withdraw your savings from your individual retirement account (IRA) before age 59½, the IRS typically assesses a 10% early withdrawal penalty. However, under Section 72(t) of the Internal Revenue Code, you can take substantially equal periodic payments (SEPPs) to avoid this penalty and preserve the tax status of your remaining savings. For a traditional IRA, that means your savings has the potential to compound tax deferred, and for a Roth IRA, your earnings have the potential to grow tax free.

Wondering if 72(t) distributions are right for you?

If you need supplemental income or are taking an early retirement, you may want to consider taking a distribution under Section 72(t). But keep in mind that you're draining a savings vehicle that's designed to help support you throughout your retirement.

The amount of your payments primarily depends on your IRA balance and your life expectancy, which is calculated using your current age. The IRS has approved three methods for figuring out your exact amount.

The amortization method – Under this method, the annual payment is the same every year and is determined by using your age, your beneficiary's age (if you have one), and an interest rate determined by IRS rules.

The annuitization method – Like the amortization method, the annuitization method payments are the same every year. The amount is determined by using an annuity factor derived from an IRS mortality table and is based on your age, the age of your beneficiary (if you have one), and an interest rate determined by IRS rules.

The required minimum distribution (RMD) method – The annual payment for each year is determined by dividing the account balance for that year by your life expectancy factor and your beneficiary's factor (if you have one). Under this method, the annual amount must be figured each year, and as a result, will fluctuate.

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Once you start taking SEPPs, you must continue taking them until you reach age 59½ or until you've taken them for five consecutive years (whichever is longer). Also, you may not alter the calculation method you have selected. If you terminate or change your SEPPs before this time, you will typically be required to pay the IRS all the penalties that were waived on your payments, plus interest. The one exception is that you may make a onetime switch from either the amortization or annuitization methods to the RMD method without triggering penalties or interest.

This information is not meant as tax or legal advice. You should consult with the appropriate professional advisor regarding your particular circumstances.

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