

Save Taxes on Retirement Plan Withdrawals

Tapping your retirement accounts before age 59½ usually comes with a 10% early distribution penalty and any income tax due. But if you must make an early withdrawal, the IRS allows a few exceptions from the penalty.

MEDICAL EXPENSES

If you have significant medical expenses that your health insurance doesn't cover, you can withdraw money from a 401(k) plan or traditional IRA to pay these bills. However, these medical costs must be more significant than 10% of your adjusted gross income to avoid the 10% penalty.

Also, you can withdraw from a traditional IRA to cover health insurance premiums while unemployed. Several conditions need to be met to avoid the 10% penalty, so speak with your tax professional beforehand.

DISABILITY

Becoming disabled and unable to work means you may tap your tax-deferred retirement accounts without the 10% penalty to provide income that supplements your Social Security Disability or Supplemental Security Income benefits. You'll need your physician to document and substantiate your disability to avoid the penalty.

HOMEBUYERS

If you are buying or building your first home, you can withdraw up to $10,000 — if you're single, or $20,000 — if you're married and both have a traditional IRA, without paying the 10% penalty.

HIGHER EDUCATION

Pulling contributions out of a Roth IRA to pay for higher education expenses for you or your dependents is always penalty-free. But the withdrawal of Roth IRA earnings will be subject to the penalty if you don't meet the exception requirements.

AVOID WITHDRAWALS

Being fully prepared for retirement requires financial planning and leveraging tax savings and the time value of money. Consider other cash sources like taxable brokerage accounts.


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