Total Wealth Enhancement Group, LLC

Penalty Free Retirement Plan & IRA Distributions – Part III…

As we round out the last of the 13 known Penalty Free IRA/qualified plan distribution exceptions, you will notice that some actually contain some good, real life, planning opportunities, that can come in handy at various points in our lives. *Three of the last 5 exceptions we will discuss are only available for IRA's and will have specific benefits that are unique in that they can allow you to take a penalty free withdrawal to help yourself or an eligible family member. Again, it is very important to understand how and where these exceptions apply so you don't find yourself in the undesirable position of needlessly paying a penalty tax that under the correct circumstances, would otherwise not have applied.

9) First Time Homebuyer Exception: Under this section of the IRS code, an IRA participant can take up to a maximum amount of 10,000, from their IRA, penalty free, for the purchase of a primary residence, provided the purchaser qualifies as a first time home buyer. ***For this provision, a first time homebuyer is one who has had no ownership interest in a principal residence in the prior two year period ending on the date of acquisition for which the exception applies***. In the case of a married IRA owner's home purchase, both the IRA owner and the spouse must qualify as first time homebuyers. Initially, this exception does not appear to offer too much in the way of planning opportunities for IRA owners or their families. Upon closer look however, this exception does in fact provide an opportunity to pool money together from several different IRA owners, (i.e IRA Owner, Spouse, Children, Grandchildren, etc.). With the use of this strategy, one can effectively create a much higher limit towards the purchase of the same home than when using the single, **10,000** dollar lifetime limit, provided in the code. This exception applies to a first time buyer purchase for the IRA owner, spouse, child, grandchild or ancestor of the IRA owner or their spouses. ***This exception is available to IRA and Roth IRA owners only.***

10) Higher Education Expenses: As another exception that ***applies only to regular and Roth IRA's***, this provision applies to the IRA owner and spouse, as well as to the children and/or grandchildren of the IRA owner or the IRA owner's spouse. Unlike the first time home buyer's exception however, this exception is not limited to a one time use, and technically, it is not limited to a maximum dollar amount. The penalty free distribution is limited only by the amount of "eligible higher education expenses paid" for the IRA owner or an eligible beneficiary. Additionally, the distribution must be paid in the year of the higher education expense. ***This is another exception that does in fact provide for some practical planning opportunities.*** This is especially true for younger people with growing families. Many times, these families find themselves laboring over the decision to save for their children's college education or for their own retirement. More specifically, they are often overwhelmed with deciding on which vehicle they should use to plan for these financial goals. To add more confusion to the mix, today we have many more choices than we did just 10 years ago. As I mentioned in a previous article, IRA's can be one of the best retirement vehicles you can ever own. Now however, with the penalty free education expense exception, IRA's can be perfectly suited for some of a family's other long term planning goals, such as education, in addition to retirement. Additionally, if your children decide not to go to college or they are afforded a scholarship or some other financial windfall, the money you have set aside is already in the appropriate vehicle for your future use. ***This is not to say that funding a college education account using a regular or Roth IRA is your best choice but rather another option you can choose from and should carefully consider when deciding on the best vehicle for you.*** Of course meeting with a competent financial planner and/or advisor to help you navigate through these financial obstacles may be in the best interest for you and your family.

11) Health Insurance Premiums: This provision has become quite valuable to many, which over recent years have joined the ranks of the unemployed. ***It is designed to provide relief to anyone who has lost their job and wants or needs to maintain their health insurance coverage previously provided by their employer or some other source.*** In order to qualify, the IRA owner must be unemployed and have received unemployment compensation under a State or Federal unemployment compensation law for 12 consecutive weeks in either the current or previous tax year. The distribution must be made in the year of or the year after the unemployment period and the distribution cannot exceed the amount paid in the year of distribution for the Health Insurance Premiums for the IRA owner, spouse and dependents. Another unique feature of this provision is that ***the self-employed qualify for this exception*** if he/she would have qualified for unemployment but for the fact that he/she is self-employed. ***This provision only applies to Regular & Roth IRA's.***

12) Rollovers of Eligible Assets to Another Qualified Plan or IRA: This exception is pretty straight forward and in general, if properly executed, allows any amount of eligible assets to be rolled over (transferred) from one qualified plan or IRA to another and is generally exempt from tax as well as the 10% premature distribution penalty on the amount rolled-over. However, since there are too many different scenarios and/or particular plan rules that can affect a proper rollover, discussing this exception further is beyond the scope of this article.

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13) Conversion To a Roth IRA:
This provision exempt's the 10% penalty on any amounts that are distributed from a Regular IRA or Qualified plan (401-K, etc.) and converted to a Roth IRA. Although the full conversion amount is generally taxable, the 10% penalty tax is waived. ***Effective Jan 01, 2010, there is no longer an income limit for Roth IRA conversions making them now available to virtually anyone.*** ** Converting to a Roth IRA can provide another great planning opportunity. However, it requires careful consideration and calculations that should only be attempted with the help of a competent financial professional.

*The above does not provide all the necessary details required to effectively understand and utilize these or any other exception. Before attempting to withdraw money from any retirement plan, you should consult with a qualified professional well versed in the subject matter. **Meanwhile, if you have any questions about this article, Roth Accounts or any other IRA/Qualified plan concerns please send your questions to mtksiras@twegllc.com.**

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