



Taking Early Distributions from Retirement Plans

As the economy continues to slide, more and more people are considering whether to pull money out of their retirement plans. Before you take the steps towards pulling out your money, the following are some things that should be considered.

Any payments that you receive from your Individual Retirement Arrangement before you reach the age of 59 ½ are generally considered early or premature distributions. Early distributions are usually subject to an additional 10% tax and must be reported to the Internal Revenue Service on your individual income tax return. There are several exceptions to the additional 10% early distribution, such as when the distributions are used for purchase of a first home, certain medical and educational expenses, or if you become disabled.

For people who are changing jobs or are feeling the need to look at different retirement plans, some caution should be exercised before you move your money. If you decide to rollover your distributions from one IRA to another IRA or qualified retirement plan, these rollovers are not subject to the additional 10% tax, but you must complete the rollover within 60 days after the day you received the distribution from the first plan. The amount that you roll over is generally taxed when the new plan makes a distribution to you or your beneficiary. If you make nondeductible contributions to an IRA and later take early distributions from that same IRA, the portion of the distribution attributable to those contributions is not taxed. If you receive an early distribution from a Roth IRA, the distribution attributable to contributions is not taxed unless you made after-tax employee contributions to the plan.

As with any large decisions you make in your life, considering when and how to withdrawal, transfer or invest your money and how that will affect your retirement is a huge decision.