Online at www.NJ1015.com

Jobless? How to raid your 401(k) | Biz Brain

You may be able to use early withdrawals from retirement accounts, without penalty, under certain circumstances. (ronmerk/morguefile.com)

By Karin Price Mueller | NJMoneyHelp.com for NJ.com on March 31, 2017 at 8:53 AM

Q. I read your article "Tapping 401(K) if you're unemployed" about using an IRS rule called 72-t to take money out early. I'll turn 55 in February and I've been unemployed for more than a year. My unemployment ran out last year. Even though I'm a year away from 55, is there anything I can do?
-- Unemployed

A. Taking money from your retirement accounts before age 59 1/2 has some pretty important consequences.

First, an additional 10 percent tax applies to distributions before age 59 1/2 from a retirement plan or IRA.

"The government wants retirement plans to fund your retirement, not for every day expenses," said **Bernie Kiely**, a certified financial planner and certified public accountant **with Kiely Capital Management** in Morristown. "But what happens if you retire early? Is it possible to start taking money from a retirement plan and avoid the 10 percent penalty?"

The IRS code lists exceptions to the 10 percent penalty, and the age when you start taking distributions isn't what matters.

If you take distributions that are made as part of a series of "substantially equal periodic payments" over your life expectancy or the life expectancies of you and your designated beneficiary, the 10 percent penalty tax won't apply, no matter your age when you start.

There are three methods you may use to determine what qualifies as "substantially equal periodic payments." They are the Required Minimum Distribution method, the amortization method and the annuitization method.

All three methods require the use of a life expectancy or mortality table, Kiely said. The second and third methods require you to specify an acceptable interest rate.

"If these distributions are from a qualified plan, not an IRA, you must separate from service with the employer maintaining the plan before the payments begin for this exception to apply," Kiely said. "You lost your job so you satisfy this requirement."

Kiely said if you choose one of the three methods and begin taking periodic distributions from your retirement plan, you must continue to do so for at least five years or until you turn 59 1/2 -- whichever is longer.

If the series of substantially equal periodic payments is subsequently modified other than by reason of death or disability within five years of the date of the first payment, the exception to the 10 percent penalty tax does not apply, Kiely said.

"In that case, your tax for the modification year is increased by the amount that would have been imposed -- but for the exception -- plus interest for the deferral period," Kiely said. "Modified means you deviate from the distributions from the plan, miss a payment or stop payments altogether -- So once you start taking distributions you can't stop for five years or until you turn 59 1/2, whichever is longer."

If you start to take "substantially equal periodic payments" and then you get a job, what happens if you don't need the income anymore?

"In this case, you might want to stop the distributions and pay the 10 percent penalty," Kiely said.

Be sure to work with your financial advisor or tax preparer before you make any moves.

Email your questions to Ask@NJMoneyHelp.com.

Karin Price Mueller writes the Bamboozled column for NJ Advance Media and is the founder of NJMoneyHelp.com. Follow NJMoneyHelp on Twitter @NJMoneyHelp. Find NJMoneyHelp on Facebook. Sign up for NJMoneyHelp.com's weekly e-newsletter.