unreimbursed medical expenses (for you, your spouse, or your dependents) that exceed 7.5% of modified adjusted gross income (in 2019 and 2020). These two exceptions apply to employer plans and IRAs.

IRA withdrawals used to pay health insurance premiums may also be exempt from the penalty, but only if the account owner receives unemployment benefits for 12 consecutive weeks. This exception does not apply to employer plans, which might be an important distinction if you lose a job and no longer have access to employer-provided health benefits.

For coronavirus-related retirement plan distributions up to $100,000 in 2020, the 10% early-distribution penalty has been waived by the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

## To Help Fund Milestones

IRA distributions can be used for a first-time home purchase ($10,000 lifetime maximum) — or even to help a qualifying spouse, child, grandchild, or parent purchase a first home — without incurring the penalty. The tax code defines a first-time homebuyer as someone who has not owned a principal residence during the previous two years.

IRA funds withdrawn to pay qualified higher-education expenses — for IRA owners and their spouses, children, and grandchildren — are also penalty-free. Keep in mind that neither of these exceptions is available for employer plan distributions.

## Because You Can (or Need the Money)

Workers who separate from their employers during or after the calendar year in which they reach age 55 can withdraw funds from an employer-sponsored retirement plan without a tax penalty (age 50 for qualified public safety employees). This rule does not apply to IRAs, so if an employer plan distribution is rolled into an IRA, you would have to wait until age 59½ to access those funds without triggering the 10% penalty.

There is only one way that you can take penalty-free distributions at any age and for any purpose. Under IRS Section 72(t), employer plan participants (if separated from service) and IRA owners can set up a series of substantially equal periodic payments (SEPPs) that are based on life expectancy. One caveat is that 72(t) payments must continue for at least five years or until age 59½, whichever occurs later, even if you no longer need the income. Modifying the agreed-upon payment schedule in any way could result in a 10% penalty (plus interest) on all early distributions.

Taking early distributions means you lose the opportunity for some of your retirement contributions and earnings to continue compounding tax deferred. This is one of many reasons it could be a bad idea to take money from your retirement accounts before age 59½. But if you must, or if you are confident that your current savings will last throughout a long retirement, it's a good idea to have a well-designed distribution strategy in place.

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