



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

IRA Timing is Critical

An Advisor's Guide to Key Ages, Dates and Years

Pop quiz... What do comedy routines and IRA planning have in common? Give up? The answer is "timing is everything!"

Unfortunately though, the tax code isn't exactly friendly when it comes to timing issues. Advisors must be aware of all sorts of different dates, ages and "clocks." You need to keep track of each of them - when they start, stop and everything in between.

Age 59½ Exception to the 10% Early Distribution Penalty

In general, unless another exception to the 10% early distribution penalty applies, IRA owners must wait until they are 59½ to withdraw IRA funds without a penalty. The age 59½ rule is based on a client's actual age and not the year in which a client turns 59½. As a result, distributions taken in the year a client turns 59½, but before the actual date when the client turns 59½, would be subject to the 10% penalty unless an alternate exception applies. Employer plan funds rolled over to an IRA are

considered IRA funds and will use the IRA distribution rules.

Thankfully though, regarding the half-year requirement, you don't have to count days. A person is considered to be 59½ on the same numbered day of the month (when possible) six months after they turn 59. For instance, someone born on March 5th will turn 59½ on September 5th, regardless of the actual number of days between the two dates. Similarly, someone born on August 31st will turn 59½ on March 1st, since February has no 31st day.

Example:

Cindy turned 59 years old on January 15, 2012. Therefore, she will turn 59½ on July 15, 2012. On July 1, 2012 Cindy takes a \$50,000 distribution from her IRA. She will owe income tax on the distribution plus \$5,000 (a 10% penalty), unless another exception applies. If, on the other hand, Cindy waits an extra two weeks and takes the same distribution on July 15, 2012, she would avoid any early distribution penalties as a result of her attainment of age 59½.

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Guest IRA Expert

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SAVE THE DATE  **INSTANT IRA SUCCESS** 
THE COSMOPOLITAN LAS VEGAS September 29-30, 2012
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