IRA Distributions —
Help Along the Road to Retirement

You probably didn't set up an individual retirement account (IRA) with the idea of taking money out before you retire. In fact, IRA rules discourage you from making early withdrawals by charging a 10% penalty on taxable distributions made before age 59½ unless an exception applies.

Still, you may have a good reason for needing to take money from your IRA. So you'll be interested to know that certain distributions qualify for penalty-free treatment even if you haven't reached age 59½.

First-time homebuying expenses. A home is often the largest purchase people make during their lifetimes. And finding money for a down payment isn't always easy. The tax rules let you withdraw up to $10,000 without penalty toward the costs of buying, building, or rebuilding a first home for yourself and/or your spouse, child, grandchild, or parent. Individuals generally are considered first-time homebuyers if they haven't owned a principal residence at any time during the two years prior to the purchase. If married, both spouses must meet the two-year rule. If you both qualify as first-time homebuyers, your spouse can also withdraw $10,000 from his or her IRA to bring the total amount available for homebuying expenses to $20,000.

Some differences with a Roth. If you're a Roth IRA owner, you can take up to $10,000 for first-time homebuying expenses as a qualified distribution as long as you have had the Roth IRA for at least five tax years. You won't owe a penalty or taxes on the withdrawal. But, if the five-year requirement isn't met, the $10,000 is considered an early distribution and any *earnings* withdrawn may be subject to income tax. Withdrawing already taxed contributions first will reduce your tax bite.

Off to college? If your child, grandchild, or even you or your spouse is pursuing a postsecondary education, you can use IRA assets to pay qualified higher education expenses. Qualifying expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution. Room and board are also qualifying expenses for students enrolled at least half time. Eligible educational institutions include most accredited colleges, universities, vocational schools, and other postsecondary institutions that meet the requirements for participating in federal financial aid programs.

Medical/disability distributions. Having to pay medical expenses that aren't covered by insurance can be overwhelming. So can losing your health insurance coverage following a job loss. You can take penalty-free withdrawals from your IRA in the following circumstances:

- To pay unreimbursed medical expenses that exceed 10% of your adjusted gross income (or 7.5% of adjusted gross income if you or your spouse is 65 by year-end);

- To pay for health insurance for yourself and your family while unemployed (additional requirements apply); or

- Because you are permanently disabled and can't work in any substantial gainful activity.

Annuity payments. You can also receive distributions from your IRA as a series of substantially equal periodic payments (SEPPs) over your lifetime or the lifetimes of you and a beneficiary. The IRS has rules for determining the amount. Once distributions begin, they must continue for five years or until you reach age 59½, whichever is longer, even if you no longer need the income.

Distributions during military service. If you're a military reserve member who was called to active duty after September 11, 2001, you may be eligible to take early IRA withdrawals. Certain requirements apply.