IN A NUTSHELL

One of the exceptions to the early distribution penalty, listed in Section 72(t)(2) of the Internal Revenue Code (IRC), allows retirement account owners to take distributions from retirement accounts before age 59½ without the 10% premature distribution penalty. To qualify for penalty-free treatment, withdrawals must be part of a series of substantially equal periodic payments, determined by one of three IRS approved calculation methods.

WHAT IS IT?

72(t) is a section of the IRC that discusses the early withdrawal penalty and any exceptions to the penalty for taking distributions from a retirement account prior to age 59½. Generally, such distributions are subject to income tax, along with a 10% early distribution penalty.

One of the exceptions discussed in Section 72(t) allows retirement account owners to take early withdrawals from their accounts penalty-free through a series of substantially equal periodic payments (SEPP). These SEPP withdrawals are commonly referred to as 72(t) distributions.

HOW DOES IT WORK?

To qualify for penalty-free treatment, withdrawals must be part of a SEPP. Any of the three IRS approved calculation methods below can be used to determine your SEPP. Each method will result in a different withdrawal amount.

Withdrawals can begin at any time, for any reason. The rule requires the SEPP to continue for at least five years OR until the account holder reaches age 59½, whichever is longer. Any changes to the payment amount prior to meeting the required distribution period may result in a 10% penalty tax, plus interest, applied retroactively to all previous payments.

1. The required minimum distribution method

This method typically results in the lowest required payout amount. The payment is recalculated every year and the withdrawal amount changes annually as the account value changes.

Calculation: The retirement account balance as of December 31 of the prior year is divided by a life expectancy factor found in the life expectancy tables in IRS Publication 590-B.

2. Fixed amortization method

This calculation sets a fixed dollar amount to be distributed annually. No additional recalculations are required.

Calculation: The required distribution amount is determined by amortizing the account value over a life expectancy assumption (found in the life expectancy table in IRS Publication 590-B) and a reasonable interest rate factor (not more than 120% of the federal mid-term rate for the two months prior to the current month).

Have questions or need help? Call 1-877-921-2434
3. Fixed annuitization method

• This method typically results in the highest payout amount. It sets a fixed dollar amount to be distributed annually. No additional recalculations are required.

Calculation: The required distribution amount is determined by amortizing the account value over a life expectancy assumption (found in the life expectancy table in IRS Publication 590-B) and a reasonable interest rate factor (not more than 120% of the federal mid-term rate for the two months prior to the current month).

How to get started

• E*TRADE’s 72(t) Calculator (etrade.com/72t) can calculate and compare payment amounts. If the retirement account holder has multiple IRAs:
  - Select the account to be used for 72(t) withdrawals and enter the account balance.
  - Consider consolidating IRAs in order to get a higher payment amount.

• To request a 72(t) distribution, complete the E*TRADE IRA Distribution Request Form (etrade.com/forms). Check option 4 under Distribution Reason.

Frequently asked questions

Q: Who should consider 72(t) distributions?
A: Individuals under age 59½ looking to take early distributions from their retirement account while avoiding the 10% early distribution penalty.

Q: Can changes be made to the 72(t) payment amount?
A: No. Any changes to the payment withdrawal amount prior to meeting the required distribution period may result in a 10% penalty tax, plus interest, applied retroactively to all previous payment amounts. However, if you select a fixed payment amount (amortization or annuitization method), you are allowed a one-time switch to the Required Minimum Distribution Method, generally resulting in a lower amount.

Q: Can more than the calculated amount be taken out of the IRA?
A: No. The calculated amounts are the exact amounts that you can distribute from your account; you cannot take more or less than that.
**Q:** Can I use a partial balance of my account to calculate 72(t) withdrawals?

**A:** No. The entire account balance of your IRA must be used to calculate the 72(t) withdrawal amount. However, you may split your IRA into two accounts and calculate 72(t) withdrawals on just one IRA.

**Q:** What if I have multiple IRA accounts?

**A:** 72(t) withdrawals are account-specific and you may set up withdrawals from any one of your IRA accounts. If you are looking to receive a higher withdrawal amount, you may consider consolidating your IRAs into one account for a higher balance. If you are looking for a lower withdrawal amount, you may split your account and take distributions from the account you chose. The consolidation or split of the account(s) must occur prior to 72(t) withdrawals.

**PLEASE SEE IMPORTANT DISCLOSURES BELOW.**

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