



Memorandum

Date: January 8, 2024

To: Joe Rinaldi, President
Junyuan Chen, Research Intern

From: Ziyang Zhou, Senior Research Intern

Re: When you can tap your IRA or 401(k) early without penalty?

The Secure 2.0 Act, enacted in December 2022, introduced over 20 new rules that provide exceptions to the 10% early-distribution penalty for individuals under age 59½ withdrawing from IRAs and workplace retirement plans. These exemptions include:

1. Financial Emergencies:

Starting this year, IRA and 401(k) holders can take a penalty-free distribution of up to \$1,000 once a year for unforeseen personal or family financial emergencies.

2. Roth Emergency-Savings Accounts:

Employees at participating companies can establish Roth emergency-savings accounts, capped at \$2,500, allowing tax-free withdrawals for emergencies.

3. Total and Permanent Disability:

Individuals with a physical or mental condition preventing substantial gainful activity can make early withdrawals from IRAs or workplace plans without penalty.

4. Domestic Abuse Victims:

People who have suffered domestic abuse within the past 12 months can withdraw the lesser of \$10,000 or 50% of their account balance from IRAs or workplace plans.

5. Federally Declared Natural Disasters:

People in federally declared disaster (hurricanes, wildfires and floods) areas can withdraw up to \$22,000 from their IRAs and 401(k)s without penalty.

6. Terminal Illness:

Individuals diagnosed with a terminal illness, expected to result in death within seven years, are permitted penalty-free withdrawals of any amount from IRAs and employer plans.

7. Medical Insurance During Unemployment:

Unemployed IRA holders (including those with SEP and Simple IRAs) can make penalty-free withdrawals for medical insurance if they have received unemployment compensation for at least 12 consecutive weeks.

8. Other Exceptions for IRA (Education and First-Time Home Buyers):

IRA holders can make penalty-free withdrawals for qualified higher education expenses and up to \$10,000 for first-time home buyers.

9. Other Exceptions for Workplace Plans like 401(k)s:

It offers exemptions for those receiving qualified domestic-relations orders due to divorce and for public-safety employees aged 50 or with 25 years of service.