SECURITY BENEFIT

YOUR GUIDE TO 72(t) DISTRIBUTIONS FROM AN IRA

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TO AND THROUGH RETIREMENT

SECURITY BENEFIT LIFE INSURANCE COMPANY | FIRST SECURITY BENEFIT LIFE INSURANCE AND ANNUITY COMPANY OF NEW YORK

Life Isn't Predictable

Facing an unexpected reduction in income often leads people to assume they need to take a cash distribution from their retirement plan to meet their financial obligations.

To encourage saving for retirement, the IRS imposes a penalty for taking withdrawals from your IRA before age 59½. In fact, taking a cash distribution from your retirement plan can create a 10% withdrawal penalty unless an exception applies.

72(t) Could Be Your Solution

In 1989, the IRS modified its early distribution rules to provide an exception that has become known as 72(t) in the investment industry.

72(t) is the short way of saying Internal Revenue Code, Section 72, part t. It allows for the 10% penalty to be waived for distributions that are part of a series of **substantially equal periodic payments**. All IRA owners can qualify for payments under 72(t).

72(t) Withdrawal Guidelines

- Withdrawals must be a series of substantially equal payments made on a consistent basis, at least annually.
- The amount must be calculated according to one of three calculation methods–Required Minimum Distribution (RMD), amortization or annuitization.
- Payments must continue for five years or until the recipient reaches age 59½, whichever is longer.
- Once distribution begins, the amount and frequency (at least annually) of the payment cannot generally change. If modified, the 10% tax penalty applies to the entire amount distributed, plus interest.
- You can make a one-time change from either the amortization or the annuitization method to the RMD method. This will usually reduce the payments by about 50%.

If you need to make a withdrawal from your IRA, 72(t) could be your solution for creating the cash flow you need without facing IRS penalties.

Are 72(t) Distributions Right for You?

By using a 72(t) strategy, you can avoid the 10% early distribution tax penalty on your IRA (income taxes still apply). If you don't have an IRA, you can roll your retirement plan assets into an IRA. By rolling your retirement plan assets into an IRA, your money remains tax-deferred longer than if you take a lump-sum distribution.

> If you have an unexpected financial need, you don't have to "break" your IRA to access additional income. Using 72(t) strategies can give you the money you need while avoiding the IRS penalty for early withdrawals.

Let's Look at an Example

Michael is 48 years old and has worked as an electrical engineer for a small construction company for the past 26 years. His company was just acquired by a larger firm that subcontracts for electrical work, thus eliminating Michael's job. He is taking a new job but the salary is less than what he was receiving, creating a monthly cash flow shortage.

Michael will receive $340,000 from his 401(k) but he has 17 years before he is eligible for pension payments. With his $340,000, Michael wants to (1) generate $1,000 monthly in cash flow; (2) increase the value of investments for retirement; and (3) have options in case his needs change.

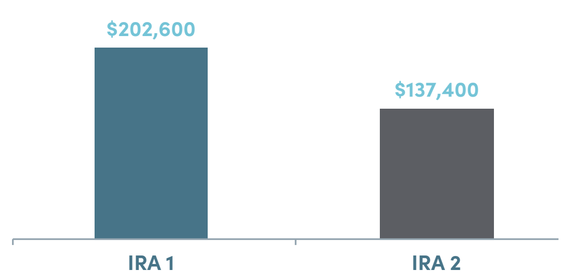
He has four possibilities: (1) Take the $340,000 in a lump sum (minus taxes and penalties); (2) roll the $340,000 into an IRA and utilize 72(t); (3) roll part of the money into an IRA and take the rest in cash, paying taxes and penalties on the cash distribution; or (4) select a combination.

Working with a financial professional, Michael rolls his $340,000 into two IRAs – $202,600 into the first and $137,400 into the second. With the first IRA, he will make income-oriented investments and take an annual payment of $12,000 ($1,000 monthly) using the 72(t) amortization method.

Michael invests the second IRA in growth-oriented investments to accumulate more earnings he can use when he retires. By using this strategy, Michael is able to subsidize his monthly income while avoiding penalties and continuing to save for retirement. However, distributions must continue for five years or until Michael reaches age 59½, whichever is longer.

	No Rollover	Direct IRA Rollover
Amount of distribution	$340,000	$340,000
24% income taxes	– $81,600	$0
10% early distribution penalty	– $34,000	$0
Amount available	$224,400	$340,000

$340,000 IRA Rollover



Assumes Michael is 48 years old, separates from his current employer and rolls his 401(k) into two, separate IRAs.

72(t) Method	Calculation of Method	Annual Amount
RMD	Account balance/IRS single life expectancy factor*	$5,318
Annuitization method	Account balance/Annuity factor from IRC Appendix B of Rev Ruling 2022-6**	$11,778
Amortization method	Account balance/ Amortization factor**	$12,000

* This calculation method does not include the Actuarial Present Value (APV) of any additional non-cash benefits included in your IRA. If the APV of such non-cash benefits was included, the Annual Amount would be higher.
** Based on age 48, $202,600 IRA balance, 5.0%, applicable federal rate

Your path *To and Through Retirement*®
begins here.

Talk to your financial professional to see whether a 72(t) can complement your retirement portfolio or contact us at 800.888.2461.

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