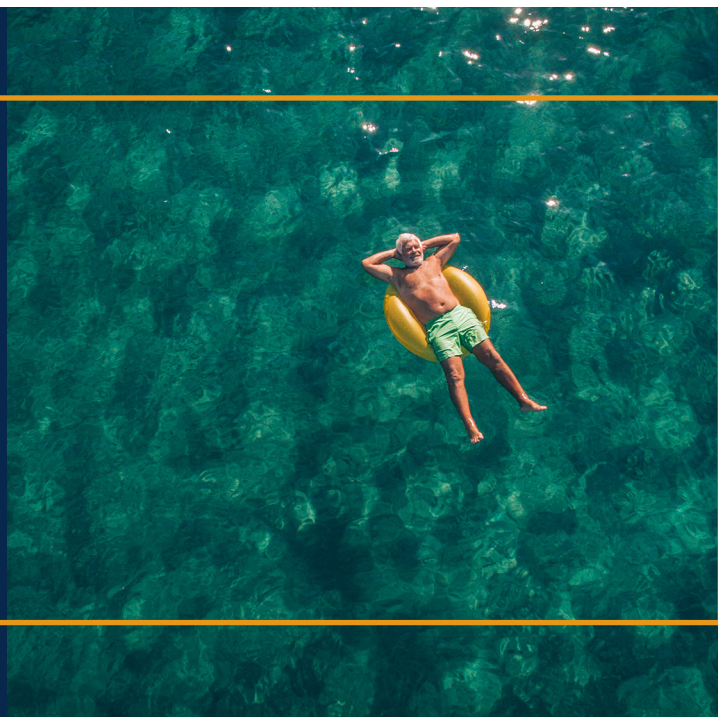


# How to Tap Retirement Accounts Before Age 59½

You generally can't tap retirement accounts early—unless you qualify for one of the exceptions.



Many Americans find themselves retiring earlier than expected due to unfortunate circumstances such as layoffs, health issues, or job dissatisfaction. Others are fortunate enough to retire early because they reach their financial goals ahead of schedule.

While investors may believe they'll have to pay a 10% penalty if they access their retirement accounts before age 59½, there are exceptions that allow penalty-free withdrawals or loans before then (though withdrawals may still be subject to ordinary income tax).

Because mistakes can lead to significant tax consequences, it's important to consult with a financial professional and/or tax professional before proceeding.

## How Can I Access My 401(k) at 55?

The **Rule of 55** allows certain individuals to take **penalty-free withdrawals** from specific retirement plans **before age 59½**, under the following conditions:

- You must **separate from service in the year you turn 55 or later** to qualify for the exception; leaving at 54 and waiting until 55 doesn't qualify.
- Withdrawals must come from the 401(k) or 403(b) plan of the employer you just left—the one you were contributing to at the time of separation. Withdrawals from previous employers' plans don't qualify.
- The Rule of 55 doesn't apply to IRAs—only to qualified employer-sponsored plans such as a 401(k), 403(b), and, in some cases, governmental 457(b) plans.

### Scenario: Early Retirement at 55

Maria is laid off from her job at age 54 in the year she'll turn 55. She has a 401(k) with the employer that laid her off. Because she left her job in the same calendar year that she turned 55, she can begin taking withdrawals from that 401(k) and pay ordinary income tax on the withdrawal but not the 10% early withdrawal penalty.

## Strategies Discussed for Early Access to Retirement Plans

- Rule of 55 (early 401(k) withdrawal)
- Rule 72(t): Substantially Equal Periodic Payments (early IRA or 401(k) withdrawal)
- 401(k) Loans
- Roth IRA Contributions
- Additional Retirement Withdrawal Penalty Exceptions for Life Events, Health, Education, Housing, and More

### Strategy Tip

If you have old 401(k) or 403(b) accounts from previous employers, consider rolling them into your current employer's plan—if the plan allows it—before you separate from service. This can help you:

- Consolidate your retirement savings
- Potentially increase the amount eligible for penalty-free withdrawals under the Rule of 55

This helps ensure more of your retirement funds are accessible without the 10% early withdrawal penalty.

## How Can I Access My IRA or 401(k) Before 59½?

Rule 72(t) allows you to take early withdrawals from your retirement accounts, such as an employer-sponsored plan or IRA, before age 59½ without incurring the 10% early withdrawal penalty—as long as your plan allows it and you follow specific rules.

### How It Works

- You must take **Substantially Equal Periodic Payments (SEPP)**—a recurring **payment stream** based on your **life expectancy**
- These payments must continue for at **least five years** or until you turn 59½, whichever is **longer**
- The payment amount can be calculated using one of three **IRS-approved methods**:

Distribution Method	Annual Payment	Calculation Method
Required Minimum Distribution (RMD)	Lowest initial amount	Life expectancy
Fixed Amortization	Equal payments	Fixed interest rate and life expectancy
Fixed Annuitization (more complex; less commonly used)	Equal payments	Annuity factor



Substantially Equal Periodic Payments is another strategy for taking penalty-free withdrawals before age 59½.

### Scenario: Early Retirement at 53 Using Rule 72(t)

David is 53 years old and wants to retire early. He has \$1,000,000 in a rollover IRA and \$350,000 in a traditional IRA. His wife is 55 years old.

He wants to begin **Substantially Equal Periodic Payments (SEPP)** using the **Required Minimum Distribution** method.

#### Options:

- **Higher Annual Distributions:**  
He could apply Rule 72(t) to **both IRAs** and calculate the distributions based **solely on his own life expectancy**. This approach results in **larger annual payments**, as the calculation is designed to provide payments to last **only for his lifetime**.
- **Lower Annual Distributions:**  
He could apply Rule 72(t) to **only one IRA** and use a **joint life expectancy** calculation with his spouse. This results in **smaller annual payments**, since the funds are expected to last for **both of their lifetimes**.

Here's a hypothetical distribution schedule for David's \$1 million rollover IRA, based on his life expectancy alone and assuming no investment growth. Actual results will vary based on market performance and individual circumstances. David's withdrawals will be subject to ordinary income tax but not the 10% early withdrawal penalty.

### Hypothetical SEPP Distribution Schedule (Single Life RMD Method)

Age	Account Balance	Single Life Expectancy	Annual Distribution
53	\$1,000,000.00	31.5	\$31,746.03
54	\$968,253.97	30.6	\$31,642.29
55	\$936,611.68	29.6	\$31,642.29
56	\$904,969.40	28.7	\$31,532.03
57	\$873,437.36	27.8	\$31,418.61
58	\$842,018.75	26.9	\$31,301.81
59	\$810,716.94	26.0	\$31,181.42

For illustrative purposes only. No investment growth was used to simplify the illustration.

### Strategy Tip

Maintain clear documentation of the account(s) used in the original SEPP calculation. Be sure to include:

- The **account balance** at the time of calculation
- The **calculation** method selected
- The **life expectancy** table applied

You'll need this documentation to stay compliant and for future reference, especially if audited or if your financial situation changes.

SEPP is **irreversible** once you've begun. If you modify or stop your 72(t) distributions, you'll be assessed a 10% early withdrawal penalty **retroactive** to the first year of the SEPP—not just the year in which the violation occurred. You may also owe interest on the unpaid penalties from the date they were originally due, and you'll likely need to amend prior tax returns to reflect the penalty and interest.

**Bottom line:** Be very careful and make sure to consult with your tax professional and/or financial professional.

## Can I Borrow Money From My 401(k)?

Many 401(k) and employer-sponsored plans allow participants to take a loan and repay it—with interest—back into their own account.

The **maximum loan amount** is the lesser of **\$50,000** or **50% of your vested account balance**. If your vested balance is less than \$10,000, you may be allowed to borrow up to the full amount of your balance.

### 1. Repayment Terms:

- Standard repayment period is up to **five years**
- For a primary residence: term may be extended **beyond five years**, depending on the plan

### 2. Repayment Method:

- You must make **substantially equal payments** at least **quarterly**
- Typically repaid through **payroll deductions**



The maximum 401(k) loan amount is the lesser of \$50,000 or 50% of your vested account balance.

### 3. Interest:

- Plans typically charge interest at the **prime rate + 1%**<sup>1</sup>
- **You receive the interest** you pay back into your own account

### 4. Documentation Requirements:

- The plan sponsor must retain:
  - Loan application and approval records
  - Executed loan agreement
  - Repayment schedule and evidence of payments
  - Documentation if the loan is for a **home purchase**

### 5. Default Consequences:

- If you fail to repay the loan, the IRS treats the outstanding balance as a **taxable distribution**
- If you're under age 59½, a **10% early withdrawal penalty** may apply

#### Scenario: 401(k) Loan to Buy a House

Christina is 45 years old and has \$150,000 in a 401(k) that's fully vested. She wants to purchase a \$500,000 house and wants to make a 20% down payment (\$100,000) so she won't have to pay Private Mortgage Insurance (PMI).<sup>2</sup>

She can use \$50,000 of her personal savings, take a 30-year loan from her 401(k) for \$50,000, and finance the remainder through a lender. Her 401(k) loan will be repaid through automatic payroll deductions. Some plans allow participants to make extra payments to repay the loan more quickly, while others restrict extra payments to a lump-sum payoff of the entire balance.

**Caveat:** If she decides to leave her employer before the loan is repaid, the outstanding balance would be taxed as ordinary income at her current tax bracket and subject to a 10% penalty since she's younger than 59½. You generally have until the due date of your federal tax return (including extensions) for the year you left your job to repay the loan (i.e., 2026 tax-filing deadline if you separate from service in 2025), but your 401(k) plan may require immediate repayment upon termination.

#### Strategy Tip

While a 401(k) loan provides easy access to your money, borrowing removes that amount from your investments, potentially setting back your financial goals. **Consider exhausting other options before taking out a 401(k) loan.**

Failure to repay a loan is considered a **default** and will be treated as a distribution that may incur both taxes and penalties.

Not all plans allow loans, and loan terms vary by plan, so check with your plan document or plan administrator for details.

## Can I Access My Roth IRA Contributions?

You can withdraw your Roth IRA contributions at any time, for any reason, tax- and penalty-free, regardless of how long the account has been open. Earnings (the growth on your investments) are subject to a 10% early withdrawal penalty and ordinary income tax if withdrawn before age 59½. Note: This rule doesn't apply to Roth contributions in a 401(k), 403(b), or 457(b).



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### Scenario: Using Roth IRA Contributions as a Bridge to 59½

Dana, age 57, has been funding her Roth IRA for years. Her account balance is \$175,000 (\$100,000 from contributions and \$75,000 from earnings). She got laid off unexpectedly and doesn't want to find another job. She can withdraw her \$100,000 in contributions over the next two years tax-free and penalty-free to provide her with income until she turns 59½ and can withdraw money from her 401(k) plan penalty-free. The IRS requires contributions to be withdrawn first, so if she withdraws more than \$100,000 (i.e., a pulls from the \$75,000 in earnings), that portion of the withdrawal would be subject to ordinary income taxes and a 10% penalty unless exceptions apply. Qualified distributions of earnings (after age 59½ and 5 years in the account) are tax- and penalty-free.

## Additional Ways to Access Your Money

Below are additional exceptions that generally allow you to access qualified retirement funds **without paying the 10% early withdrawal penalty**, though ordinary income taxes may still apply. If you have a pressing financial need, use this list as a starting point for discussions with your financial professional and/or tax professional.

### Life Events

#### Disability (IRA and Employer-Sponsored Plans)

- If you become totally and permanently disabled

**Scenario:** Tom, age 50, becomes permanently disabled. He can withdraw from his IRA or 401(k) without the 10% penalty due to his disability status.

#### Death (IRA and Employer-Sponsored Plans)

- Beneficiaries can withdraw funds without penalty after the account holder's death

**Scenario:** After Sarah passes away at 62, her son inherits her IRA and 401(k). He can take distributions from both without the 10% penalty.

#### Terminal Illness (IRA and Employer-Sponsored Plans)

- If a physician certifies that you have a terminal illness that can reasonably result in death within 84 months (7 years), you may qualify for penalty-free withdrawals.

**Scenario:** Jordan, age 49, is diagnosed with a terminal illness and receives a physician's certification confirming the prognosis. Jordan withdraws \$25,000 from a 401(k) to cover medical and living expenses. Because the distribution meets the terminal illness exception, Jordan avoids the 10% early withdrawal penalty.

#### Birth or Adoption of a Child (IRA and Employer-Sponsored Plans)

- Up to \$5,000 per parent, per child

**Scenario:** New parents Hank and Lexie each withdraw \$5,000 from their 401(k) or IRA after adopting a child. These withdrawals are penalty-free.

#### Domestic Abuse (IRA and Employer-Sponsored Plans)

- Victims can withdraw the lesser of \$10,000 (indexed for inflation) or 50% of their vested account balance from a 401(k), 403(b), 457(b), or IRA

**Scenario:** Nina, age 40, leaves an abusive relationship. She withdraws \$8,000 from her 401(k) under the domestic-abuse exception, avoiding the penalty.

### Health

#### Unreimbursed Medical Expenses (IRA and Employer-Sponsored Plans)

- If they exceed 7.5% of your adjusted gross income (AGI)

**Scenario:** Carlos, age 52, has \$20,000 in medical bills and an AGI of \$100,000. Since his expenses exceed 7.5% of AGI (\$7,500), he can withdraw the excess (\$12,500) from his IRA or 401(k) penalty-free.

## Client Conversations

### Health Insurance Premiums (IRA only)

- If you're unemployed and meet certain conditions

**Scenario:** After losing her job, Maria, age 48, uses IRA funds to pay for COBRA health-insurance premiums. She isn't subject to the 10% penalty.

### Education and Housing

#### Qualified Higher Education Expenses (IRA only)

- For tuition, fees, books, and supplies for you or your dependents

**Scenario:** Mark, age 50, uses \$10,000 from his IRA to pay for his daughter's college tuition. He isn't subject to the early withdrawal penalty.

#### First-Time Home Purchase (IRA only)

- Up to \$10,000 lifetime limit

**Scenario:** Ellie, age 35, withdraws \$10,000 from her IRA to help buy her first home. She qualifies for the lifetime limit and isn't subject to the penalty.

### Consolidating Retirement Accounts

#### Rollovers

- If done within 60 days, rollovers between retirement accounts are not penalized

**Scenario:** Sophie withdraws \$50,000 from her 401(k) and deposits it into an IRA within 60 days. She avoids taxes and penalties because it qualifies as a rollover.

**To learn more about accessing qualified money, talk to your financial professional or tax professional.**

<sup>1</sup> Prime rate is the interest rate commercial banks charge to their most creditworthy corporate borrowers; it serves as a benchmark for other interest rates such as mortgages, personal loans, and credit cards.

<sup>2</sup> Private Mortgage Insurance (PMI) is typically required by a mortgage lender on a conventional loan if a buyer's down payment is less than 20% of the principal amount.

**Important Risks:** Investing involves risk, including the possible loss of principal.

This is for informational purposes only and should not be construed as legal or tax advice. IRS guidance on SEPP is subject to change and should be reviewed with a tax professional.

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