



SoSEPPs Allow Penalty-Free Access to Retirement Savings at Any Age

You're probably aware that a 10% penalty tax generally applies to distributions from qualified retirement plan accounts prior to age 59½, unless an exception applies; however, you may not be aware of the exception that allows retirement account holders to access their savings at any age, penalty-free.¹ Specifically, this exception allows distributions through a series of substantially equal periodic payments (SoSEPPs). Also known as the 72(t) strategy, SoSEPPs are subject to strict and complicated rules, so it may be best to proceed with caution.

SoSEPPs explained

Under the SoSEPP rule, you can take distributions from IRAs and most work-based plan accounts in a series of regular payments calculated using a specific method over a certain period of time. The payments must be taken at least annually and continue for a minimum of five years or until you reach age 59½, whichever is later. You may also be allowed to establish an installment arrangement — quarterly or monthly, for example — that totals the required payment each year. With respect to work-based plans, SoSEPPs can be used only after you separate from service from the employer maintaining the plan.

You may use one of three methods for calculating the payment — the required minimum distribution (RMD) method, the fixed amortization method, or the fixed annuitization method. Distribution amounts are based on your life expectancy or that of you and your beneficiary. To calculate the correct amount, you'll need to determine which method to use and then choose a life expectancy table (found in IRS Publication 590-B), interest rate (for the amortization or annuitization methods only), and account valuation date.

The IRS permits a one-time change from either the amortization or annuitization method to the RMD method. Otherwise, if you change from one distribution method to another or fail to take the required amount in any given year, the 10% penalty (plus interest) will generally apply to not only the current year's distribution(s) but to all prior SoSEPP distributions.²

Note that you cannot make additional contributions to the account nor take payments other than the SoSEPPs during the required period. Additionally, if the account balance reaches zero before the required time period is up, no penalty will apply.

Although it may be comforting to know you can access your retirement account penalty-free at any age, calculating and managing SoSEPPs is a complex process. Mistakes can be costly. For these reasons, you may want to seek the guidance of a qualified tax professional before making any decisions.

- 1) There is a 25% penalty for distributions from SIMPLE IRAs taken within the first two years of participation.
- 2) The 10% penalty, plus interest, does not apply if the change was due to death, disability, or another IRS-approved reason.

This article is produced by Broadridge Investor Communication Solutions, Inc., and provided to you as a courtesy by your representative. Broadridge Investor Communication Solutions, Inc. is not an affiliate of Cetera Advisor Networks LLC.

Clelan and Company, 210 Grandview Avenue, Suite 101, Camp Hill, PA 17011
www.clelan.com financialpro@clelan.com

Registered representatives offering securities through Cetera Advisor Networks LLC, member FINRA/SIPC, doing insurance business in CA as CFGAN Insurance Agency LLC: CA Insurance License #0644976. Advisory services offered through Vicus Capital, Inc., a Registered Investment Advisor. Cetera is under separate ownership from any other named entity. Douglas Clelan CA Insurance License #0M07670. Andrew Kern CA Insurance License #4201977.

For a comprehensive review of your personal situation, always consult with a tax or legal advisor. Neither Cetera Advisor Networks LLC nor any of its representatives may give legal or tax advice.

The opinions contained in this material are those of the author, and not a recommendation or solicitation to buy or sell investment products. This information is from sources believed to be reliable, but Cetera Advisor Networks LLC cannot guarantee or represent that it is accurate or complete.

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2023.