



IRA Withdrawals That Escape the 10% Penalty

Weekly Educational Update – March 20, 2019

An IRA, or Individual Retirement Account, is a tax-advantaged account that is subject to special rules regarding contributions and withdrawals. One of the central rules of IRAs is that withdrawals prior to age 59½ are generally subject to a tax penalty.

Yet, policymakers acknowledged that extenuating circumstances might require access to these savings. In appreciation of this, the list of exceptions for waiving this penalty has grown over the years.

Penalty-Free Withdrawals

Outlined below are the circumstances under which individuals may withdraw from an IRA prior to age 59½, without a tax penalty. Ordinary income tax, however, is generally due on such distributions.¹

Death – If you die prior to age 59½, the beneficiary(ies) of your IRA may withdraw the assets without penalty. However, if your beneficiary decides to roll it over into their IRA, they will forfeit this exception.²

Disability – Disability is defined as being unable to engage in any gainful employment because of a mental or physical disability, as determined by a physician.³

Substantially Equal Periodic Payments – You are permitted to take a series of substantially equal periodic payments and avoid the tax penalty, provided they continue until you turn 59½ or for five years, whichever is later. The calculation of such payments is complicated, and individuals should consider speaking with a qualified tax professional.⁴

Home Purchase – You may withdraw up to \$10,000 toward the purchase of your first home (\$20,000 for a married couple). You cannot have owned a home within the last two years.³

Unreimbursed Medical Expenses – This exception covers medical expenses in excess of 10% of your adjusted gross income.³

Health Insurance – After a job loss, there are rules in place that allow the purchasing of health insurance, without penalty.³

Higher-Education Expenses – Funds may be used to cover higher-education expenses, such as tuition, student fees, textbooks, supplies, and equipment. Only certain institutions and associated expenses are permitted.³

Active Duty Call-Up – Reservists who make an IRA withdrawal during a period of active duty of 180 days or longer do not have to pay a 10% early withdrawal penalty.³

As always, be sure to speak with a tax professional about your specific situation.

QUOTE OF THE WEEK



“Never discourage anyone...who continually makes progress, no matter how slow.”

– Plato

RECIPE OF THE WEEK



Fresh-Squeezed Lemon Cake



Yield: 2 (8-inch) loaves

Ingredients:

2 sticks unsalted butter, use at room temperature

2½ cups granulated sugar, divided
4 extra-large eggs, use at room temperature
⅓ cup grated lemon zest (6 to 8 lemons)
3 cups flour
½ tsp. baking powder
½ tsp. baking soda
1 tsp. kosher salt
¾ cup freshly squeezed lemon juice, divided
¾ cup buttermilk, use at room temperature
1 tsp. pure vanilla extract

For the glaze

2 cups confectioners' sugar, sifted
3½ Tbsp. freshly squeezed lemon juice

Directions:

Cake

1. Heat your oven to 350°F. Grease and flour 2 (8½" x 4¼" x 2½") loaf pans.
2. In the bowl of an electric mixer, using the paddle attachment, cream the butter and 2 cups of sugar, about 5 minutes. You want a fluffy texture. Add the eggs, one at a time, mixing on medium speed, and then, add the lemon zest.
3. Sift the flour, baking powder, baking soda, and salt in a bowl. Combine ¼ cup lemon juice, the buttermilk, and vanilla in a separate bowl. Alternate adding the flour and buttermilk mixtures to the batter in the mixing bowl. Once combined, pour the final batter evenly into the 2 pans and bake for 45 minutes to 1 hour, until a toothpick comes out clean.

Syrup

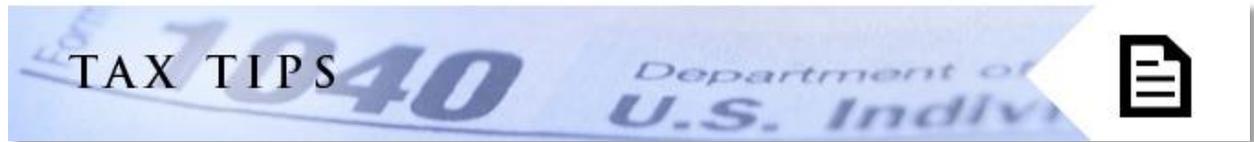
1. Put ½ cup granulated sugar with ½ cup lemon juice into a small saucepan. Simmer over low heat until the sugar dissolves.
2. Remove syrup from heat.
3. Cool the cakes for 10 minutes, then turn them out on a sheet pan.
4. Spoon the lemon syrup over them. Allow the cakes to cool completely.

Glaze

1. Whisk the confectioners' sugar and lemon juice together in a bowl until smooth.

2. Glaze the cakes, drizzling the topping down the sides.

Recipe adapted from Food Network⁵



Pensions and Annuities: What's Taxed?

Depending on the types of retirement benefits you receive, they could be taxable. Here are some basics:

Fully Taxable Payments

The pension or annuity payments that you receive are fully taxable if you don't have an investment in the contract because:

- You didn't contribute anything to your pension or annuity
- Your employer didn't withhold contributions from your salary
- You have received all your contributions tax-free in prior years

Partially Taxable Payments

If you made after-tax contributions to your pension or annuity, your pension payments are partially taxable. You don't pay taxes on the portion of the payment that's a return of the after-tax amount you paid.

Additional 10% Tax on Early Distributions

Receiving pension or annuity payments before age 59½ may subject you to an additional 10% tax on early distributions. The additional tax doesn't apply to the portion of a distribution that is tax-free or distributions made:

- As a part of a series of substantially equal periodic payments beginning after your separation from service
- Because you're totally and permanently disabled
- On or after the death of the plan participant or contract holder
- After your separation from service and in or after the year you reached age 55

* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS.gov⁶



Want a Longer, Cleaner Drive? Grab a Towel.

Unlike most of the clubs which require a downward hit on the ball for good contact, the driver requires an upward strike. Unfortunately, most amateur golfers do the opposite, catching the ball when the club is still moving downward – leading to pop-ups and less-than-impressive distance. This might sound a little strange, but this is when you go grab a towel.

This isn't a new tip, but it is an effective one. Next time you're practicing your tee shots, take a rolled-up towel and place it a few inches in front of the ball. As you try to avoid the towel, your body will naturally hit higher "up" on the ball.

Changing your angle of attack in this way will create optimal launch conditions for a truly awe-inspiring drive.

Tip courtesy of Alison Curdt, PGA | Golf Tips Magazine⁷



Intermittent Fasting Benefits

Giving yourself a fasting period each day, plus a limited window of time that you do eat, may be seriously beneficial to your health. Intermittent fasting involves time periods in which you eat and alternating ones in which you don't. For example, if you have your last meal of the day at 5 pm, and you don't eat until 9 am the next day, that is a 16-hour cycle of fasting and an 8-hour cycle of eating. Here are some evidence-based benefits:

Weight loss

You'll eat fewer meals, take in fewer calories, enhance hormone function, and reduce insulin levels to more efficiently use fat for energy. Your metabolic rate can increase too.

Reduction in blood sugar levels

Intermittent fasting may reduce fasting blood sugar and protect against kidney damage.

Resistance to oxidative stress

Studies have shown that intermittent fasting can enhance the body's resistance to the oxidative stress that could lead to aging and chronic disease.

Tip adapted from Healthline⁸



Where's My Recycling Really Going?

You may be recycling items that are dirty and have multiple types of materials, which are difficult to separate. Even though you have good intentions, there's a chance that the items you're trying to recycle could be going straight to the landfill, since these items need to meet certain cleanliness and material requirements in order to be processed correctly by a recycling center. Check out these tips for more streamlined recycling.

Plastics: Plastics numbered 3 to 7, used to package products such as yogurt, butter, and cooking oils, are no longer accepted.

Greasy takeout containers and pizza boxes: Even recyclable plastic takeout containers will go to the landfill unless they're clean. Pizza boxes often cannot be recycled, since the oil can't be separated from the cardboard.

Plastic bags: They cause a nightmare for recyclers, since they stop up recycling machinery. Try taking them to plastic bag drop-off locations, where they'll be sent to special recycling facilities capable of processing them appropriately.

Tip adapted from The New York Times⁹

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¹ <https://www.marketwatch.com/story/gearing-up-for-retirement-make-sure-you-understand-your-tax-obligations-2018-06-14>

² <https://www.investopedia.com/articles/personal-finance/102815/rules-rmds-ira-beneficiaries.asp>

³ <https://money.usnews.com/money/retirement/slideshows/ways-to-avoid-the-ira-early-withdrawal-penalty>

⁴ <https://www.investopedia.com/articles/retirement/02/112602.asp>

⁵ <https://www.foodnetwork.com/recipes/ina-garten/lemon-cake-recipe-1913110>

⁶ <https://www.irs.gov/taxtopics/tc410>

⁷ <https://www.golftipsmag.com/instruction/driving/try-towel-drill-for-longer-drives/>

⁸ <https://www.healthline.com/nutrition/10-health-benefits-of-intermittent-fasting#section1>

⁹ <https://www.nytimes.com/2018/05/29/climate/recycling-wrong-mistakes.html>