Quick Reference

W&S Financial Group Distributors
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Five Keys for Avoiding the...

10% Early Distribution Penalty Tax

1. Immediate annuities aren't subject to the 10 percent early distribution penalty tax on nonqualified annuities. Provided the funds aren't from a 1035 exchange, a SPIA of any duration is exempt. If the funds are from a 1035 exchange, the IRS will consider the purchase date of the new contract to be the date when the deferred annuity was purchased. Thus, the SPIA will not satisfy the immediate annuity exception (payment commences within one year of date of purchase). Likewise, a deferred income annuity (DIA) by definition can't satisfy the immediate annuity exception. It instead must meet one of the other exceptions in order to avoid the penalty.

2. If a younger surviving spouse (not yet age 59½) may need any of the funds in the account before age 59½, they should not execute a spousal rollover. The exception for death is available only if the account remains in the name of the deceased owner.

3. If a younger divorcing or separating spouse (not yet age 59½) is negotiating a qualified domestic relations order (QDRO) regarding the other spouse's qualified plan and may need any of the funds before age 59½, they may want to consider if a series of distributions directly from the other spouse's qualified plan may be available. Distributions from a spouse's qualified plan pursuant to a QDRO would be exempt from the 10 percent early distribution penalty. There is no similar exception for an IRA. Thus, any distribution from the rollover IRA would require satisfying another exception.

4. If a person who separates from service in or after the year they attain age 55 but before age 59½ wants to access the funds in their qualified plan or 403(b) annuity before age 59½, they should not execute a rollover to an IRA. This exception is not available for funds in an IRA. Persons who separated before age 55 are not eligible for this exclusion once they attain age 55.

5. The series of substantially equal periodic payments (SOSEPP) exception is a useful planning tool. No specified event or specific use of the money is required. However, the rules for satisfying the SOSEPP exception are complex. The tax consequences of a mistake (penalties and interest going back to the first payment in the series) can be drastic. A lifetime qualified or nonqualified SPIA with no increasing payout option may satisfy the requirements for a SOSEPP exception to the 10 percent early distribution penalty and allow the owner to "fix it and forget it."

See side 2 for all the exceptions applicable to nonqualified annuities, IRAs and qualified plans.

Issuers: Integrity Life Insurance Company | National Integrity Life Insurance Company | Western-Southern Life Assurance Company

Early-Distribution-Penalty Exceptions

72(q) – Nonqualified Annuity	72(t) – IRA	72(t) – Qualified Plan
Age 59½*	Age 59½	Age 59½
Death	Death	Death
Disability	Disability	Disability
Series of substantially equal periodic payments (SOSEPP)	SOSEPP	SOSEPP
Allocable to investment in the contract before August 14, 1982	Made to an owner for medical care deductible under IRC Section 213	Made to an owner for medical care deductible under IRC Section 213
Immediate annuity contract**	Made to pay "qualified higher education expenses" during the taxable year for the taxpayer, the taxpayer's spouse or the child or grandchild of the taxpayer or the taxpayer's spouse	Made to an employee after separation from service after attainment of age 55 (50 if a qualified public safety employee)
Qualified funding asset	Made to unemployed individuals for the payment of health insurance premiums	Made to an alternate payee under a qualified domestic relations order
Any payment made from an annuity purchased by an employer upon termination of a qualified plan and held by the employer until the employee's separation from service	"Qualified first-time homebuyer distributions" up to $10,000 (lifetime limit); not available if the withdrawal qualifies for another exception	Dividends paid with respect to stock of a corporation (ESOPs only)
	Contributions withdrawn before due date (earnings are subject to penalty)	Return of certain excess contributions
	Qualified reservist distributions	Qualified reservist distributions (limited to elective deferral portion)
	Made on account of certain IRS levies against the plan	Made on account of certain IRS levies against the plan
	Certain tax-favored disasters (e.g., Hurricane Katrina)	Certain tax-favored disasters (e.g., Hurricane Katrina)
	"Qualified birth or adoption distributions" up to $5,000; may be repaid to an eligible rollover plan	"Qualified birth or adoption distributions" up to $5,000; may be repaid to an eligible rollover plan
	"Coronavirus-related distributions" up to $100,000 in 2020; may be repaid to an eligible rollover plan within 3 years	"Coronavirus-related distributions" up to $100,000 in 2020; may be repaid to an eligible rollover plan within 3 years

* In the case of a grantor trust, the grantor's age controls. Info Letter 2001-0121 (April 19, 2001).

** In the case of a 1035 exchange, the purchase date of the new contract is considered to be the date upon which the deferred annuity was purchased for purposes of the 10 percent penalty tax; thus, the immediate annuity exception does not apply.

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Payment of benefits under the annuity contract is the obligation of, and is guaranteed by, the insurance company issuing the annuity. Guarantees are based on the claims-paying ability of the insurer. Product approval, availability and features may vary by state. Earnings and pre-tax payments are subject to income tax at withdrawal. Withdrawals prior to age 59½ are generally subject to a 10% IRS penalty tax.

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