

January 26, 2023

There is a 10% tax penalty for withdrawing from retirement accounts before age 59 ½, with a few exceptions:

- Death or disability
- Unreimbursed medical expenses over 7.5% of AGI
- Medical insurance while unemployed
- Qualified higher education expenses
- 72(t) Substantially Equal Periodic Payments
- \$10,000 for first time home purchase
- Qualified reservist withdrawals
- \$5,000 for the birth or adoption of a child

The SECURE Act 2.0 Expands the List of Exceptions to the 10% Penalty

- No penalty for **firefighters, corrections officers, and forensic security employees**, if they retire at 50+, and funds are withdrawn from their employer plan.
- No penalty for **public safety workers**, after 25+ years of service with the same employer.
- No penalty for withdrawals up to \$22,000 if within a federally declared **disaster area** (hurricanes, floods, wildfires, etc.). The withdrawal must happen within 180 days of the event.
- No penalty if the account owner has a **terminal illness**, where death is expected within 7 years.
- No penalty for withdrawals that are the smaller of \$10,000 or 50% of vested balance in cases of **domestic abuse**.
- No penalty for withdrawals up to \$1,000 for “**emergencies**.” The definition is very loose, so it seems almost any reasonable explanation is acceptable.
- Starting in 2026, withdrawals that are the smaller of \$2,500 or 10% of the vested balance will have no penalty, if used for **long term care insurance premiums** for the account owner or spouse.



New “Linked Emergency Savings Accounts”

A new type of account is linked to employer retirement plans. An employee can contribute up to 3% of income, up to a maximum of \$2,500/year. This is **not** available to highly compensated employees

(income over \$135,000, 5%+ owner of company, top 20% of compensated employees). Employer matches are allowed.

Growth is tax-sheltered, and up to 4 withdrawals per year are tax and penalty free. If an employee leaves the company, they can cash it out, or roll the balance into a Roth IRA.

More Roth Opportunities

Roth versions of SEP and SIMPLE IRAs are now permitted. While contributions are included in income and taxed, withdrawals are tax-free once the first contribution was 5+ years ago, and the account owner is 59 ½.

Employers can make matching and/or nonelective contributions to Roth in 401(k)s and 403(b)s, instead of just regular contributions.

My favorite: the SECURE Act 2.0 does not make any changes to the “backdoor Roth contribution” strategy.

Student Loan Payments and Employer Matching

Employers can update their retirement plans to match amounts paid by employees toward student debt. This looks like a great recruitment tool as employers compete for the next generation of talent.

Around the Office

Last weekend, Fran and I, and our gentlemen, enjoyed the Annual Financial Answers Feast.

If you find yourself in the Palmer MA area, I highly recommend stopping at the [Steaming Tender](#) restaurant. The location is charming: a converted train station, located between several railroad tracks. Trains still pass by, although not on the night we were there. My Limoncello Haddock was amazing, and I'll be visiting on my birthday for the Aromatico Parmigiano.



Financial Answers supports the [Ellington Farmers Market](#), which is held indoors in the winter. Upcoming dates are:
February 4th - Get Ready for Valentine's Day
February 18th - Stock Up Market