Here's how to withdraw qualified money free of penalty

MORE THAN MONEY

SID MITTRA Ph.D

If you withdraw money from an Individual Retirement Account (IRA) before you reach age 59½, but do not roll it over within 60 days, you will not only have to pay income tax on most, if not all, of what you withdraw (it depends on whether you have made non-deductible contributions), but you'll also have to pay the 10-percent penalty tax on early withdrawals.

The same goes for pre-age-59½ withdrawals from employer retirement plans: Generally you'll have to pay the 10-percent penalty, in addition to the applicable federal, state, and local income taxes.

There's an important exception to the 10-percent penalty that applies to withdrawals from IRAs and employer plans. The 10-percent penalty is not imposed on "substantially equal periodic payments" taken — regardless of your age — from your IRA. The amounts must be taken out over your life expectancy, and must be paid at least annually. The "substantially equal periodic payments" exception applies to withdrawals from employer plans, too, but only if the employee has "separated from service" and is no longer employed by the employer.

The following illustration clarifies the point. Suppose Bob James is 50 years old and has $400,000 in his IRA. If he withdraws from his IRA, then he would be slapped with a 10-percent excise tax. However, Bob could avoid the excise tax completely by converting the IRA into a lifetime annuity. In that case, using today's interest rates, the monthly payments would approximate $2,350, and federal income taxes would be due on the annual withdrawals.

Certain requirements, not discussed here, must be met for the withdrawals to meet the "substantially equal periodic payments" exception. Also, please note that there are other exceptions to the 10-percent penalty, such as distributions made on the death of the IRA owner, and distributions due to the IRA owner's disability.

With an employer plan, there's another exception to the 10-percent penalty that does not apply for IRAs. You can take money out in any amount — lump sum or periodic payments — if you have reached the age of 55 and have separated from service (quit or retired).

A good thing to keep in mind about the "substantially equal" payments applicable to the employer plan is that these payments do not have to be continued until death. They can be discontinued or changed once (1) the participant reaches age 59½ or (2) a five-year period elapses, whichever of these is later. This option may be helpful to those wishing to dip into retirement savings only for a short term, or to those who wish to retire before Social Security or pension payments begin.

For instance, take the case of Linda Doer who is 56 years old and wishes to take an early retirement from his company. The law would allow her to withdraw, without penalty, part of her qualified money in five equal installments and then stop withdrawing these payments altogether. However, if Linda was only 52 years old, she would have to continue these withdrawals for 7½ years until she was 59½ years old.

On a related subject: You may be aware that post-1992 payouts from employer plans are generally subject to a mandatory 20-percent federal withholding. Mandatory withholding can be avoided if a payout is transferred directly to another plan or to an IRA trustee. However, amounts that are "substantially equal periodic payments" are not subject to mandatory 20-percent withholding.

Sid Mittra, Ph.D., CFP, is professor of finance, Oakland University, Rochester Hills, and owner, Mittra & Associates, a Troy financial consulting firm. Oakland University Professor Jerrold Grossman critically reviewed this column.

BUSINESS MILESTONES

This column highlights promotions, transfers, hirings, openings and other key business news with Farmington-area connections. Send a brief biographical summary — including the towns of residency and employment and a photo, if possible, to: Business Editor, Farmington Observer, 33411 Grand River, Farmington 48335. The Observer's fax number is (810) 477-9722.

William and Lois Triplett founded Hospital Dietary Service, Inc. of Farmington Hills 30 years ago. "A company can only be successful through its human resources," says William Triplett. The company is ranked within the top 200 food service firms in the country and provides management services to more than 180 facilities located in four primary geographic markets. The corporate headquarters are in Farmington Hills.

Wild Birds Unlimited, located in Farmington Hills, a retailer specializing in bird feeders and houses, seed, books and other nature items, has moved to 29405 W. 12 Mile road at Middlebelt in the Rainbow Square shopping plaza.

Deloitte & Touche, a Detroit accounting firm, has appointed Philip Ross of Farmington Hills manager in the management consulting department of the Michigan Practice in the Detroit Office. Ross, who specializes in finance and information technology, joined the firm in 1993. He received a bachelor of arts degree in economics from Harvard University and received a master of management degree from the J.L. Kellogg Graduate School of Management, Northwestern University.

The Detroit office of **Bozell Worldwide Advertising** announced the promotion of Lisa Nagro of Farmington Hills to producer to create work for several of the agency's accounts.

Brian Connolly of Farmington Hills, president and CEO of Mission Health has joined the Board of Trustees for Huron Valley Ambulance. Previously, Connolly was president of Providence Hospital for over nine years and has also held various administrative positions at Oakwood Hospital in Dearborn.

Republic Bancorp Mortgage Inc. in Farmington Hills announces that Michael Verdun has been named Human Resource Manager. He has a bachelor's degree in human resource from Western Illinois University.

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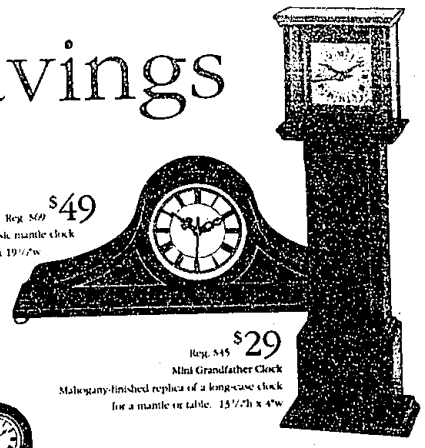

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