

Retirement isn't always a straight line

Retirement doesn't always happen on schedule. Some clients may want — or need — access to retirement savings before age 59½. A thoughtful strategy can help provide flexibility while keeping the rest of the retirement plan on track.

Why clients may consider early access



Early retirement by choice

More time for family, travel, personal priorities, or a gradual move away from work.



Planning opportunities

Roth conversions, legacy or insurance planning, business transitions, or real estate opportunities.



Life events

Health concerns, caregiving, job changes, layoffs, or an unexpected need for cash.

Bridging to Social Security

Some clients retire before they are ready to claim Social Security. Planned withdrawals during those years may provide income and give the client more flexibility around when to claim Social Security. They may also create room for Roth conversions and help manage future required minimum distributions and Medicare Income-Related Monthly Adjustment Amount (IRMAA) costs.

A potential tool: 72(t) payments

Taking money from many retirement accounts before age 59½ generally triggers a 10% additional tax. A 72(t) strategy, also called Substantially Equal Periodic Payments (SEPP), is one exception. When IRS rules are followed, it can provide earlier access without the usual 10% additional tax.

- **How long:** Payments generally must continue for at least five years or until age 59½, whichever is longer.
- **How payments are set:** The IRS allows several approved ways to calculate the payment.
- **Be careful with changes:** Changing the arrangement can cause back taxes, penalties, and interest, so tax guidance is important.

What many people don't know

A 72(t) strategy may offer more flexibility than you think. SECURE 2.0 clarified that certain transfers and rollovers can be made within a 72(t) arrangement without automatically triggering the 10% additional tax, as long as IRS requirements are met.

Why does that matter? It can allow the client to segment retirement assets based on what each portion needs to do. For example, a portion can be used to purchase a period-certain Single Premium Immediate Annuity (SPIA) to help facilitate the required 72(t) payments, while other assets remain positioned for future growth or retirement income.

Case Study: Betty wants to access her money earlier

Betty is 55 with a \$1,000,000 IRA. She wants to retire now and needs \$50,000 a year until age 60. She also wants to keep part of her IRA available for future growth and retirement income.

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Step one: Set the 72(t) payment

Example method: Fixed amortization is one IRS-approved method for calculating Betty's annual 72(t) payment.

Illustrative result: Using the assumptions below, the annual payment is approximately \$50,000.

*Illustrative inputs: \$1,000,000 IRA; age 55; illustrative single life expectancy period of 31.6 years; interest rate of approximately 3.09%, below the applicable maximum referenced in IRS Notice 2022-6.

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Step two: Create the income stream

After Betty's 72(t) payment is established, part of her IRA could be used to purchase a five-year period-certain Single Premium Immediate Annuity (SPIA). The SPIA will provide \$50,000 annually through age 60, while the rest of her IRA remains positioned for other retirement goals.

Income bridge

\$228,956
Five-year period-certain SPIA designed to provide \$50,000 a year through age 60.

Lifetime income

A deferred or lifetime income strategy that can begin around age 60 to help address longevity risk.

Growth portfolio

A diversified portfolio positioned for growth and future flexibility after the 72(t) period.

Why it matters

The SPIA does not calculate Betty's 72(t) payment. The approved 72(t) method does that. The SPIA is simply a way to help deliver the required payment. This can make the income stream more predictable and may reduce the need to sell growth assets during a market downturn.

Questions to consider

1. Does the client need access to retirement savings before age 59½?
2. Could withdrawals before Social Security support tax planning and help manage future Medicare IRMAA exposure?
3. Could this strategy create room for Roth conversions, legacy planning, long-term care planning, or business planning?
4. Would separating the assets used for 72(t) payments from assets intended for future income and growth improve the overall plan?
5. Has the client consulted qualified tax and legal advisors before starting or changing a 72(t) strategy?

Additional Information about the 72(t) plan process:

- Financial professionals need to verify this method and the 72(t) calculation with a tax professional.
- Financial professionals need to confirm annuity illustration satisfies 72(t) plan.
- Minnesota Life Insurance Company requires the submission of the Substantially Equal Periodic Payments Request (F71909 Rev 6-2020) to be submitted in order for accurate tax reporting.

Sources: IRS Substantially Equal Periodic Payments FAQ; IRS Notice 2022-6; SECURE 2.0 Act section-by-section summary, Section 323; IRS Social Security benefits taxability guidance; SSA/CMS IRMAA guidance.

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Please consult a tax advisor for specific information. There are charges and expenses associated with annuities, such as surrender charges (deferred sales charges) for early withdrawals.

The guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.

This information should not be considered as tax or legal advice. Clients should consult their tax or legal advisor regarding their own tax or legal situation.

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