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Advisers cautioned on early withdrawals

By **Lisa Shidler**
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Advisers trying to tap qualified retirement accounts before their clients are age 59 1/2 had better be careful: The process is complicated, and mistakes are easy to make, according to a newly released white paper.

"Advisers providing unsuitable advice" on this subject can cause financial hardship from which clients can never recover, stated the white paper, "Understanding 72(t) Distribution Planning," published by Omaha, Neb.-based Securities America Inc.

"This phenomenon hasn't escaped the watchful eyes of certain legal professionals and regulators," it added.

Retirement distributions from qualified retirement accounts before age 591/2 are hit with a 10% penalty unless distributions follow the procedures set forth in section 72(t) of the Internal Revenue Code. The rule includes specific calculations that determine how much money can be taken out of the retirement account in what's called substantially equal periodic payments without penalty.

In most cases, an individual must withdraw equal amounts over a period of five years or until age 591/2 — whichever is longer. The distributions may be taken monthly, quarterly or annually but must be of equal size. If an investor increases the withdrawal amount after the process has begun, the amount of the entire multiyear withdrawal becomes subject to the 10% penalty.

But another method of calculation, which the Internal Revenue Service calls the Required Minimum Distribution Method, permits the amount withdrawn to be recalculated each year.

Because of the complexity of early withdrawal, many advisers try to avoid it altogether. Others, such as Steven W. Medland, a certified financial planner, and partner and principal at TABR Capital Management LLC, use it as rarely as possible.

Mr. Medland, whose Orange, Calif., firm manages $155 million in assets, pointed out that people may not realize that they can't change their distribution amounts for five years.

"A lot can change in five years," he said. "If you're 51, you have to go until 591/2 without changing the amount. It's a lot more stringent than people realize."

John Barton, the sole proprietor of CenterPointe Wealth Management in Wichita, Kan., also tries to avoid early withdrawals.

"Unless used properly, they can be very inflexible and commit people to a specified amount of money for a long time," said Mr. Barton, who hopes that there will be fewer early distributions as people begin to realize their drawbacks.

Rick L. Kent, chairman and a registered representative with Merit Financial Inc. in Alpharetta, Ga., said he does early-withdrawal transactions for clients every week. In many cases, his clients are employees of San Antonio-based AT&T Inc. who have worked for the company for 30 years and want to retire while in their 50s.

Mr. Kent, whose firm manages $170 million in assets, said it is difficult to explain to clients that they can't change the dollar amount of their distributions for five years or until they turn 591/2.

To work around that restriction, he and other advisers may split one individual retirement account into several before the distributions begin. The client then can draw down one IRA and start tapping into another only if they need more money at some point in the future.

"It's always important that we keep some money in another IRA. You have to realize that once we start withdrawals, we're locked in," Mr. Kent said.

He said he has noticed that many advisers don't understand the intricacies of the early-withdrawal provision and the increased risk it poses of the client's running out of money earlier than expected.

For that reason, Mr. Kent said, if he decides not to split an IRA, he makes sure his client has money available in other forms in case of an emergency.

"We'll see more of this as people start retirement earlier, because they're not staying at their companies," Mr. Kent said.

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