

Taking Retirement Money Early

When you may avoid the 10% penalty—and what to check first • 2026 edition

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The short answer

Taking retirement money before age 59½ generally means income tax plus a 10% additional federal tax on the taxable amount. An exception may remove the 10% tax, but the withdrawal can still be taxable. The account, reason, amount, and timing all matter.

Start with the account

Account	What to know before withdrawing
Traditional IRA, SEP IRA, or SIMPLE IRA	IRA exceptions include qualifying education, first-home costs, and health insurance during unemployment. A SIMPLE IRA can carry a 25% additional tax during your first two years of participation if no exception applies.
Employer retirement plan, such as a 401(k) or 403(b)	Some exceptions differ from IRA rules. A qualifying separation from employment or divorce order may help. A plan's permission to take a hardship withdrawal does not automatically remove the tax penalty.
Governmental 457(b) plan	Distributions generally escape the 10% early-distribution tax. Money rolled in from another retirement plan or IRA can be treated differently.
Roth IRA	Regular contributions generally come out first without tax or penalty. Conversions and earnings have separate ordering and five-year rules; age alone does not answer every question.

What does the penalty cost?

Suppose you withdraw \$20,000 of fully taxable retirement money at age 45. Without an exception, the additional federal tax is \$2,000, on top of regular income tax. If only \$5,000 qualifies for an exception, the remaining \$15,000 can still produce a \$1,500 penalty.

Before you press “withdraw”

Ask us to compare the available accounts and calculate the total tax cost. A withdrawal may also affect income-based credits or benefits. Tax withholding is a prepayment, not a calculation of your final tax bill.

This guide focuses on federal rules. Plan distribution restrictions and state tax treatment may differ. An exception to tax does not require an employer plan to release money.

Common exceptions: match the reason to the rules

Reason	Key requirements and limits
Large medical expenses IRA or employer plan	The exception is limited to qualifying unreimbursed medical costs above 7.5% of adjusted gross income (AGI), paid in the distribution year. You do not have to itemize deductions. The withdrawal itself can increase AGI.
Total and permanent disability IRA or employer plan	You must be unable to engage in substantial gainful activity because of a medical condition expected to result in death or be of long, continued, indefinite duration. Medical proof is required; a diagnosis or job loss alone is not enough.
Death of the account owner IRA or employer plan	Qualifying payments to a beneficiary or estate avoid the early-withdrawal tax. A surviving spouse who moves an inherited IRA into their own IRA may lose this exception for later withdrawals before age 59½.
Leaving a job at age 55 or later Employer plan only	Separation must occur during or after the calendar year you turn 55. The exception applies to the plan of the employer you left. Leaving in an earlier calendar year and waiting until 55 does not qualify. Rolling the money into an IRA removes this particular exception.
Divorce order Employer plan only	Payments to an alternate payee under a qualified domestic relations order (QDRO) may qualify. IRA divorce transfers use different rules; cashing out an IRA to pay a settlement is not automatically penalty-free.
IRS levy IRA or employer plan	The distribution must result from an IRS levy on the retirement account. Taking out money yourself to pay a tax bill does not qualify for this exception.

Three useful exceptions for IRAs

Education

Eligible expenses for you, your spouse, or your or your spouse's children or grandchildren may qualify. Match the withdrawal and expenses to the same tax year and account for tax-free educational assistance. Tuition, required materials, and qualifying room and board can count. Newer credential-program rules need a separate eligibility check.

First home: up to \$10,000 over your lifetime

Qualifying purchase, construction, or rebuilding costs must generally be paid within 120 days. "First-time" generally means no ownership interest in a main home during the preceding two years; a married buyer's spouse must meet that test too. Certain family purchases also qualify. Each eligible spouse has a separate \$10,000 lifetime limit.

Health insurance during unemployment

The exception can cover qualifying premiums for you, your spouse, and dependents. Generally, you must have received unemployment compensation for 12 consecutive weeks; take the distribution in that year or the next, and no later than 60 days after reemployment. Special rules can apply to self-employed individuals.

Family needs, emergencies, and special situations

Situation	What the exception can cover
Birth or adoption	Up to \$5,000 per parent, per child, from an IRA or eligible employer plan within one year after birth or final adoption. Adoption age and support requirements apply; adopting a spouse's child does not qualify.
Domestic abuse	From an IRA or eligible employer plan, up to the lesser of \$10,500 for 2026 or 50% of the vested account balance. The withdrawal must be within one year of qualifying abuse by a spouse or domestic partner. Self-certification is permitted.
Emergency personal expenses	From an IRA or eligible employer plan, generally one distribution per calendar year, limited to the lesser of \$1,000 or the vested balance above \$1,000. It must meet an unforeseeable or immediate necessary personal or family need. Repeat withdrawals face additional restrictions.
Terminal illness	A physician must certify, before the distribution, a condition reasonably expected to result in death within 84 months. This exception can apply to IRAs and qualifying employer plans.
Reservist called to active duty	Qualifying withdrawals from an IRA or specified salary-deferral accounts can qualify when a reservist is called for more than 179 days or indefinitely. The distribution must fall within the permitted active-duty window.

Birth/adoption, domestic-abuse, emergency, and terminal-illness distributions generally have a three-year repayment opportunity, subject to the applicable rules. A qualifying repayment may allow recovery of income tax previously paid. Keep the original distribution and repayment records.

A payment plan is a commitment

Substantially equal periodic payments—often called SEPP or a 72(t) plan—can avoid the penalty when calculated and maintained under IRS rules. Payments generally must continue until the later of five years or age 59½. Employer-plan payments generally must begin after separation from service. Changing the arrangement too soon can trigger previously avoided penalties plus interest.

Example: five years may not be enough

If you start a SEPP arrangement at age 53, you generally must continue until age 59½. If you start at 57, the five-year requirement generally takes you to age 62. Have the schedule designed before taking the first payment.

Other cases worth a separate review

Special rules may cover eligible public-safety employees, certain private-sector firefighters, federal phased retirement, qualifying disaster distributions, timely correction of excess IRA contributions, and qualifying long-term-care insurance distributions from eligible employer plans. Ask before withdrawing; occupation, service history, plan type, dates, and documentation can change the answer.

Make the exception work on your tax return

Two timing traps to avoid

A rollover has its own rules

An eligible rollover can avoid current tax, but it is different from a penalty exception. When money is paid to you, the usual deadline is 60 days. Direct transfers or direct rollovers reduce deadline and withholding problems. IRA-to-IRA 60-day rollovers are generally limited to one in a 12-month period across your IRAs. Required minimum distributions and hardship distributions cannot be rolled over. Late-rollover relief is available only when its requirements are met.

Match the expense and withdrawal year

Paying a qualifying expense in one year and taking the money out in another can lose an exception. Do not assume delaying the deposit of an available distribution check moves the tax to the next year. Confirm the reporting year before a year-end transaction.

Medical-expense example

Assume your final AGI, including the withdrawal, is \$80,000 and you paid \$10,000 in qualifying unreimbursed medical expenses that year. The 7.5% threshold is \$6,000. Up to \$4,000 of an early distribution may qualify for the medical exception—not the full \$10,000.

What to bring us

- Form 1099-R and statements identifying the account, taxable amount, distribution date, and withholding.
- Your age, employment separation date, and any public-safety or military service records relevant to the exception.
- Medical bills, insurance reimbursements, tuition records, financial-aid details, insurance premiums, or home-closing documents, as applicable.
- Any physician certification, court order, birth/adoption records, or other documentation supporting the exception.
- Prior first-home withdrawals, rollover dates, SEPP schedules, and records of any permitted repayments.
- Roth contribution/conversion history and records of nondeductible IRA contributions, if applicable.

The code on Form 1099-R is not always the final word

A payer may report an early distribution without knowing that you qualify for an exception. Form 5329 is generally used to claim an exception the payer did not report and to calculate any remaining additional tax. Use the instructions for the distribution year; newer exceptions have their own reporting requirements.

Lenny's Take

The IRS gives you several doors out of the early-withdrawal penalty, but each door has its own key. Let's identify the account, confirm the exception, and calculate the income tax before the money leaves retirement savings.

Prepared for 2026 using the Early Withdrawal Penalty Exceptions course (CPE410-26), with IRS cross-checks. Reference resources: IRS Publication 590-B (irs.gov/publications/p590b); Publication 575 (irs.gov/publications/p575); Form 5329 instructions (irs.gov/instructions/i5329); Notice 2024-55 (irs.gov/pub/irs-drop/n-24-55.pdf); 2026 limits in Notice 2025-67 (irs.gov/pub/irs-drop/n-25-67.pdf).

General information only. Tax rules depend on individual facts and can change. This guide is not a substitute for advice based on your specific circumstances.