SECURE 2.0

SECURE 2.0 Adds New Penalty-Free Distribution Option for Certain Emergency Expenses

This infographic is part of a multi-part series that describes the penalty-free distribution options created by SECURE 2.0

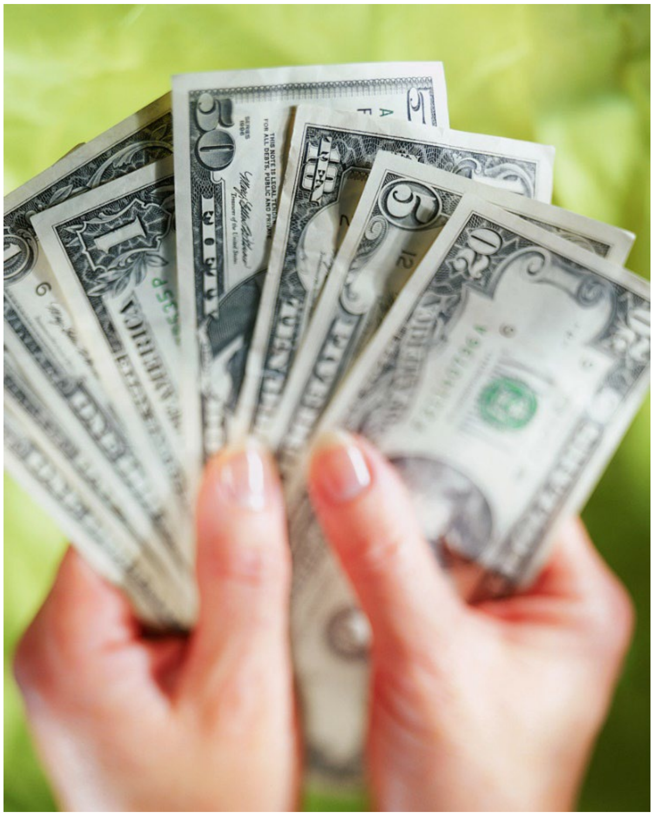
Distributions taken from qualified plans and IRAs before age 59½ are often subject to a 10% early distribution penalty tax. But numerous exceptions apply.

Internal Revenue Code Section 72(t) lists exceptions such as disability distributions, death distributions to beneficiaries, and substantially equal periodic payments.

Now the SECURE 2.0 Act has added several more penalty-free distribution options—including one that helps individuals pay for certain emergency expenses. We will address more options in separate installments in this series.

Distributions For Certain Emergency Expenses

This SECURE 2.0 provision creates a new penalty tax exception for IRA owners and retirement plan participants. It also creates an optional distributable event for plan participants in 401(a) plans (including 401(k) plans), 403(a) annuity plans, and 403(b) plans. This distribution option is not available to participants in defined benefit plans.



Individuals may take one such “emergency personal expense distribution" per year “for purposes of meeting unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses.”

- The eligible distribution amount equals the lesser of
  - $1,000 or
  - an amount that equals the individual’s vested benefit (or IRA balance) minus $1,000.

  For example, if a participant’s vested account balance is $1,800, then the maximum distribution amount is $800.
- Individuals can repay these distributions within a three-year period, starting the day after the date on which the distribution was received. (This rule is similar to the qualified birth or adoption distribution (QBAD) repayment rule.)
- No further such distributions are permitted within the following three calendar years from the plan unless the individual repays the original distribution—or makes contributions to the plan or IRA in an amount at least equal to the portion of the original distribution that was not repaid.
- Plan administrators may rely on employees’ written certification that they qualify for such distributions.
- This provision applies to distributions taken in 2024 and later.