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On business: Avoid 401(k) penalties

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Dipping into your 401(k) plan prior to retirement can cost you plenty.

In fact, there is a hefty 10 percent "penalty" associated with early 401(k) withdrawals if you have not reached age 59-1/2.

You can avoid this if:

- You paid for medical expenses exceeding 7.5 percent of your adjusted gross income.
- You withdrew the distributions because of a divorce decree or a separation agreement.
- You received the distribution as part of "substantially equal payments" over your lifetime, where the distributions are treated like an annuity based on one's estimated life expectancy.
- You are over the age of 55 and retired or left your place of employment.

If you do not qualify for any of these exceptions, you should make every effort to put off your distributions until you reach 59 1/2. If you do not and fail to include the 10 percent penalty on your tax return, the Internal Revenue Service may not inform you of the additional liability until the penalty and interest have accumulated over several years.

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