

# Ask the Advisor



*Can I take money out of my Traditional IRA to buy a house?*

*Melanie in Manchester*

There are numerous exceptions for withdrawing funds from a Traditional IRA prior to age 59.5, but remember, the primary purpose of an IRA is to help fund retirement.

Taking money out for any other reason can jeopardize your retirement.

All of the following exceptions apply to tax-deductible contributions and growth; after-tax or non-deductible contributions are treated differently.

**First Home** - You can take up to \$10,000 without penalty, but with tax, from your Traditional IRA to purchase a first home.

Your spouse can take an additional \$10,000 from his or her IRA.

There is also some leeway as to what qualifies as a first home.

As long as you or your spouse didn't own a principal residence within the last two years, the purchase can be considered a first home.

The home doesn't have to be for you, it can be for your child, grandchild or parent, but regardless, the \$10,000 is a lifetime cap specific to you.

**There are numerous other early withdrawal exceptions.**

**Education** - You can take an unlimited amount

without penalty, but with tax, from your Traditional IRA to pay for qualified schooling costs for yourself, your spouse, your children or your grandchildren. The educational institution must be accredited.

**Medical Expenses** - You can generally withdraw funds without penalty, but with tax, to pay qualifying medical expenses that exceed 7.5% of your adjusted gross income.

**Health Insurance Premiums** - If you are unemployed, you can take money out to pay health insurance premiums without penalty, but with tax.

**Disability** - If a physician has certified that you cannot perform any substantial gainful activity because of a physical or mental condition, and that the condition will last continuously for 12 months or more or result in premature death, you can make early withdrawals without penalty, but with tax.

**Death** - This exception won't be of much help if the death in question belongs to you, but your beneficiaries can withdraw funds without penalty, still with tax.

However, if you are a

non-spouse beneficiary of an IRA, take a close look at maintaining the IRA as a Beneficiary IRA.

As such, you can maintain the tax-deferred status for years to come while only having to take IRS mandated distributions.

If you are a non-spouse beneficiary, and roll the IRA to your own IRA, the rollover amount will be fully taxable.

If you are a spousal beneficiary you can roll the IRA without tax or penalty into your own IRA or a Beneficiary IRA.

Selecting your own IRA or a Beneficiary IRA will depend on your particular situation.

**Substantially Equal Periodic Payments (SEPP)** - You can even begin taking money out for any reason before 59.5 without penalty, but with tax, as long as you do so under the SEPP exception.

However, the withdrawals must meet strict IRS guidelines and last for five years or until you reach 59.5, whichever is longer.

So there you have it, there are numerous early withdrawal exceptions, but before taking advantage of one, think twice about the effect it will have on your retirement.

*Ron Valpey, CFP®, AIF®*

*Ron Valpey is a fee only Certified Financial Planner™ professional & an Accredited Investment Fiduciary™ residing in Bow with offices in Bedford and Dover. If you have financial planning questions for his column, please call Ron at 888-278-9359 or email him at ron@focus-capital.com.*