# 5 THINGS YOU MUST KNOW ABOUT THE AGE-55 RULE

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The pandemic has upended the workplace and caused many people to rethink their career path. For some older workers this may mean considering early retirement. For those workers, access to retirement savings can be key, and avoiding early distribution penalties is critical. While most distributions taken from a retirement account before age 59 ½ are subject to an early distribution penalty, the tax code carves out an exception for distributions from certain employer plans taken by those who are age 55 or older in the year they separate from employment. Here are 5 things you must know about the age-55 rule.

**1. You must be age 55 or older in the year you separate from service.** This rule can be tricky, if you separate from service prior to the year you reach age 55, you cannot use this exception. This is true even if you wait until the year you turn age 55 to take the distribution. It is your age in the year of separation from service that matters, not your age at the time of the distribution.

**2. The age-55 exception only applies to the plan where you separate from service at age 55 or later.** Many workers have more than one employer plan. They may still have funds in a plan with an employer they left years ago. The age-55 exception only applies to those assets you have in a plan where separation from service happened in a year you reached age 55 or later.

**3. The age-55 exception never applies to IRAs.** The rules for exceptions to the 10% early distribution penalty can be confusing. Some exceptions apply to both plans and IRAs. Some apply only to IRAs, and some apply to just plans. The age 55 exception only applies to plans. It never applies to IRAs. It also does not apply to IRA-based work plans like SEP or SIMPLE plans.

**4. If you roll over to an IRA, the age-55 exception is lost.** Rolling funds over from a plan to an IRA after leaving a job can be a good move in many cases, but not always. If funds are rolled over to an IRA from a plan, the age-55 exception is lost on those funds. If you are considering taking advantage of the age-55 exception, you will want to stick with the plan and forego the IRA, at least until you reach age 59 ½.

**5. The age-55 exception is not an optional provision.** Employer plans have a lot of flexibility when it comes to what provisions they offer. Just because the law allows some options, that does not necessarily mean that a plan will. However, some parts of the tax code are not optional. A plan cannot make the age-55 exception off limits if you are eligible.