

PRIME Money Matters... retiring early...changes in IRA contributions

By Paul G. Provencher, CRPC
Special to PRIME

Q. *I have the opportunity to retire early. I have always contributed to Social Security, there is a pension plan at work and my wife and I both have 401-(k) plans and some IRAs. What should I be looking at in order to make a good decision about this option?*

R. E., Springfield, MA.

A. There are many things to consider in your situation. Here are some to consider based on reaching certain ages:

Retiring at 55 – At age 55, if you take early retirement, you can generally withdraw money from a 401(k), 403(b), SEP or Profit Sharing Plan without being subject to a 10% early withdrawal penalty. The IRS has strict rules about this option. Prior to any distribution a good review of these rules contained in Publication 575 should be conducted. Withdrawals from a traditional IRA can be taken early and without a 10% penalty only if you receive “substantially equal periodic payments.”

Retiring at 59 1/2 – At age 59 1/2, you can withdraw money from traditional IRAs and qualified retirement plans (401-k, 403-b, etc.) without being subject to the 10% penalty tax. If your contributions were tax deductible, you will be subject to

ordinary income tax. No income tax or penalty will apply to distributions from a Roth IRA at age 59 1/2, if you have owned the account for at least 5 years.

Retiring at 62

– Age 62 is the earliest age for receiving regular Social Security benefits, but the benefits will be permanently reduced. Depending on your current age, you could receive from 74% to 80% of your full retirement benefit. Most company pension plans provide full benefits at age 65 with reduced benefits prior to this age.

A number of companies also allow you to take the pension benefit as a lump sum dollar amount which you can roll over to a self-directed IRA plan. Social Security recipients born in 1937 and earlier are eligible for full Social Security benefits.

“Full retirement age” for younger workers is slowly rising for those born between 1938 and 1959, rising incrementally until those born in 1960 or later will receive full benefits at age 67.

Health insurance and early retirement – Medicare eligibility generally



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begins at age 65. Since health insurance costs are a major consideration for many retirees you should explore very carefully how this will work for your situation. There is a list of considerations too long to review here, so we recommend that since these rules, options and considerations are complex that you seek proper advice from tax, legal and investment professionals.

Q. *I understand that we can contribute more to our IRA accounts this year. Have the contributions been increased recently?*

A.D., Ware, MA.

A. Yes, the government has recognized that people could use some additional savings incentives for retirement, especially those over age 50, and has increased the contributions limits. The Economic Growth & Tax Relief Reconciliation Act of 2001 (EGTRRA) authorized these increased limits over the next several years.

IRA limits for 2004 – For the year 2004, traditional and Roth IRA contributions are limited to \$3,000. Those who have reached age 50 in 2004 may contribute an additional \$500. Contributions to these accounts can be

made until April 15, 2005.

IRA limits for 2005 – For the year 2005, traditional and Roth IRA contributions have risen to \$4000 and those age 50 and over may contribute an additional \$500 as a “catch-up contribution”.

IRA limits in 2006 and beyond – In year 2006 and later, the catch-up contribution rises to \$1000 per year. In 2008, the regular contribution limit rises to \$5000 per year. Indexing begins in year 2009 in minimum increments of \$500. This law has provided greater opportunities to set aside retirement funds which should be considered by all who want to retire comfortably. *Paul G. Provencher, CRPC is located in Wilbraham, MA. Financial information is available by calling Paul at 413-596-0000. Paul Provencher is a Registered Representative of and offers securities and investment advisory services through MML Investors Services, Inc., Member SIPC – 1500 Main St., 12th Floor, Springfield, MA 01115, (413) 781-6850. Provencher Financial Services is not an affiliate or subsidiary of MML Investors Services, Inc. #066786-000*

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