

Eight Ways to Avoid the 10% Early Withdrawal Fee on Your IRA

Beginner's Corner

By [Joshua Kennon](#), About.com

Many [IRA](#) owners are aware they can be hit hard with penalty fees if they withdraw money early. Fortunately, there are ways to avoid these fees if an emergency or other qualifying situation arises. Before we begin, let me say that even with these allowances, you should make every effort to avoid taking money out of your [retirement accounts](#) early, especially if you are young. By withdrawing money, you are losing decades of tax-free compounding which can cost you hundreds of thousands of dollars by the time you retire.

1. Permanent disability of IRA owner

Money can be withdrawn without penalty in the event the IRA holder becomes permanently disabled.

2. Death of IRA owner

It's small consolation, but if you kick-the-bucket before you're 59 1/2 years old, your estate won't be hit with the 10% early withdrawal fee.

3. Withdrawals are used to pay non-reimbursed medical expenses

In the event of serious illness or injury that requires prolonged or expensive medical treatment, Uncle Sam will waive the early withdrawal fee on the condition that the expenses are in excess of 7.5% of your adjusted gross income.

4. Withdrawals used to help pay for first-time home purchase

Despite a lifetime limit of \$10,000, this exemption can make it much easier for an IRA owner to buy a house.

5. Higher education costs

College can be expensive. Thankfully, certain higher education costs for you, your spouse, children or grandchildren can be withdrawn penalty-free. You may still owe federal income tax, however. For more information, read the Internal Revenue Service article, [Notice 97-60 Using IRA Withdrawals To Pay Higher Education Expenses](#).

6. Money is used to pay back taxes to the IRS after a levy has been placed against the IRA

This is not the kind of exemption for which you want to qualify, but it may save you money if you find yourself in an uncomfortable position with the IRS.

7. Withdrawals used to pay medical insurance premiums

Out of a job? The rest of the world may be topsy-turvy, but rest assured, you won't be penalized for using retirement money to pay your medical insurance as long as you have been on unemployment for longer than twelve weeks.

8. Made on or after the day the IRA owner turns 59 1/2

Once you have reached the qualifying age of 59 1/2, you can make penalty-free regular withdrawals upon which to live.

A Caveat

There is one catch to these qualifying exemptions; the holder of an IRA is subject to a five year waiting period (measured in *tax*, not calendar, years). An investor could not, for example, deposit \$3,000 in their IRA this year and withdrawal it next year penalty-free even if it would otherwise qualify as an exemption.