



SMART WITHDRAWAL STRATEGIES FOR EARLY RETIREMENT

VERICREST
PRIVATE WEALTH

A strategic guide to accessing your retirement accounts without unnecessary penalties, tax surprises, or long-term setbacks.

Retiring Before 59½?

What Pre-Retirees Need to Know Before Accessing Retirement Funds

Retiring in your 50s can be a meaningful milestone. For disciplined savers, it often represents decades of thoughtful preparation and consistent investing.

But one of the most overlooked aspects of early retirement is this:

Accessing retirement accounts before age 59½ can trigger a 10% early withdrawal penalty in addition to ordinary income taxes.

Without proper planning, that penalty can quietly erode tens of thousands of dollars over time due to lost compounding.

The good news is this: there are IRS-approved strategies that may allow you to access retirement funds without the 10% penalty.

The key is structure. And getting it right the first time.

THE HIDDEN COST OF GETTING IT WRONG

Imagine retiring at age 55 with \$1,000,000 in a workplace retirement plan. If you begin withdrawing funds without qualifying for an exception, you may face:

- Ordinary income taxes
- An additional 10% early withdrawal penalty
- Reduced long-term compounding

Over a five-year period, the penalty alone can represent a significant loss. Over 15 years, the opportunity cost compounds further.

Early retirement is not just about timing. It is about strategy.

Strategy One:

THE RULE OF 55

The IRS provides a little-known exception known as the Rule of 55.

If you leave your employer during the calendar year you turn 55 or later, you may be able to withdraw from that employer's 401(k) or 403(b) plan without paying the 10% early withdrawal penalty. Important considerations:

- You must leave employment in the year you turn 55 or later
- The rule applies only to the employer's plan you just left
- Funds must remain in that employer's plan
- Rolling the funds into an IRA eliminates eligibility

This strategy requires advance coordination. For example, consolidating old retirement plans into your current employer's 401(k) before leaving may expand the funds eligible for penalty-free withdrawals.

Just because the rule exists does not mean it fits every situation. The withdrawal strategy must align with long-term income planning, tax management, and sustainability.



Strategy Two:

IRS CODE 72(T) SEPP

Another strategy available to early retirees is the Substantially Equal Periodic Payment program under IRS Code 72(t).

This provision allows penalty-free withdrawals from retirement accounts before 59½ if you commit to a structured distribution schedule.

This strategy can be powerful when used correctly. It can also be costly if implemented improperly.

How it works:

- You select one of three IRS-approved calculation methods
 - Payments are based on life expectancy formulas
 - Distributions must continue for at least five years or until age 59½, whichever is longer
 - Deviating from the schedule may trigger retroactive penalties
- Advantages:

- Penalty-free access to funds
- Flexibility in start age
- Structured distribution planning

Considerations:

- Strict compliance requirements
- Long-term commitment
- Taxable as ordinary income
- Potential impact on long-term portfolio sustainability



WHICH STRATEGY IS RIGHT FOR YOU?

For the Pre-Retiree:

The focus is preserving capital while transitioning into income. Early withdrawals must be coordinated with tax brackets, Social Security timing, and long-term investment allocation.

For the Retirement Income Client:

Distribution strategy becomes the foundation of retirement stability. The sequence of withdrawals matters. The timing matters. Tax coordination matters.

For the Client Focused on Long-Term Stability:

Accessing funds must be structured carefully to protect independence and long-term financial security. Avoiding penalties is only one piece. Sustainability and tax clarity are equally important.

Early retirement should feel confident and intentional, not reactive.

Beyond the Penalty: A Bigger Planning Conversation

Accessing retirement funds early affects:

- Lifetime tax exposure
- Social Security strategy
- Required Minimum

Distribution timing

- Portfolio longevity
- Estate planning coordination

The decision is not simply about avoiding 10%. It is about building a structured income framework for decades.

This is where thoughtful planning makes the difference.

Before You Retire Early, Ask:

- Have I mapped income sources year by year?
- Have I stress-tested my withdrawal rate?
- Do I understand long-term tax implications?
- Is my strategy coordinated across accounts?
- Am I avoiding unnecessary penalties?

If any of these questions are unclear, it may be time for a structured planning conversation.

SCHEDULE A CONSULTATION

If you are considering retiring before age 59½, we invite you to schedule a private consultation.

We will review:

- Your retirement account structure
- Eligibility for penalty exceptions
- Tax-efficient withdrawal sequencing
- Long-term sustainability of income

Retiring early is possible. Doing it thoughtfully is essential.
Schedule your consultation call today.

VERICREST

PRIVATE WEALTH

Vericrest Private Wealth specializes in retirement income planning and comprehensive wealth management for individuals nearing or entering retirement.

The firm works with disciplined savers and independent decision-makers who value structure, transparency, and coordinated financial oversight.

Rather than focusing solely on investment returns, Vericrest emphasizes tax-efficient income planning, long-term wealth preservation, and collaboration with CPAs and estate planning professionals. Clients rely on the firm as their financial quarterback, ensuring every moving part works together.



Bill Davis is Founder and President of Vericrest Private Wealth.

With decades of experience in financial services, Bill focuses on retirement income strategy, tax-aware investment management, and coordinated long-term planning.

Known for his steady guidance and education-first approach, Bill works closely with clients to build retirement strategies designed to support confidence and long-term stability.