Understanding substantially equal periodic payments

Learn more about SEPPs and how they work

Through substantially equal periodic payments (SEPPs), you can withdraw money from your IRA before you reach age 59½ without incurring the 10% federal penalty tax on early distributions.*

Though you won't be liable for the 10% penalty, you may owe federal and state income tax on all or a portion of your distribution.**

The IRS allows you to calculate SEPPs using any of three approved methods. The amount of your payments will depend on your calculation method, your age, the life expectancy table you use, and (if you use one of the fixed payment methods) an interest rate based on applicable federal rates.

Once you begin taking SEPPs, you must receive at least one payment a year for five years or until you reach age 59½, whichever is longer. When the longer period is over, you can change the payment amount or stop withdrawing entirely.

SEPPs at a glance

IRS-approved calculation methods	• Required minimum distribution. • Fixed amortization. • Fixed annuitization.
Duration of payments	At least five years or until you reach age 59½, whichever is longer.
Frequency of payments	At least once a year.
Ordinary income tax	Yes.**
10% federal penalty tax	No.***

*Special rules apply to SEPPs taken from an employer's qualified retirement plan or 403(b)(7) plan. Contact your plan administrator for more information.

**Refer to IRS Publication 590, Individual Retirement Arrangements (IRAs), or consult your tax advisor for more information on the taxation of IRA distributions.

***Unless you fail to meet IRS requirements.

SEPP calculation methods

The IRS allows you to calculate your SEPPs using any of the methods highlighted below. The amount of your annual SEPP depends largely on the calculation method you choose. The fixed amortization and fixed annuitization methods are complex and may require the assistance of a tax advisor or other financial professional. Vanguard doesn't calculate or estimate SEPPs and is not responsible for the accuracy of your SEPP calculations or the tax treatment of your distributions.

The three IRS-approved methods for calculating payments

If you choose this method . . .	You will . . .
Required minimum distribution (RMD)	• Generally receive the smallest annual amount of the three methods. • Receive an amount that fluctuates annually. • Use the easiest calculation—but you'll need to recalculate your payment each year.
Fixed amortization	• Generally receive a larger annual amount than with the RMD method. • Receive a fixed amount each year. • Use the most complex calculation—but you'll only need to calculate your payments once.
Fixed annuitization	• Generally receive a larger annual amount than with the RMD method. • Receive a fixed amount each year. • Perform the calculation only once.

Choose the method that's best for you

Before selecting a calculation method—and before taking your first payment—you should ask yourself these questions:

Do I want to use a relatively easy calculation that I must perform every year or a more complex one that I only perform once?

The easiest calculation is the RMD method, but it must be performed each year. The other methods involve more complex calculations and may require the assistance of a tax advisor, but you only have to perform the calculations once.

How large a payment do I need?

The initial payments under the fixed amortization and fixed annuitization methods will generally be much greater than the initial payment under the RMD method. (RMD payments will rise or fall in subsequent years, as your life expectancy changes and the financial markets fluctuate.) If you use the RMD or fixed amortization method, using the Single Life Expectancy Table will generally produce higher payments than using the Uniform Lifetime Table or Joint Life and Last Survivor Expectancy Table.

Where can I find the life expectancy tables?

If you use the RMD method or the fixed amortization method, you must obtain a life expectancy factor from one of the tables in IRS Publication 590, *Individual Retirement Arrangements (IRAs).*

What's the difference between the life expectancy tables?

Use the Single Life Expectancy Table if you want to base your payments on your age alone.

Use the Uniform Lifetime Table or Joint Life and Last Survivor Expectancy Table if you want to base your payments on a combination of your age and your beneficiary's age.

Will my taxes go up?

The larger your payments, the greater your tax bill may be.

Can I change my calculation method after I begin taking payments?

Yes, but only once, and only to switch to the RMD method from one of the other two methods. If you've begun taking payments for the current calendar year, you generally must wait until the next calendar year to apply the new method.

Can I add to my IRA after I begin taking payments?

No. You can't add to your IRA through contributions, asset transfers, or rollovers while taking payments.

Can I take payments from more than one IRA?

Yes, but you must calculate your payments separately for each IRA. Once you start taking payments from one IRA, you must take them from that IRA for five years or until you reach age 59½, whichever is longer.

Can I take more than the SEPP amount from my IRA or retirement plan?

In most situations, you won't be able to take additional money from your IRA or retirement plan because the IRS considers this a modification to the SEPP. Other than modifications expressly permitted by law, modifying your SEPP will subject you to the early distribution penalty tax for all payments taken under the SEPP, plus interest. Please consult your tax advisor for more information.

What's the IRS penalty for breaking the rules?

If you modify your payments or change your IRA balance (except through market fluctuations or withdrawals), then all of your payments, including payments you've already received, may be subject to the 10% penalty tax and retroactive interest on the penalty.

If you die or become disabled during the period SEPP payments are being taken, the payments don't need to continue.

Should I calculate payments on my own?

Due to the long-range payment schedule for SEPPs, and the limited ability to change a SEPP once it begins, Vanguard strongly urges you to consult a tax advisor before beginning. Your advisor will be able to help answer any questions about your SEPP and advise you how to avoid any pitfalls.

Consider your decision carefully

Once you begin taking payments, you must take them for at least five years, and possibly longer. Taking payments now will also reduce the resources available to you later, during retirement. So weigh all your options. Be sure to consult a tax advisor before taking payments or when calculating them.

How can I request a SEPP payment?

If you're a registered user of Vanguard.com, you can request a distribution online. You can also download an IRA Distribution Form from our website.

Or, you can call us to request a distribution or ask us to mail an IRA Distribution Form to you. You can reach us at **800-662-7447** on business days from 8 a.m. to 10 p.m. or on Saturdays from 9 a.m. to 4 p.m., Eastern time.

A word about taxes

How to claim your exception to the 10% penalty

Vanguard will report your distributions to the IRS on Form 1099-R, but the form won't indicate whether your distribution qualified for an exception to the 10% penalty rule.

You must claim the exception yourself by filing IRS Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, with your tax return. To obtain Form 5329 and its instructions, call the IRS at **800-TAX-FORM** or download a copy at **www.irs.gov**.

How to calculate the taxable portion of your distribution

If you made nondeductible contributions to your traditional IRA or rolled over after-tax money from an employer's retirement plan, part of your IRA distribution will be exempt from federal income tax.

To calculate the taxable portion of your distribution, complete IRS Form 8606, Non-deductible IRAs. For an example of the calculation, see Section VII of the "Vanguard Traditional and Roth IRA Disclosure Statement," which can be found in *The Vanguard Traditional IRA, SEP-IRA, and Roth IRA Disclosure Statement, Custodial Account Agreement*.

How to take distributions from a Roth IRA

You can withdraw your contributions to a Roth IRA tax-free and penalty-free, but you may owe ordinary federal income tax on the distribution of any investment earnings. Assets you convert to a Roth IRA from another type of IRA or employer-sponsored plan can be withdrawn tax-free and penalty-free after five years.

Under IRS rules, assets are always withdrawn from a Roth IRA in this order:

- Your after-tax contributions.
- Any assets you converted to your Roth IRA from a traditional IRA (with the oldest conversions withdrawn first).
- Your accumulated earnings—the amount over and above your contributions and conversions.

If you're withdrawing assets from a Roth IRA, use Form 8606 to calculate the taxable portion of your withdrawal, if any. To obtain this form, call the IRS at **800-TAX-FORM** or download a copy at **www.irs.gov**.