Section 326.

(last updated 7/24/2026)

Title: Exception to penalty on early distributions from qualified plans for individuals with a terminal illness

Effective Date: Effective upon enactment.

Mandatory or Optional: Optional

Plans Affected: 401(a); 403(a); 403(b); IRAs

Previous Law: Present law imposes a 10% tax penalty on early distributions from tax-preferred retirement accounts unless certain exceptions apply.

SECURE 2.0 Law: Creates an exception to the 10% early withdrawal penalty for distributions to individuals whose physician certifies that they have an illness or condition that is reasonably expected to result in death in 84 months or less.

Guidance and/or Correction Bills:

- **IRS Notice 2024-2**: "For purposes of section 72(t)(2)(L), a terminally ill individual distribution may be made from a qualified retirement plan as defined in section 4974(c), which is defined as a section 401(a) qualified plan (including a defined benefit plan), section 403(a) annuity plan, section 403(b) annuity contract, or an individual retirement account described in section 408(a) or an individual retirement annuity described in section 408(b).5 Note that, for purposes of section 72(t)(2)(L), an eligible deferred compensation plan that is maintained by an eligible employer described in **section 457(e)(1)(A) is not eligible** to permit a terminally ill individual distribution because it is not a qualified retirement plan as defined in section 4974(c)."