Should you tap your 401(k) while still employed?

During life's surprising turns it may be tempting to look at your retirement plan as a source for cash. There aren't many opportunities for distributions while still employed…after all, this is your retirement account. But, if you are considering it, here are your options.

Hardship Withdrawals

If you experience one of a few life events deemed "financial hardships", you're able to tap your account to cover these expenses. Six life events qualify for financial hardship withdrawals:

1) To purchase your principal place of residence
2) To prevent eviction or foreclosure from your home
3) To pay for college expenses for you or your dependents
4) To pay for casualty losses on your principal place of residence
5) To pay for medical expenses not covered by insurance
6) To pay for funeral expenses

Here's the hard part: even though you qualify for a hardship withdrawal, you'll be required to include the pre-tax portion of the withdrawal as income for income tax purposes and you'll likely owe an additional 10% premature withdrawal tax if you're under age 59 ½. Note that 20% of your withdrawal will be withheld for taxes right away; you settle up with Uncle Sam at tax time, either owing a bit more or receiving a refund based on your total taxable income for the year. Plus, you are prevented from saving in the plan for the next six months. This suspension also means you miss out on matching contributions.

Loans

This feature allows you to borrow up to 50% (maximum of $50,000) of your vested account balance, then pay yourself back through payroll deductions. Since you are not "withdrawing" money but rather issuing a loan to yourself, no taxes apply.

Borrowing from your retirement account may sound like a great idea. Many rationalize that it's their money, after all. The interest and principal paid goes back into your account. But, it's not that simple. Consider the following *before* borrowing:

- The account may not grow as quickly. It's true that you pay back the amount borrowed with interest. But the interest you earn may be less than the returns if left in a diversified mix of fund options in the plan.
- If you terminate employment with a loan outstanding, the unpaid balance will likely be considered a premature distribution. You'll owe federal and state income taxes as well as a 10% penalty on any pre-tax dollars if under age 59 ½.
- Many can't afford to pay back their loan and make new deposits into the plan at the same time. Saving less during the loan repayment period can significantly reduce your balance at retirement.

Pre-retiree Withdrawals

If you are over age 59 ½, you are free to take a distribution from the account at any time. Be careful though, any pre-tax distributions will be considered taxable income in that year. Because you are still working, all pre-tax withdrawals will be taxed at your highest incremental tax bracket, making it costly to tap the account while still employed.

Talk to your MoneyAdvice@Work® advisor to better understand your options if you're considering tapping into your retirement account early. Call 866-232-6457 for an appointment or visit **moneyadviceatwork.com/foth**, then click on "Get MoneyAdvice Anywhere" to connect.

This summary is believed to be reliable but it's accuracy cannot be guaranteed. See the plan's Summary Plan Description for rules that govern distributions. Francis Investment Counsel does not provide legal or tax advice. Seek advice from your tax advisor.