FINAN¢IAL FRIDAYS nymeo Federal Credit Union

Should You Withdraw Money From Your 401K Before You Retire?

Should you borrow or withdraw money from your 401(k) before you retire?

Borrowing or withdrawing money from your 401(k) before you retire is a big decision. While taking money out of your plan is possible, you should weigh the risks, costs, and benefits.

Whether you're considering a loan or a withdrawal, a financial advisor can help you make an informed decision that considers the long-term impacts on your retirement.

Here are frequent questions and concerns:

A 401(k) loan:

A 401(k) loan allows you to borrow against your own 401(k) retirement account, or essentially borrow money from yourself. While you'll pay interest like a more traditional loan, the interest payments go back into your account, so you'll be paying interest to yourself.

People borrow from their 401(k) for a variety of reasons, such as funding the purchase of a house or paying for a dependent's college tuition. While there are some plans that only allow participants to take a loan for certain approved reasons, in most cases, you won't need to declare why you are borrowing.

Can I borrow from my 401(k)?

Check with your plan administrator to find out if 401(k) loans are allowed under your employer's plan rules. Keep in mind that even though you're borrowing your own retirement money, there are certain rules you must follow to avoid penalties and taxes.

How much can I borrow?

You can borrow up to 50% of the vested value of your account, up to a maximum of $50,000 for individuals with $100,000 or more vested. If your account balance is less than $10,000, you will only be allowed to borrow up to $10,000.

A 401(k) Withdrawal:

Can I make withdrawals from my 401(k)?

If you are in a dire financial situation and need cash urgently, your 401(k) plan may offer a hardship withdrawal option. Unlike a 401(k) loan, you won't have to repay the money you take out, but you will owe taxes and potentially a premature distribution penalty. In addition, IRS 401(k) hardship withdrawal rules state that you may not take out more money than what is needed to cover your hardship situation.

To qualify for a 401(k)-hardship withdrawal, your plan administrator must offer this option (not all of them do) and you must be facing an "immediate and heavy financial need." According to the IRS, approved 401(k) hardship withdrawal reasons include:

- Postsecondary tuition for you or your family
- Medical or funeral expenses for you or your family
- Certain costs related to buying, or repairing damage to, your primary residence
- Preventing your immediate eviction from or foreclosure of your primary residence

If you experience a financial hardship from a circumstance not on this list, you may still be able to qualify for a hardship withdrawal, so check with your plan administrator.

What if I need to withdraw for non-hardship reasons?
In-service, non-hardship withdrawals are only allowed under certain plans and is used by those who would like to explore other investment options. Seek the assistance of your financial advisor to provide detailed information on in-service 401(k) distributions.

Schedule a Complimentary Consultation with Anna & Irene

Anna A. Behnam
Financial Advisor

Irene Tata
Financial Advisor

How much does a financial advisor cost?

Your initial meeting with Anna or Irene is complimentary! Depending on your specific need, as well as the complexity of your situation, you may choose to pay for additional options. Schedule a time to speak with them at your convenience.

Investment products are not federally or NCUA-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

The initial consultation provides an overview of financial planning concepts. You will not receive written analysis and/or recommendations.

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