

Weighing the cost of hardship withdrawals

When a financial emergency comes along, there are sensible reasons to resist tapping what you've saved in your retirement account.

What is a hardship withdrawal?

According to the Internal Revenue Service, a hardship withdrawal must be the result of "an immediate and heavy financial need" and the withdrawal must not exceed the amount necessary to satisfy that need.

Generally, hardship withdrawals from 401(k) and 403(b) plans are limited to:

- Payment of medical expenses incurred by the Participant, the Participant's spouse, or dependents;
- Purchase, excluding mortgage payments, of a principal residence for the Participant;
- Payment of tuition and related educational expenses for the next 12 months of post-secondary education for the Participant, the Participant's spouse, children, or dependents;

- Paying funeral expenses resulting from the death of the participant's immediate family member;
- Payments necessary to prevent the eviction or foreclosure of the participant's principal residence;
- Expenses for the repair of damage to the employee's principal residence that would qualify for a casualty deduction.

Your hardship withdrawal will be subject to applicable federal and state taxes. If you are under age 59½, an IRS 10% premature distribution penalty tax will also apply.

Hardship withdrawals cannot be rolled over to another retirement plan or to an IRA. You also will be suspended from making contributions to your account for six months following a hardship withdrawal for the safe harbor events outlined above.

Are there alternatives?

There are other places to look when you face a sudden financial need, or you can choose to temporarily stop your contributions to your retirement account.

If you have any questions, call 800.584.6001 to speak to a Customer Service Associate.



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