# 401. (k) Withdrawals.

**What?**

Sometimes life events can force people to find alternative funds to cover living expenses. Many taxpayers turn to their 401K plan to make ends meet.

Who can withdraw money?

401K's were intended for retirement. To take money from your 401K, you must be able to show hardship. 401K plan administrators can grant hardship withdrawals for specific reasons only, including tuition, purchase of your principal residence, medical bills, prevention of eviction or foreclosure, cost of burial/funeral, expenses/losses incurred due to a disaster declared by FEMA, principal residence casualty losses exceeding insurance reimbursement. Qualifiers apply, so ask for help to see if a hardship withdrawal applies to your specific situation.

**The consequences:**

- Income tax is due on the distribution.
- Just because you can claim hardship, you will most likely not be able to escape the 10% early withdrawal penalty if you are under 59 1/2. Paying tax plus penalty will cost you 22% of your distribution if you are in the 12% bracket or 32% of the distribution or if you are in the 22% bracket. You will also owe tax to your state. This is costly and the money cannot be replaced.
- Remember that this is your retirement fund and that 2/3 of Americans have less than $100,000 saved for retirement. You do not want to be one of them.
- You are depleting an asset that is protected from creditors. Your 401K is safe even if you file bankruptcy.

**The loan option.:**

- You can borrow up to 50% of your vested account balance up to $50,000.
- The loan must be Paid back within five years, unless it's for your principal residence.
- Payments are deducted from your paycheck and must be made at least quarterly.
- Most loans charge one or two percent points above prime, a very low rate.
- The loans are easy to set up. You do not even need a reason for borrowing the money.
- You can still contribute to your 401K while repaying the loan.

**Loan drawbacks:**

- To afford payback, Most borrowers reduce contributions, leaving a dent in their retirement income. If you are laid off or quit your job, the balance of your loan becomes due. A loan that cannot be repaid becomes a distribution with tax and most likely penalty as described above.

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