

## *401k Loan and a 401k Hardship Withdrawal*

Most experts would say there is no right time to take a loan or withdrawal, because by taking out this money you are not actually using your retirement savings for the purpose it was intended. However, if you feel a loan or hardship withdrawal is your last financial option, learn what it means to borrow.

### **Loans**

Taking out a loan is probably the easier way to get money out of your 401k. And for many, there are definite benefits involved in this financial decision. One is that you can borrow up to 50 percent of your vested account balance, or as much as \$50,000 tax-and penalty-free for most any reason. Because you get about five years to pay the loan back (with interest, of course), the financial strain involved is a lot less strenuous than with many bank loans. Another benefit is that you are able to contribute to your plan while your loan is still outstanding. For many, the biggest perk is that no credit check is conducted to determine eligibility. However, there is one major con; If you leave the company while holding an outstanding balance on the loan, you may have to pay if your 401k loses money on investments.

### **Hardship Withdrawals**

Unlike the loan, a hardship withdrawal can be more difficult to get your hands on – because of the limited reasons you can qualify for it. Below you can find the short list of reasons an employer will allow you to take out a hardship withdrawal:

- Un-reimbursed medical expenses for you, your spouse, or your dependents.
- The purchase of, or repairs made to, a principal residence.
- Payment for you, your spouse, dependents, or children who are no longer dependents for college tuition and other related costs like room and board for the next 12 months.
- Payments that will stop you from being evicted or stop a foreclosure on your home.
- Funeral expenses

As mentioned, there are strict guidelines involved in a withdrawal:

- The withdrawal must be due to an immediate and heavy financial need
- The amount from the withdrawal must be able to satisfy the need (you can't have other resources available that you're not using)
- You cannot withdraw a larger amount than you actually need
- You must first exhaust all other options in distributions and nontaxable loans under your 401k plan

Many believe there are no true benefits to taking out a hardship withdrawal. One reason is because upon withdrawal you are subject to a 10-percent penalty for taking out funds before the eligible age of 59 ½. In addition, your withdrawal is subject to additional income taxes based on your tax bracket. Even worse, in some cases, after you withdraw, you are not allowed to contribute to your plan for six months, unlike the loan which allows you to continue contributing.

Again, most experts would advise that you not take any money away from your 401k, but if you must, now you know the pros and cons of withdrawals and loans, you can choose which is best for you. Before you make any decisions, make sure the specific guidelines and rules your company requires, and be sure to check and double check all of your other financial resources for sources of money besides raiding your 401k retirement plan.