Things to Know About 401(k) Loans and Hardship Withdrawals

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YOUR 401(K) RETIREMENT PLAN IS DESIGNED TO HELP YOU SAVE TO ACHIEVE FUTURE FINANCIAL SECURITY.

Although borrowing or withdrawing money from this savings could jeopardize your plans for retirement, you can access your savings if you need to. Before taking a loan or a hardship withdrawal from your 401(k), you may want to explore other options such as your emergency savings, a lending institution, or other source.

It is important to carefully consider whether using this money for current expenses is the right choice. Be sure you understand the tax and other financial consequences before making your decision.

General considerations about distributions

Withdrawing money from your 401(k) may impact your income in retirement. For example, if your plan offers employer matching contributions, not contributing to the plan means you'll miss out on this ben efit. In addition:

- If you take a hardship withdrawal, your retirement savings and any potential earnings will be reduced by the withdrawal amount.
- If you take a loan and are unable to continue to save in your 401(k) while you repay it, your savings and any potential earnings will be reduced by this amount.

Taking a retirement plan distribution may mean you will need to save more, work longer or adjust your lifestyle in retirement.

Borrowing from your 401(k)

Before taking a loan from your retirement account, be sure you understand how the feature works:

- A loan from your 401(k) can be paid back over five years and the payments and interest are deposited into your account.
- There may be a fee for taking a loan from your retirement savings.
- You will not owe taxes when you borrow from your 401(k). But, over time you will be taxed twice on the loan amount. Here's how: when you repay your loan, you will use after-tax money. Then, when you retire or reach age 59 ½ and begin withdrawing money from your account, taxes will apply to your withdrawals — including the loan payments you made.
- If you have an outstanding retirement plan loan and leave your company, you will be required to repay the loan either when you leave or shortly thereafter — often 30 to 180 days from your last day of service or last loan payment. If you are unable repay the loan, the unpaid loan amounts will be treated as a distribution. This means, in addition to a reduced account balance in the amount of the unpaid portion, you will owe income tax on the unpaid loan, and a 10 percent early withdrawal penalty may also apply if you are younger than age 59 ½.

You can find out more details about your plan's loan provisions on your plan's Participant Website.

You may not want to take a loan from your retirement savings if:

- Repaying the loan means you won't be able to continue saving for your future.
- Your employer offers a matching contribution, because you may not be eligible to receive this benefit if you do not save in the plan.
- You are nearing retirement.
- You are planning to change jobs in the near future or there is the possibility you could lose your job due to a company restructuring.
- You need the loan for everyday living expenses, a luxury item, or another non-necessity.
- You can get the funds you need from another source.
- You can't pay the loan off right away if you are laid off or change jobs

HOW TO REQUEST A LOAN

If you decide to borrow from your retirement savings, you can submit your request via the ADP Mobile App, or on your plan's Participant Website.

HOW TO REQUEST A HARDSHIP WITHDRAWAL

If you decide a hardship withdrawal is right for you, you can submit and certify your request via the ADP Mobile App, or on your plan's Participant Website. As you complete the online process, you may be prompted to provide supporting details to qualify the withdrawal request.

Fast access to your 401(k) savings for a financial hardship

A financial emergency may require you to use the money you have saved for your future. Under some circumstances, you can get fast access to your 401(k) money prior to retirement. This type of withdrawal, called a hardship withdrawal, is a distribution from your 401(k) that can be made under the condition of an immediate and heavy financial need. The IRS requires that the money must be used for one of the following reasons, and you must provide supporting details about the hardship for it to qualify:

- Medical expenses
- Costs related to the purchase of a primary residence
- Education tuition, fees and expenses
- Foreclosure or eviction
- Funeral expenses
- Expenses related to the repair of damage to your principal residence

A hardship withdrawal is a distribution, not a loan, and you do not have to repay it. To qualify for a hardship withdrawal, the IRS will require proof of financial hardship through supporting details.

Taking a hardship distribution could be costly. Regular income taxes will apply to the withdrawal, and you may also be required to pay an 10% early withdrawal penalty tax if you are younger than age 59 ½. However, if you meet one of the following exceptions, this penalty may be waived:

- Disability
- Medical debt that exceeds 7.5 percent of your adjusted gross income (AGI)
- A court order that requires you give the money to your divorced spouse, a child, or a dependent

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Grow your financial knowledge

To help you achieve your financial goals, your retirement plan offers you access to financial tools and learning resources that you can use to strengthen and build your financial knowledge and skills. Go to the ADP Retirement Services Participant website learn how to better manage your paycheck, reduce debt, and save for what matters.

Descriptions of plan features and benefits are subject to the plan document. The plan document will govern in the event of any inconsistencies.

Nothing in these materials is intended to be, nor should be construed as, advice or a recommendation for a particular situation or plan. Registered representatives of ADP Broker-Dealer, Inc. do not offer investment, tax or legal advice to individuals. Please consult with your own advisors for such advice.

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