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 unreimbursed medical expenses incurred by the Participant, the Participant's spouse, or dependents and if permitted under the plan, the Participant's primary beneficiary. Expenses must be those that are not reimbursable and are tax deductible;
- Purchase, excluding mortgage payments, of a principal residence for the Participant submitted prior to the scheduled closing on the property;
- 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 and if permitted under the plan, the Participant's primary beneficiary;
- Paying funeral expenses resulting from the death of the participant's immediate family member and if permitted under the plan, the Participant's primary beneficiary;
- Payments necessary to prevent the eviction or foreclosure of the participant's principal residence;
- Expenses for the repair of damage to the participant's principal residence not arising from a federally-declared disaster.
- Losses and expenses (including loss of income) incurred due to a federally-declared disaster, if the participant lived or worked in the disaster area.

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, unless you are subject to an exception.

Hardship withdrawals cannot be rolled over to another retirement plan or to an IRA.

Are there alternatives?

There are other places to look when you face a sudden financial need, such as a loan if your plan permits, or you can choose to temporarily stop your contributions to your retirement account. **Please note:** loans will reduce your account balance, may impact your withdrawal value and limit participation in future growth potential. Other restrictions may apply.

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

PLAN | INVEST | PROTECT

Voya.com