

## Withdrawing from 401K and Retirement Benefits

### What is allowed?

- Typically, the penalty for withdrawing from a 401(k) before the age of 59½ is 10% of the distribution, plus an automatic withholding of at least 20% for taxes.
- Under the CARES Act, individuals impacted by coronavirus can now access 100% or up to \$100,000 from their 401(k)s and IRAs with fewer consequences than usual.

### Who is eligible?

If you, your spouse or a dependent have been diagnosed with COVID-19 or:

- Quarantined or furloughed because their hours at work were cut.
- Individuals who are unable to work because they've had to take care of their kids.
- Business owners who have had to slash operating hours or shut down

### Here are the situations in which it may be of benefit to use your 401k or IRAs:

- **To avoid a housing problem.** If your bank or landlord hasn't put any rent or mortgage relief plans in place, it could be advantageous to continue paying these with retirement funds if you're at risk of eviction or foreclosure and have no other savings.
- **To meet other basic needs.** If you don't have an emergency fund in a non-retirement savings account, it may make sense to use withdrawals for medical emergencies, prescriptions, essential food and hygiene items for you and your family, or elder care.
- **To avoid high-interest debt.** Paying for high-interest credit card or personal loan payments, may be beneficial to use 401k funds. You'll have three years to pay yourself back, interest-free, compared to paying down high-interest credit card debt or a loan.

### Pros and cons of using 401k

#### *Pros*

- Cash on hand
- No early withdrawal penalty
- Can pay back taxes 3 years

#### *Cons*

- Hurting your retirement growth
- You are selling investments at a bad time
- You'll still need to be mindful of taxes

### Main points

- If a 401(k) withdrawal enables you to lower your current payments, refinance at a lower interest rate, or eliminate debt, the net result can strengthen your financial circumstances while simultaneously helping you pay your bills. Here's one tactic to consider if you intend to take a distribution. Sell the fixed income portion of your portfolio.
- Withdrawing from your 401k or IRA should be your last option and if you do, only take what you need, and you need to have a clear understanding of adverse effects and a plan to pay it back or pay the taxes.

### Next Steps

- Talk to your financial planner or ask for a financial advisor
- Reach out to your company's HR department or retirement plan company (call or go online), they will send you a distribution form to request the withdrawal amount, have them not withhold taxes! May take a few weeks for it to be processed and receive your check.