Plan Loans and Hardship Withdrawals — *Can* Doesn't Mean *Should*

It stands to reason that you won't have the nest egg you're hoping for if you take money out of your retirement plan account *before* you retire. But, in a family emergency or financial crisis, you may have no other choice than to borrow money from your 401(k) plan or — if a loan isn't possible — take a hardship withdrawal. Here's what you need to know about your options.

It's Your Money but . . .

If your plan allows, borrowing from your account may be simpler and faster than taking out a loan from your bank or financial institution. There might not be a credit check, and you'll probably receive the money quickly. And it may *seem* like a good idea because you're paying the money — with "interest" — back to *yourself*. Your loan payment will be automatically deducted from your paycheck and deposited in your retirement plan account.

But, before you sign the paperwork, think of the downsides. The money you borrow can't continue to benefit from tax-deferred growth in your account. The money you use to repay the loan will be taxed *twice* — once when you earn it and again when you receive distributions from your plan at retirement. And, because money will be taken out of your paycheck to repay the loan, you may find you have to reduce, or even stop, your regular plan contributions. Finally, if you leave your employer for any reason, you'll probably have to repay the loan immediately or pay taxes on the unpaid balance.

In a Crisis . . .

If you're really in a bind and you've already borrowed the maximum amount allowed by your plan, you may be able to take a hardship withdrawal. Generally, a hardship withdrawal should be requested only as a last resort. Hardship withdrawals typically can be used for medical expenses, the down payment on a home, college tuition, or funeral expenses for a family member. You'll have to pay taxes and possibly a penalty on the amount you withdraw.