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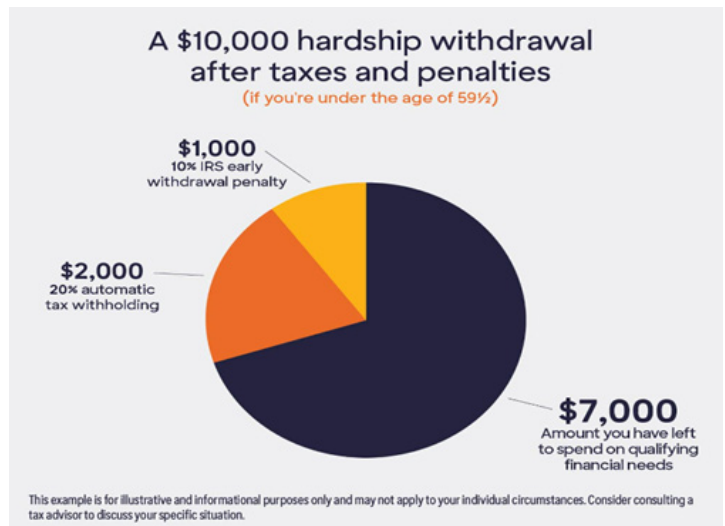
HARDSHIP DISTRIBUTIONS COSTS & PENALTIES

When debating whether you need to take out a Hardship Withdrawal, there are some costs and penalties to consider. Qualified plans are intended for retirement savings; restrictions and penalties generally are imposed to discourage participants from jumping the gun and taking portions of their benefits while they are still employed.

If your retirement plan allows them, a hardship distribution from your account can only be made if the distribution is both:

- Due to a qualifying, immediate, and heavy financial need.
- Limited to the amount necessary to satisfy that specific financial need. However, the amount required to satisfy the financial need may include amounts necessary to pay any taxes or penalties that may result from the distribution.

As illustrated in the graph, 30% of this \$10,000.00 withdrawal pays taxes and penalties. Also, investment earnings opportunities on the total balance of \$10,000.00 are lost.



Source: Discover.com

Whether a need qualifies as immediate and heavy depends on the facts and circumstances. Certain expenses that are deemed to be immediate and heavy needs include:

- Certain medical expenses
- Costs relating to the purchase of a principal residence
- Tuition and related educational fees and expenses
- Payments necessary to prevent eviction from, or foreclosure on, a principal residence
- Burial or funeral expenses
- Certain expenses for the repair of damage to the employee's principal residence that would qualify for the casualty deduction under IRC Section 165

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- Expenses and losses (including loss of income) incurred by an employee on account of a federal disaster declaration provided that the employee's principal residence or principal place of employment was located in the disaster zone and designated for individual assistance.

The following consequences should be seriously considered prior to taking a hardship distribution:

- The amount of the hardship distribution will permanently reduce the amount you will have at retirement. Unlike loans, hardship distributions are not repaid to your account. You will also lose out on the compound interest of the amount distributed.
- You must pay income tax on any previously untaxed money you received as a hardship distribution.
- You may also have to pay an additional 10% tax, unless you're age 59 ½ or older (you may want to consult with your tax preparer regarding other rare exceptions).

A distribution is not considered necessary to satisfy an immediate and heavy financial need of an employee if the employee has other resources available to meet the need, including assets of the employee's spouse and minor children. Whether other resources are available is determined based on facts and circumstances. A distribution is deemed necessary to satisfy an immediate and heavy financial need of an employee if the employee has obtained all other currently available distributions the plan and all other plans maintained by the employer.

If audited by the IRS, the burden of proof is on the employee to provide documentation proving an immediate and heavy financial need.

Remember, a retirement plan is designed to help you save money for retirement. A hardship withdrawal should not be used in lieu of an emergency fund. Dipping into your retirement savings should only be considered after all other resource options have been exhausted.

Source: IRS.gov

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