Dipping into your 401(k) account

Your 401(k) plan is intended to help you put aside money for retirement; however, there may be a time when you need to access the money in your 401(k) account prior to retiring. Subject to the terms and conditions of your 401(k) plan, you may be eligible for a loan or a hardship withdrawal from your account. The information below gives an overview of these options, and you can learn more by accessing the Loans FAQ, the Hardship Withdrawals FAQ, and the Withdrawals and Distributions FAQ.

Loans vs. Hardship Withdrawals

A loan is an amount you borrow from your 401(k) account and then pay back with interest. As long as you repay the borrowed amount, your 401(k) account is not subject to taxation, and your 401(k) account balance is fully restored upon repayment of the loan.

A hardship withdrawal, on the other hand, is a distribution you may be eligible to take from your 401(k) account that will not be paid back. The amount withdrawn permanently reduces your account balance, and you will have to pay income taxes and (in most cases) an early withdrawal penalty tax on the amount withdrawn. To take a hardship withdrawal, you must have a financial hardship, as defined in the plan document of your 401(k) plan.

More About Loans

Before you request a loan, consider the following and read your plan's loan policy; it is available under the "Request Documents" tab when you log in to your 401(k) account:

- You must repay the entire outstanding balance of the loan upon either your termination of employment with Insperity or upon termination of the client service agreement between Insperity and your company (even if you have not terminated employment with your company).
- As with any loan, you must repay it, along with any applicable interest. Fortunately, unlike other loans, the interest on your 401(k) loan goes back to your account instead of to a bank or credit card.
- You may lose potential earnings because the money you borrow from your retirement savings reduces the amount that can grow. Remember, money in a 401(k) plan has a harder time growing to reach your retirement goal if it is periodically taken out of the plan.
- If you do not repay the loan for any reason, the outstanding balance will be considered a distribution from your 401(k) account. You will owe federal and state income taxes on that amount, as well as an additional 10% penalty tax unless you qualify for an exception from the penalty (e.g., you are at least age 59½).

More About Hardship Withdrawals

A hardship withdrawal allows you to withdraw portions of your 401(k) account to meet an immediate financial need when you lack other reasonable available resources to meet that need. Qualifying financial needs may include:

- Buying your primary home or paying for repairs to certain damages on your home, such as those caused by natural disasters (those that qualify for the casualty deduction under Section 165(i) of the Internal Revenue Code)
- Expenses and losses (including loss of income) incurred as a result of a FEMA-declared disaster
- Preventing eviction or foreclosure on your primary home
- Paying for college
- Paying certain medical expenses
- Paying for funeral expenses for a deceased parent, spouse or children

Before you request a hardship withdrawal from your 401(k) account, consider that all or a portion of your withdrawal may be subject to federal income tax (and generally any applicable state and local income taxes). In addition, withdrawals are also subject to a federal 10% early withdrawal penalty tax, unless you qualify for one of the exemptions from the penalty tax (e.g., you are at least age 59½).