

Hardship Withdrawals from Retirement Plans



When hurricanes Harvey and Irma hit, severely impacting the lives of millions of people, the IRS announced specific tax relief for those living in some affected areas. In addition to postponing some filing and quarterly payment deadlines for residents in parts of Texas, Florida, Puerto Rico and the US Virgin Islands, temporary tax provisions include expanded opportunities to take loans or “hardship withdrawals” from tax-advantaged retirement plans.¹

Hardship withdrawals are available to people who have not lived through hurricanes as well. You may be able to take a penalty-free withdrawal from a retirement plan if you have exhausted your available resources and are faced with such emergencies as unreimbursed medical bills, payments for health insurance or tuition, or a down payment on a house. Bear in mind that these hardship withdrawals are penalty-free but not tax-free, and the rules are complicated—best to talk to a tax professional before you cut yourself a check.²

The general advice to people who contribute to IRAs, 401(k)s and other tax-advantaged retirement plans is to avoid tapping the funds before age 59 ½ if at all possible. Under most circumstances, withdrawing funds before then will likely result in a steep 10% penalty in addition to the income taxes you’ll owe on the withdrawal. Roth IRAs have slightly different rules: If you’ve held the money in an account for 5 years or more it can be withdrawn without penalty for certain reasons.

But disasters, whether the hurricane is figurative or literal, may leave people little choice but to tap their retirement savings. We may have alternative ideas for tapping resources that have less of an effect on your future prosperity. But if your retirement accounts are needed, here are some important things to know.

Employer-sponsored 401(k) plans have different hardship withdrawal requirements from IRAs

Employers administer employee 401(k) plans and can therefore create their own rules

about loans and hardship withdrawals. Some may allow a withdrawal but not a loan, and some may not offer either option. Some may consider educational and home-buying expenses eligible for hardship withdrawals, while others may not. Typically the plan will charge a 10% penalty for hardship withdrawals, and if the plan does offer the ability to take a loan, the buyer must borrow before taking a hardship withdrawal.

An IRA account is owned by the individual and tends to be more flexible. While only first-time home buyers can tap their 401(k) plan for a down payment, IRAs allow withdrawals for home buying even if you've owned a home before. Educational withdrawals are penalty-free when you use your IRA, but not when you withdraw from your 401(k) plan.

Penalties do not apply to all withdrawals, but income taxes do

Unless you have a Roth IRA or 401(k), you will be taxed on hardship withdrawals even if no penalty applies. As a result, the value of that withdrawal will be lower than you may think.

Roth IRAs and 401(k) plans have different rules

Contributions to a Roth IRA can be taken out at any time, and earnings may be withdrawn penalty-free and tax-free after five years. The same rules apply to a Roth 401(k), but only if the plan permits.

There are some situations in which you may tap your Roth IRA before the five-year time requirement without incurring a penalty. These include paying for qualified educational expenses, turning 59 ½ years old, buying your first home (\$10,000 maximum applies), becoming disabled, paying for unreimbursed medical expenses or health insurance if you're unemployed and taking the distribution in equal periodic payments.³

Taxes typically apply to withdrawals but not to loans

Company 401(k) plans sometimes offer the option to take a loan rather than a hardship withdrawal. Loans are not subject to taxes (unless you default), and the loan amount is still considered part of the portfolio. The plan usually charges an interest rate (typically 1-2% above prime)⁵ and the interest goes back into the plan when repaid; however, this is typically paid back with after tax dollars. Loans are not subject to the strict criteria applied to hardship withdrawals. But if you leave your job, you will have to repay the loan quickly (the deadline depends on your plan) or the loan will turn into a withdrawal and will be subject to taxes and penalties.

When unexpected life events occur, retirement savers may be able to help themselves by accessing funds in their tax-advantaged retirement accounts. This should always be the last, not first, option, as you give up valuable tax-deferred growth among other

potential problems. Doing so requires strict adherence to IRS and plan rules. We can help ensure that you fully comply in order to avoid unexpected penalties.

Have a great weekend!

Source: Efficient Advisors

Golf Tip of the Week



Try the Chunk-and-Roll to Improve Height

No one likes landing in a sand trap, but a greenside bunker shot makes a bad lie even worse. If you want to recover from this situation, you need to have the skill—and nerve—to hit the ball just right.

Hitting a greenside bunker shot successfully requires you to address two key factors: 1) how much speed is in your swing and 2) where you enter the sand with your clubface.

If you're staring at an upslope or your ball is stuck in the sand, try the "chunk-and-roll" to get the height you need. With this approach, you're trying to make your ball pop out high, travel with no spin, and follow the green's break. The ultimate goal is to have your clubhead blast the sand 2- to 3 inches behind the ball, so you have no chance of hitting it thin.

To set up the shot:

1. Distribute your weight evenly across the slope by favoring your front foot.
2. Open your stance a bit and swing along your foot line.
3. Make sure you swing hard, using a downward driving motion.
4. Keep the slope from stopping your club's momentum by exploding through the shot with your arms and shoulders strong.

Tip adapted from Max Adler | Golf Digest

Recipe of the Week



Flank Steak Panzanella Salad

Serves 4

Ingredients:

Cooking spray

1 pound flank steak, trimmed

½ teaspoon kosher salt, divided in half

½ teaspoon black pepper, freshly ground and divided in half

3 tablespoons extra virgin olive oil

2 tablespoons red wine vinegar

2 cups baby arugula

½ cup red onion, thinly sliced

½ cup fresh basil, thinly sliced

1 pound multicolored heirloom tomatoes, sliced in wedges

1 medium cucumber, cut into lengthwise halves and sliced

3 ounces whole wheat baguette, cut into cubes and toasted

Directions:

1. Prep grill by preheating it to medium-high.

2. Cover grill rack with cooking spray.
3. Sprinkle ¼ teaspoon each of salt and pepper on the steak.
4. Grill steak 3 to 4 minutes on each side or to preferred temperature.
5. Remove steak from grill and let sit for 5 minutes.
6. Cut steak into thin slices, going across the grain.
7. Combine olive oil, vinegar, and remaining salt and pepper in a large bowl.
8. Toss together arugula, basil, tomatoes, and cucumbers in bowl with olive oil mixture.
9. Mix the steak and bread cubes into the salad, and let sit for 10 minutes before serving.

Recipe adapted from MyRecipesⁱⁱ

Health Tip of the Week



Understand Prediabetes

Prediabetes is a medical condition where you have higher than normal blood sugar levels but haven't yet developed type 2 diabetes. Typically, unless someone with prediabetes makes lifestyle changes, they will end up developing diabetes. The long-term effects on your heart, blood vessels, and kidney could start before you even develop the disease.

Does prediabetes have symptoms?

People usually show little to no signs of prediabetes. One potential signal that you may be at risk of developing type 2 diabetes are darkened patches of skin around your:

- Armpits
- Elbows

- Knees
- Knuckles
- Neck

What risk factors exist for prediabetes?

Similar factors that can lead to diabetes can also increase your chance of developing prediabetes. A few of these include:

- **Overweight:** When you have more fatty tissue, in particular around your abdomen, your cells become more resistant to insulin.
- **Dietary Habits:** Specific foods can increase your chance of developing prediabetes when eaten regularly. These include red meat, processed meat, and sugar-rich foods and drinks.
- **Exercise:** You are more at risk the less physically active you are. By not exercising regularly, you don't burn up the glucose you'd otherwise use for energy.

Tips adapted from Mayo Clinicⁱⁱⁱ

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ⁱ <https://www.golfdigest.com/story/momentum-savers-two-deft-shots-to-keep-your-round-going>

ⁱⁱ <http://www.myrecipes.com/recipe/flank-steak-panzanella-salad>

ⁱⁱⁱ <http://www.mayoclinic.org/diseases-conditions/prediabetes/symptoms-causes/dxc-20270026>