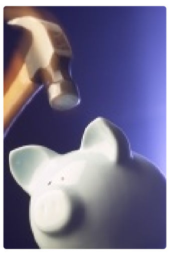
LM Federal Credit Union
Aaron Welch, RFC
Financial Advisor
1200 E Joppa Road, Suite G
Towson, MD 21286
667-308-2724
awelch@moneyconcepts.com

LM Federal Credit Union

Wealth Management & Financial Planning Services

Can You Access Your 401(k) Money While You're Still Working?



The rules discussed in this article generally apply to 403(b) plans, and to some extent, governmental 457(b) plans as well. However, 457(b) plans don't charge a penalty for allowable early distributions (except for distributions attributable to rollovers from qualified employer plans and IRAs), and the rules for hardship withdrawals are more strict; you can only take a hardship withdrawal from a 457(b) plan if you have an "unforeseen emergency."

If you have a 403(b) or 457(b) plan, contact your plan administrator for more information.

Retirement savings plans are designed to encourage you to build assets for the future, and for that reason, federal law limits access to your 401(k) account. Generally speaking, plan distributions prior to age 59½ may be subject to both income tax and a 10% early distribution penalty.

However, in certain circumstances, some plans will allow in-service withdrawals, many of which are penalty-free. You may also be able to access your 401(k) plan money through loans.

Employers are not required to offer all of the options covered here, so check your plan's Summary Plan Description (SPD) to learn more.

Exceptions to the 10% penalty

The IRS allows penalty-free distributions in the case of your death, disability, or separation from service after age 55 (for public safety employees and private sector firefighters, the rule is after age 50 or 25 years of service, whichever comes first). You may also be able to take them in the following circumstances:

- You've been diagnosed with a terminal illness.
- You take the payments in a series of substantially equal periodic payments distributed over your lifetime or that of you and a beneficiary (only available after you leave your employer, i.e., not available from a current plan).
- You have unreimbursed medical expenses that exceed 7.5% of your adjusted gross income.
- You take a distribution of up to $5,000 for expenses related to the birth or adoption of a child.
- You're called up to active military duty.
- It is required to satisfy a qualified domestic relations order (i.e., a divorce settlement).
- It is needed to comply with an IRS levy.
- You need up to $22,000 for expenses related to a federally declared disaster.
- You need to withdraw up to $10,000 (or 50% of the account balance, whichever is less) because you've been the victim of domestic abuse.
- You need up to $1,000 each year for emergencies.
- You need money to pay for certain long-term care insurance policies (beginning in 2026).

Each of these exceptions is subject to specific rules, and in some cases, you may be able repay the amount distributed over a certain period of time.

Hardship withdrawals

Hardship withdrawals are not exempt from the 10% penalty. They are allowed only if you have an "immediate and heavy financial need" and only up to the amount necessary to meet that need. You must have no other savings or liquid assets available, and you generally must take all other types of distributions available to you before taking a hardship withdrawal. In addition, your plan may require that you exhaust all loan options first.

There is no assurance that working with a financial professional will improve investment results.

When considering a rollover, to either an IRA or to another employer's retirement plan, you should evaluate the investment options, fees and expenses, services, ability to make penalty-free withdrawals, degree of creditor protection, and distribution requirements associated with each option. Also, you may be able to leave the funds in your current plan, if allowed.

Hardship withdrawals may be permitted to:

- Purchase your principal residence or perform repairs that would qualify as deductible casualty losses
- Prevent eviction or foreclosure
- Pay medical bills for yourself, your spouse, children, dependents, or primary beneficiary
- Pay certain funeral expenses for you, your spouse, children, dependents, or primary beneficiary
- Pay certain education expenses for yourself, your spouse, children, dependents, or primary beneficiary
- Pay income tax and/or penalties due on the hardship withdrawal itself
- Pay or reimburse for expenses or losses (including loss of income) incurred due to a federally declared disaster, assuming your principal residence or place of employment is located in the disaster area

Amounts eligible for withdrawal

You may be able to withdraw your own contributions and earnings, vested employer contributions and earnings, and amounts attributed to rollovers (if allowed) from both pre-tax and Roth accounts. "Vested" means that you own the contributions, and they can't be forfeited for any reason.

Plan loans

Many plans allow employees to borrow from their 401(k) accounts. In general, you can borrow up to one-half of your vested balance (including your contributions, your employer's contributions, and earnings) up to $50,000. You can borrow the funds for up to five years (longer if the loan is to purchase your principal residence). In most cases, you repay the loan through payroll deduction, with principal and interest flowing back into your account.

After-tax accounts and the mega backdoor Roth

Employers that offer non-Roth after-tax accounts may allow withdrawals from those accounts at any time, even before age 59½. If your employer offers an after-tax account that allows in-service withdrawals, and you're financially able to take advantage of it (most plans require you to max out pre-tax and Roth contributions first), this could present a valuable opportunity.

Because Roth IRAs impose income limits for eligibility, most affluent investors are unable to utilize them to build a source of tax-free retirement income. If this applies to you and you have extra income that you'd like to invest, you may be able to utilize what's known as a "mega backdoor Roth" strategy. Through this strategy, you would make contributions to your after-tax account, take an in-service withdrawal, and then convert that money to a Roth IRA. Your after-tax contributions would not be taxable at the time of conversion, but any earnings on them would be. Therefore, it may make sense to convert the money as soon as possible to help reduce the tax burden.

For more information on the mega backdoor strategy, talk to your financial professional or tax advisor.

Taxation details

If a withdrawal is subject to taxation (and most are, except qualified Roth account withdrawals), it will be deemed to include a pro-rata portion of taxable and any nontaxable dollars. That means that if your account's total value is attributable to 40% after-tax (i.e., nontaxable) contributions and 60% tax-deferred earnings, then 60% of your withdrawal will be taxable. You cannot withdraw only your nontaxable contributions.

Qualified Roth account withdrawals are those made after a five-year holding period and the account owner reaches age 59½, becomes disabled, or dies.

Rollovers and conversions

Rollover of non-Roth funds

If your in-service withdrawal qualifies as an eligible rollover distribution (and most do, except hardship withdrawals and required minimum distributions), you can roll over all or part of the withdrawal tax-free to a traditional IRA or to another employer's plan that accepts rollovers. In this case, your plan administrator will give you a "402(f) notice" explaining the rollover rules, the withholding rules, and other related tax issues. (If you don't directly roll the funds to another plan or IRA, the plan administrator will withhold 20% of the taxable portion of your distribution for federal income tax purposes.)

You can also roll over (convert) non-Roth funds to a Roth IRA. Some 401(k) plans even allow you to make an in-plan conversion — that is, you can request an in-service withdrawal of non-Roth funds and have those dollars transferred into a Roth account within the same 401(k) plan. In either case, you'll pay income tax on the taxable portion of the converted amount.

Rollover of Roth funds

If you withdraw funds from your Roth 401(k) account, those dollars can only be rolled over to a Roth IRA or to another Roth 401(k)/403(b)/457(b) plan that accepts rollovers. Be sure to understand how a rollover will affect the taxation of future distributions from the IRA or plan. For example, if you roll over a nonqualified distribution from a Roth 401(k) account to a Roth IRA, the Roth IRA five-year holding period will apply. That is, you won't get credit for the time those dollars were in the 401(k) plan.

Be informed

You should become familiar with the terms of your employer's 401(k) plan to understand your particular withdrawal rights. Your employer will give you a copy of the SPD within 90 days after you join the plan or upon request.

This content has been reviewed by FINRA.

Prepared by Broadridge Advisor Solutions. © 2024 Broadridge Financial Services, Inc.

Any information contained in this e-mail, including attachments, is intended for the exclusive use of the named individual or entity and may contain proprietary, confidential or privileged information. All information contained in this communication is not intended or construed as an offer, solicitation, or a recommendation to purchase any security. Advice, suggestions or views presented in this communication are not necessarily those of Money Concepts® nor do they warrant a complete or accurate statement. If you are not the intended party to this communication, please notify me via return e-mail and permanently delete/destroy any and all copies of this communication. Unintended recipients shall not review, reproduce, disseminate nor disclose any information contained in this communication. Money Concepts® reserves the right to monitor and retain all incoming and outgoing communications as permitted by applicable law. E-mail communications may contain viruses or other defects. Money Concepts® does not accept liability nor does it warrant that e-mail communications are virus or defect free. Thank you. All securities through Money Concepts Capital Corp. Member FINRA/ SIPC. Welch Financial Planning & Tax is an independent firm not affiliated with Money Concepts Capital Corp. Not NCUA insured. No credit union guarantee. May lose value.