WHAT IF I NEED MONEY?
Can I Access My 401(k) Funds?

SHAMROCK
WEALTH MANAGEMENT

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This is a very common question!

Let's face it: life throws us a curveball once in a while, and we need to solve a problem by having access to quick cash. Sometimes, if we don't have enough in our non-retirement savings accounts, tapping into a 401(k) account might provide some financial relief as a last resort.
So, let's look at the various options that are available to you, along with the pros and cons of each.
Then, we'll talk about some ways for you to prepare for life's emergencies, so that the need to dip into your retirement won't be necessary in the future.

Yes, I do have options but...

Age 59½ | 72(t) | Loan | Financial hardship

No penalty ←→ Penalty

Yes, there are options to access money from your 401(k) account. But, depending on the type of withdrawal option, you may be doing your account more harm than good.
While there are options available to you, it's not always a good idea to take money account of your 401(k) while you are still working. Remember: a 401(k) plan is designed to be a long-term savings account. Because of this and a 401(k)'s tax-favored benefits, the IRS imposes penalties in certain scenarios if you take your money out of your account. Generally, if you need to take money out of your account and you are younger than 59½, you'll be faced with some sort of penalty. So, depending on why you need the money, and your own personal financial situation, it's wise to think twice about taking money out of your 401(k) account.
Everyone's financial situations are different, however, and sometimes your need to access quick cash outweighs the consequences of tapping into your 401(k).

Let's go over the options, as well as the things you'll need to consider in your decision-making process:

Age 59 1/2

As you might have guessed, if you are 59½ or older, you may withdraw funds from your 401(k) account without incurring any early withdrawal penalties. You'll only have to pay the taxes that are due, since the assets that went into your account were, most likely, tax deferred.

72(t), or substantially equal periodic payments (SEPPs)

If you are younger than 59½, this is a way for you to withdraw your 401(k) assets and avoid the 10 percent early withdrawal penalty. A 72(t) distribution is a series of distributions that begin before you turn 59½ and must generally continue unchanged for five years or until you reach age 59½, whichever is later. Payments cannot be modified in any way. So, this might not be an option for everyone—it mainly would be a consideration for those who are closer to retirement age, but do not yet qualify for an age 59½ distribution.

Loans

When you take a loan from your 401(k) plan, you're borrowing your own money and paying yourself back with interest. Which, on the surface, sounds harmless. But let's talk about this option a little more.
Borrowing from your 401(k) plan is a major decision that should not be made lightly because there are consequences that will affect your ability to fund your future retirement. In short, our 401(k) is not an ATM!
Here are a few reasons to avoid taking a 401(k) loan:

- **You'll be taxed twice** because you'll pay back the loan with after-tax money, which will be taxed again when you ultimately withdraw it for retirement.
- **Your take-home pay will be reduced** because the loan repayments will automatically be deducted from your paycheck.
- **Your taxable income will go up** because you'll no longer be making pre-tax deferrals while you pay back your loan.
- **You'll miss out on compounding** because the money you withdraw will not be invested, thus not earning interest.
- If you leave your company, **you'll have to pay back the loan in full**, or taxes will be due and a 10 percent early withdrawal penalty will be assessed.

Financial hardship

Lastly, the IRS allows you to withdraw 401(k) funds if you need them to satisfy a heavy and immediate financial need. The IRS identifies several reasons that qualify as a hardship, such as (but not limited to) medical expenses, to prevent eviction or foreclosure, funeral expenses, tuition expenses, etc. If you withdraw funds due to hardship, you'll owe taxes on the untaxed portion of the funds you withdraw and be assessed with—you guessed it—a 10 percent early withdrawal penalty. A hardship distribution should be taken as a last resort after you have exhausted your alternative options.

Ways to Prepare

Emergency fund

- Be able to pay 3–6 months of essential living expenses.
- Put a little away at a time.
- Deposit bonus or tax refund.
- Scale back on daily purchases and get creative.

A great way to prepare for those financial curve balls that life throws at us is to start an emergency fund. An emergency fund is a nest egg of cash that is set aside specifically for the purpose of covering unexpected expenses, such as car repairs, a broken appliance, a leaky roof, or an unexpected change in job status.

Here are some tips for helping you start (and grow!) your emergency fund:
A good rule of thumb is to set aside enough cash to cover three to six months of essential living expenses, such as housing, car payments, child care, and household bills. This may seem like a lot to put away, but if you put away a little at a time, savings becomes more manageable. Think of it this way: if you direct deposit just $25 a week into your emergency fund for one year, you will have saved $1,300. And if you can bump that up to $40 per week? Your emergency fund will have a healthy balance of $2,080 after just one year!

Or, to turbo-charge your savings, try one of these strategies:

- Designate larger chunks of cash from your tax refund or a holiday bonus.
- Skip your daily indulgence, whether it be coffee or eating out for lunch, and direct those dollars to your emergency fund for a month or two
- Get creative! Organize a yard sale or post some unwanted items for sale online and contribute the profits to your emergency fund. You'll reap the rewards and declutter your home at the same time!

And remember: if you do have to dip into your emergency fund to cover an unexpected expense, replenish it as quickly as possible—you never know when the next emergency will pop up!

Ways to Prepare

Get the upper hand on debt

- Know good debt vs. bad debt.
- Figure out what you owe.
- Put together a game plan.
- Track your progress.

If we were playing a game of word association, what comes to mind when I say the word "debt"?

Anxiety? Worry? Stress? If you had any of those thoughts, you're not alone. The average American household is saddled with nearly $137,000 in debt (according to Federal Reserve). And often, people who carry debt tend to tap into their 401(k) accounts to dig themselves out.

So let's talk more about debt and some things you can do to get the upper hand:

Not all debt is bad

You might have heard the terms "good debt" and "bad debt." Good debt is an asset that is expected to increase in value, such as a home or other real estate assets. Bad debt is an asset that loses value after it is purchased—usually purchased with discretionary funds that bring short-term pleasure, but long-term payments. Some examples of bad debt are expensive electronics or a vacation that is purchased via credit card. Knowing the nature of your debt is an important first step in getting it under control.

Figure out what you owe

Your debt is what it is. Don't beat yourself up about how you accumulate it; instead, focus on what you can do today to get it under control. There are several ways to chart your debt obligations: you can do it with a few clicks of a mouse on a software program, through free smartphone apps, or the old-fashioned way, with a pencil and notepad. Whichever way you decide, this is a critical step to get you organized.

Put together your game plan

A systematic plan for paying down your debt is a must! It will help you stay accountable, disciplined, and confident throughout the debt reduction process. Some tactics to include in your plan are:

- Paying more than the minimum monthly payments on credit cards
- Reducing your spending on nonessential items
- Paying off accounts with the lowest balances first
- Setting up automatic payments from your bank account

If you're not sure where to begin, get help! A financial advisor or credit counselor can help, and there are several free debt-counseling resources online, including one from the government (www.justice.gov/ust/credit-counseling-debtor-education-information).

Track your progress

Once you've calculated what you owe, made a plan, and begun to put that plan into action, it's critical to track your progress! Making headway toward financial freedom, however small the steps are, can give you the boost you need to keep forging ahead.

Lastly, as each balance gets paid off and your debt begins to dwindle, maintain your momentum. Consider diverting payments to another source of debt, increasing your 401(k) or IRA contribution, or building up your emergency fund.

Ways to Prepare

Set savings goals

- Set it and forget it.
- Determine short-, medium-, and long-term savings goals.
- Adopt a bucket strategy.
- Use multiple savings accounts.

People ask me all the time about how they can take money out of their 401(k). And of course, my first question to them is, "why?"

Sometimes, it's for good reasons, like the ones I shared earlier—they truly have a financial emergency and have no other way to pay for it other than taking money out of their 401(k) account. But for every person who has a financial emergency, there is a person who wants their money to buy a new car or pay for a family vacation or wedding. And I'm not here to tell you that you shouldn't enjoy those things—you absolutely should—but try to have a plan to pay for them.

One of the ways to afford some of those big-ticket items is to save and plan. Here are a few tips that might help you change your thinking about how you save:

Set it and forget it!

One of the best savings strategies is putting your savings on autopilot. It's easy to spend money soon after it hits your checking account. Automating your savings will help you avoid that temptation altogether.
Have a recurring transfer from your checking account into a savings account. Typically, you can choose to have either a percentage of your paycheck or a set amount direct-deposited into a savings account. With a recurring transfer, you can usually set an amount to be moved from your checking account into your savings account and then set the frequency of this transfer.

Set up savings "buckets"—short term, medium term, and long term
Consider setting up your priorities into three time frames or "savings buckets"—for short-, medium-, and long-term goals.
Say you want to go on a family vacation in two years or buy a car next year. Both would be considered short-term goals.
Start by determining how much money you'll need and divide by the amount of time you have until you need the money.
For example, if a car costs $15,000, and you want to purchase it one year from now using cash, you'll need to save about $1,250 per month, not including taxes and registration fees. If you won't be able to afford that monthly deposit into your short-term savings bucket, you may need to consider alternatives, like a different style of vehicle or one that is pre-owned.

Some examples of a mid-term savings goal are:

- Weddings
- College (depending on the age of your child)

Some examples of a long-term savings goals are:

- Retirement
- A vacation cottage for you and your family to enjoy when you are retired

Use multiple savings accounts
Using more than one savings account is a great way to earmark your money for different financial goals. This can help you make sure that money meant for one savings goal isn't being used on another.
For instance, if your savings is lumped into one savings account, money meant for emergency savings could accidentally be used for a vacation if it's all viewed as total savings.
Multiple savings accounts can also help you easily see how you're progressing toward a savings goal. For example, if you have $20,000 saved in one savings account, it may be difficult to visualize that you have $5,000 saved for an emergency fund and $15,000 saved for a home purchase. And because many banks offer savings accounts that feature the same rate no matter how low your balance, you don't need to put all your savings in the same account to get the highest yield.

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