Your retirement savings may be able to help with emergency expenses

IRS regulations allow retirement plans the design flexibility of granting you early access to your retirement account under certain circumstances as prescribed by the IRS.

The following is only a guide to help you understand some of the options that may be available to you if you've been affected by an unforeseen emergency or hardship. **It is not intended to provide or be a source of tax advice.** You should consult a financial advisor regarding the availability of distributions from any of your retirement accounts.

403(b) and 401(k) Retirement Plans

Hardship Distributions

A Hardship Distribution from a 403(b) or 401(k) Retirement Plan is based on **an immediate and heavy financial need and the distribution must be necessary to satisfy that financial need**.

To request a hardship distribution you should contact your employer to determine if the plan allows these distributions and the steps required to complete your distribution. There are several criteria used to determine eligibility for a hardship distribution. Here are a few specific examples (but not limited to):

- Expenses for repairing damages to your principal residence that would qualify for a casualty deduction under IRC §165 without regard to whether the loss exceeds 10% your adjusted gross income.
- Payments necessary to prevent the eviction from or foreclosure on a mortgage on your principal residence
- Payment of medical care expenses that would be deductible under IRC §213(d) without regard to whether expenses exceed 7.5% of your adjusted gross income.

Additionally, the following conditions may also apply:

- You must have exhausted other options, like a plan loan or a personal loan for the expense.
- You are only allowed to withdraw the amount needed to cover the expense.
- You must supply documentation supporting the expense.
- You will be suspended from making contributions for six months.
- The amount of the distribution cannot be more than the amount of your total elective contributions, as of the date of distribution reduced by the amount of previous distributions of elective contributions.

Note: Hardship distributions are includible in gross income. In addition, they may be subject to an additional 10% penalty tax on early distributions. Unlike loans, hardship distributions are not repaid to the plan. Thus, a hardship distribution permanently reduces your account balance under the plan.

457 Retirement Plans
Unforeseeable Emergency Distributions

A 457 plan may permit a distribution based for an unforeseeable emergency (contact your employer for more information). A plan must define an unforeseeable emergency as a severe financial hardship of a participant or beneficiary that results from:

- An unexpected illness or accident resulting in medical expenses.
- A loss of the your property due to casualty; or
- Other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control.

An unforeseeable emergency could include:

- A need to rebuild your home following damage to it not covered by insurance.
- An imminent foreclosure or eviction from your primary residence.
- A need to pay medical expenses or prescription drugs; or
- A need to pay funeral expenses for yourself, the beneficiary's spouse or dependent.

401(k), 403(b), 457 Retirement Plans
Loans

An employer may choose to allow loans through a 401(k), 403(b) or 457 plans. To receive a plan loan, you must apply for the loan and the loan must meet certain requirements as prescribed by the IRS. Check with your employer regarding the availability and terms of a loan in your retirement plan.

- The **maximum loan amount** you may borrow from your plan is 50% of your vested account balance or $50,000, whichever is less.
- Generally, you must **repay a plan loan within five years** and must make payments at least quarterly. The law provides an exception to the 5-year requirement if you use the loan to purchase a primary residence.

IRA Accounts

You can take distributions from your IRA (including your SEP-IRA or SIMPLE-IRA) at any time. There is no need for a hardship in order to take a distribution. However, in addition to including the distribution in income, it may be subject to a 10% early withdrawal penalty tax if you are under age 59 1/2.

The early withdrawal penalty tax is 25% if you take a distribution from your SIMPLE-IRA in the first two years you participate in the SIMPLE IRA plan and you are under age 59 1/2. IRAs (including SEP-IRAs and SIMPLE IRAs) do not permit loans.

There are several exceptions to the 10% early withdrawal penalty tax. Some of the specific exceptions include:

- Attainment of age 59 ½. The distribution is made on or after the date you turn 59 ½.
- Death. The distribution is made to a beneficiary or your estate.
- Disability. The distribution is attributable to you becoming disabled (within the meaning of IRC § 72(m)(7)).
- First-time home purchase. The distribution is a qualified first-time homebuyer distribution (also referred to as a qualified special purpose distribution).
- Unemployed individual's purchase of health insurance. The distribution is made after termination of employment and after the IRA owner has received unemployment compensation for 12 consecutive weeks under any federal or state unemployment compensation law by reason of such termination.
- Qualified reservist distribution. The distribution is to certain military reservists called to active duty. § 72(t)(2)(G)
- Disaster-related distributions. The distribution is made to qualifying individuals affected by certain disasters (e.g. hurricanes, tornados).

Roth IRA Accounts

Roth IRA distributions will be tax-free provided they satisfy a five-year holding period and at least one of the following:

- owner attains age 59½
- owner's death
- owner's disability
- used for a qualified first-time home purchase (lifetime limit of $10,000)

For more information visit www.irs.gov or contact your financial advisor or tax consultant.