

How to Withdraw Money from a 401(k) Plan

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The ways to withdraw money from your 401(k) plan depend on three factors:

- Your age;
- Whether you are still working for the company that sponsors your 401(k) plan;
- The rules of your 401(k) plan.

I. If You No Longer Work for the Company that Sponsors Your 401(k) Plan

After leaving your job, first, **contact your plan administrator** or **call the number on your statement** to find out how to withdraw money from the plan.

Withdrawal Options

The funds you withdraw from your 401(k) plan fall into three categories, each with its own tax rules:

1. Regular Withdrawal

If you are no longer working for the company that sponsored your 401(k) plan and you are over 59.5 years old (in some cases, it is enough to be over 55), you can withdraw funds without a penalty. You will only pay income tax on the amount you withdraw.

2. Early Distribution

If you are under 59.5 years old and no longer work for the company that sponsored your plan, you can withdraw funds, but you will pay income tax and a 10% penalty. Think twice before withdrawing funds early, as your 401(k) assets are protected from creditors, even in bankruptcy.

3. 401(k) Rollover to an IRA

You can transfer funds to an IRA at a company of your choice. No taxes are deducted, and the money can remain in the IRA for future use. You will only pay taxes on the amount you withdraw annually. You can also use the 72(t) rule to avoid the early withdrawal penalty.

- ! If you take a distribution and plan to roll it over to an IRA, you have 60 days to avoid the penalty.**

II. Withdrawing Funds While Still Employed

Some 401(k) plans do not allow withdrawals while you continue working. However, there are several options:

1. 401(k) Loan

Many plans allow you to take a loan against the balance in your account. The maximum loan amount is usually less than \$50,000 or half of the account balance. Interest is charged, and while the money is out of the account, it does not earn income.

2. Hardship Withdrawal

Some plans allow you to withdraw money in the case of financial hardship. Ensure your circumstances meet the plan's requirements.

3. In-Service Distribution

Some plans allow withdrawals while you are still working. Check with your plan administrator to see if this option is available.

III. If You Are a Beneficiary of a 401(k) Plan

The rules for withdrawing funds will be slightly different. Your actions depend on whether you were the spouse of the plan participant and whether the participant had reached the age of 73 — the age for required minimum distributions (RMD).

Withdrawing funds from a 401(k) plan means using money set aside for retirement. It is better to consider other options for obtaining additional funds, such as an emergency fund, a personal loan, or a home equity loan.