

10 Reasons Not to Tap Your 401(k)

A recent report by a major retirement plan provider revealed an uptick in the number of investors dipping into their 401(k)s through either loans or hardship withdrawals. If you really need the money and cannot access credit elsewhere, then borrowing from your 401(k), or taking a withdrawal, might be your best option.

But there are several good reasons to keep your retirement savings intact if at all possible. Before tapping your retirement savings consider the following:

Loans

1. The money you withdraw will not grow if it isn't invested.
2. Repayments are made with **after-tax dollars** that will be taxed again when you eventually withdraw them from your account.
3. The fees you pay to arrange the loan may be higher than on a conventional loan.
4. The interest is never deductible even if you use the money to buy or renovate your home.
5. If you leave your job you generally must repay the entire balance within 90 days of your departure, otherwise the remaining loan balance may be considered a withdrawal. Income taxes would be due on the full amount, and if you're younger than 59½, you may owe a 10 percent early withdrawal penalty, too.

Hardship Withdrawals

6. Your employer's plan must permit hardship withdrawals—not all do.
7. The amount you withdraw cannot be repaid, and your future savings will be subject to a waiting period as well as 401(k) contribution limits.
8. You'll owe income taxes on the amount withdrawn, and your employer will likely deduct 20 percent up front.
9. You could be subject to a 10 percent tax penalty if you withdraw before you are 59½ years old.
10. Your employer might require that you first exhaust all other available sources of funds, such as borrowing from your 401(k) or taking a commercial loan.

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