



# Leaning on long-term savings in times of financial uncertainty —what *options* may be available?

When your personal finances are tight due to circumstances beyond your control, it can be tempting to access your long-term retirement savings to help you through the hard times. It's important, though, to understand your options.

Your retirement plan may offer you some options for accessing your savings, each having pros and cons. In addition, the Coronavirus Aid, Relief, and Economic Security (CARES) Act that was signed into law on March 27, 2020, contains some provisions that may offer additional relief through your retirement plan.



**Before you take action, make sure you understand the short- and long-term implications of each alternative, as well as the temporary help that may be provided by the CARES Act. Not all options and CARES Act provisions may be available in your retirement plan.**



## Plan loans

Some retirement plans allow you to take a loan from your retirement savings. But just like any other loan, you'll have to pay it back, and the typical payback period is five years. As with most loans, you may incur costs, such as:

- ✔ **Loan expenses**—Retirement plan loans may be subject to an initiation and maintenance fee.
- ✔ **Potential penalties**—If you don't pay off your loan on time, you'll have to pay taxes and a 10% early withdrawal penalty if you're under the age of 59½. And if you leave the company, most loans must be paid off in full within 60 to 90 days (or a longer period permitted under the Internal Revenue Code) of your departure to avoid taxes.

### Penalties and taxes can add up

An example of a \$10,000 loan that wasn't paid back

Federal income tax: \$10,000 (at a 25% tax rate):	\$2,500
State income tax: \$10,000 (at a 5% tax rate):	\$500
Federal early withdrawal penalty:	\$1,000
<b>Total tax bill:</b>	<b>\$4,000</b>

If you take a loan from your retirement savings, and you can afford to continue making contributions to your retirement plan, it's a good idea to do so. Continued contributions to your account (no matter how small) can help you balance the highs and lows of the market over time.



## Help from the CARES Act

The CARES Act has made some temporary changes to the loan rules available to retirement plans for qualified individuals—including people who've been diagnosed with COVID-19 (or their spouse or dependent has been diagnosed with COVID-19) or who've experienced adverse financial consequences as a result of COVID-19 (called qualified individuals). Retirement plans may increase the maximum you can borrow from your retirement plan to \$100,000 or 100% of your vested account balance, whichever is the lower amount. The normal maximum \$50,000 or 50% of your vested account balance (individual plans may have different parameters). The increased dollar limit, however, is still reduced by the amount of your other loans in the last 12 months under the existing loan rules. The increased loan limits apply only to loans taken by September 22, 2020.

With the CARES Act, qualified individuals may be able to delay for one year any loan repayments that are due on or after March 27, 2020, through December 31, 2020. The one-year delay period is added to the end of the term of the loan. Interest continues to accrue during the delay period and will be added to the outstanding loan.



## Plan distributions and withdrawals

Your retirement plan likely offers a variety of distribution and withdrawal options.

Traditional distributions are reported to the IRS as income in the year that you take the distribution, and you'll owe income tax on the distribution amount. In addition to income tax, if you are younger than age 59½, you'll normally also pay a 10% early withdrawal penalty. In most cases, if you take a traditional distribution from your account, you can choose a lump-sum, partial lump-sum, or installment payment.

Hardship withdrawals, available in some plans, allow you to take a distribution from your retirement savings under certain circumstances. They must be:

- ☑ Due to an immediate and heavy financial need
- ☑ Limited to the amount necessary to satisfy that financial need

Unlike a loan, a hardship withdrawal doesn't have to be repaid—so, it reduces your retirement savings balance. Hardship withdrawals are also subject to income tax, and if you're younger than age 59½, you'll incur a 10% early withdrawal penalty.



## Help from the CARES Act

Under the CARES Act, retirement plans may allow qualified individuals—including those who've been diagnosed with COVID-19 and those who've experienced adverse financial consequences as a result of COVID-19—to take a COVID-19 withdrawal. If your plan allows it, you may withdraw up to \$100,000, without facing an early withdrawal penalty. You may take a lump-sum payment or multiple payments, and you must make the withdrawal by December 30, 2020.

You'll still have to pay taxes on the amount you withdraw, but you can spread the tax amount over three years. You may also limit the amount of taxes you pay on the withdrawal by repaying your retirement plan within three years of receiving it.



## When times are tough, strengthen your finances

With so much uncertainty, it's a good time to create and follow a [budget](#). Monitor your spending and tighten where you can—if you can. If you have savings outside your retirement plan, consider that as a source for immediate cash flow, so you don't have to borrow from your future and incur the associated costs.

After reviewing your full financial circumstances and options, if you still need to lean on your retirement savings, do it thoughtfully and responsibly. Don't let it become a habit, and dip into retirement savings only after you've explored all other options.



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