Retirement Plan Distributions

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 professional 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 a**n 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. Common IRS safe-harbor hardship categories may include:

- Certain medical care expenses for you, your spouse, your dependents or your beneficiary
- Costs directly related to the purchase of your principal residence (excluding mortgage payments
- Tuition, related educational fees, and room and board expenses for the next 12 months of post-secondary education for you, your spouse, your children or your dependents
- Payments necessary to prevent eviction from, or foreclosure on, your principal residence
- Payments for burial or funeral expenses for your deceased parent, spouse, children, dependents or beneficiary
- Certain expenses to repair damage to your principal residence (generally damage that would qualify as a casualty loss under federal tax rules)
- Certain expenses and losses (including loss of income) resulting from a federally declared disaster affecting your principal residence or your principal place of employment

Additionally, the following conditions may also apply:

- You may only withdraw the amount necessary to satisfy the immediate financial need.
- Your employer's plan may limit which contribution sources are available for hardship distributions.
- Depending on the plan, you may be asked to provide documentation or certify that you meet hardship requirements.
- Availability of plan loans and hardship distribution procedures vary by employer.

Note: Hardship distributions are includible in gross income. In addition, they may be subject to an additional IRS 10% penalty tax on early distributions. Unlike loans, hardship distributions cannot be 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 on an unforeseeable emergency (contact your employer for more information). An unforeseeable emergency is generally defined as a severe financial hardship of the participant or beneficiary resulting from events beyond the control of the participant or beneficiary and that cannot be relieved through other reasonably available resources.

An unforeseeable emergency may result from:

- An illness or accident affecting you, your spouse, your beneficiary or your dependent
- A loss ofyour or your beneficiary's property resulting from extraordinary or unforeseeable events
- Other similar extraordinary and unforeseeable circumstances arising from events beyond your or your beneficiary's control

An unforeseeable emergency could include:

- A need to rebuild your or your beneficiary's home after damage that is not covered by insurance
- An imminent foreclosure on or eviction from your or your beneficiary's primary residence;
- A need to pay significant medical expenses or prescription drug costs that cannot be covered by insurance or other available resources
- A need to pay the funeral expenses for your or your 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.

Traditional IRA Accounts — Distributions

Traditional IRAs (including SEP-IRAs and SIMPLE IRAs) do not permit loans and there is no need for a hardship in order to take a distribution.

You can take distributions from your Traditional IRA (including your SEP-IRA or SIMPLE-IRA) at any time, for any reason. However, in addition to including the distribution in income, it may be subject to an IRS 10% early withdrawal penalty tax if you are under age 59½.

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 59½.

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

- **Attainment of age 59½.** The distribution is made on or after the date on which the IRA owner attains age 59½.
- **Death.** The distribution is made to a beneficiary or to the IRA owner's estate on or after the death of the IRA owner.
- **Disability.** The distribution is attributable to the IRA owner's becoming disabled (within the meaning of Code Section 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).
- **Substantially equal periodic payments.** The distribution is part of a series of substantially equal periodic payments (payments made not less frequently than annually) made for the life (or life expectancy) of the IRA owner or the joint lives (or joint life expectancies) of the IRA owner and his or her designated beneficiary.
- **Medical expenses in excess of the deductible threshold.** The distribution is used to pay the tax deductible portion of unreimbursed medical expenses. Individuals who are younger than age 65 may only deduct unreimbursed medical expenses to the extent they exceed 10% of AGI (increased from 7.5%as of 2013). For individuals age 65 or older, the threshold remains 7.5% through 2016, and increases to 10% as of 2017.
- **Unemployed individual's purchase of health insurance.** The distribution (to the extent of qualifying health insurance premiums paid during the year) 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 higher education expenses.** The distribution is used for qualified higher education expenses.
- **Internal Revenue Service (IRS) levy.** The distribution is due to an IRS levy on the IRA.
- **Qualified reservist distribution.** The distribution is to certain military reservists called to active duty.
- **Disaster-related distributions.** The distribution is made to qualifying individuals affected by certain disasters (e.g., tornadoes).
- **Qualified health savings account funding distributions.** The distribution is a one-time qualifying withdrawal of IRA funds for rollover to a health savings account.

Roth IRA Accounts — Distributions

Roth IRAs do not permit loans and there is no need for a hardship in order to take a distribution. You can take distributionsfrom your Roth IRA at any time, for any reason. Roth IRA distributions are either Qualified or non-qualified.

Qualified (totally tax free)

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)

Non-qualified

A non-qualified distribution from a Roth IRA is any distribution that either occurs within the five-year holding period (that applies for qualified distribution purposes), or does not satisfy one of the four qualifying reasons (attainment of age 59½, death, disability, or first-home purchase). Non-qualified distributions are subject to federal income tax and may be subject to penalties.

The separate components of a non-qualified Roth IRA distribution are taxed as follows:

- Earnings are taxed as ordinary income. They are also subject to the 10% additional tax on premature distributions, unless an exception applies.
- Regular contributions are excluded from gross income, and are also exempt from the 10% additional tax.
- Conversion contributions are excluded from gross income. However, each conversion contribution has its own five-year holding period requirement. If a conversion contribution is prematurely returned in a non-qualified distribution, and the distribution is not protected by a Code Section 72(t) exception, then a 10% additional tax is levied on the part of the conversion contribution that was not taxed at conversion.

Contact the IRS at IRS.gov, your local financial professional, tax consultant, or contact Security Benefit at 800.888.2461.

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