

# LIMITED ACCESS Is Key to Retirement Saving Success



## PRE-RETIREMENT ACCESS

*In a voluntary retirement savings system, it is important to provide limited pre-retirement access to retirement accumulations. In the United States, tax rules provide the framework for limited access.*

- » Knowing that retirement accumulations can be accessed in the event of financial hardship encourages individuals to save more.
- » 401(k) plan sponsors may choose to allow in-service access through hardship withdrawals, certain other withdrawals, or plan loans. Plan participants may also take withdrawals after they separate from their employer.
- » Individuals may take withdrawals from their individual retirement accounts (IRAs) at any time.
- » Withdrawals taken from 401(k) plans or IRAs prior to age 59½ are typically subject to a 10 percent penalty on the taxable portion of the withdrawal.
- » US policymakers have allowed exceptions from the 10 percent penalty on early withdrawals for special circumstances (e.g., for armed forces reservists called to active duty or for victims of natural disasters) or certain expenditures (e.g., IRA withdrawals used for a first-time home purchase, education expenses, or health insurance premiums while unemployed).
- » US policymakers created special loan and withdrawal rules for individuals negatively affected by the COVID-19 pandemic in 2020.
- » 401(k) plan sponsors are responsible for ensuring that withdrawals from the plan meet the Internal Revenue Service (IRS) rules and the terms of the plan. In some cases, plans rely on individuals to self-certify the need for or use of the withdrawal; in some cases, additional documentation is required. Individuals are responsible for determining whether or not the 10 percent penalty applies to a withdrawal, calculated in connection with their annual income tax filings.



## LAWS

*Regulations regarding access to retirement assets fall under the Internal Revenue Code (IRC) enforced by the IRS.*

### Withdrawals from 401(k) Plans While Still Employed

Generally, IRS rules restrict a participant's ability to take a distribution while still working for the employer. However, plans may allow participants to take loans from their account or to take withdrawals if the participant is experiencing a hardship (e.g., money needed to pay for certain medical expenses, tuition, or to prevent losing a home due to eviction or foreclosure). In addition, plans may allow participants to take withdrawals once they have reached age 59½ or to withdraw employer profit-sharing contributions or rollover assets (amounts a participant has rolled into the plan from another plan or IRA) while they are working.

*For information on withdrawals from employer-sponsored retirement plans after job change or retirement, see "Portability Is Key."*

### IRA Withdrawals

IRA withdrawal rules vary with the type of IRA (traditional versus Roth) and with the age of the taxpayer. Early withdrawals may be subject to a 10 percent penalty, unless meeting an exception.

### When Can a Retirement Plan Distribute Benefits?

[www.irs.gov/retirement-plans/plan-participant-employee/when-can-a-retirement-plan-distribute-benefits](http://www.irs.gov/retirement-plans/plan-participant-employee/when-can-a-retirement-plan-distribute-benefits)

### Retirement Plans FAQs Regarding Hardship Distributions

[www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-hardship-distributions](http://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-hardship-distributions)

### Retirement Topics—Exceptions to Tax on Early Distributions

[www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions](http://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions)

### Retirement Plans FAQs Regarding Loans

[www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-loans](http://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-loans)

### About Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs)

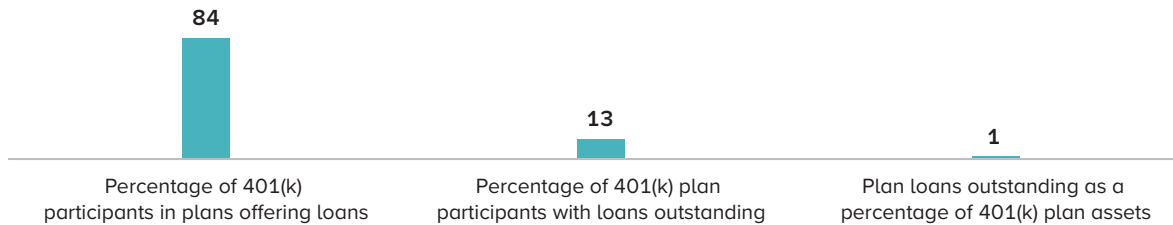
[www.irs.gov/forms-pubs/about-publication-590-b](http://www.irs.gov/forms-pubs/about-publication-590-b)

# LIMITED ACCESS Is Key to Retirement Saving Success



## RESULTS

Most 401(k) plan participants have access to plan loans, but fewer than one in five have loans outstanding



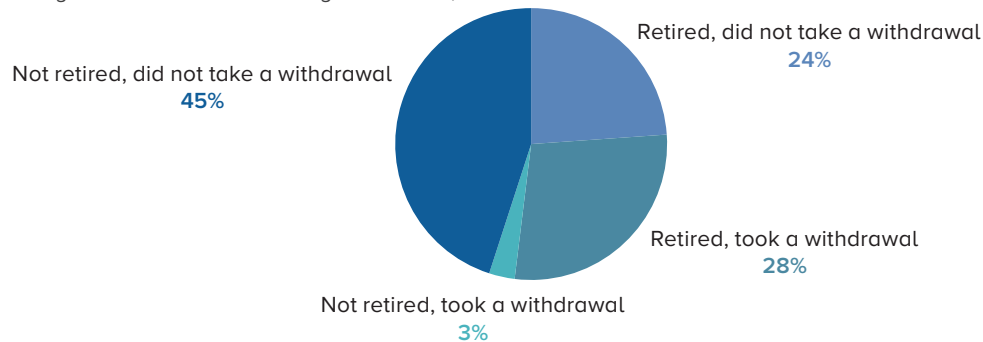
Very few defined contribution (DC) plan participants take in-service or hardship withdrawals from their plans

Percentage of DC plan participants, 2022



Withdrawals from traditional IRAs tend to be retirement related

Percentage of traditional IRA-owning households, 2023



## RESOURCES

*Ten Important Facts About 401(k) Plans*

[www.ici.org/files/2023/ten-facts-401k.pdf](http://www.ici.org/files/2023/ten-facts-401k.pdf)

US Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin:*

*Abstract of 2021 Form 5500 Annual Reports*

[www.dol.gov/agencies/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan](http://www.dol.gov/agencies/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan)

“401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2022,” *ICI Research Perspective*

[www.ici.org/files/2024/per30-03.pdf](http://www.ici.org/files/2024/per30-03.pdf)

“Defined Contribution Plan Participants’ Activities, 2022,” *ICI Research Report*

[www.ici.org/files/2023/22-rpt-recsurveyq4.pdf](http://www.ici.org/files/2023/22-rpt-recsurveyq4.pdf)

*The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2020*

[www.ici.org/research/retirement/dc-plan-profile](http://www.ici.org/research/retirement/dc-plan-profile)

“The Role of IRAs in US Households’ Saving for Retirement, 2023,” *ICI Research Perspective*

[www.ici.org/research/retirement/role-of-iras](http://www.ici.org/research/retirement/role-of-iras)