

# The Coleman Comment

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## Tips on Tapping into Your Retirement Funds

Though some leading economic indicators have inched higher and pundits are pondering the possibility of a bear market bottom, the recession and its effects are still obvious. Few have been spared from the wrath of tightening credit markets, rising unemployment, dwindling savings or freefalling home values.

With fiscal challenges popping up for people on a daily basis, access to cash is a key survival tactic. But is tapping your retirement fund a good option to get you through a financial crunch? The short answer is...no. Although it is your money, the tax consequences and impact to your long-term savings are very serious. If your need is so pressing that no other option will suffice, proceed with caution and know the rules.



**The Loan:** A loan from your 401(k) allows you to borrow against your savings. The loan must be repaid - with interest! - usually within five years. But, if you lose your job or leave the company and still have an outstanding loan, you are required to pay it back (typically) within one to two months. Failure to repay the loan accordingly is considered a default and the outstanding loan amount is fully taxable. Other restrictions may apply so be sure to talk with your 401(k) administrator before making this choice.

**The Hardship Withdrawal:** This option provides you with access to your savings under certain financial conditions, i.e. circumstances that present an immediate and severe need. Examples of hardships include medical care, the purchase of a principal residence, tuition payments, to prevent eviction or foreclosure, and funeral expenses. The two biggest drawbacks? You are permanently reducing your retirement savings and the withdrawal is treated as taxable income. Also, if you take the withdrawal prior to your age 59 1/2, there is a 10% penalty added to the withdrawal amount.

If you are changing jobs or kissing the work world good-bye, your retirement accounts need special attention. To make your transition easier, keep in mind the following three options for managing your 401(k) or other qualified plans:

**Leave the money in your current plan.** You may have the option to leave your money in the account where it is. You will want to review the plan's summary description for any restrictions that may apply.

**Withdraw the money in a lump sum.** As mentioned above, withdrawals are not recommended because they are fully taxable, and if you are under age 59 ½, there is an additional 10% penalty applied to the withdrawal amount.

**Rollover the money into an IRA or new employer's plan.** Moving your money allows you to maintain control over your investment options. And, if you have changed jobs before, it allows you to consolidate multiple accounts. You can avoid paying taxes and penalties if you transfer the assets directly to the new custodian as a trustee-to-trustee transfer. One caveat to consider - if you own company stock in your plan, you may want to review an additional option before you initiate the rollover of that stock. Distributions of company stock from a qualified plan are eligible for favorable tax treatment. A calculation of potential [Net Unrealized Appreciation](#) (NUA) will help you determine what's right for your situation.

If you have questions about any of your 401(k) options, contact [Coleman Financial Group](#).

### **Save the Earth (and some money too!)**

Even before the current economic crisis grabbed the headlines and rattled our portfolios, the drumbeat of "going green" had begun. While running out to buy an electric car or harnessing solar or wind power may not be a



reality for you, there are plenty of small things to do that can really add up over time. Consider using reusable bags and water bottles, switching to more energy efficient lighting, unplugging appliances when not in use, printing less and recycling more. A [home energy audit](#) may be a great place to get started. There are plenty of "go green" resources in the DC Metro area and nationwide. Check out web resources such as [www.livegreen.net](http://www.livegreen.net), [www.goinggreendc.wordpress.com](http://www.goinggreendc.wordpress.com), and [www.thegreenguide.com](http://www.thegreenguide.com).



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