

Generally, distributions from a 401(k) plan while you're still employed and before you reach age 59½ are not permitted. However, if you have an unusual financial obligation and an immediate need for cash, you may be entitled to a distribution from the plan. If your plan provides for hardship distributions, and you can show that you have an immediate and heavy financial need, then you may be entitled to a distribution of funds necessary to meet your obligation. There are regulations which spell out what is an immediate and heavy financial need. Included in this category would be funeral expenses for a family member, for example. On the other hand, a distribution for the purchase of a boat or a television wouldn't be a distribution on account of an immediate and heavy financial need.

There's a limit on the amount you can take out of your 401(k) plan due to hardship. Hardship withdrawals are limited to amounts attributable to elective contributions to the plan. These are the amounts that you have elected to have your employer contribute on your behalf into the 401(k) plan, and any earnings on these amounts. You should be aware that hardship withdrawals are taxable distributions, and if you're under age 59½, you may be subject to a 10% addition to tax on premature distributions.

Special rules apply to the withdrawal of any "after-tax," or voluntary contributions, you may have made to your plan. These amounts can be withdrawn while you're still working. However, these distributions will be taxed under a formula that excludes from income a pro-rata portion calculated with reference to your after-tax contributions as they relate to the total value of your account.

Another way to get cash from your 401(k) plan is through a plan loan. A plan loan is ordinarily a taxable distribution, but if your plan provides for loans and certain conditions are met, you could receive the funds tax-free. There is a five-year repayment requirement, interest on the loan will ordinarily be nondeductible, and the amount of a plan loan is limited to 50% of the value of your nonforfeitable accrued benefit—generally your vested benefit—with a limit of \$50,000. The five-year repayment requirement doesn't apply if the loan is for the purchase of a residence. Unlike a taxable hardship distribution, a plan loan doesn't require that you establish an immediate and heavy financial need. Your ability to borrow from your 401(k) plan depends on requirements under the terms of the plan.

Another point to keep in mind is that a plan loan—unlike a hardship distribution— doesn't reduce the value of your 401(k) assets. Your account remains fully vested, subject, of course, to your obligation to repay the loan.