Considering dipping into your retirement savings?

WHAT YOU NEED TO KNOW.

WHEN YOU CONTRIBUTE TO A RETIREMENT ACCOUNT, YOU USUALLY HAVE YOUR EYES SET ON RETIREMENT — DREAMING OF THE NEXT PHASE OF YOUR LIFE. However, if you find yourself needing to cover unexpected expenses and have exhausted all other options, your retirement account could be an option.

Although borrowing or withdrawing money from your retirement account could jeopardize your retirement plans, you can access your savings if needed.

If you need to access your retirement savings, there are two options: a withdrawal or a loan. A loan allows you to borrow from your retirement savings and pay it back gradually with interest. Your payments, including the interest, will all go back into your account. On the other hand, a withdrawal is removing money from your retirement savings with no option to pay it back. All plans are different; you can find withdrawal and loan information in the plan highlights in the About your Plan section of your online account or your ADP Mobile Solutions App.

Before taking a loan or withdrawing from your retirement account, be sure you understand the tax and other financial consequences. Let's explore the pros and cons of various retirement account withdrawal and loan options.

Retirement account withdrawals

The IRS lets you withdraw from your retirement accounts without penalties once you reach age 59½. Some plans allow you to take out money earlier. Just keep in mind that you may have to pay some extra taxes and penalties.

PROS: You're not required to pay back the money you withdraw

CONS: Dipping into your retirement account before you're 59 ½ can cost you quite a bit. You may end up owing the following:

- Federal income tax based on your marginal tax rate
- 10% penalty on the amount withdrawn.
- Applicable state income tax.

Certain taxes must be paid at the time of withdrawal, which may result in a lesser amount received. If you take a distribution after leaving your employer and have an outstanding loan, federal taxes will be withheld from both the distribution amount and the outstanding loan amount. While the taxes for the loan may not be displayed during the distribution process at My.ADP.com, your final check will have taxes deducted to satisfy the required taxes on the loan.

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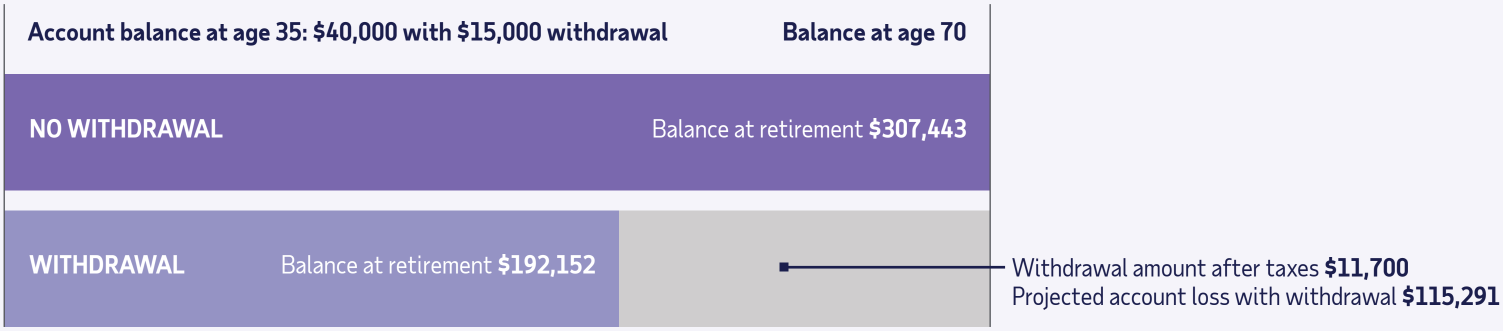
Retirement account withdrawals – continued

Let's take a look at the chart below to see how dipping into your retirement account now can affect you in the long run. Suppose you withdraw $15,000 from your account balance of $40,000. If you have 35 years left to save, the estimated loss from this withdrawal would be around $115,291.

IMPACT OF TAKING A WITHDRAWAL



For illustrative purposes only and may differ based on individual circumstances. These investments do not represent any particular fund in your plan. The calculations are based on a hypothetical scenario where a $15,000 withdrawal is made from an account balance of $40,000 at age 35, with a planned retirement age of 70. The calculation assumes an annual rate of return of 6% and 12% federal taxes.

Can you avoid taxes and penalties?

Yes. There are ways to get cash from your retirement account and avoid some or all of these penalties. For example, some plans allow for loans and hardship withdrawals.

A **hardship withdrawal** is a distribution from your retirement account that can be made if certain conditions are met.

To qualify, the IRS defines the following special circumstances:

- Medical expenses
- Costs related to the purchase of a primary residence
- Education tuition, fees and expenses
- Foreclosure or eviction
- Funeral expenses
- Expenses for home repairs, such as those necessary after a natural disaster

A hardship withdrawal is a distribution, not a loan; you do not have to repay it. Taking a hardship distribution could be costly, as noted in the chart above. You may also be required to pay a 10% early withdrawal penalty tax if you are younger than 59½.

Retirement account loans

A loan allows you to access funds from your retirement account. The maximum amount you can borrow within a 12-month period is generally 50% of your vested account balance, or $50,00, whichever is less.

PROS: There are no taxes or penalties when you take a loan. Your loan payments are automatically deducted from your paycheck, so the principal and interest are paid back into your retirement account. A credit check is unnecessary and the loan won't appear as debt on your credit report. And if you miss a payment or default on the loan, you won't have to worry about it damaging your credit score because the default won't be reported to credit bureaus.

CONS: Repayment of the loan's principal and interest is made using funds from after-tax earnings, which would not decrease your current taxable income. Even though your loan repayments were made with after-tax dollars, when you retire and begin withdrawing money from your account, you will be required to pay taxes on the loan payments you made.

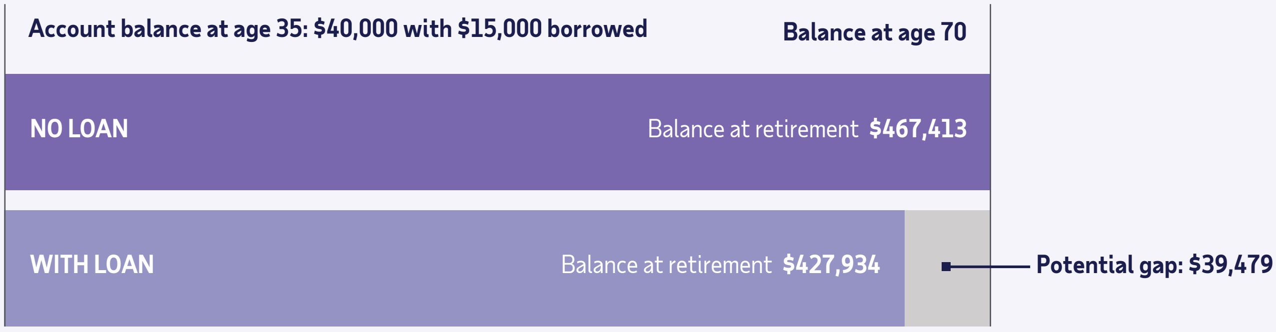
If your employment is terminated (either through voluntary resignation or termination), it is typically expected for your loan to be repaid promptly, usually within 60 to 90 days. If you cannot repay the loan's balance, it will default, and you will owe tax on the balance. When you take a distribution after leaving your employer and have an outstanding loan, federal taxes will be withheld from both the distribution amount and the outstanding loan amount. While the taxes for the loan may not be displayed during the distribution process at My.ADP.com, your final check will have taxes deducted to satisfy the required taxes on the loan.

Like a withdrawal, taking a loan from your retirement account might mean missing out on potential gains. When you invest more in the market, you increase your chances of making more money. On the other hand, taking money out of the market could reduce your earning potential.

As illustrated in the chart below, the potential long-term consequences of taking a $15,000 loan with a 5-year repayment plan could be **$39,479**.

There are a few options to withdraw money from your retirement account without incurring any penalties. However, we suggest only dipping into those savings once you're retired. **Your future self will be grateful for your foresight!**

IMPACT OF TAKING A LOAN



For illustrative purposes only and may differ based on individual circumstances. These investments do not represent any particular fund in your plan. The calculations are based on a hypothetical scenario where a 5-year $15,000 loan is made from an account balance of $40,000 at age 35, with a planned retirement age of 70. The calculation assumes an annual rate of return of 6% and a 7% interest rate.

HOW TO REQUEST A LOAN OR HARDSHIP WITHDRAWAL

If you decide a loan or withdrawal is right for you, you can submit your request via the ADP Mobile Solutions App, or at My.ADP.com. You can also scan the QR code with your camera or QR code reader. As you complete the online process, you may be prompted to provide supporting details to qualify a hardship withdrawal request.

Grow your financial knowledge

To help you achieve your financial goals, your retirement plan offers you access to financial tools and learning resources that you can use to strengthen and build your financial knowledge and skills. To help you achieve your financial goals, your retirement plan offers you on-demand access to financial tools and learning resources you need to meet your financial challenges at every stage of your life and career. Visit the **ADP Achieve Engagement Hub** or scan the QR code with your camera or QR code reader.

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