

Distributions and Withdrawals

Q. Can I withdraw from my workplace retirement savings account when I need to?

A. Yes. The law says that money may be taken out of your account (that is to say, the money may be distributed) when you retire, become disabled, leave your job or die. In certain cases of need, furthermore, you may make a hardship withdrawal.

Q. When can I make a hardship withdrawal?

A. You can receive this type of distribution when you can show that the money will be used to pay necessary medical expenses, to purchase a primary residence, to pay for post-secondary tuition or related educational expenses, or for payments necessary to avoid eviction or foreclosure. You may also have to show that your need for the money can't be satisfied in any other way.

Q. Are there any penalties or special tax withholdings?

A. Yes. The money you receive is income and will be taxed along with all other income. If you take a distribution before age 59 ½ years you will probably pay a penalty of 10% of the complete amount (that is, before taxes are paid) and a further 20% tax withholding may be removed for income taxes due at the end of the year.

Q. Are there any ways to avoid the 10% penalty?

A. Generally, part or the entire 10% penalty can be eliminated if your withdrawal is to pay sizable medical bills.

Q. When should I make use of the hardship withdrawal provisions?

A. When you have no other alternative. The penalties are real and significant. You worked hard to earn that money so that your retirement can be secure. You should, generally, exhaust all other options before even considering using your workplace retirement savings account for current expenses.

Q. My workplace retirement savings account holds my money, so why does the government impose penalties if I need the money early?

A. The government encourages you to save for retirement by allowing you the considerable benefit of investing money *before* you pay taxes on it. This is an expensive benefit for the government to offer: It costs the country billions of dollars annually in lost tax revenue. If you want to use the workplace retirement account money for other than retirement purposes, the government believes that at least some of the tax subsidy provided to you by all other taxpayers should be removed.