Written by Tim Decker, AIF
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Q: I'm not retired yet – I'm still working – and need cash to take care of some things, so I'm thinking of taking some money out of my 401(k) plan. Is this is a good idea?

A: Unless you need the money for a dire emergency, absolutely, unequivocally not – for a host of reasons. Making withdrawals from your 401(k) defeats the purpose of these plans – to enable you to build resources for a secure retirement during your working years. Whatever your reason is for considering making a withdrawal now, think about how desperate you'll be when you're 80 and potentially could run out of money.

The money you contribute to your plan from your paycheck is generally tax-deferred, meaning that you don't pay taxes on it until you make withdrawals. One exception to this is if your 401(k) has a Roth option. In that case, contributions are made with after-tax dollars, and withdrawals at retirement, on both contributions and earnings, are tax-free. However, with traditional 401(k) accounts, withdrawals are taxed as ordinary income – at the same rate you pay on your salary. If you're under 59 ½, you may also have to pay a hurtful 10 percent penalty. Though this IRS hit from withdrawals can be fairly benign during retirement, it can be significantly more during your working years, when your tax bracket is probably much higher--especially if you're not old enough to avoid the 10 percent penalty.

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