

# When Can I Withdraw Money From My Plan?

There are a few scenarios in which you can remove the funds from your employer sponsored retirement plan.

1. Separation from Service
2. Distributions after the age of 59 1/2
3. Hardship Distributions
4. Birth or Adoption
5. Required Minimum Distribution

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## Distribution Option Details:

### Separation from Service

In the event that an employee separates from an employer, for any reason, there are several options the employee can consider in deciding what to do with a 401 (k) balance.

- Leave the funds in the plan - In many cases the separated employee is allowed to keep the 401(k) money in the plan as long as the balance is at least \$7,000.
- Cash Out - A separated employee can request the funds be issued to them directly. This is a taxable event and will impact the taxable income for the year in which the distribution is received. The IRS assesses a 10% penalty for early withdrawal (prior to age 59½). Further, the 401(k) plan provider will be required to withhold 20% for federal income taxes and applicable state income taxes, depending upon state of residence. Additionally, the employee will receive a 1099R the following tax season that will state that the entire distribution was taxable income.
- Rollover to new employers plan - One way to preserve the tax-qualified status of your retirement account is to roll the balance to your new employer's retirement plan. While most employer plans allow new employees to roll their accounts in, it's important that you ask first to be sure. The employee will receive a 1099R reporting the distribution was processed but is not taxable in the year it was processed.
- Rollover to an IRA - Another option to preserve the tax-qualified status of your retirement account is to roll the funds into an Individual Retirement Account (IRA). The employee will receive a 1099R reporting the distribution was processed but is not taxable in the year it was processed.

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### Distribution after the age of 59 1/2 - Active Employee

Many plans allow an employee to receive funds after the age of 59 1/2 (or retirement age determined by the plan) regardless of employment status. If this is allowable in the plan the employee has the same distribution options as separation of service withdrawal (except rollover to new employer plan).

Retirement Plans are not required to permit these distributions. To determine if your plan allows this distribution type, review your Summary Plan Description or [contact](#) Sentinel's Service Center.

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### Hardship Distribution

Hardship distributions can be made on account of an immediate and heavy financial need of the employee, and the amount must be necessary to satisfy the financial need. For additional information and rules regarding these types of withdrawals please see: [Hardship Withdrawals](#).

Retirement Plans are not required to permit these distributions. To determine if your plan allows this distribution type, review you Summary Plan Description or [contact](#) Sentinel's Service Center.

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### **Birth or Adoption**

The SECURE Act (signed on December 20, 2019) permits penalty-free distributions for birth or adoption-related expenses of up to \$5,000 from defined contribution plans, including IRAs, without the 10% penalty that normally might apply to an early distribution.

Parents are able to take up to a MAXIMUM of \$5000.00 (available to each parent) within 1 year of the birth or adoption. This withdrawal option is available for each qualifying Birth or Adoption.

You will be required to submit a self-certification at the time of your request.

The withdrawal will be reported as income in the year in which the distribution is processed and you will receive a form 1099R to file with your taxes. You may be allowed to later recontribute all or a portion of the distribution to a qualified retirement plan (or IRA) in which you, the recipient, participates (even if not the same plan that made the distribution), provided certain requirements are met.

Retirement Plans are not required to permit these distributions. To determine if your plan allows this distribution type, review you Summary Plan Description or [contact](#) Sentinel's Service Center.

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### **Required Minimum Distribution**

Once a plan participant reaches the age of 72 and is no longer employed, they are legally required to take a Required Minimum Distribution (RMD). RMD's taken late are taxed at a rate of 50%.

The RMD amount is based on the preceding December 31 value of the account and life expectancy tables.

**First Year RMDs:** When you are required to take your first RMD, you will receive a notification in the year in which you reach 73 (or terminate employment if older) that will include the amount of the RMD.

**Subsequent Year RMDs:** Once the initial RMD is processed, future RMD's will be processed automatically in the same manner. The RMD will be calculated and processed automatically each year prior to 12/31.

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If you are unsure of your withdrawal options or have questions you can [contact us](#).

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