# RESTRICTIONS ON 401(K) IN-SERVICE WITHDRAWALS

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Congress designed 401(k) plans as retirement savings vehicles – not as checking accounts. So, there are restrictions on when employees can make "in-service withdrawals" (i.e., withdrawals while still working).

It's important to remember that while 401(k) plans must abide by these withdrawal rules, plans are free to impose even more restrictive rules. So, you'll need to check your plan summary or ask your plan administrator or HR rep for the particular withdrawal rules that apply to you.

Many plans allow in-service withdrawals of certain kinds of contributions for any reason once employees meet certain age or service requirements. (Most plans also offer hardship withdrawals at any age. Those will be covered in a future blog post.)

Each type of 401(k) contribution is subject to different withdrawal restrictions:

**Pre-tax deferrals and Roth contributions**

Your plan can allow in-service withdrawals of pre-tax deferrals and Roth contributions (if offered), plus associated earnings, at age 59 ½ or older.

**After-tax contributions**

If your plan offers non-Roth after-tax contributions, the plan can allow those contributions and their earnings to be withdrawn at any time.

## Employer contributions

Many plans permit in-service withdrawals of vested company contributions, such as matching or profit sharing contributions, and their earnings. The IRS rules are very flexible here. Plans can allow withdrawals at a specified age (even earlier than age 59 ½), after at least five years of plan participation or after the contribution has been in the plan for at least two years. Practically, however, most plans that allow in-service withdrawals of these funds permit them at age 59 ½ (like pre-tax deferrals and Roth contributions). Doing so simplifies plan administration and ensures that employees won’t be stuck with the 10% early distribution penalty.

## Safe harbor contributions

Some 401(k) plans make “safe harbor” employer contributions to allow them to automatically satisfy certain IRS limits on contributions by highly-paid employees. Safe harbor contributions and associated earnings are not eligible for in-service withdrawal before age 59 ½.

## Rollover contributions

401(k) plans are permitted to allow incoming rollovers of pre-tax retirement accounts (“reverse rollovers”). Plans can allow in-service withdrawals of rollover contributions and their earnings at any time, regardless of age or service. Once again, however, many plans set age 59 ½ as the cutoff point.

## Taxation

Keep in mind that in-service withdrawals of pre-tax funds (i.e., elective deferrals, company contributions, safe harbor contributions and rollover contributions, plus associated earnings) are taxable to you. (If made before age 59 ½, they may also be subject to the 10% penalty.) Roth accounts and after-tax contribution accounts are treated separately. If a Roth 401(k) withdrawal is a “qualified distribution,” it comes out completely tax-free. If not qualified, a portion of each Roth withdrawal is taxable. When after-tax contributions are withdrawn, a portion of each withdrawal is also usually taxable.