CAN I REACH MY 401(K) FUNDS WHILE STILL WORKING?

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By Ian Berger, JD
IRA Analyst
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We continue to get questions about the ability of employees to withdraw from 401(k) plans while still working. The tax code includes certain restrictions on these in-service withdrawals. Plans must follow these rules or they risk losing their tax-qualified status.

But plans are also free to impose even more restrictive rules than required by the tax code. 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 your plan.

Here's a summary of the various withdrawal restrictions:

Pre-tax deferrals and Roth contributions

Your plan cannot allow in-service withdrawals of pre-tax deferrals and Roth contributions (if offered), plus associated earnings, before age 59 ½ (except for hardship or disability).

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If your plan offers non-Roth after-tax contributions, the plan can allow those contributions and their earnings to be withdrawn at any time, even before age 59 ½. This allows employees in some plans to use the "Mega Backdoor Roth" strategy to convert after-tax contributions to Roth IRAs.

Employer contributions

The IRS rules are very flexible in permitting in-service withdrawals of vested company contributions, such as matching or profit sharing contributions, and their earnings. Plans can allow withdrawals at a specified age (even earlier than 59 ½), after at least five years of plan participation or after the contribution has been in the plan for at least two years. But most plans that allow in-service withdrawals of these funds don't permit them until age 59 ½ (as with pre-tax deferrals and Roth contributions). This simplifies plan administration and prevents employees from getting hit with the 10% early distribution penalty.

Safe harbor contributions

Your employer may make "safe harbor" employer contributions to allow the plan to automatically satisfy certain IRS limits on contributions by highly-paid employees. There is no flexibility under the rules here. These safe harbor contributions, and associated earnings, aren't eligible for in-service withdrawal before age 59 ½.

Rollover contributions

Some 401(k) plans allow employees to roll over pre-tax retirement accounts, including IRAs, into the plan. Plans can allow in-service withdrawals of rollover contributions and their earnings at any time, regardless of age or service. But this is not mandatory and once again, many plans set age 59 ½ as the cutoff point to make administration easier.

SECURE 2.0

The new SECURE 2.0 law includes several new in-service withdrawal opportunities. These include withdrawals for federally-declared disaster expenses (retroactively effective to January 26, 2021); for terminal illness (effective in 2023); for victims of domestic abuse and for emergency expenses (both effective in 2024); and for long-term care premiums (effective December 29, 2025)

Your employer isn't required to offer withdrawals for any of these reasons. But if offered, you'd be able to access your accounts even before age 59 ½ without paying the 10% penalty (except possibly for terminal illness where the law is unclear).

Taxation

In-service withdrawals of pre-tax 401(k) funds are taxable and, if made before 59 ½, may be subject to penalty. Roth accounts and after-tax contribution accounts are handled separately. A Roth 401(k) withdrawal that is a "qualified distribution" comes out completely tax-free. If not qualified, the earnings part of the Roth withdrawal is taxable. The earnings portion of each withdrawal of after-tax contributions is also taxable.