

ACCESSING 401(K) FUNDS WHILE YOU'RE STILL WORKING

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If you are faced with expenses that require you to tap into your savings, what are your options? You should always look to non-retirement savings first. Dipping into retirement funds could cause you to lose out on future tax-deferred (or tax-free) growth, and you may have to pay taxes and a penalty on the withdrawal.

But if you must touch your retirement funds, you may be surprised to know that the access rules differ between IRAs and company plans. You can always reach your traditional or Roth IRAs (with possible taxes and penalty) at any age. But tapping into your 401(k), 403(b) or 457(b) plan funds can be more difficult. That's because Congress has set strict restrictions on withdrawals from those plans. And, to make matters worse, plans are free to impose even more restrictive rules than required by Congress. So, check your plan's written summary or ask your plan administrator or HR rep for the particular access rules that apply to your plan.

If you leave your employer, you can usually take out all of your plan funds. By contrast, there are barriers to accessing your funds while you're still working (through an "in-service withdrawal"). The rules are different for each of the various types of contributions within your plan:

- *Pre-tax and Roth Elective Deferrals. Generally, 401(k) and other plans cannot by law allow in-service withdrawals of pre-tax and Roth deferrals (and associated earnings) before age 59½. But, if the plan allows, you can access these dollars before that age if you have a financial hardship or for certain other specific reasons. Most plans do allow in-service withdrawals once you reach age 59½.*
- *After-Tax Contributions. If your plan offers non-Roth after-tax contributions, the plan may allow you to reach those funds (and earnings) at any time, even before age 59½.*
- *Employer Contributions. Your plan may provide employer contributions, including matches. In that case, it may follow the same withdrawal restrictions for those contributions (and earnings) that apply to pre-tax and Roth elective deferrals. This simplifies plan administration. But some plans are more liberal and allow withdrawals at a specified age (even earlier than 59½), after you've been in the plan for at least five years or after the contribution has been in the plan for at least two years.*
- *Rollover Contributions. Some plans allow you to roll over funds from other plans you previously participated in, or from IRAs, into your current plan. Plans can allow you to access these rolled-in dollars (and earnings) at any time, regardless of your age or*

service. But this is not mandatory and here again, your plan might apply the same restrictive rules that apply to pre-tax and Roth elective deferrals.

Even if your plan doesn't usually permit in-service withdrawals before age 59½, you still may be able to dip into your plan funds if you have a financial hardship or on account of another specified reason. Or, you may qualify for a plan loan. We'll cover those options in a future Slott Report article.

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