Consider other options before taking a 401(k) withdrawal

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Due to COVID-19, the vast majority of the workforce has been significantly affected. Although this experience will leave us “schooled” in many areas, one positive impact it may leave is the importance of having our finances in order. A good practice to help manage expenses is to develop a budget, set financial goals and priorities, and establish a 3- to 6-month emergency savings (or more if possible).

However, some may be tempted to take a withdrawal from their 401(k) as a solution to their immediate financial needs. *But is this really the best decision over the long run?*

Yes, it’s true that the CARES Act makes it easier to access 401(k) withdrawals and loans for individuals who meet certain criteria and hardships. However, individuals should also understand how these actions could negatively impact their future retirement savings over the long term. Other means such as emergency funds, refinancing current debt, brokerage accounts, cash value life insurance options, lines of credit or even loans from family members should be considered as alternative ways of obtaining necessary funds.

There are also taxes associated with taking a withdrawal from your retirement plan. Before taking a withdrawal, consider talking with a financial advisor or tax consultant to fully understand the impact your action may have on your total financial picture or tax filing.

You can also use our 401(k) retirement plan calculator to see how changes made to your retirement savings today can impact your future.

Feeling stressed about your finances is perfectly normal, especially during a pandemic. However, having the information needed to make sound financial decisions can lead to peace of mind, better budgeting habits, and a brighter financial future.