

403(b) Hardship Withdrawals

Checklist for Plan Sponsors



A hardship withdrawal is a distribution from an employee's 403(b) retirement account made because of an immediate and heavy financial need.

The distribution is limited to the amount necessary to satisfy that financial need and any applicable taxes and penalties. The money is taxed to the employee and is not paid back into their account. The need of an employee also includes the need of the employee's spouse, dependent, or primary beneficiary under the 403(b) plan.

Although a financial need may be immediate and heavy, even if it was reasonably foreseeable or voluntarily incurred by the employee, certain expenses do not qualify. For example, expenses for the purchase of a boat, a furnace, or a television or credit card debt generally would not qualify for a hardship withdrawal. A hardship withdrawal is an optional 403(b) plan feature and must be allowed in the plan for employees to take a hardship withdrawal.

Hardship withdrawals are taxable distributions and are subject to a minimum 10% federal income tax withholding unless the employee chooses not to have any income tax withheld. The distribution may be subject to federal and state penalties.

What are alternatives to taking a hardship withdrawal?

- Emergency savings.
- Reimbursement or compensation by insurance or other means.
- Liquidation of any assets (Traditional IRA, Roth IRA, or savings).
- Canceling contributions into the plan.
- Taking a loan from the plan (if allowed).

An active employee may qualify for a hardship withdrawal if they meet one or more of the reasons listed on the back of this flier. Use the checklist to verify if your employee qualifies to take a hardship withdrawal. You may want to request your employee attach a copy of their documentation, such as copies of medical bill(s), foreclosure notice, tuition bill, etc.

See back for checklist ►



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Hardship Checklist

Does the hardship request qualify as verification of an immediate and heavy financial need? Check appropriate box below.

- ☐ Non-reimbursable medical expense for self, spouse, children, dependents, or primary beneficiary—may qualify for waiver of 10% penalty.
 - ☐ Purchase of primary residence—excludes mortgage payments.
 - ☐ Tuition for post-secondary education and related educational expenses for self, spouse, children, dependents, or primary beneficiary.
 - ☐ Prevention of eviction from primary residence.
 - ☐ Prevention of foreclosure from primary residence.
 - ☐ Funeral expenses for immediate family including primary beneficiary.
 - ☐ Repair of damage to primary residence that qualifies for casualty tax deduction.
 - ☐ Expenses and losses incurred because of a federally declared disaster.
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Does the dollar amount exceed the amount required to relieve the employee's financial need (including taxes and penalties)? Acceptable documents to review include:

- ☐ Copies of actual dental or medical bills.
- ☐ Copy of the binding contractual agreement to build or purchase home.
- ☐ Copy of actual bills for future tuition of up to the next 12 months.
- ☐ Copy of eviction notice.
- ☐ Copy of foreclosure notice.
- ☐ Copy of an invoice or accounts payable statement.
- ☐ Copy of detailed invoices or accounts payable statement from home repair providers.
- ☐ Verify resident or place of business is in disaster area at the time of the disaster.