Understanding your withdrawal options

Frequently asked questions

What's the difference between loans, withdrawals, and distributions?

The primary differences between loans, withdrawals, and distributions are the differences in taxation and eligibility.

Loans	When a plan allows, a loan may be taken from retirement funds without being taxed, then be repaid to the plan based on an agreed upon timeframe. Loans may be taken out for a maximum amount of up to 50% of the vested contributions or $50,000 within the past 12 months.[1]
Withdrawals	Withdrawals are retirement fund disbursements used prior to a Normal Retirement Date or prior to separation of service (while you're still employed with your organization). They're typically subject to taxation upon withdrawal unless they're rolled over to another qualified retirement plan. Some plans require you to exhaust other options (like a loan from the plan) before a withdrawal can be granted. Refer to the Plan Summary for details about your organization's plan.
Distributions	Specific rules can apply to each plan, but distributions are generally reserved for participants who are no longer with their organization (known as "separated from service") or who have reached the Normal Retirement Date as defined by the plan. They're typically subject to taxation upon withdrawal unless they're rolled over to another qualified retirement plan.

When can I withdraw retirement funds from my account?

The IRS allows you to access the balance in your retirement savings account without penalty for the following events:

- Retirement
- Disability
- Death

Depending on the terms of the plan, you may also be allowed to access the retirement funds if you:

- Retire early
- Become disabled
- Terminate employment
- Turn 59½ while you're still working
- Experience financial hardship

Again, these will vary by the terms of your organization's retirement plan.

What's the advantage to leaving my contributions in the retirement plan rather than taking a withdrawal?

Keeping your contributions in the retirement plan keeps them working for you, potentially adding earnings to your retirement savings. You should carefully consider what can happen when you withdraw retirement funds:

- If you're under age 59½, the withdrawal amount may be subject to a 10% tax from the IRS for early withdrawal—that's in addition to regular income tax.
- When you withdraw retirement funds from the plan, you may lose some of the benefit of compound earnings. Compounding can generate earnings on both the original contribution and reinvested earnings.

How much can I withdraw?

Typically, you can only withdraw retirement funds in which you are vested. The exact amount you can withdraw will vary based on plan provisions and market conditions when the withdrawal is processed.

What are the different types of withdrawals?

You'll need to refer to the Summary Plan Description to determine which withdrawal types are available to you.

Active participant	An active participant withdrawal allows a participant to withdraw any part of their vested account resulting from certain contributions. The plan will specify which contributions are allowed and if there's a service requirement in order to receive the withdrawal.
Voluntary	A voluntary withdrawal is a withdrawal of employee voluntary (after-tax) contributions. It may also include pre-tax contributions made between Dec. 31, 1981, and Jan. 1, 1987.
Rollover	A rollover withdrawal may refer to a withdrawal of retirement funds you rolled over to the retirement plan from an account held in another retirement plan. If the retirement funds were rolled over, you're typically fully vested in that amount and can withdraw all of it if the plan allows rollover withdrawals.
Age 59½	An age 59½ withdrawal typically allows you to withdraw all of your vested account once you've reached age 59½.
Hardship	A hardship withdrawal is only available in specific circumstances. A financial hardship is defined by the IRS as an immediate and heavy financial need. Individual plan provisions will outline what's acceptable as immediate and heavy. In most cases, you'll have to provide proof of the hardship. Additionally, your organization's plan may require exhausting all other resources, including the plan's loan provision, before you're considered eligible for a financial hardship withdrawal. Hardship withdrawals may not be rolled over to another plan or individual retirement account (IRA).

Where can I send the retirement funds I withdraw?

You may have a couple of options:

- Roll over to another plan or IRA (not available with loans or hardship withdrawals).
- Receive the retirement funds in cash, minus required tax withholdings.

How long will the withdrawal process take?

The total time may vary based on your individual situation. Your request may require approval from your employer or third-party administrator (TPA) and potentially need additional documentation (like spousal consent or proof of hardship).

Once the withdrawal is approved (if required), standard processing can take up to 7 days to complete. Timing for the delivery of retirement funds depends on the method you choose:

Check	A check typically will print on the second business day after your request is processed. Allow additional time for mail delivery.
Direct deposit	A direct deposit will post to your financial institution account on the second business day after your request is processed.
Wire	The money will be wired to your financial institution account on the first business day after your request is processed.

Is spousal consent needed to withdraw retirement funds from an account under my organization's retirement plan?

The plan may require your spouse's signature if you're married. If it does, you'll be provided a Spousal Consent Form to complete with the application when you submit a withdrawal request online or to your employer. This form must be returned before processing can begin.

Once I make a withdrawal, can I continue to make contributions to the retirement plan?

Generally, yes. Your contributions to the plan will continue, unless you elect otherwise.

Am I required to pay taxes on my withdrawal?

If you're not rolling over your withdrawal and you're withdrawing pre-tax funds, the withdrawal will be taxable to you in the tax year that the withdrawal is made. If you're under age 59½, you may also need to pay an additional 10% early withdrawal tax. If you're withdrawing after-tax funds, the earnings on your contributions may be taxable.

If I take a withdrawal, how will I pay the taxes owed on the distribution?

If you're requesting a withdrawal, Principal® is required to withhold 20% for federal taxes on the taxable portion of withdrawals that are eligible to be rolled over, but are paid in cash from a qualified retirement plan. A hardship withdrawal is generally subject to 10% withholding, because it's not eligible to be rolled over.

If you're under age 59½, the withdrawal may be subject to an additional 10% early withdrawal tax, which you can elect to have withheld in your request.

State taxes may also be withheld depending on your state requirements. Additional taxes may apply when you file your income taxes.

How do I defer paying income tax on an early withdrawal from my organization's retirement plan?

To defer paying income tax on an early withdrawal, you may directly roll your retirement funds into another retirement plan or an IRA. Consult your tax or legal advisor regarding your specific circumstances.

The rules regarding taxation of early withdrawals are complex, and they contain many conditions and exceptions.

Are there additional fees for taking a withdrawal from my account?

Processing fees apply and vary by the services your plan sponsor has selected. All processing fees are disclosed to you prior to finalizing your request.

How can a rollover affect my taxes?

If you directly roll funds over to another qualified plan or an IRA, you won't have to pay taxes until you withdraw retirement funds from those accounts, and the 10% additional income tax may not apply if those withdrawals are made after you turn age 59½ (or if an exception applies).

If my organization's retirement plan includes Roth funds, can I take a withdrawal online?

Yes. Retirement funds from an after-tax or Roth contribution may be withdrawn if allowed by the plan document.

Can I perform my entire withdrawal request online?

That depends on your status, the type of withdrawal and other specific options you may want. You may be required to fill out forms offline to complete the process. The withdrawal application will indicate which forms you would need to upload/send in or submit to your employer.

[1]Generally, the maximum loan amount is the lesser of either: 50% of the vested account balance, reduced by any outstanding loan balance, or $50,000 reduced by the highest outstanding loan balance during the past 12 months. This includes all loans (new loans taken in the past 12 months, loans paid off in the last 12 months, and all defaulted loan balances, no matter how old the loan).

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You should consider the differences in investment options and risks, fees and expenses, tax implications, services, and penalty-free withdrawals for your various options. There may be other factors to consider due to your specific needs and situation. You may wish to consult your tax advisor or legal counsel.

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