FINANCIAL WELLNESS

RETIREMENT PLAN DON'Ts

When it comes to saving for retirement, you will find a lot of information about ways to save, the different retirement plans that are available, the kinds of investments you can make and how the market works. But be warned: Once you have put money into retirement savings, it should not be taken out. That money is meant to support you when you no longer work, and the less money in your savings, the less money you have to live on in your old age. Following are ways that people take money out of their retirement savings and what happens when they do.

Don't borrow from your retirement plan before retirement unless absolutely necessary.

Your retirement plan may allow you to borrow from your account, often at very attractive rates. However, borrowing reduces the account's earnings, leaving you with a smaller nest egg. Also, if you fail to pay back the loan, you could end up paying income taxes and penalties. As an alternative, consider budgeting to save the needed money or pursue other affordable loan options.

Avoid withdrawing funds permanently before retirement.

This often happens when people change jobs. According to a study by the Employee Benefits Research Institute and Hewitt Associates, only 47% of workers changing jobs rolled over into an IRA or a new employer's retirement plan at least some of the money they received from their former employer's retirement plan.

Pre-retirement withdrawals ultimately reduce the size of your nest egg. In addition, you'll probably pay federal income taxes on the amount you withdraw (ranging from 10% to as high as 39.1%) and a 10% penalty may be tacked on if you're younger than age 59½. You may also have to pay state taxes. If you're in a SIMPLE IRA plan, that early withdrawal penalty climbs to 25% if you take out money during the first two years you're in the plan.

Article adapted from the U.S. Department of Labor publication of the same title. *www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/savings-fitness.pdf*

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