

FOR PLAN SPONSOR USE ONLY
HARDSHIP WITHDRAWALS

Many retirement plans permit hardship withdrawals/distributions. If so, certain amounts may be withdrawn if a participant has a specific financial hardship as permitted under the Internal Revenue Code. Hardship distributions will reduce the value of the benefits that participants will receive at retirement. So it is not a feature to be encouraged.

Qualifying expenses. In order to qualify for a hardship distribution, certain conditions must be satisfied under the general standard hardship rules. Under the general standard rules, a hardship distribution may only be made for payment of the following:

- Unreimbursed expenses for medical care (described in Section 213(d) of the Internal Revenue Code) previously incurred by you, your spouse or your dependents or necessary for you, your spouse or your dependents to obtain medical care;
- Costs directly related to the purchase or construction of your principal residence (this does not include mortgage payments);
- Tuition, related educational fees, and room and board expenses for the next twelve (12) months of post-secondary education for yourself, your spouse or your dependents;
- Amounts necessary to prevent your eviction from your principal residence or foreclosure on the mortgage of your principal residence;
- Payments for burial or funeral expenses for your deceased parent, spouse, children or other dependents;
- Expenses for the repair of damage to your principal residence that would qualify for the casualty loss deduction under the Internal Revenue Code; or
- Expenses related to a federal disaster, including loss of income.

Conditions. If you have one of the above expenses, a hardship distribution can only be made if you certify and agree that all of the following conditions are satisfied:

- The distribution is not in excess of the amount of your immediate and heavy financial need. The amount of your immediate and heavy financial need may include any amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution;
- You have obtained all distributions, other than hardship distributions, currently available under all plans maintained by your Employer whether qualified or nonqualified; and
- You must represent in writing that you have insufficient cash or liquid assets to satisfy the financial need. A Plan Administrator can rely on this certification, unless they have knowledge to the contrary.

Limitations. The following limitations apply to hardship distributions:

- Depending on your plan's provision, hardship distributions might only be available from certain accounts and/or those which are 100% vested.
- Most plans require that the participant must be employed with the Employer at the time of the hardship distribution.

Application for hardship distribution. Paragon is able to provide the necessary paperwork and assist our clients with proper completion.