

HARDSHIP WITHDRAWALS

This provision would be applicable if your plan allows hardship withdrawals/distributions. If so, certain amounts may be withdrawn if a participant has a financial hardship. 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 “safe harbor” hardship rules, which most plans utilize. Under safe harbor rules, a hardship distribution may only be made for payment of the following:

- 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 of your principal residence (excluding 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; or
- Expenses for the repair of damage to your principal residence that would qualify for the casualty deduction under the Internal Revenue Code.

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, and all nontaxable (at the time of the loan) loans currently available under all plans maintained by your Employer; and
- That you will not make any salary deferrals for at least six (6) months after your receipt of the hardship distribution. If your salary deferrals are suspended, then your deferral election that was in place prior to the suspension generally will not continue in effect after the suspension.

Limitations. The following limitations apply to hardship distributions:

- Depending on your plan’s provision, hardship distributions may only be available from accounts which are 100% vested.
- Most plans require that the participant must be employed with the Employer at the time of the hardship distribution.

Account restrictions. Depending on your plan’s provisions and according to IRS regulations, there could be restrictions placed on hardship distributions which are made from certain accounts. These accounts are generally the accounts which receive your salary deferral contributions and other Employer contributions which are used to satisfy special rules that apply to 401(k) plans.

Application for hardship distribution. Paragon is able to provide the necessary paperwork and assist our clients with proper completion. We strongly encourage obtaining documentation from the participant that backs-up the need for a hardship withdrawal.