

# The True Cost of Tapping Your 401(k) Plan

During difficult economic times, you may be tempted to tap into your financial future—by taking a withdrawal from your 401(k). However, if you withdraw money from your 401(k) before age 59½, the IRS usually assesses a 10% tax as an early distribution penalty. You will also owe federal income taxes on the withdrawal (as well as any state or local taxes, depending on where you live).

## The true cost to you

Suppose you need to take a \$10,000 withdrawal to get you through a tough financial period. In addition, suppose you and your spouse file a joint tax return and you earn \$100,000 combined. If you take the \$10,000 withdrawal, you will owe \$2,200 in federal income taxes (based on 2025 tax brackets) and an additional \$1,000 to cover the 10% early withdrawal penalty. You'll be left with a net amount of only \$6,800. That's only 68 cents on the dollar—and even less if you owe state or local income taxes.

## Hardship Withdrawals

There are some scenarios in which you could take early withdrawals from a retirement account without paying the 10% early withdrawal penalty. These are known as hardship withdrawals.

A hardship 401(k) withdrawal allows you to take money out of your 401(k) when you're facing an immediate financial need. You'll still have to pay income tax on what you withdraw, but the 10% penalty will typically be waived. Qualifying reasons for a hardship withdrawal include:

- Medical care expenses for the employee, the employee's spouse, dependents or beneficiary.
- Costs directly related to the purchase of an employee's principal residence (excluding mortgage payments).
- Tuition, related educational fees and room and board expenses for the next 12 months



of postsecondary education for the employee or the employee's spouse, children, dependents or beneficiary.

- Payments necessary to prevent the eviction of the employee from the employee's principal residence or foreclosure on the mortgage on that residence.
- Funeral expenses for the employee, the employee's spouse, children, dependents, or beneficiary.
- Certain expenses to repair damage to the employee's principal residence.

There are additional scenarios when the IRS will typically waive the early-withdrawal penalty, such as:

- If you are permanently disabled.
- If you leave your job at age 55 or older (or age 50 for public safety employees).
- Qualified domestic relations orders (QDRO) due to divorce or separation.
- Substantially equal periodic payments (SEPPs) under IRS Rule 72(t).



**WESTGATE**  
CAPITAL CONSULTANTS

- If you are called to active military duty for more than 179 days.
- Birth or adoption of a child (up to \$5,000 per child).
- Withdrawal due to domestic abuse (up to \$10,000 or 50% of the vested account balance, whichever is less).
- Payments for qualified disaster recovery distributions.
- Terminal illness diagnosis.

### Important Considerations

- Even if you qualify for a hardship withdrawal, the amount you take out is still subject to income tax.
- Reducing your retirement savings either through an early withdrawal or hardship distribution can significantly impact your long-term financial security.
- If you're thinking about taking a hardship withdrawal, it's important to research the specifics of your 401(k) plan. Not all 401(k) accounts allow for hardship withdrawals, and your employer may have unique rules that dictate how they work. Talk to your plan administrator to learn more.



Sources:

Internal Revenue Service: "[Hardships, Early Withdrawals and Loans](#)" (accessed March 19, 2025).

Internal Revenue Service: "[401\(k\) Plan Hardship Distributions – Consider the Consequences](#)" (accessed March 19, 2025).

This material was prepared by Kmotion, Inc. ©2025 Kmotion, Inc. All rights reserved.

LPL Financial and its advisors are only offering educational services and cannot offer participants investment advice specific to their particular needs. If you are seeking investment advice specific to your needs, such advisory services must be obtained on your own separate from this educational material.



**Westgate Capital Consultants**  
 3560 Bridgeport Way W.  
 Suite 3G  
 University Place, WA 98466  
 2537590100 Phone  
[advisor@westgatecapital.com](mailto:advisor@westgatecapital.com)  
[www.westgatecapital.com](http://www.westgatecapital.com)



**WESTGATE**  
 CAPITAL CONSULTANTS

Securities and advisory services offered through LPL Financial, a registered investment advisor. Member FINRA/SIPC. LPL Financial and Westgate Capital Consultants are separate entities.