BUCK FINANCIAL ADVISORS, LLC

"Helping you Determine your Financial Future"

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Raiding Your Retirement Is Extremely Risky !

The past 18 months has been extremely tough on both investments and living costs for many people. But no matter how tough circumstances get, it's critically important to try and keep one's hands off their retirement funds.

It is reported there is an increase in workers taking loans from their 401(k) and other work-based retirement savings. Keep in mind that while most plans provide an option for some withdrawals, the IRS is fairly restrictive. There are serious financial consequences and individuals tempted to do so should look for other alternatives.

Options are limited: There are such things as withdrawals; but the circumstances under which you can do so are limited. You can only use the money if you need to pay down medical expenses, avoid foreclosure on your primary home, pay college tuition, lose your job, become disabled or need to cover funeral expenses.

You'll generally pay penalties: You'll likely have to pay a 10 percent penalty if you take a distribution on retirement assets at 59 ½ years of age or less. If you take a distribution from your employer-sponsored plan the employer is required to withhold 20 percent in taxes. In addition to those percentages, you'll also pay income taxes on the money you withdraw, which could mean that you may only net after tax and penalty about 50% of your withdrawal.

Even if you don't, there are still risks. In the case of IRA withdrawals you take for your child or grandchild's education (as well as your own or your spouse's); these can be taken out without the usual 10 percent penalty on early distributions before age 59 ½. But you really need to talk with a tax advisor or a personal finance expert to determine whether your IRA withdrawals will have to be reported on your Form 1040 and whether any tax headaches might ensue.

Be careful with loans: Generally, you have five years to pay back a loan on your 401(k) plan without having to pay a penalty or taxes. For a first home, you may be able to take as much as 15 years to pay it back, but the amounts can be limited. In most cases you can only withdraw up to 50 percent of the value of your 401(k) up to $50,000. But what happens if you're laid off? You will have to pay back the entire amount that you borrowed. If you can't pay, you'll owe taxes and a 10 percent penalty on the balance.

Be extra careful with 401(k) debit cards: In the last year, companies have offered the chance to link their employees to their money through a debit card. This was a very bad idea. Each transaction is a loan that must be paid back to the 401(k) account. If you default on the loan, you'll still face taxes and penalties. Read those rules very carefully, and better yet, just cut up the card.

Watch out for fees: Keep in mind that, your company sponsoring the 401(k) or the investment firm handling the IRA might charge you a heavy fee.

Raiding your retirement accounts may be tempting, but this is not the time to yield to temptation without some careful thought and analysis.

Buck Financial Advisors provides independent, commission-free financial advice for people from all walks of life. When you or someone you know needs help, Buck Financial Advisors is there. See www.buckfinancial.com for more information.

ASK THE CFP®!

Charles Buck CFP®

"A part of all I earn is mine to keep."

George Clason
"Richest Man in Babylon"

Is it a good time to convert from a traditional IRA to a Roth?

I believe that it is a good time, for two reasons: First, I believe tax rates will rise in the future; as the baby boomer retirement puts a greater strain on Social Security and Medicare. The current debt expansion of our government will eventually require higher tax rates also. Secondly, with the markets down; your stock funds are less than if you had started converting a couple years ago. You do not need earned income to convert a traditional IRA to a Roth, but your gross income needs to be less than $100,000 excluding the conversion. This limit disappears in 2010. If you make a conversion now and the markets continue to go down during the year, you can undo the conversion before the end of the year, and wait until 2010 to convert. It is not necessary to convert your entire balance at once, so I recommend that you do not raise your tax bracket by converting. Also keep in mind that your conversion must be in effect for 5 years before you can withdraw penalty free.

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