BEST PRACTICES IN
Compensation & Benefits

December 2005

Education Expo
FINANCIAL FINESSE

Helping Employees Understand the Pros, Cons of Hardship Withdrawals

Some companies offer hardship withdrawals in lieu of loans against the retirement plan. Typically, the withdrawal is processed after the employee requests it with no questions asked. So, how can education be used as a gatekeeper and to help employees become aware of the pitfalls and their alternatives?

Financial education can play a major role in deterring employees from taking hardship withdrawals by educating them on the downsides as well as giving them alternatives to consider. If the employee calls the plan administrator requesting a hardship withdrawal, they can be directed to first call the toll-free financial helpline service offered by the financial education firm to discuss other options. This allows the employee to be educated on the tax consequences and other negatives associated with a hardship withdrawal before they decide to take it. After speaking with the financial helpline staff, they can call back the plan administrator to process the withdrawal paperwork. Oftentimes, they look into other options, and in many cases employees decide against the hardship withdrawal altogether.

Some employees may first view it as an inconvenience to have to call another firm before getting the paperwork started for their withdrawal. It is important to communicate it correctly so your employees understand why you have put a gatekeeper in place. You can effectively message it by focusing on your desire to make sure employees understand the impact of this withdrawal on both their current taxes and their future retirement income. Inform them that you require them to call the financial helpline first so that a financial expert can explain the issues and help them find other ways to deal with their current financial crisis.

Oftentimes, there are alternatives that employees in this situation do not consider before deciding on a hardship withdrawal. Here are some examples:

- **Home down payment:** Employees can look into low or no down payment programs, first-time homebuyer incentives, or gifts from family instead of tapping their retirement account.

- **College tuition:** Instead of withdrawing from their retirement account, employees can look into student loans, financial aid and grants, as well as work study programs for their student. A home equity line of credit may also be a consideration for some parents.

- **Foreclosure:** The employee can explore several alternatives first, such as forbearance, where the lender allows you to make up missed payments by spreading them out over time.

Educating your employees on the alternatives to hardship withdrawals is a great way to help them secure their financial future, as well as to get ideas on how to improve their current financial situations.

Financial Finesse is the leading provider of a full suite of financial education, coaching, and counseling programs to over 350 organizations. It works with corporations to design company-specific financial education programs that address a variety of business and human resources needs. Contact: www.financialfinesse.com or 866-733-2677