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Retirement Expert Says Too Many Americans Are Withdrawing from Their 401(k) Accounts: Here's What To Do Instead

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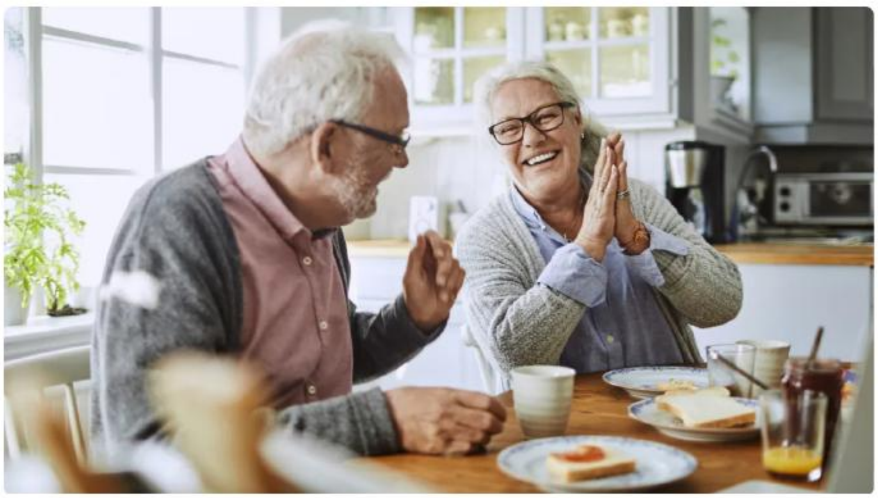
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The American dream of a comfortable retirement seems to be slipping away for many as a concerning trend emerges.

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According to a research study published in the Harvard Business Review, a shocking 41.4% of U.S. employees cashed out a portion of their 401(k) accounts when leaving their jobs between 2014 and 2016. What's even more alarming is that a staggering 85% of those individuals chose to drain their entire 401(k) balance.

These findings have experts deeply worried about the future retirement security of countless Americans who may be inadvertently jeopardizing their hard-earned savings. To shed light on this growing issue, we spoke with seasoned financial and retirement experts to understand the implications of cashing out 401(k) accounts and explore more prudent alternatives.

First Things First

Michelle M. Vargas, a Certified Financial Planner at Waymaker Financial Planning, emphasizes that cashing out a 401(k) is akin to robbing one's future self.

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"By cashing out or even taking a partial withdrawal, money is taken out of long-term retirement investments, and it can't grow," she says. "Some may think that these small withdrawals don't make a difference, but every dollar that is not growing today is less money towards your future retirement income."

She says the first thing you need to do is examine your monthly expenditures by writing them down. "Eliminate fluff," she advises. "Write down a revised spending plan without fluff and hold yourself accountable."

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Just Roll With It

Percy Grunwald, a financial expert from Compare Banks, advocates for the benefits of rolling over a 401(k) to and Individual Retirement Account (IRA) or their new employer's retirement plan. By opting for a rollover, you can maintain the tax-advantaged status of your retirement funds, ensuring that it continues to grow without any immediate tax consequences.

André Disselkamp of Insurancy echoes the sentiment that rolling over a 401(k) is a smarter alternative to cashing out, as it maintains tax-deferred growth and avoids early withdrawal penalties, income tax liabilities, and loss of future compounding.

Don't Do a Thing

If the 401(k) is performing well and has low fees, leaving it untouched can be a good choice. "Many employer-sponsored 401(k) plans offer competitive investment options and may have lower fees than individual IRAs," says Grunwald.

Educate Yourself — Especially About Budgeting

It's important to educate yourself about finances and create a budget, advises Grunwald. This means understanding the difference between things you truly need and things you want. By cutting out unnecessary expenses, you can save money to handle urgent financial needs without having to cash out your retirement accounts.

Create an Emergency Fund

This might seem like a no brainer, but plenty of Americans don't have one. Grunwald says that building an emergency fund of 3 to 6 months' worth of living expenses acts as a safety net, preventing the need to tap into retirement savings during emergencies.

Explore Other Financial Assistance Options

Grunwald advises that instead of cashing out, you should explore other financial assistance options that are available.

"If struggling with debt or unexpected expenses, individuals should explore other financial assistance options such as negotiating with creditors, seeking government or nonprofit support programs, or even consulting with a financial advisor to find tailored solutions," he shares.

Part-Time Work or Side Gigs

Grunwald shares supplementing income with part-time work or side gigs can provide additional financial support without touching retirement savings.

He stresses that this doesn't have to be a permanent solution: "This approach can be particularly helpful during temporary financial setbacks."

Explore All Your Options

Achim Neumann of Neumann Associates, a business broker specializing in clients retiring and exiting their businesses, says exploring alternative options like taking out a loan or leveraging other financial resources to cover immediate expenses, rather than dipping into their retirement savings as a last resort.

Cashing out retirement accounts should be a last resort due to its potential long-term negative consequences on retirement readiness. Instead, you should focus on preserving and growing your retirement savings through responsible financial decisions and seeking help from financial advisors or experts when needed.

By taking proactive steps and being informed about available options, you can safeguard your financial future and reduce the temptation to cash out your 401(k) when facing financial challenges.

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TOM
10 August, 2023
I took a bunch out in 2007 when I built my house on things I did not want to add to my mortgage. Like a driveway, water well, new furniture, septic tank, all this stuff adds up. Then a year later my 401K lost like 40%, glad I took it out when I did.

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