# In-service withdrawals

## MRT Administrative Manual

Everence

The Mennonite Retirement Trust permits four types of in-service withdrawals:

- Hardship - 403(b) only.
- After-Tax - 401(a) only.
- Age 62.
- Qualified Domestic Relation Orders (QDROs).

A $50 distribution fee will apply to non-systematic distributions.

## Hardship withdrawals - 403(b) only

Participants in the 403(b) Plan can request hardship withdrawals from the employee's salary reduction and/or Roth contribution accounts (not including any earnings) unless the employer elects on their adoption agreement to allow employer contributions to also be withdrawn.

The following items are considered by the IRS as acceptable reasons for a hardship withdrawal:

1. Medical care expenses for the participant, participant's spouse, dependents, or beneficiaries.
2. Costs directly related to the participant's purchase of a principal residence (not including mortgage payments).
3. Amounts necessary to prevent the participant's eviction from, or foreclosure on, the participant's principal residence.
4. Funeral expenses for the participant, participant's spouse, dependents, or beneficiaries.
5. Tuition and related expenses (fees, room and board, etc.) for the next 12 months of post-secondary education for the participant, participant's spouse, dependents, or beneficiaries.
6. Expenses incurred to repair damage to the participant's principal residence.[1]
7. Expenses and losses incurred on account of a federally declared disaster area, provided the participant's principal residence or principal place of employment at the time of the disaster was located in an area designated by FEMA for individual assistance with respect to the disaster.

Hardship withdrawals are subject to income tax and, if the participant is younger than 59½, the 10% withdrawal penalty may apply. A hardship distribution may not exceed the amount of the need. However, the amount required to satisfy the financial need may include amounts necessary to pay any taxes or penalties that may result from the distribution. A hardship distribution is not eligible for rollover and cannot be paid back to the Plan.

Note that an employee must need the hardship withdrawal to pay these expenses directly; the IRS specifically prohibits using a hardship withdrawal to repay credit card debt or loans previously incurred to meet these expenses. Supporting documentation must be maintained to substantiate hardship distribution requests. The hardship must have occurred within the past 12 months, and the hardship withdrawal request cannot cover the same expenses for which a hardship withdrawal has already been taken.

## Hardship withdrawal process

*Employee responsibilities:*

- Complete the Hardship Withdrawal Form from Empower Retirement.
- Review the Special Tax Notice Regarding Plan Payments.
- Provide supporting documentation, substantiating a qualifying hardship (see list of acceptable hardship reasons above).
- Forward completed form and supplement (with supporting documentation for the hardship) to Empower.

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[1]Repairs to a principal residence must fall under the IRS's description of a casualty loss to qualify for a hardship withdrawal. The damage must be from an event that is sudden, unexpected, or unusual. Damages resulting from progressive deterioration of a residence due to normal wear and tear, normal weather conditions, or a pest infestation are not considered casualty losses. Casualty losses can result from several causes, including the following examples: earthquakes, fires, floods, vandalism, and storms, including hurricanes and tornadoes.

*Everence responsibilities*

- Review hardship applications and documentation received for conformity with IRS guidelines on approved hardship reasons.
- Approve hardship withdrawal requests received.

*Empower Retirement responsibilities:*

- Review the completed Hardship Withdrawal Form for accuracy. Incomplete or inaccurate forms will be denied and will cause a delay in the processing of the withdrawal request.
- Process the withdrawal request. Withhold appropriate taxes and mail check to the employee at their address of record.
- In January of the year following the distribution, prepare IRS Form 1099-R and send to the employee and the IRS.

## After-tax withdrawals – 401(a) only

Employees may receive a distribution of all or part of their after-tax contributions account (including earnings) at any time. Contributions are returned tax-free, but earnings are taxed. If the participant is under age 59½, the 10% withdrawal penalty may apply.

## After-tax withdrawal process

*Employee responsibilities:*

- Complete In-Service Withdrawal Request form, call Empower Customer Service, or request distribution online.
- Review the Special Tax Notice Regarding Plan Payments.
- Send to Empower Retirement for processing.

Note: Participants eligible for housing allowance should use the Housing Allowance Withdrawal Request form.

*Everence responsibilities:*

- Review and approve the distribution.

*Empower Retirement responsibilities:*

- Review the completed In-Service Withdrawal Request Form for accuracy. Incomplete or inaccurate forms will be denied and will cause a delay in the processing of the withdrawal request.
- Process the withdrawal request. Withhold appropriate tax and mail check to the employee at their address of record.
- In January of the year following the distribution, prepare IRS Form 1099-R and send to the employee and the IRS.

## Age 62 withdrawals

Employees age 62 or older may receive a distribution of their account balance in the Plan even if they are still employed by you. This option is designed for people transitioning into retirement, possibly working fewer hours per week, who need some additional income. If the participant is still receiving contributions from the employer, we ask the participant to leave at least $5,000 in the account.

## Age 62 withdrawal process

*Employee responsibilities:*

- Complete In-Service Withdrawal Request form, call Empower Customer Service, or request distribution online.
- Review the Special Tax Notice Regarding Plan Payments.
- Send to Empower Retirement for processing.

Note: Participants eligible for housing allowance should use the Housing Allowance Withdrawal Request form.

*Everence responsibilities:*

- Review and approve the distribution

*Empower Retirement responsibilities:*

- Review the completed distribution form for accuracy. Incomplete or inaccurate forms will be denied and will cause a delay in the processing of the withdrawal request.
- Process the withdrawal request. Withhold appropriate tax and mail check to the employee at their address of record.
- In January of the year following the distribution, prepare IRS Form 1099-R and send to the employee and the IRS.

## Qualified Domestic Relations Orders (QDROs)

If a participant gets divorced, the participant's account can only be divided according to the terms of a QDRO. A divorce decree or property settlement agreement will not be accepted. Employees should contact Everence to get a copy of the template QDRO.

## QDROs process

*Employee responsibilities:*

- Request QDRO template document by contacting Everence.
- Have your attorney complete the template document and send to Everence for review. Incomplete or inaccurate QDROs will be denied and will cause a delay in the division of the account.
- File QDRO with court system.
- Send the signed QDRO to Everence.

*Everence responsibilities:*

- Review the draft QDRO document from employee for completeness, accuracy and plan requirements.
- Communicate with participant on review of QDRO and any changes that are necessary to approve QDRO.
- Approve the final executed QDRO and submit for processing.

*Empower Retirement responsibilities:*

- Process the QDRO, setting up an account for the alternate payee named in the QDRO and transferring funds from the Participant's account to the new account for the alternate payee.