Have you considered taking money from your 401(k) plan account?

Here’s what you need to know.

Taking money out of your employer-sponsored retirement plan account in times of need may seem like an easy solution. But it’s an important decision—and one you should think through carefully before proceeding.

To begin, have you:

- Reviewed your immediate needs and areas to reduce any non-essential expenses?
- Exhausted other ways that could help you cover your short-term needs?
- Considered the potential tax implications of taking a loan or withdrawal?
- Weighed how a loan or withdrawal might affect how much income you could have when you retire?

What are the impacts of my withdrawal and loan options?

401(k) plan loans and withdrawals don’t require credit checks. However, there are important considerations when choosing how to take money from your 401(k) plan account.

Your employer’s 401(k) plan must adopt provisions in order for loans and certain types of withdrawals to be available to you. Restrictions may apply.

A loan lets you borrow money from your 401(k) plan account and pay it back over a specified period, normally through automatic payroll deductions.

Even when you need to take a loan or an emergency withdrawal from your 401(k), try to maintain some level of contribution to take advantage of your company’s match, if available, which is additional money that you don’t want to leave on the table.”

Stefano D’Amiano,
Managing Director
Senior Quantitative Analyst III
Chief Investment Office
Merrill Lynch Wealth Management

“Tapping into your retirement savings today could jeopardize your ability to pursue your retirement goals in the future”

Nevenka Vrdoljak,
Director
Senior Quantitative Analyst I
Chief Investment Office
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One of the benefits of a loan from your 401(k) plan account is that the interest you pay goes back to your account, rather than to a bank or other lender. But an important drawback is that the money you take from your account no longer has the potential to accumulate over time on a tax-deferred basis. And that could affect how much income you’ll have for your retirement.

You don’t pay taxes on the amount of your loan, but you pay it back with after-tax dollars and later, upon distribution from the plan, your withdrawal will be taxed again.

In addition, if you leave your job for any reason, unless your plan allows repayment as a prior employee, you’ll have to repay your loan in full. If you don’t, your loan will be treated as a distribution — and the unpaid amount would be subject to ordinary income taxes, plus an additional 10% federal tax for early withdrawal before age 59½, unless an exception applies. (See note on taxes on page 4.)

A withdrawal, on the other hand, is typically money you take out of your account permanently — without paying it back. If you’ve left your employer, you can take a withdrawal at any time. If you’re currently employed, there may be in-service and hardship distribution options available to you.

Withdrawals are generally taxable events (see note on taxes on page 4) — and taxable withdrawals are also subject to an additional 10% federal income tax if taken before age 59½, unless an exception applies. And — as with loans — the money taken out as a withdrawal no longer has the potential to accumulate on a tax-deferred basis, and that could affect how much you’ll have for your retirement.

“Carefully consider any retirement withdrawals; you want to only take as much as you truly need.”

Nevenka Vrdoljak,  
Director  
Senior Quantitative Analyst I  
Chief Investment Office  
Merrill Lynch Wealth Management

The CARES Act

The chart on the next page shows how the Coronavirus Aid, Relief, and Economic Security (CARES) Act provisions compare to other loan or withdrawal options that may be available to you.

The CARES Act allows for a new retirement plan withdrawal option available until December 30, 2020, and new loan options. These provisions, however, are optional, and your employer’s 401(k) plan would have to be amended for these provisions to be available to you. Even if your employer’s 401(k) plan does not permit CRDs, if you are otherwise eligible for a distribution from the plan, you may be able to treat the distribution as a CRD on your federal income tax return.

Consult your tax advisor regarding your particular situation. Anyone with a new or outstanding loan that meets the eligibility criteria listed below may suspend loan repayments that occur between March 27, 2020 and December 31, 2020 if their plan allows.

Eligibility requirements (See note on page 4.)

To be eligible for a coronavirus-related distribution (“CRD”) or the CARES Act loan provision (if adopted by your employer’s plan), you must be an individual who:

• Is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, “COVID-19”) by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act), or
• Experiences adverse financial consequences as a result of the individual, the individual’s spouse, or a member of the individual’s household (that is, someone who shares the individual’s principal residence):
  – Being quarantined, furloughed or laid off, or having work hours reduced due to COVID-19
  – Being unable to work due to lack of child care due to COVID-19
  – Closing or reducing hours of a business that they own or operate due to COVID-19
  – Having pay or self-employment income reduced due to COVID-19, or
  – Having a job offer rescinded or start date for a job delayed by COVID-19

(See note on page 4.)
Compare the options that may be available to you

It is always important to review your overall financial situation and long-term goals when considering taking a loan or withdrawal from your 401(k) plan account.

<table>
<thead>
<tr>
<th></th>
<th>Traditional Loan</th>
<th>In Service 59½ Withdrawal</th>
<th>Hardship Withdrawal</th>
<th>CARES Act Loan Provision</th>
<th>CRD Withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eligibility requirements</strong></td>
<td>See your plan's rules</td>
<td>Age 59½</td>
<td>See plan rules, including rules for approval</td>
<td>Meet CARES Act eligibility requirements – see previous page</td>
<td>Meet CARES Act eligibility requirements</td>
</tr>
<tr>
<td><strong>Must be requested by:</strong></td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>September 21, 2020</td>
<td>December 30, 2020</td>
</tr>
<tr>
<td><strong>Use</strong></td>
<td>No restrictions</td>
<td>No restrictions</td>
<td>Must be used to pay for an eligible expense; see plan rules</td>
<td>No restrictions</td>
<td>No restrictions</td>
</tr>
<tr>
<td><strong>Maximum amount</strong></td>
<td>50% of vested account balance to a maximum of $50,000*</td>
<td>Up to 100% of vested account balance, unless plan rules restrict</td>
<td>Will be based on the hardship request and plan rules</td>
<td>100% of vested account balance to a maximum of $100,000*</td>
<td>100% of account balance to a maximum of $100,000**</td>
</tr>
<tr>
<td><strong>Repayment terms</strong></td>
<td>Based on plan rules; maximum is generally up to 60 months***</td>
<td>None</td>
<td>None. A hardship cannot be repaid</td>
<td>Based on plan rules; maximum is generally up to 60 months***</td>
<td>You can choose to repay the CRD within three years</td>
</tr>
<tr>
<td><strong>Interest charged</strong></td>
<td>Yes. See plan rules</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Yes. See plan rules.</td>
<td>Not applicable</td>
</tr>
<tr>
<td><strong>Taxes due</strong></td>
<td>Not applicable if repaid under loan terms</td>
<td>See note on taxes on next page</td>
<td>Taxable and must be included in gross income for the year of the withdrawal and, if you are not at least 59½ years of age, an additional 10% federal income tax may apply unless an exception applies</td>
<td>Not applicable if repaid under loan terms</td>
<td>The 10% additional federal tax does not apply for a CRD. There is no tax withholding for a CRD when processed. The CRD may be repaid to an eligible retirement plan within three years. Otherwise, the CRD may be included in income ratably over three years unless the eligible individual elects to include it in income in its entirety in the year of distribution.</td>
</tr>
<tr>
<td><strong>Processing fees</strong></td>
<td>See plan rules</td>
<td>See plan rules</td>
<td>See plan rules</td>
<td>Loan processing fees are waived until September 23, 2020</td>
<td>No fees</td>
</tr>
</tbody>
</table>

* Reduced by the highest balance of any other outstanding loans during the previous 12 months over the balance of currently outstanding loans.

** $100,000 is an aggregate limit across all eligible retirement plans and IRAs held by the individual.

*** A general purpose loan must be repaid within five years, or it will be treated as a taxable distribution. However, a loan used to purchase your primary residence can be paid back over a longer period of time without being treated as a taxable distribution.
Note on eligibility requirements
As authorized under the CARES Act, on June 19, 2020, the IRS issued IRS Notice 2020-50 expanding the definition of who is a qualified individual to take into account additional factors such as reductions in pay, rescissions of job offers, and delayed start dates with respect to an individual, as well as adverse financial consequences to an individual arising from the impact of the COVID-19 coronavirus on the individual’s spouse or household member.

Note on taxes
Taxes on pre-tax contributions and any associated earnings are due upon withdrawal. You may also be subject to a 10% additional federal tax if you take a withdrawal before age 59½, unless an exception applies.
Taxes on company matching contributions (if any) and any earnings on these contributions are due upon withdrawal. You may also be subject to a 10% additional federal tax if you take a withdrawal prior to age 59½, unless an exception applies.
Taxes will not be due on traditional after-tax contributions (if available through your employer’s 401(k) plan), but taxes will be due on any earnings. You may also be subject to a 10% additional federal tax if you take a withdrawal of such earnings before age 59½, unless an exception applies.

Any earnings on Roth 401(k) contributions (if available through your employer’s 401(k) plan) can generally be withdrawn tax-free if you meet the two requirements for a “qualified distribution”: 1) At least five years must have elapsed from the first day of the year of your initial contribution, and 2) you must have reached age 59½ or become disabled or deceased. If you take a non-qualified withdrawal of your Roth 401(k) contributions, any Roth 401(k) investment returns are subject to regular income taxes, plus a possible 10% additional federal tax if withdrawn before age 59½, unless an exception applies. State income tax laws vary; consult a tax professional to determine how your state treats distributions from Roth 401(k) accounts.

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