



RETIREMENT PLAN LEAKAGE: A FINANCIAL WARNING SIGN

Retirement savings are meant for the future, but rising costs, unexpected expenses, and high-interest debt can make those funds feel like a solution to today's financial challenges.

Using that money may provide immediate breathing room, yet it can also weaken long-term financial security.

What Is Retirement Plan Leakage?

Retirement plan leakage is money leaving retirement accounts early through withdrawals, loans, or cash-outs. Each removes contributions, employer matches, and potential investment growth, making long-term savings goals harder to reach.

Common sources of retirement plan leakage include:

- Hardship withdrawals
- 401(k) loans
- Cashing out retirement accounts when changing jobs
- Early withdrawals before retirement age

People often tap retirement savings because medical bills, housing costs, emergencies, inflation, or high-interest debt leave them feeling they have no other option.

Why It Matters

Withdrawing money means losing both the amount taken out and years of potential investment growth. Even a few thousand dollars today could leave significantly less saved for retirement.

Vanguard's 2026 *How America Saves* report found that 6% of eligible participants took hardship withdrawals in 2025, while 45% of 401(k) participants had less than \$2,000 in emergency savings.

Understanding Hardship Withdrawals

A hardship withdrawal allows access to retirement funds for qualifying needs such as medical expenses, foreclosure or eviction prevention, funeral costs, or other emergencies.

These withdrawals can provide critical relief but often involve:

- Reduced retirement savings
- Lost future investment growth
- Potential taxes owed on withdrawn funds
- Limited opportunity to replace the money later

Before taking one, explore emergency savings, financial counseling, debt strategies, or assistance programs that may meet the immediate need without reducing retirement assets.

What About 401(k) Loans?

Some plans let participants borrow from their accounts instead of withdrawing funds permanently, but loans still carry risks.

If you leave your employer before repayment, the balance may become due quickly. Unpaid amounts may be treated as a distribution, potentially creating taxes and reducing retirement savings.

A 401(k) loan may help in limited circumstances, but it is best treated as a last resort.

Action Steps for Employers and Employees

Employers can:

- Offer plain-language guidance on withdrawals, loans, taxes, and the retirement growth employees could lose.
- Promote emergency savings, financial counseling, and employee assistance resources before a crisis.
- Include retirement guidance in onboarding, benefits reminders, and job-transition communications.

Employees can:

- Ask the plan administrator about repayment rules, taxes, fees, and alternatives before taking money out.
- Review their budget, emergency savings, assistance programs, and debt options first.
- When changing jobs, compare rollover choices before cashing out an account.

Small Steps Can Protect Your Future

Protect your retirement by building an emergency fund, reducing high-interest debt, reviewing spending, and setting a realistic budget. Before taking a withdrawal or loan, ask your employer or financial institution about available financial wellness tools or assistance.

GreenPath Financial Wellness also offers free counseling to help you review your budget and options. If debt is adding pressure, its Debt Management Program (DMP) may help lower interest rates and monthly payments without sacrificing your retirement goals.

The Path to Financial Wellness Starts Here

GreenPath's NFCC-certified experts offer free financial counseling, online education, and a debt management program designed to help you save time and money. Call today.

877-337-3399

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