Hands off that retirement money until you scout through all the options

If you need money, you might be thinking about those funds you've socked away for retirement.

Well, there's good news. Maybe.

If you're financially impacted by Covid-19, you can take up to $100,000 in emergency funds from your individual retirement account or 401(k) plan through the end of 2020. In addition, if you're younger than 59½, you won't have to pay the usual 10% early distribution penalty on such withdrawals.

That's courtesy of the CARES Act, the federal coronavirus relief law enacted in March. Before the pandemic, you were able to take out only $50,000 or 50% of your retirement account, whichever was less.

A retirement plan withdrawal or loan may seem like a great way to get a cash infusion, but here's how to think through that decision.

First, you will lose out on future gains.

"Let's say you have 10 years of compounding," said Thomas Henske, a certified financial planner with Lenox Advisors in New York. "Your money would double, given a 7% rate of return over that time." In other words, if left untouched, your $100,000 could eventually add up to nearly $200,000.

Research shows that people who didn't tap retirement funds during the Great Recession had better financial recoveries.

Another important factor — taxes — is a big gotcha, says Chad Parks, founder and CEO of retirement plan provider Ubiquity Retirement and Savings in San Francisco. "Just because they're waiving the penalty, doesn't mean they're waiving the taxes," he said.

A recent change allows you to repay the taxes over three years, but it's still a good idea to sketch out how you'll make the payments.

Don't take. Borrow.

Borrowing from your 401(k) is a better strategy than early withdrawal.

If you need only a month's expenses, it's better to borrow and then quickly put the money back in your account, Henske says.

Try tapping a home equity line of credit if you already have one established.

Parks recommends researching your options for unemployment benefits.

The $600-a-week federal unemployment benefit ends soon. If your original claim is running out, you can reapply for benefits. Most states are offering additional weeks of benefits during this period of high unemployment.

Tap credit

The strategy to help you get through a few months and preserve your savings is similar to making a budget in normal times.

First, calculate the minimum you need to get through a month: mortgage or rent, transportation, food, routine medical expenses and utilities.

Compare that number with any income. Subtract your expenses and see if the result is positive or negative. If negative, figure out how much you need to make it a positive number.

Next, check statements from all your credit card accounts to see how much available credit you have. It's impossible to know how long the current situation could last, but Parks believes it is safe to plan on covering your deficit for at least six months.

"You'll either find another job or get some government assistance or your job may be restored," Parks said. "Don't think you're never going to have another source of income."

If you have $15,000 in available credit and a monthly shortfall of $1,000, that could mean 15 months of runway, Parks says. "You'll pay interest, but you have to promise yourself that you will immediately turn around and pay it down." This strategy works best if you commit to paying the balance down as soon as life and finances become more stable.

Say you need $10,000. "I guarantee you've got $10,000 on a credit card, or at least a few of them cumulatively," Parks said. "It's a short-term thing to get you through."

If six months passes and you're still facing a cash crunch, repeat the income/expenses exercise. You may then decide to dig into retirement savings — but leave that as a last resort.

Can't touch this

The last reason to tamper as little as possible with your retirement money, Parks says, is a worst-case scenario.

If someone finds they need to go through bankruptcy, a qualified retirement account offered by an employer, such as a 401(k) or a 403(b), is a protected asset that cannot be touched by creditors.

https://www.msn.com/en-us/money/personalfinance/hands-off-that-retirement-money-until-you-scout-through-all-the-options/ar-BB16XSIU