

IRS News Release

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Retirement Plans Can Make Loans, Hardship Distributions to Katrina Victims

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WASHINGTON – 401(k) s and similar employer-sponsored retirement plans can make loans and hardship distributions to victims of Hurricane Katrina and members of their families, the Internal Revenue Service announced today.

For the first time ever, the IRS and the Departments of the Treasury and Labor are providing broad-based relief to retirement plan participants affected by a major disaster.

“As in other areas, we are doing everything we can to help Hurricane Katrina victims rebuild their lives,” said IRS Commissioner Mark W. Everson. “This relief will make it possible for people to get their retirement money more quickly with a minimum of red tape.”

401(k) plan participants, employees of public schools and tax-exempt organizations with 403(b) tax-sheltered annuities, and state and local government employees with certain 457 deferred-compensation plans may be eligible to take advantage of these streamlined loan procedures and liberalized hardship distribution rules. Though IRA participants are barred from taking out loans, they may be eligible to receive distributions under liberalized procedures.

Retirement plans can provide this relief to employees and certain members of their families who live or work in the disaster area. To qualify for this relief, hardship withdrawals must be made by March 31, 2006.

The IRS is also relaxing procedural and administrative rules that normally apply to retirement plan loans and hardship distributions. As a result, eligible retirement plan participants will be able to access their money more quickly and with a minimum of red tape. In addition, the six-month ban on 401(k) contributions that normally affects employees who take hardship distributions will not apply.

This broad-based relief means that a retirement plan can allow a Katrina victim to take a hardship distribution or borrow up to the specified statutory limits from their retirement plan to repair or replace a home or for some other purpose. It also means that a person

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who lives in another part of the country can take out a retirement plan loan or hardship distribution and use it to assist a son, daughter, parent, grandparent or other dependent who lived or worked in the disaster area.

Plans will be allowed to make loans or hardship distributions before the plan is formally amended to provide for such features. In addition, the plan can ignore the limits that normally apply to hardship distributions, thus allowing them, for example, to be used for food and shelter. If a plan requires certain documentation before a distribution is made, the plan can relax this requirement.

Ordinarily, retirement plan loan proceeds are tax-free if they are repaid within five years. Under current law, hardship distributions are generally taxable. Also, a 10% early-withdrawal tax usually applies, but Congress is currently considering possible modifications to this tax.

More information about this relief can be found in IRS Announcement 2005-70.