

Default Investment Withdrawal Option

The Pension Protection Act of 2006 provided that employers may include a withdrawal option for employees who are automatically enrolled in their 401(k) plan and have part of their salary automatically contributed to the plan. This withdrawal provision that employers may include in their plans is optional and not a requirement.

Employees who are automatically enrolled in an employer's plan always have the right to elect-out of participation. If an employer includes the new withdrawal option as part of the plan, employees will also have the right to withdraw funds that have been automatically withheld. Notice must be given to employees when a plan includes this withdrawal option.

The withdrawal option works as follows:

The employee can apply to withdraw the monies that have been deposited in the employee's account within the first 90 days of participation.

The funds withdrawn will not be subject to the usual IRS 10% tax for early withdrawal, but they will be included in the employee's income for the year and will be subject to the income tax.