



# How Can I Minimize my Risk When Reviewing & Approving Hardship Withdrawals?

## Facts

As a plan sponsor, I want my employees to have access to their retirement accounts in the event of a financial emergency. I know that offering hardship withdrawals could satisfy that goal, but after doing some reading, I'm a little nervous about the risk associated with reviewing and approving these types of requests. Not only that, but I really don't love the idea of getting into my employees' personal lives at that level of detail.

## Question

Are there any options to allow hardship withdrawals while also minimizing my risk as plan sponsor?

## Answer

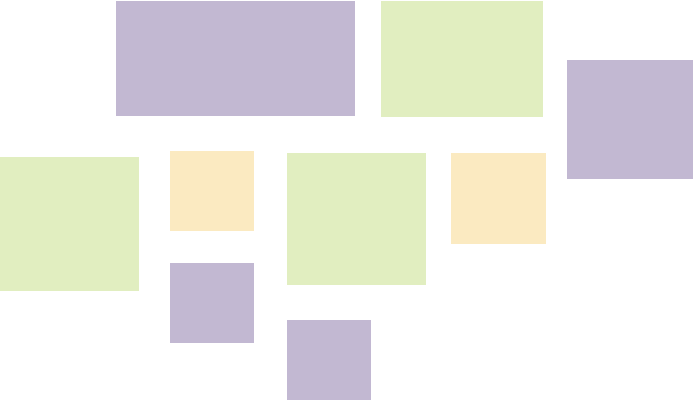
In a word, yes! Offering [hardship withdrawals](#) in your plan can encourage participation, but it can lead to exactly the concerns you mentioned. In fact, the one area that we've seen plan sponsors have the most angst is the need to verify and document the details of the participant's financial emergency for which they are requesting the hardship withdrawal. The difficulty in obtaining information and the uncomfortable burden of having to delve into the nitty-gritty details of a participant's personal business are reasons some plan sponsors may be hesitant.

Wouldn't it make this whole process a lot easier if participants could certify that their request satisfies the hardship rules and plan sponsors could take their word for it rather than having to dig into the details? Thanks to an update to the [hardship distribution regulations](#), participant self-certification is now a reality!

That updated regulation, published in 2019, aimed to simplify hardship administration for all plan sponsors and participants. While the changes included removal of the deferral suspension and greater access to account balances, one of the most-welcomed changes (from a plan sponsor perspective) is the ability to allow participants to self-certify.

So, what do we mean by self-certify? The IRS has provided specific guidelines regarding the information a participant must certify when requesting a hardship withdrawal. And, the IRS has gone further to say that if the participant provides this basic information, a plan sponsor can rely on the participant's certification without requesting and reviewing any back-up documentation.

Yes, you read that correctly! What's more, if a plan is under audit, the IRS agent can only request additional documentation, beyond the certification, if the certification is incomplete on its face or a participant has requested three (3) or more hardships in one plan year without adequate explanation. This self-certification shifts the burden of documentation from sponsor to participant, removes a plan sponsor's burden of making subjective hardship determinations which the risk of "getting it wrong."



The important step in using the self-certification option is to ensure that participants provide all the pertinent, albeit high level, information most easily via a checklist or questionnaire. We've put together a questionnaire that plan sponsors can provide to participants to facilitate collection of the information the IRS requires. If you'd like to grab a copy of this resource, you can get a copy [here](#).

What if you don't want to use the questionnaire and self-certification method? No problem. As a plan sponsor you still have the option to request and review back-up documentation related to the requested hardship withdrawal. The important thing to note with this traditional method is that it is critically important to retain the appropriate records to document your decision to approve the request. If the IRS selects the plan for an audit, an IRS agent will request the back-up records to support your determinations.

Wondering what method might be most appropriate for you or your plan participants? Need assistance with reviewing your processes to ensure they meet the IRS standards? The [DWC team](#) is happy to offer support and walk you through the options available for your plan.



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