



Is a Plan Loan Right For You?

As you work hard to save for retirement, unexpected large expenses sometimes can catch you unprepared and in need of extra cash. Some employer-sponsored retirement plans allow participants to take loans from their retirement savings¹. This may seem like a practical solution. After all, it's your money. But before you tap into your nest egg, carefully consider the advantages and disadvantages of doing so.

A LOAN'S IMPACT ON YOUR SAVINGS

Take Kathryn and Tony, for example. They're equal in every way, except that Kathryn decided to take a five-year loan from her retirement savings. If she continues to save the same amount each month as Tony, notice how much more she'll have to spend to pay back her loan. And unless her loan interest is lower than the interest she earns on her savings, she'll still end up with less than Tony.

	Kathryn	Tony
Annual salary	\$40,000	\$40,000
Beginning 401(k) balance	\$100,000	\$100,000
Loan amount	\$25,000	\$0
New balance	\$75,000	\$100,000
Ongoing monthly contributions (6% of salary)	\$200	\$200
Monthly loan payment	\$484.22	
End balance	\$160,110.16	\$161,521.74
Total out-of-pocket costs over five years	\$41,053.50	\$12,000

Assumes an 8 percent annual return on savings and loan interest rate of 6.25 percent on a five-year loan.

ADVANTAGES

- It's quick and easy compared to a conventional loan; no credit check is needed
- You pay back yourself – with interest
- You pay no taxes or penalties if you timely repay the loan and interest²

DISADVANTAGES

- You must pay interest to borrow your own money, and you may be charged loan origination and annual fees
- If you leave your job, you may be required to pay back the borrowed money and interest within a short period of time; if you choose not to repay the loan, income taxes and penalties apply
- By taking a loan, you reduce your accumulated savings and limit the potential for tax-deferred growth in your account; even temporary loans can have a major impact on your nest egg at retirement
- You pay back the loan amount in after-tax dollars, and are taxed again on the same money when you withdraw it at retirement

Under current laws, if you are fully vested in your retirement plan, you may withdraw 50 percent or up to \$50,000 of your account assets, whichever is less. You may be limited to only one loan in a 12-month period. Thoroughly review the implications a loan may have on your retirement goals before making a final decision. Check with your benefits manager for details about your retirement plan.

¹ Check with your plan administrator to determine if your plan allows you to take a loan from your account.

² If you fail to timely repay your loan and interest, you must pay income tax on the outstanding balance. If you're under age 59 ½, a 10 percent early-withdrawal penalty applies.

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