

**FOR MORE INFORMATION,
CONTACT YOUR DEDICATED
EDUCATIONAL RESOURCE
TODAY!**

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TO BORROW OR NOT BORROW

Although you may have the ability to borrow money from your retirement plan in the form of a loan, please proceed with caution! If your employer offers Plan loans and you decide to borrow from your retirement account, you may end up causing harm to your financial future. (Note, your employer's retirement plan may not offer a loan provision. To inquire, check with HR or request a copy of your summary plan description).

Below are a few of the drawbacks to taking a loan from your retirement plan:

Double-Taxation:

Unlike retirement plan contributions, repayments for loans are made on an "after-tax" basis. This means that you use dollars that have already been taxed for your loan payments and then, you pay taxes again on your distributions at retirement – resulting in paying taxes twice on your loan amount.



Loss of Saving

Most participants that borrow from their retirement plan cannot afford to pay back the loan as well as continuing to save in the plan. Thus, ending up only paying back the principal and interest for the loan, and not saving for their retirement. The average length of a loan from your retirement plan is 5 years. Time lost from not actively saving for retirement during those 5 years can make a big dent in your overall retirement savings goal.

Loss of Compounding Interest:

Time is your most valuable asset when it comes to growing your retirement account. The power of compounding interest is worth the hype that it receives from financial professionals. With the average length of a loan being 5 years, that's 5 years of growth lost on assets taken out for the loan – this can cause a big setback with many people's retirement goals. Even more so, many people who borrow money from their retirement account must reduce their savings amount to help pay back the loan. All these factors contribute to the loss of potential growth of your retirement savings.

Interest and Fees:

Although the interest from the loan will be paid back to yourself, the growth of those assets staying invested could potentially earn you more than the interest you are paying.

Many recordkeepers charge fees for issuing and maintaining the loan. For example, if you take a \$1,000 loan and your recordkeeper requires a \$75 fee to issue the loan, you are losing 7.5% of your loan amount right away.

Repayment Upon Employment Termination:

If your employment is terminated, the outstanding balance of your loan becomes due immediately. If you cannot afford to pay back the outstanding balance from your personal savings, the loan will default on your retirement account balance and becomes taxed and penalized as a pre-retirement distribution (assuming you are under age 59 1/2). This means you will be paying federal and state income tax on the remainder of your loan. In addition to federal and state income taxes, you would have the tax consequence to pay at tax return time!

Contact your Human Resources Department to request a Summary Plan Description to see if your retirement plan offers loans. If you have any questions regarding plan loans or your plan's loan provisions, please contact your MCF Advisor today!

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