AVOIDING 401(k) LOANS

A LOOK AT THE NEGATIVE IMPACT LOANS HAVE ON YOUR RETIREMENT SAVINGS

Always keep in mind, that the primary purpose of your 401(k) plan is retirement savings, not borrowing.

Tapping into your 401(k) loan should always be a last resort. Because of the potential penalties, taxes and decreased saving opportunities (loss of compounding), we encourage employees to find other borrowing sources such as a bank or a home equity loan so that you do not take away from your retirement funds.

What You Need to Know Before Borrowing from Your 401(k)

Financial setbacks today may tempt you to borrow money from your retirement fund, but just because you may be able to borrow from your 401(k) doesn't mean the option is necessarily right for your situation.

KNOW THE CONSEQUENCES - There are 2 potential hazards to borrowing money from your 401(k)

- **Steep taxes and penalties that come from late payments or changing jobs**

If you borrow from your 401(k) and then leave the company, you are obligated to pay back the **entire outstanding balance** of your 401(k) loan, typically within 60 days. Whatever amount you do not repay is considered a retirement distribution and you will be **subject to income tax and possibly a 10 percent penalty** for early withdrawal.

- **Borrowing results in a big blow to your retirement savings (loss of compounding)**

While borrowing from a 401(k) provides an easy and low-cost path to immediate cash, the impact on your retirement savings can be dramatic. **Time is the key to building a healthy nest egg.** It's why 20-year-olds who start by contributing small amounts in a 401(k) are often much better off than those in their 40s that contribute a much greater amount to their accounts. This effect is called **compounding**. The time your money is out of your 401(k) from the loan, is time it will never have again to work for you and grow through compounding.

Seek out help from financial advisors, banks and credit unions for your individual situation

While having access to a 401(k) loan offers added peace of mind, the consequences for borrowing should make it only an emergency source of funds. Its purpose is for retirement savings – not borrowing. This is why it's so important to exhaust every other means to manage your cash needs such as bank loans, a home equity line, etc. before turning to your 401(k). If you have equity in your home, consider a home equity loan as the interest paid on the loan may be tax-deductible. Speak to your bank or credit union to see if they can give you better terms or access to loans to manage your debt so you can be in a better position to retire well one day.