

BUILDING BLOCKS FOR RETIREMENT

Distribution Planning

Loans Now Groans Later? You Could Regret Borrowing From Your Plan

While borrowing money from your retirement plan may sound appealing at first glance, what you need to recognize is that it could leave you with less money to live on in retirement.

Certainly, with such a loan, your contributions are your own money, and you'll be repaying yourself as you repay the loan. What could be wrong with that? Actually, a lot. Consider these potential negative consequences of borrowing from your plan:

- **Taxes.** If you leave your job, you may need to repay any outstanding loan balance within 30 days or risk paying federal taxes on the amount you owe, in addition to a 10% early withdrawal penalty. Also, the interest you pay on a retirement plan loan is not tax deductible.
- **Lost Opportunity.** Don't overlook the possible "opportunity cost" of borrowing from your retirement account. The money you borrow might otherwise be earning returns with the potential to provide additional cash for retirement. Your lost opportunity could be particularly dramatic if you take money out of the plan during a time when your investment earnings are on the rise.
- **Fees and Deadlines.** Your employer may charge a retirement account loan fee. Some companies also have specific deadlines for applying for loans, as well as lengthy waiting periods before you can gain access to the money. And, in most cases, you must repay the loan in full within five years. (Longer loan periods may be available if the money is used to purchase a home.)



What's The Alternative?

If you're tempted to borrow money from your retirement plan just to splurge, reconsider. A fancy vacation or new wardrobe will probably be an expensive memory in 10, 20, or 30 years, but your need for retirement income will still be there. Don't shortchange yourself. If you're trying to get out of debt, look at consolidating your various debts into one lower-interest-rate account or consider a tax-deductible home equity loan.

In certain circumstances, however, you may find that it is worth thinking about a retirement plan loan. If that's the case, be sure to discuss all the details and rules with your employer and a trusted financial advisor before making a final decision.

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