
PARTICIPANT EDUCATION

Understanding Retirement Plan Loans: Know Your Options

Unexpected expenses can arise at any time. If you need funds, borrowing from your retirement plan might be an option. However, it's important to weigh this decision carefully as it can affect your retirement savings. Consider the purpose, cost, and long-term impact before taking a loan from your retirement account.

Retirement plan loan basics

A retirement plan loan lets you borrow from your retirement account and repay it with interest. Here's what you need to know:



Loan limits: Borrow up to the lesser of \$50,000 or 50% of your vested account balance.



Repayment: Loan repayments are made through after-tax payroll deductions.



Repayment term: Typically, loans must be repaid within 5 years. For primary residence purchases, the term can extend to 30 years.



Plan provisions: Not all plans allow loans. Check your summary plan description to confirm.



Loan requirements: There may be minimum loan amounts and limits on the number of loans you can have.



When to consider a loan

1

Short-term needs: If you need funds for a short-term financial situation and can repay the loan on time.

2

Avoiding taxes and penalties: Loans are not taxed or penalized if repaid on time.

3

Preserving savings: Repaying the loan means the money goes back into your retirement account, preserving your savings.

Key considerations



Interest: You pay interest on the loan, which goes back into your retirement account.



Impact on growth: The borrowed amount isn't invested, which can affect your savings growth.



Risk of default: If you don't repay the loan, it's treated as a distribution and subject to taxes and penalties.

Making the right choice

Deciding to take a loan from your retirement plan depends on your financial situation. While it can be useful for short-term needs, consider the tax implications, impact on savings, and repayment terms. Consult with a financial advisor to make an informed decision that aligns with your goals.

