

Before taking a loan: What you should consider.



Are you thinking about taking out a loan from your 401(k) to make a down payment on a house, fund your kid's college, or another expense?

You might want to reconsider.

Our 401(k) savings plan is there to help you save for retirement, but it does allow general purpose loans for any reason. However, loans must be repaid within four years, either through payroll/Ledger deductions or all at once. Amounts can range from a minimum of \$500 to a maximum of the lesser of either 50% of your vested account balance or \$50,000 (minus outstanding loan balances for both).

Although 401(k) loans offer conveniences such as same-day processing, no bank approvals or credit checks, and a simple repayment process, you should consider the following consequences, costs, and possible penalties.

- **Loss of investment income.** The amount of your loan(s) reduces the balance available to earn compound interest. In the long run, you may be reducing your retirement savings by more than you originally borrowed.
- **Less in earnings to take home.** Borrowing from your 401(k) may result in an additional deduction—and a deduction for loan repayment is taken out on an

after-tax basis. Keep in mind, though, that continuing to contribute (on a pre-tax basis) to the 401(k) at the same rate as you're repaying the loan will help you remain on track with your retirement goals.

- **No tax breaks.** Interest on your 401(k) loan isn't tax-deductible, as it is with a home equity loan or a mortgage.
- **Penalties for late or nonpayment.** If you don't make loan repayments as scheduled, your loan could be taxed. You'll be required to include the remaining principal and any applicable interest in your taxable income in the year the loan is taxed.
- **Immediate repayment if you leave the company.** If you leave the company and have an outstanding loan, the remaining loan amount, plus any applicable interest, will be due immediately. To avoid paying taxes on the entire balance, you must pay it off completely within 60 days of when your employment ends.
- **And even more penalties.** If you don't repay the loan balance, it will be foreclosed and must be included in your taxable income. An early withdrawal penalty of 10% may also apply if you're under age 59½. Keep this in mind before you request any new loans.

Be sure to examine all your options before taking a 401(k) loan. For more information, visit **Your Benefits Resources™ (YBR)** at <http://digital.alight.com/newyorklife>.

