



## Your Financial Health

### 401(k) Loans – Things to Consider

While many 401(k) plans offer loans, the fact that the option is offered does not mean you should take the first opportunity to use it. In fact, in most cases taking a loan against your 401(k) is not the best solution and as such has been labeled by many as a "last resort." Here are some key facts you need to know:

#### **Borrowers often lose the company match**

Many employees who borrow from their 401(k) accounts end up stopping or lowering their 401(k) contributions while paying back the loan. This often results in the loss of 401(k) matching contributions when an employee's contribution rate falls below the maximum matched percentage.

#### **Job changes (or termination) can force defaults**

Most employees considering a job change don't realize that their ENTIRE outstanding 401(k) loan balance becomes due when they leave their current employer. An outstanding 401(k) loan can add significant pain to an already difficult situation and most people don't have the financial resources available to pay back their 401(k) loans when they end employment.

As a result, a large percentage of these employees are forced to default. The defaulted balance is then considered a distribution and is subject to state and federal taxes and possibly IRS early withdrawal penalties.

#### **Paying interest to yourself is not such a good idea**

Many employees think these loans make sense because they are paying interest to themselves versus a bank. It is normally not a desirable financial strategy to pay interest of any kind. However when you borrow from your 401(k) you lose the investment opportunity, which often can be greater, than the interest you are paying yourself.

#### **A 401(k) loan should be a last resort**

Easy access to 401(k) loans can often make an employee's bad financial situation worse. These loans have significant negatives and should be avoided except during a genuine financial emergency. You should act as if this money is off limits. It is always better to be prepared for a financial emergency with emergency funds or the right kind of insurance.

### Your AIS Planning Team

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