

Considering a loan from your retirement account?

Before borrowing from your retirement account, please consider the following:

◆ **The money you borrow may be taxed twice!**

Loan repayments plus interest payments on a Retirement Plan loan are made with after-tax dollars through automatic payroll deductions. This means the money going to pay back your loan has already been taxed once. That same money is taxed a second time when you ultimately withdraw it, assuming you are not withdrawing from your Roth 401(k). Your taxes will depend on your tax bracket at the time of your withdrawal(s).

◆ **If you leave the company, you have to pay back the outstanding balance in full!**

Any outstanding amount not repaid on time will be considered a distribution subject to ordinary income taxes plus, possibly, a 10% early withdrawal penalty if you are younger than age 59 1/2.

◆ **You miss out on some of the benefits of other types of loans.**

For instance, if your loan is for a home, you can't take a mortgage deduction, and you can't refinance if rates drop, although you can pay off your loan in full ahead of schedule with no penalty. If your loan is for college, you will not be able to deduct the interest, which is currently tax deductible.

◆ **Your loan money misses out on growth opportunities in a rising market.**

You could miss out on the full potential of your principal. The money taken out of the account may lose the potential to grow, which is important when you consider how many growth opportunities there have been in the last 20 years. Of course, past performance is no guarantee of future results.

It May Be Better to Borrow Elsewhere:

◆ **Home Equity Loans:** The interest on home equity loans is tax deductible.

◆ **IRAs:** Roth and traditional IRAs allow for penalty-free withdrawals for college tuition or a first-home mortgage. The tax-friendly Education IRA allows tax-free and penalty-free withdrawals for college tuition and related expenses, if you meet certain guidelines.