WITZIG
FINANCIAL STRATEGIES

Witzig Financial Strategies
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Retirement Plan Loans:

To Borrow or Not to Borrow?

Although you may have the ability to borrow money from your retirement plan in the form of a loan, **please proceed with caution!** If you borrow from your retirement account, you may end up causing harm to your financial future. Remember, any time you borrow money, you are taking it from your future self.

Below are a few of the drawbacks to taking a loan from your retirement plan:

Double-Taxation

Unlike retirement plan contributions, repayments for loans are made on an "after-tax" basis. That means that you use dollars that have already been taxed for your loan payments. Then, you pay tax again on your distributions at retirement. Thus, you will pay taxes twice on your loan amount.

Repayment Upon Employment Termination

If you terminate employment, the outstanding balance of your loan becomes due immediately. If you can't afford to pay back the outstanding balance, it then becomes taxed and penalized as a pre-retirement distribution (assuming you are under age 59 1/2). Therefore you pay federal and state income tax. Generally, workers that borrow money are unable to pay back any outstanding balance upon employment termination. In addition, they have the tax consequence to pay at tax return time!

Cost of Interest Payments

Although the interest that you will pay on the loan will be paid back to yourself, the amount you borrow will not earn you anything. The dollars you use for the interest are already your dollars. It's like taking money from one pocket and putting it into another. You already have the money!

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It's never too late to take charge of your financial future. Don't put off until tomorrow what you can do today!

Remember, you are in control of your retirement savings—so be pro-active!

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Loss of Savings

Most workers that borrow from their retirement plan cannot afford to pay back the loan as well as continue to save in the plan. Thus, they end up only paying back the principal and interest for the loan, and not saving for their future. **See chart below.**

Loss of Compounding Return

The dollars that you borrow earn nothing for you. Most people who borrow money reduce their savings amounts and upon employment termination can't afford to pay back the loan. These factors contribute to the loss of time and compounding return on savings. **See chart below.**

If you have any questions regarding plan loans or your plan's loan provisions, please contact your plan advisor.