

# The Impact of Taking a 401(k) Loan

## It is not free money

- \* Payments are typically deducted from your pay each month, leaving you with less take home pay
- \* There is a structured repayment plan
- \* Interest payments are due on the loan principle

## The money can no longer grow.

Missing out on potential:

- \* Interest appreciation
- \* Dividends
- \* Rising markets
- \* Compounded growth

## Even if you leave your job, you still have to repay the loan

- \* Also, if you are younger than 59 ½ then defaulting on the loan would incur a 10% tax-penalty

## WHAT HAPPENS TO 401(K) LOANS?

**\$7,982** Average unpaid loan balance<sup>1</sup>

**10%** of employees default on 401(k) loans<sup>1</sup>

**86%** of participants leave the company before repaying their loan<sup>1</sup>



## TIPS TO HELP AVOID THE NEED FOR A 401(K) LOAN

- \* Try not to accumulate credit card debt.
- \* Build an emergency fund. Aim to save enough to cover 3 to 6 months of essential expenses.
- \* Tap into other savings accounts before accessing money earmarked for your retirement future.

Have Questions? Next 401(k) Employee Education Meeting \_\_\_\_\_



**Retirement Planning · Wealth Management**

## Jerome Pfeffer, AIF, PPC, CRC

Managing Director

INVESTMENT SOLUTIONS GROUP

6020 Academy NE, Suite 206

Albuquerque, NM 87109

(505) 888-4015 Direct

(505) 515-0036 Fax

Jerome.Pfeffer@lpl.com

[www.investmentsolutionsgroup.com](http://www.investmentsolutionsgroup.com)

<sup>1</sup> National Bureau of Economic Research. "Borrowing from the Future: 401(k) Plan Loans and Loan Defaults." Feb 2014 *more recent data may alter this assessment*

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