

Retirement Loan Education

While employed by the company sponsoring your retirement plan, you may be eligible to take a loan from your account. Like a loan that you might obtain from your local bank, taking a loan from your retirement account means that you are borrowing money to be paid back, with interest, over a set period of time. Since you are borrowing this money from your own retirement savings, your loan payments, including interest, are repaid to your retirement account.

Generally, you are eligible to borrow as much as half of your vested account balance up to a maximum of \$50,000. Some plans also provide restrictions on the reasons you are allowed to take a loan. Money borrowed from your retirement account is not subject to an early withdrawal penalty, nor is it considered taxable income as long as you repay the loan as agreed. A retirement plan loan is repaid through payroll deductions. The payments are withheld from your paycheck each pay period throughout the term of the loan. A plan loan can be paid off over a period of up to 5 years. If the loan is specifically for the purchase of a primary residence, many plans allow for up to a 10 year repayment period.

Borrowing from your retirement account to meet a financial need should be a strategy used only when absolutely necessary. When borrowing from your retirement plan, you are typically receiving money that has not yet been taxed. During the payback period, you are repaying the loan with after-tax money which will be taxed again when you distribute your funds in retirement. In addition, if you terminate employment with your plan sponsor before you have repaid your loan in its entirety, the full remaining balance of the loan becomes due. If you are unable to pay the loan off at that time, the balance of the loan will be deemed a distribution and be treated as income for the current year. The outstanding loan balance will be subject to all applicable taxes and early withdrawal penalties.

Before you decide to take a loan from your retirement account, we recommend consulting with a financial planner. A financial professional can help you to assess the purpose, the cost and the tax effects of the loan to decide whether a retirement plan loan is the best option to meet your needs. If you have any questions on how to request a loan or the repayment process, our Service Center is happy to help.
