

# Should you take a retirement plan loan?

Trying to decide if you should take a loan from your employer’s retirement plan? We’ll help you understand your options.

**Before you take a loan from your employer’s retirement plan, it’s important to understand the costs and the details.**

With a retirement plan loan, you pay yourself back the amount of the loan plus interest.

## Just remember that:

- Your savings may suffer. While you’re paying off the loan, if the investment rate of return is higher than your loan interest rate, you may miss out on some of the gains you might have earned.
- You may have to pay initial setup fees and quarterly loan fees.
- If you leave your job and have an outstanding loan, you may need to repay the loan within a certain amount of time or penalties and taxes could apply.

## Some of the rules for loans from your employer’s retirement plan may include:

- According to federal law, you can borrow \$50,000 (subject to further reduction by any outstanding loans) or up to 50 percent of the vested account balance, whichever is less.
- You may have to borrow a minimum amount.
- You usually have to repay the loan within five years (unless you’re borrowing for your primary home, if your company’s plan allows; then you may have longer to repay).

## Before taking a loan, consider this example:

	Retirement Plan Loan	No Loan
Initial account balance	\$20,000	\$20,000
Loan amount	\$5,000	
Loan period	5 years	
Loan interest rate	5%	
Loan payment (bi-weekly)	\$44	
Regular contribution (bi-weekly)	\$106 (during loan repayment period) \$150 (after loan repayment period)	\$150
Investment rate of return	7%	7%
<b>Account balance at age 65</b>	<b>\$495,800</b>	<b>\$533,900</b>

Rates of return are hypothetical and do not guarantee any future return nor represent the return of any particular investment option.

As you can see, that \$5,000 loan resulted in \$38,100 less in savings by age 65. That’s a pretty big tradeoff.

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