

# Taking Loans & Withdrawals from your Retirement Plan Can be Costly



Thinking about taking money from your retirement plan to help with current financial demands? Think again. You may have heard this is a great way to get extra money, especially when times are tough. But there is a lot you'll need to consider. Just because a loan or withdrawal may be available through your retirement plan doesn't mean it is a good idea to take it. Be sure to weigh the advantages and disadvantages of prematurely tapping into your retirement plan.

## Loans

The ability to take a loan from your retirement plan account gives you a good deal of flexibility if you need to access cash. If your plan allows loans, you can borrow money from your account, subject to your plan's provisions. If you are taking out your loan to purchase your primary residence, you may have more time to repay it than you would for a loan taken for any other reason.

But remember this: When you borrow money from your retirement account, you're actually borrowing money from yourself - and from your financial future. Before you decide whether a plan loan may be right for you, be sure to review the advantages and disadvantages outlined below.

## Advantages & Disadvantages of Retirement Plan Loans

The Advantages	The Disadvantages
<p>These are the primary advantages of taking a loan from your plan account:</p> <ul style="list-style-type: none"><li>• There's no credit check, since the money in your retirement account serves as collateral for your loan</li><li>• You may be able to borrow at a reasonable (or even competitive) interest rate – and you'll repay the loan interest into your own retirement account</li></ul>	<p>Borrowing money from your retirement savings could end up costing you a lot in the long run:</p> <ul style="list-style-type: none"><li>• When you take a loan, the money you've borrowed "earns" only the interest rate you pay (which is determined at the time you take out your loan). This may be less than what your money could have earned if you had left it in your account.</li><li>• If you leave your organization or retire before you have repaid your loan, you may be required to pay off your loan. If you are unable to, the amount of your outstanding loan balance is considered a taxable distribution by the IRS – and it will become subject to income tax and could be subject to a 10% early withdrawal penalty.</li></ul>

## Hardship Withdrawals

Hardship withdrawals, if allowed by your plan, should be taken as a last resort. Depending on your plan's provisions, you may be able to take a hardship withdrawal to:

- Prevent foreclosure on or eviction from your home
- Pay for unreimbursed medical expenses
- Cover tuition (post-secondary education-related) expenses
- Purchase your primary residence

## The high price you'll pay

Keep in mind that when you take a hardship withdrawal from your retirement account, you're withdrawing money that you originally set aside for your retirement. There are several drawbacks to taking this type of withdrawal:

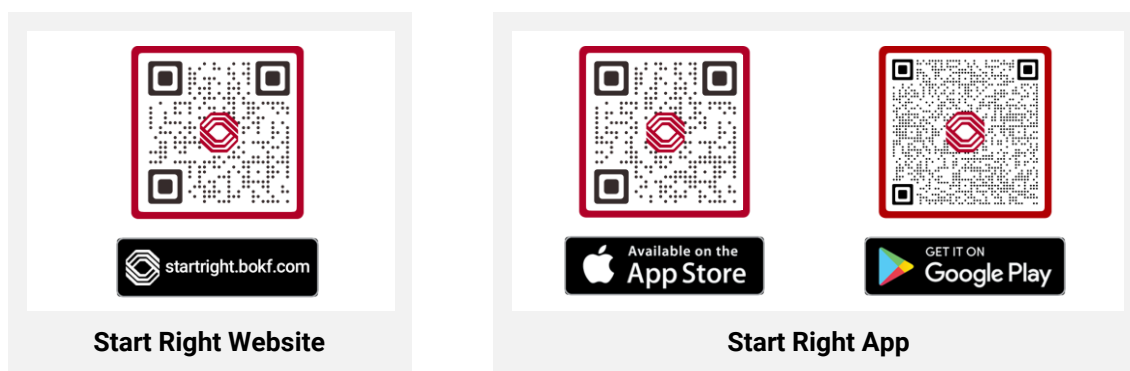
- Unlike a plan loan, the amount of money that you withdraw cannot be re-deposited at any time into your retirement account.
- Your hardship withdrawal amount will be subject to federal (and, if applicable, state) income tax – as well as a 10% federal income tax penalty for early withdrawal if you're under age 59 ½ at the time of withdrawal.
- You'll lose out on the potential growth that your withdrawn dollars could have earned if they had remained in your account until retirement.

## Need help deciding?

Before you take a loan or withdrawal from your retirement account, be sure to consider all of your financial options carefully. Chances are, you have other sources of funds that could help you meet your immediate need for cash – and still enable you to keep your retirement dreams on track.

When it comes to loans and withdrawals, the bottom line is this: Your retirement account is intended for your long-term financial security. If you're looking to tap into your account before you retire, proceed carefully. Your retirement income may depend on it.

The availability of loans and withdrawals is subject to your plan provisions. For more information, visit the Start Right website or check with your plan administrator.



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