BUILDING BLOCKS FOR RETIREMENT

Distribution Planning

Borrowing From Yourself – Not Always The Best Plan

Where can you turn if you need cash in an emergency? Some people turn to their 401(k) plans. After all, you're borrowing your own money and paying it back to yourself with interest.

But taking a loan from your 401(k) plan may put you at risk of not reaching your retirement goals. Before you take any money from your retirement account, take time to review its impact and the rules associated with 401(k) plan loans.

On the Plus Side

If your plan permits loans (and not all plans do), you'll generally be able to borrow up to half of your vested plan balance, capped at $50,000. Taking a loan from your plan may be easier and faster than getting a loan from a traditional financial institution. And you'll usually repay the principal and interest to your plan account through automatic payroll deduction.

On the Minus Side

The money you borrow will no longer be in your account benefiting from tax-deferred growth. Plus, you'll be repaying the loan with after-tax dollars.

That means the money used for repayment will be taxed twice, since you'll pay tax on it again when you withdraw it at retirement. And, if you have trouble contributing to your plan account while you're making loan payments, you might end up with less saved for retirement than you need.

And the really bad news? If you leave your employer for any reason, you'll usually have to repay the entire loan balance within 90 days or it will be considered a taxable distribution, requiring you to pay income tax on the amount of the loan. Furthermore, you may potentially owe a 10% early withdrawal penalty on the amount in addition to taxes.

701 Westchester Ave, Suite 320E, White Plains, New York, 10604

Hardship Withdrawals:

A Last Resort If you're faced with a financial emergency and you've already borrowed all you can, you may be able to take a hardship withdrawal from your 401(k) plan account. You must have an immediate and heavy financial need, such as medical expenses that aren't covered by insurance.

You usually can withdraw the money you've contributed, but not employer contributions or earnings. You'll owe income tax and, possibly, an early withdrawal penalty. You won't be permitted to make contributions to your plan for six months after the hardship withdrawal is made. And, unlike a plan loan, withdrawals cannot be repaid to the plan.

This material is provided solely for informational purposes and does not constitute investment, tax, legal or accounting advice on the matters addressed. Neither Pentegra Services, Inc., its subsidiaries, nor any of their respective employees intend that this material should be relied on as investment advice, which should be sought from a professional advisor. Performance information shown reflects past performance and does not indicate or guarantee future investment results. Current and future results may be lower or higher than those shown. ©2018 Pentegra Retirement Services

701 Westchester Ave, Suite 320E, White Plains, New York, 10604