ENDOWMENT
WEALTH MANAGEMENT®
Fee-Only Fiduciary Advisors

EWM Personal Finance Tips & Solutions

401(k) & 403(b) Loans

What is a 401(k)/403(b) Loan?

The IRS allows active participants to borrow directly from their qualified employer-sponsored plan via a loan. Note that not all qualified retirement plans allow loans, and the ones that do may still exclude certain employees. Contact your plan administrator or Endowment Wealth Management to see if you qualify.

How do 401(k)/403(b) Loans Work?

Depending on what your employer allows, you can generally take out a loan up to 50% of your vested balance, up to a maximum of $50,000 within any 12-month period.

You typically have to pay back all borrowed funds, with interest, within 5 years of taking out the loan. It the loan is used to purchase a primary residence, full repayment may be extended up to 25 years. Your loan will be repaid through automatic deposits directly from your paycheck every pay period.

If you leave your current job with an outstanding loan, you may have to repay your entire loan balance within a very short time frame. Certain plans allow you to continue to repay the loan after you leave the employer. We highly recommend you understand your plan's details before taking out a loan.

If you miss a payment and fail to repay the owed amount within the grace period (typically 60 days), the remaining loan amount would be classified as a taxable distribution, with this amount being subject to the 10% early withdrawal penalty (if under age 59.5) as well as ordinary income tax.

Pros:

All interest payments will be paid back directly into your account instead of to another bank or lender.

401(k)/403(b) loans are not subject to any taxes or penalties as long as all rules are followed correctly.

401(k)/403(b) loans are not reported to credit bureaus, so your credit score will not be affected by taking out the initial loan, any missed payments, or even a default on your 401(k) loan.

Cons:

Removing funds from a retirement account can negatively impact your retirement plan if the funds are not removed for a practical purpose. Please see the back side for when it makes the most sense to utilize this tool.

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When should you consider using a 401(k)/403(b) Loan?

- Paying off non-deductible, high interest debt, such as credit cards or car loans.

  - This is often the most sensible reason to take out a loan from your qualified retirement account. High interest debt, especially credit cards, can eat away at your hard-earned savings.

  -Paying all or even a large chunk of this debt off could save you thousands in interest payments.

- If you have an immediate need for cash and do not have any liquid assets.

This tool should never be used to purchase items that aren't an absolute necessity

Before you make any financial decisions, be sure to contact your fee-only fiduciary advisor to see which options/strategies are available to you and are in your best interests.

To learn more about Endowment Wealth Management and our Fee-Only Fiduciary Advice:

Call: (920) 785-6010

Visit: www.EndowmentWM.com