

401(k) Loans

What is a 401(k) Loan?

The IRS allows active participants to borrow directly from their employer-sponsored 401(k) plan via a 401(k) loan. Note that not all 401(k) 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 40a(k) Loans work?

Depending on what your employer allows, you can generally take out a maximum of 50% of your vested 401(k) 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, unless the loan is used to purchase a primary residence. In this case, full repayment may be extended up to 25 years.

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. If you fail to repay the loan within the Grace Period, which is often around 60 days, the remaining loan amount would be classified as a taxable distribution, with the remaining amount subject to the 10% early withdrawal penalty as well as ordinary income tax.

Pros:

All interest payments will be paid back to yourself into your 401(k) plan instead of a bank or other lender.

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

401(k) 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.

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When should you consider using a 401(k) loan?

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

This is often the most sensible reason to take out a loan from your 401(k). 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.

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

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