401(k) Plan Loans
By Gary Case

Over the past couple of years we have seen a trend is emerging in 401(k) and other employer sponsored retirement funds; retirement plan loans. 401(k) accounts for decades have been the most popular employer sponsored retirement accounts. However, because of the decline in the economy, many people are beginning to draw money out.

There are many different reasons why people dip into their accounts much too early, from declining home values, debt, and the overall downsizing of our economy. Until recently, borrowing money from your 401(k) wasn't that difficult. It was a quick fix, you didn't need a good credit rating, the interest rates were reasonable, and the interest an individual had to pay went directly to his/her account.

Now, some plans are beginning to add new features; such as adding fees or limiting the number of loans and individual can take out. Many employers tend to discourage their employees from taking money out of the account, because that is not the reason the plan was created. Plans may now come with annual loan- servicing fees. Fortunately, many providers of 401(k) plans take time to educate the borrower about potential risks and consequences linked to the loan.

An important thing to remember if you do decide to borrow against your 401(k) is to be aware of possible consequences before taking money out. Most loans are not taxed; however you must repay the loan, plus interest, with after-tax dollars. You cannot repay the loan with dollars from your account. If you do decide to take money out, you should try and repay the money as quickly as possible, and then begin to put money back into the plan. Many plans come with employer matching contributions, if yours does, take full advantage of that, because that will add a significant amount of money to your fund.

Remember why the plan is there and what its real purpose is--to make retirement an enjoyable experience, a time when you really enjoy life without having to work. If you keep drawing money out for non-retirement purposes, what kind of fund will you be left with when the time comes for retirement? You need to make a conscious decision to put money into the fund, and not to take any out, until the appropriate time.

If you have question about loans from your retirement plan, contact your employer's representative for details. You may also want to consult your financial planner and tax advisor prior to taking a loan.

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