FRAGASSO FINANCIAL ADVISORS

RETIREMENT PLAN ADVISORS

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We guide. *For life.*®

Many employer sponsored retirement plans offer the option to take out a loan against your account balance. Retirement plan loans can be a viable way to get money in a crunch, but deciding to do so should really be a last resort. Research has shown that borrowing from a retirement plan tends to have a lasting impact – many accounts never get back to their projected pre-loan balance at retirement.

PROS

- **Ease of Borrowing**
  While there are IRS limits on how much you can borrow and the terms of the loan, you can apply for a loan for any reason. Applying does not require a credit check and taking out the loan will not impact your credit rating.

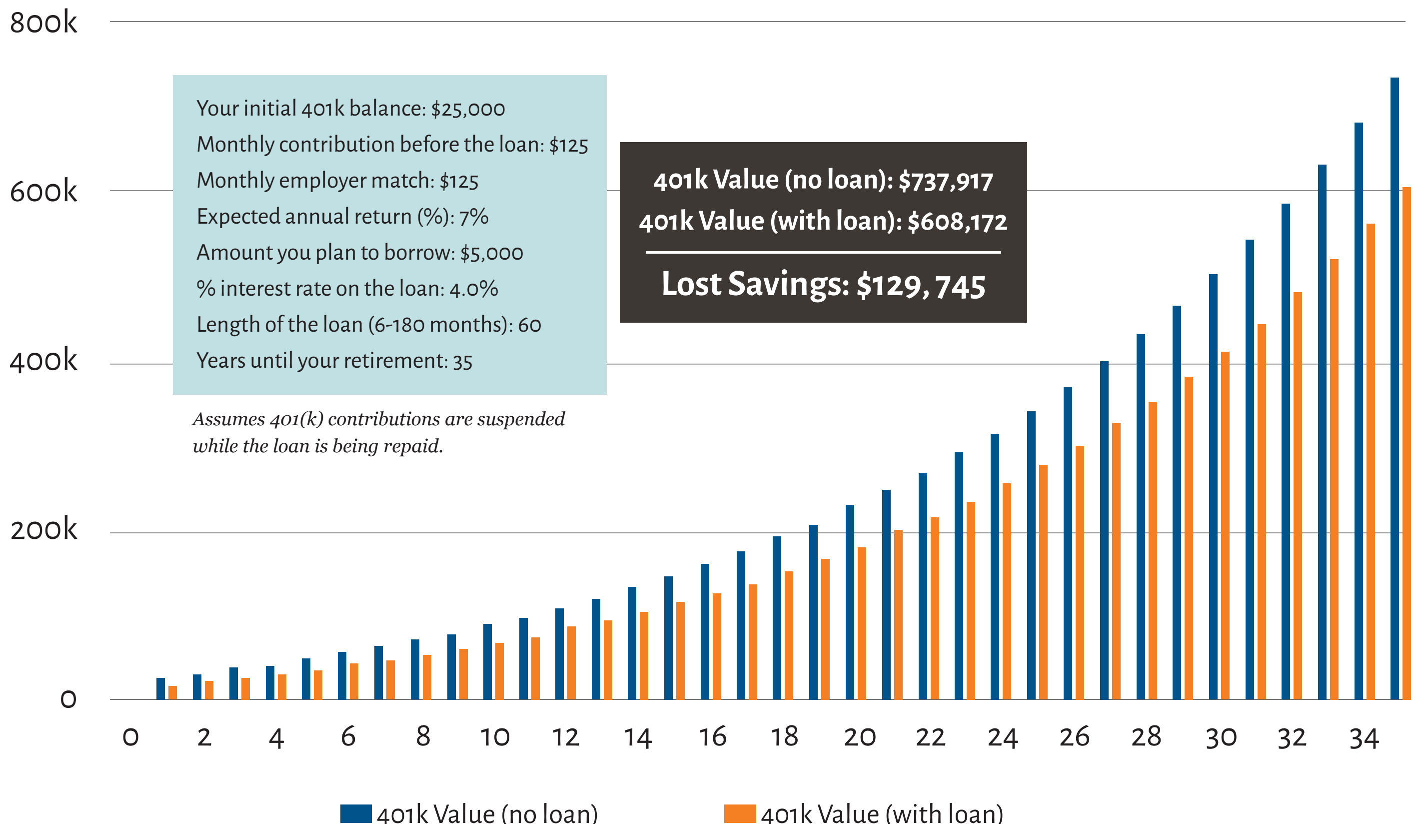
- **Ease of Repayment**
  Loan repayments happen automatically through payroll deduction and early repayment is often an option without penalty.

CONS

- **Opportunity Cost**
  The money you borrow is no longer invested and misses out on any potential tax-deferred growth. Over time, with the power of compounding, this could add up to a significant amount of lost earnings.

- **Tax Benefits**
  Unlike pre-tax contributions to a retirement plan, loan repayments are made on an after-tax basis. You give up some of the benefits of pre-tax contributions, as after-tax loan repayments will be taxed again at withdrawal from the retirement plan.

- **Job Change**
  If you leave your current employer while you have an outstanding loan balance, you have a relatively short time period to repay the loan in full. To avoid taxation, and a possible penalty if you're under the age of 59½, the outstanding balance on the loan will need to be repaid by that year's tax filing deadline.



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