The Impact of Taking a 401(k) Loan

It is not free money.

- Payments are typically deducted from your pay each month, leaving you with less take home pay
- There is a structured repayment plan
- Interest payments are due on the loan principle

The money can no longer grow.

Missing out on potential:

- Interest appreciation
- Dividends
- Rising markets
- Compounding growth

You must repay the loan.

- If you are younger than 59½, defaulting on the loan would incur a 10% tax-penalty
- If you leave your employer, the remaining unpaid loan amount will be treated as taxable income

What happens to 401(k) loans?

$10,700 Average **unpaid** loan balance1

12% of employees **default** on 401(k) loans2

71% of participants leave the company **before repaying** their loan3

Tips to avoid the need for a 401(k) loan

- Try **not** to accumulate credit card debt.
- Build an emergency fund. Aim to save enough to cover **3 to 6 months** of essential expenses.
- Tap into other savings accounts before accessing money earmarked for your retirement future.

Borrowing from your future should always be your last option and one you should not consider until you've assessed all the risks.

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1 Vanguard. "How American Saves 2024." 2 Bank of America. "Participant Pulse Q1 2024." 3 Beshears, et al. " Does 401(k) loan repayment crowd out retirement saving?" 1 Mar 2024.