

# 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 balance<sup>1</sup>

**12%**

of employees **default** on 401(k) loans<sup>2</sup>

**71%**

of participants leave the company **before repaying** their loan<sup>3</sup>

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

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