Think twice before borrowing from your 401(k)

Intuit Inc. 401(k) Plan

You need some extra cash to pay for a vacation, wedding or a new car. You might think borrowing from your plan is the simplest solution. After all, it's your money and it's convenient — no credit check or long credit application form.

However, as with most financial issues, it's not as simple as it sounds. Just because you can take a loan from your plan doesn't mean you should.

Consider the following:

Repaying a loan

If you quit working or change employers, you have until October of the following year to repay your plan or put the money into an IRA or put the money into your new employer's plan.

Possible tax penalties

If you don't pay back your loan within the allotted time, your outstanding loan balance will be taxed as income. You also could be hit with a 10% early withdrawal penalty, depending on your age.

Double taxation

The money you borrow will be repaid with money that has already been taxed. So, your loan payments generally will be taxed twice — once when you make the loan payments and again when you withdraw your money at retirement.

No tax advantages

Interest on the loan isn't tax deductible. So, there is no tax advantage, even if you borrow to purchase your primary home.

Lose out on tax-deferred potential growth

When you take money out of your retirement plan, you have less money invested that could be earning money. Consider how much those missed earnings could grow by the time you reach retirement age.

Minimize your ability to save

You may not be able to contribute to your retirement plan while making loan payments, or you may be tempted to lower your contribution amount. This can reduce your long-term retirement account balance and further stall the growth of your retirement savings.

Defaulted (or deemed) loans

According to the Internal Revenue Service (IRS) regulations governing loans made from the Retirement Plan, loans are considered defaulted if payments are not made. If your loan is defaulted, the entire amount of the outstanding loan will be deemed a distribution to you. This distribution will be considered taxable income to you in the year in which the loan is defaulted. In addition to ordinary income taxes, if you are less than age 59½, a 10% penalty tax also will apply to the distribution.

Further, the loan will remain an outstanding obligation which continues to accrue interest until you separate from service or you repay your loan in full, whichever occurs first. The loan will continue to count against the maximum number of loans that you may have outstanding under the retirement plan and the maximum amount available for a new loan.

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EMPOWER RETIREMENT™

Stay on the right path toward retirement

The purpose of your plan is to help fund your retirement. Many professionals agree that you should only borrow from your retirement plan in extreme situations, as a last resort. Consider other financing options first before tapping into money earmarked for retirement

Here are some additional loan details:

How much you can borrow	Minimum: $1,000 Max: $50,000 Or you may borrow up to 50% of your total account balance, whichever is less.
Loan interest rate	Loan interest rates are based on the Prime Lending Rate declared in the Wall Street Journal on the first business day of the month in which the loan is processed plus 1.00%. This amount is fixed for the life of the loan.
Loan fees	One-time loan origination fee: $35.00 Quarterly maintenance fee: $3.75
How many outstanding loans can you have at one point	You may have two outstanding loan(s) at any point in time. However, keep in mind that all loans are limited to 50% of your total account balance and cannot exceed $50,000.
Loan process timing	Once you apply and your paperwork is received, checks are generally mailed within 10 business days.

To see how taking a loan may impact the future value of your retirement account balance, use the withdrawals before retirement analyzer on your plan's website at Intuit401k.com or contact Empower Retirement at 844-INTU401.

Transfer requests received on business days prior to close of the New York Stock Exchange (4 p.m. Eastern time or earlier on some holidays or in other special circumstances) will be initiated at the close of business the same day the request was received. The actual effective date of your transaction may vary depending on the investment option selected.

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