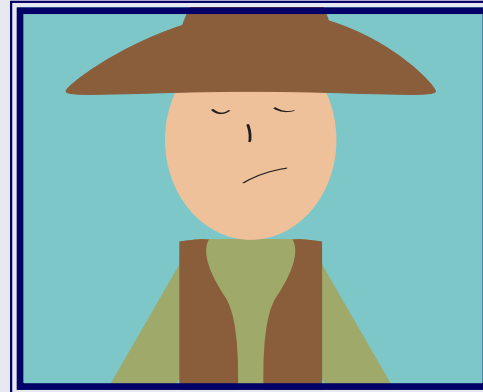
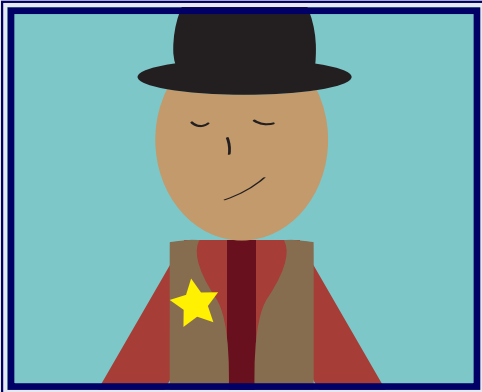


# 401(k) LOANS

## THE GOOD, THE BAD AND THE UGLY

401(k) loans offer you access to your account funds. They offer peace of mind, that in an emergency you can access these monies without any tax penalty to get through a tough time. That said, it's important to know how it works and the potholes that can throw a big monkey wrench in your finances both today and down the road.



### The Good

You can get a loan from your 401(k) for up to 50% of your vested account balances (your personal contributions plus any vested matching or profit sharing from your company) with a cap of \$50,000.

You pay yourself back at a rate of Prime plus 1%. That's a pretty good rate!

Loans are put on a schedule to be paid back over a 5 year period. If you have employees, then payments will be automatically deducted from payroll. There is one exception, which is a residential loan. These can be paid back over 30 years.

Most plans restrict how many loans you can have outstanding at any one time. With ShareBuilder 401(k), we allow up to 2 loans per participant.

The cost to start your 401(k) loan is typically pretty nominal. With us, there is a one-time charge of \$75 to initiate a loan.

### The Bad

Your retirement saving goals will likely suffer. The money you take out for a loan will not have the opportunity to grow with your investments. This means it will probably take longer to reach your savings goal.

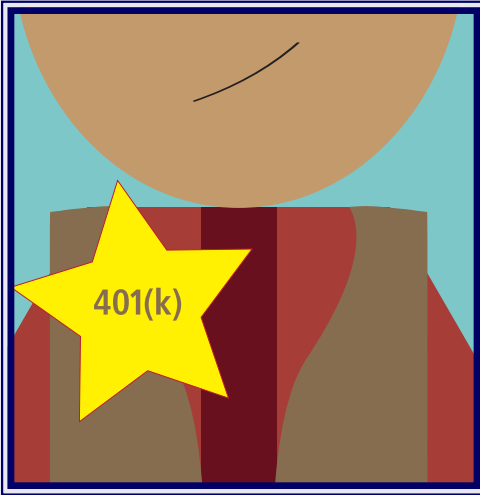
You pay the loan back like any loan with your after-tax income and when you do withdraw the monies in retirement, it will be taxed again. Yet, the monies do grow tax-deferred once back in your 401(k) account until used in retirement and you won't have that option with other loan types.

### The Ugly

If you quit or lose your job, the outstanding 401(k) loan amount is due fairly quickly—typically within 30-90 days. If you do not pay off the balance within this time, Uncle Sam treats this as a 401(k) distribution and you will be taxed at your current tax rate plus a 10% early distribution penalty\* on top of it! Ouch.

If you do not make payments to your 401(k) loan for 90 days, again Uncle Sam will be unhappy and treat this as a 401(k) distribution. And that means it will be taxed at your current tax rate plus the 10% penalty.

# OUR TAKE ON 401(k) LOANS



Our vision is to lead Americans back to saving—and loans are not a savings tool. If you are considering a loan given your personal situation, make sure you consider your company’s soundness and your job security. Having to come up with a big lump sum to pay back the loan if you were to be out a job isn’t easy. Or worse, being hit with taxes and penalties is truly a big hit to saving and your finances. We always suggest starting with your bank and then consider your other options before tapping your 401(k).

401(k) loans do offer peace of mind, convenience, and low rates, but the pitfalls that exist truly make them an emergency source of funds. If you do take a loan, put a plan together that enables you to pay the loan back as quickly as possible so you lower your risk to the Ugly and stay on track to meet your long-term goals.

Visit us online at [401kpricing.com/costco](http://401kpricing.com/costco) or speak to a consultant: 866-817-1719, x1

\*If under age 59 ½

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