Standard Retirement Services, Inc.

Taking a Loan From Your Retirement Plan

Think Before You Act

Many people think that retirement plan loans are an easy way to access the money they've saved. In fact, taking a loan from your retirement plan is often a simple and inexpensive process. But doing so can put your future savings in jeopardy. Before taking a loan, be aware of the pitfalls.

How Loans Work

Typical retirement plans allow you to borrow up to half your vested balance, up to $50,000. Your employer may restrict the reasons you can take a loan, such as to pay for medical or education expenses, prevent eviction or buy a first home. Some may allow you to take a loan for any reason. The loan generally must be paid back with interest over five years. Loan payments are automatically deducted from your paycheck.

The Pros

What makes loans attractive is that while you do pay interest on them, the rate is relatively low, and you actually pay the interest to yourself. It's almost like adding a little boost to your savings. But, at the same time, it's possible you could be earning more from your investments than the interest you're paying.

Having loan payments automatically deducted from your paycheck makes repayment simple, but it also reduces your take-home pay. If this smaller paycheck causes you to reduce your retirement plan contributions to increase your take-home pay, you'll be hitting your future savings with a double whammy.

Getting a loan from your retirement plan is usually quick and convenient. There are no credit checks or applications — often a simple form, call or a few clicks online will do the trick.

The Cons

There are important potential consequences to consider before taking a loan. First, when you remove retirement savings from your account, you're lessening its ability to earn compound interest. It's exactly this compounding effect that makes tax-deferred saving so attractive. Reducing compounding potential can have a significant effect on your savings in the long run.

In addition, loan fees are taken directly from your account, further reducing its potential growth.

The money you use to repay the loan is taxed twice. Loan repayments are paid back to the plan after tax and join the pre-tax money already in the plan. The money you used to repay the loan will be taxed again upon withdrawal from a traditional retirement plan account.

Failure to repay the loan can have financial consequences, too. You will owe income taxes as if you had taken a distribution from your plan account.

And you'll pay a penalty if you're younger than age 59½ because your defaulted loan will be considered an early withdrawal.

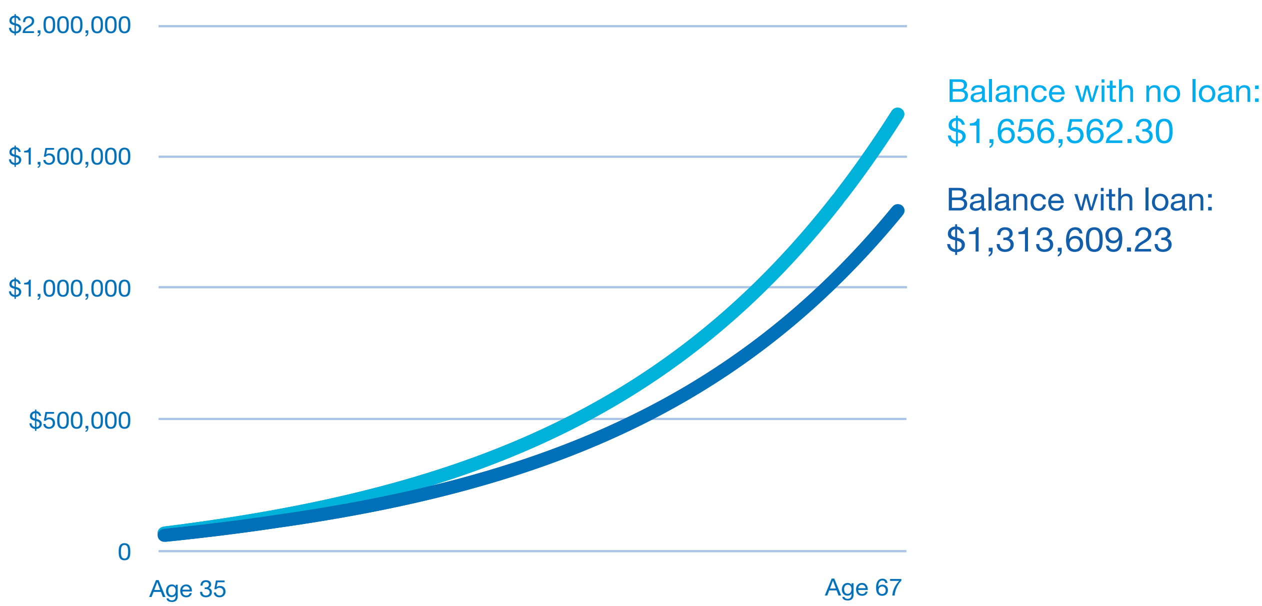
If you have an outstanding loan balance and either leave your job or are terminated, you'll have to pay the loan back within a short period of time or it will be considered in default. If you happen to be terminated involuntarily and are no longer earning income from your job, the timing of the payback, taxes and penalties can be quite unfortunate.

It's important to know that not all plans offer loans. You can find your plan's loan policy on Personal Savings Center at **www.standard.com/retirement**. If your plan does allow loans, you can use Personal Savings Center to model loans and calculate payments to see if taking one makes sense for you.

Borrowing from your retirement plan may cost more than you think, especially when you factor in your account's lost growth potential. Consider what happens when a 35-year-old worker with a retirement account balance of $60,000 borrows $30,000 at an interest rate of 5 percent to be paid back over five years. Assume the worker normally contributed $500 a month to the account, but during the loan repayment period, he can only afford to make after-tax loan payments of $566.14 (including interest).

As shown below, if the account's investments grew by an average of 8 percent annually, he would potentially give up almost $343,000 at retirement by taking the loan.

Potential Cost of a $30,000 Loan: **$342,953.07**



This chart is hypothetical and for illustrative purposes only and is not intended to be a projection of future values of any product. The investment return and principal value of an investment will fluctuate and an investor's interest, when redeemed, may be worth more or less than the original investment. Past performance is no guarantee of future results. Our mutual fund trust and group annuity contract impose certain asset-based fees and administrative fees. These charges were not included; if they had, the tax-deferred performance would have been lower. Withdrawals prior to age 59 ½ may be subject to a 10 percent federal income tax penalty. This illustration assumes a 25 percent federal income tax rate, a gross annual growth rate of 8 percent and a 3 percent annual wage increase with a corresponding increase in weekly contributions. Note that lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the investments shown. Please consider your personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision as these may further reduce the results of the comparison. Withdrawals from the tax-deferred account will be subject to federal and, if applicable, state income tax.

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