



# Think twice before borrowing from your 401(k)

You need some extra cash to pay for a vacation, wedding, or a new car. You might think borrowing from your 401(k) account 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 401(k) plan doesn't mean you should. There are many factors to consider.

## Lose out on tax-deferred growth

When you take money out of your 401(k) account, you have less money invested that could be earning money. Consider how much those missed earnings could grow in the future.

## 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.

## Minimize your ability to save

You may not be able to afford to contribute to your 401(k) account while making loan payments, or you may be tempted to lower your contribution amount. This can reduce your future account balance and further stall the growth of your savings.

## Repaying a loan

Loan payments are made through automatic payroll deductions. If your employment terminates while you still have a loan outstanding, you may pay the outstanding balance in full within 90 days after your termination; you may continue making your loan payments using a coupon book supplied by Empower; or you may choose to make automatic payments from your checking or savings account.

You may repay your loan, in full, at any time directly to Empower.



## Defaulted loans

According to the IRS regulations governing loans made from a 401(k) plan, loans default if payments are not made when due, and the missed payments are not made up by the end of a permissible "cure period." If your loan defaults, the entire amount of the outstanding loan, plus unpaid interest, will be treated as a distribution to you. This distribution will be considered taxable income in the year in which the loan defaults. In addition to ordinary income taxes, if you are under age 59½, a 10% penalty tax also will apply to the distribution.

Furthermore, the loan will remain an outstanding obligation that continues to accrue interest until you separate from service or 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 401(k) plan, and the outstanding balance will count against the maximum amount available to you for a new loan.

## Stay on the right path for your future

The purpose of your 401(k) plan is to fund your future. Most experts agree that you should only borrow from your 401(k) plan as a last resort in extreme situations. Consider other financing options first before tapping into money earmarked for your future. Before you request a loan, take a few minutes to see how taking a loan may affect the future value of your 401(k) account balance. Visit [learningfromempower.com](https://learningfromempower.com) and click on the *Spending* icon for more information.

► If you have questions, please call Empower at **844-465-4455**

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<sup>1</sup> Fund changes may alter the risk exposure of an investment account. Some cash-alternative options (other than money market funds), such as guaranteed interest funds or stable value funds, may have withdrawal and transfer restrictions. Carefully consider the importance of a well-balanced and diversified investment portfolio, while considering all your assets, income and investments. Adjustments may be needed to realign the account with its desired investment strategy.

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