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Borrowing From Your Retirement Plan

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Unless borrowing funds from your 401(k) plan is intended to address a short term situation and will be repaid quickly, consider pursuing other options.

Not every 401(k) plan has a loan provision. Although those that do have varying guidelines, most allow borrowing an amount equal to half the vested account balance, up to a limit of $50,000.

Pros

* You do not need to complete a loan application.
* Your credit score is not a factor.
* Unless there is a default, loans are not subject to tax or penalties.
* Your interest payments accrue in your own 401(k) account.
* Your interest rate may be lower than with alternative sources of funds.
* Typically, you can repay your loan via automatic payroll deductions.
* In most instances, you have up to five years to repay the loan unless you leave your current employer.

Cons

* You are paying interest on the loan with after tax money, which defeats the tax-deferred benefit of a 401(k) account.
* Since the money you borrow will not be invested in the markets, you forfeit any potential returns
* In the event you do leave your current employer, you typically must repay the loan within 60 days of your departure. Failure to do so will result in tax liabilities, as well as other penalties if you are under age 59½.