

## THINGS TO CONSIDER BEFORE TAKING OUT A 401(K) LOAN

Are you considering taking a loan from your 401(k) Shared Savings Plan? As tempting as that may be when you need money, don't dip in until you consider the following:

- **The more you borrow, the less money you have to potentially grow for your retirement.** Leave your money untouched and you could be looking at a better retirement lifestyle or an earlier retirement.
- **When you leave the County, you'll need to continue making your loan payments.** If you don't, the outstanding amount will be considered a distribution, which will be subject to ordinary income taxes, and possibly a 10% early withdrawal penalty if you're younger than age 59½.
- **You will pay for the privilege of a loan with an initial loan processing fee and an ongoing loan maintenance fee.** If your 401(k) loan is for a home, the fees may be lower than mortgage costs. But you won't be able to refinance if rates drop, and you can't take a mortgage interest deduction on your income taxes. Even interest on student loans is now tax deductible, so it may be better to borrow from Uncle Sam or other sources to pay for college.
- **Your loan money misses out on growth opportunities in a rising market.** You want your money invested when the stock market is rising. After all, that's how money can grow. But if you take out any of your 401(k) Plan funds for a loan, that money is not invested and, therefore, is missing an opportunity for growth.
- **If you default on your loan, the IRS considers the outstanding balance a distribution.** The distribution will be subject to ordinary income taxes, and possibly to a 10% early withdrawal penalty if you're younger than age 59½. Additionally, you will be blocked from taking out an additional 401(k) loan for three years, and the defaulted amount will continue to count as an outstanding loan when determining your future loan eligibility.
- **The interest you repay to your account is subject to double taxation.** One of the greatest benefits of your retirement savings plan is that your contributions are made with pretax dollars. This means that the money you contribute to the Plan is not subject to ordinary income taxes until you withdraw it at retirement or for some other reason. The repayments and interest you pay back on a loan are made on an after-tax basis, but they are recharacterized as pretax contributions within your Plan account. So while the interest and principal go back into your savings, they will be subject to taxes when you eventually withdraw them. (Note – only the interest is subject to the double taxation.)
- **It may be better to borrow elsewhere.** If you have the equity to use as collateral, a home equity loan may be a better deal than borrowing from your retirement plan. This type of loan may offer lower rates than a 401(k) loan, and your interest may be tax deductible. You may also want to consider loans from other lenders including your bank or credit union.

If you decide you still want to borrow from your 401(k) Shared Savings Plan account, contact Fidelity Investments at 800/343-0860.