

Think twice before borrowing from your Retirement Plan



You need some extra cash to pay for a vacation, wedding or a new car. You might think borrowing from your Adventist Retirement Plan (ARP) 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 ARP plan doesn't mean you should. Consider the following:

REPAYING A LOAN

If you quit working, you are required to continue making payments but have to make arrangements on your own to repay that loan. If you change employers, you are responsible for letting your new employer know of your loan and the payments required.

POSSIBLE TAX PENALTIES

If you don't pay back your loan within the allotted time, your outstanding loan balance will be taxed as income. You also could be hit with a 10% early withdrawal penalty, depending on your age.

DOUBLE TAXATION

The interest on the money you borrow will be repaid with money that has already been taxed. So, your loan interest payments generally will be taxed twice as they will be taxed again when you withdraw your money at retirement.

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.

LOSE OUT ON TAX-DEFERRED GROWTH

When you take money out of your retirement plan, you have less money invested that could be earning money. Consider how much those missed earnings could grow by the time you reach retirement age.

MINIMIZE YOUR ABILITY TO SAVE

You may not be able to afford to contribute to your retirement plan while making loan payments, or you may be tempted to lower your contribution amount. This can reduce your long-term retirement account balance and further stall the growth of your retirement savings.

STAY ON THE RIGHT PATH TOWARD RETIREMENT

The purpose of your Adventist Retirement Plan is to fund your retirement. Most experts agree that you should only borrow from your retirement plan in extreme cases — and only when you need the money for a specific purpose. Borrowing from your retirement plan can take money out of your retirement plan that was earmarked for retirement.



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DC-ARP-93406 PT280679 (09/16)