

Financial FITNESS



If you need to borrow a small sum, you may want to see if your 401K is a good borrowing source. In this article, we'll review the process and some of the key advantages and disadvantages.

PROCESS

First, check with your 401K plan's administrator. In order to borrow from your 401K, the plan you're in has to allow it. Most plans do, but not

all. And some only allow borrowing for certain hardships.

How much can you borrow? If your plan allows borrowing, the law permits you to borrow (1) the greater of \$10,000 or 50% of

your vested account balance, or (2) \$50,000, whichever is less. So, for example, if you have \$250,000 in your plan, the maximum amount you could borrow would be \$50,000. If you have \$40,000 in your plan, you'd be allowed to borrow \$20,000.

What does it cost? The interest rates are set by your plan. Typically, these rates are lower than personal loans or through a credit card.

ADVANTAGES

- The process is usually pretty quick. Your plan has the required form(s), which may be online.
- Generally, you'll have 5 years to pay the loan back, making a payment at least quarterly. Many plans will set you up on a payroll deduction for loan's repayment.
- Most plans allow you to pay back the loan early, without penalty.
- The interest you pay goes to you, not a finance company.

DISADVANTAGES

- You're borrowing cash from your 401K account. If you don't have enough cash on hand to cover what you're borrowing, you may have to liquidate a portion of your 401K investments. This means, of course, that you're taking funds away from how they were invested.
- If you can't repay the loan, it is considered defaulted, and you will be taxed on the outstanding balance, including an early withdrawal penalty if you are not at least age 59 ½.
- Interest on the loan is not tax deductible, even if you borrow to purchase your primary home.

Again, start with a chat with your plan administrator. And then discuss the points raised above with your financial and tax advisors.

For more information, visit www.irs.gov and search for: Retirement Topics - Plan Loans.

Robert A. "Rocky" Mills is a registered representative with and securities offered through LPL Financial, Member FINRA/SIPC. Investment advice offered through Westlake Investment Advisors, a registered investment advisor and separate entity from LPL Financial.



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Robert A. "Rocky" Mills, MBA, CIMA, President

5743 Corsa Avenue, Suite 113 805-277-7300
Westlake Village, CA 91362 Rocky@WestlakeIA.com

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