

Taking a Retirement Plan Loan to Pay Credit Card Debt

Understanding the pros and cons

The purpose of retirement savings accounts is to help save for retirement; however, many employers allow you to borrow from your 401(k) or 457(b) plans. Rules vary, but you can typically borrow up to half of your balance up to a maximum of \$50,000. Loans must generally be repaid within five years. Only consider this type of loan for an emergency situation and consider the pros and cons carefully.

Pros

- » Interest rates on these loans are generally cheaper than those for credit cards.
- » Payments come directly from your paycheck, making them automated.
- » You pay interest to yourself.
- » These loans do not impact your credit score (this could also be a con).

Cons

- » Taking a loan from a retirement savings account doesn't really address the reason debt was accumulated in the first place.
- » Loans are tied to your employment. If you leave employment without first paying back your loan, you will face potential penalties and tax consequences.
- » Credit card debt is more easily discharged in bankruptcy.
- » Money borrowed from your retirement account misses out on compound interest and potential market gains from investing in the retirement account.

SEE OTHER SIDE 

Other Considerations

Before taking a loan against your retirement savings account, you should consider other options such as getting a side job with the earnings earmarked to paying down your credit card debt. You could also explore consolidating debt into a 0% balance transfer credit card. These cards are typically available to those with good to excellent credit.

One caveat: the transfer balances on these cards need to be paid off during the introductory rate, or you will accrue high interest charges on the original transferred balance. Finally, you may want to consider looking into a personal consolidation loan. These loans typically have lower interest rates than credit cards.

In general, do not use credit cards and accrue additional balances while working to pay off your credit card debt, and limit any retirement loan to an amount you can repay without overly stressing your cash flow within the repayment period. If allowed, continue to make contributions to your retirement savings account during the loan repayment period.

Loans from retirement savings accounts should generally be considered a last resort, not easy access to cash. Prior to taking such a loan, consider the risks and make sure you have a good strategy for not running up credit card balances in the future.

For more information and specific details, see the URS Savings Plan Loan Brochure:
www.urs.org/mango/pdf/urs/Savings/loanBrochure.pdf.



Advisor Line: 801-366-7470

<https://fwcalculators.urs.org>