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## Creative Plan Designs, Ltd. Newsletter

### Should You Borrow From Your Retirement Plan?

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Dear Brenda,

Faced with job cutbacks, tight credit and in some cases even foreclosure, many people are looking for cash wherever they can find it. At times like this we get an influx of requests for loans from our clients' retirement plans. The question is should you use this resource and does it make long term economic sense? If your plan allows this option, how do we maximize the use of this tool and avoid common mistakes?

#### ADVANTAGES

There is no credit check. Chances are if you need the cash from your retirement plan you may find it difficult to borrow elsewhere in today's economic environment. Paperwork is minimal compared to a commercial loan and the interest rate is generally lower than what you'd be expected to pay to a bank and /or credit cards. The loan can (and is often mandated as a condition of receiving the loan) be paid back through payroll deduction, making it easy to budget your repayment. In addition, you are paying interest to yourself instead of a lender.

#### DISADVANTAGES

While you gain the interest you are paying yourself, you lose the investment potential on the money you borrowed. Worse, if you lose your job, the loan is callable right away, subjecting you to immediate taxation as well as possible premature distribution penalty taxes.

#### THE OVERALL PROBLEM

You don't want to think of this account as a "piggy bank". Remember, the primary purpose of these funds is retirement. The more you use these funds for things other than retirement, the more investment opportunity loss will occur. This can cost you thousands of dollars over time.

#### IN SERVICE DISTRIBUTIONS

Your plan may allow for in-service-distributions. In this case you should really weigh the advantages versus disadvantages. With ANY tax advantaged retirement account, it is better to take a loan rather than take a distribution.

CONSULT YOUR ADVISORS

These decisions all have their individual financial and tax land mines. You should consult with your tax and investment professionals prior to making these decisions.

Sincerely,

Dr. Ronald K. Stair  
Creative Plan Designs, Ltd.

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