

April 2018
Ask a Trust Officer

Borrowing from a 401(k) plan

DEAR TRUST OFFICER: I'm going to buy a new car. Can I borrow money from my 401(k) plan for this purpose?—TRADING UP

DEAR PUZZLED: If you do borrow from your 401(k), you will have lots of company. According to a new national survey from the Profit Sharing Council of America, 25.8% of plan participants had loans outstanding in the most recent reporting year (2016), a level that has held fairly steady over the last ten years. The average reported loan per borrower has fallen somewhat in recent years, now standing at \$8,042.

Whether your plan administrator will approve a loan for a new car is an open question. Generally, such loans are supposed to be for sudden, unexpected financial needs. Still, the requirements for granting a loan are usually less stringent than for plan withdrawals. Years ago one plan administrator told us that the number one reason for granting participant loan requests should be “because they asked for it—it’s their money, after all.”

Just because you can do it does not make it a good idea. When you borrow money from your 401(k) account, you have less money in the market, growing to meet your retirement needs. That deficit can be hard to overcome in future years. Most financial advisors recommend that borrowing from a 401(k) account to meet current ordinary expenses (such as a car) should be a last resort.

Do you have a question concerning wealth management or trusts? Send your inquiry to [\[trustofficer@bankname.com\]](mailto:trustofficer@bankname.com).

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