AGH CPAs & ADVISORS

Advisor Connect | The Loan They Never Take May Make All the Difference

MAKING IT ACTIONABLE

IRS rules provide for participant loans and hardship withdrawals from 401(k) and other plans. They're not required, but rather left to the discretion of the plan sponsor. Today, there's a good bit of debate about how participant loans affect long-term retirement outcomes.

There are two key arguments to consider:

1. Employees may be more motivated to enroll in a plan that includes a loan feature since it provides comfort that they'll be able to access their savings in the event of an unforeseen need.

2. However, we know if they take loans, employees will likely choose not to defer more funds for the period of time they're making loan payments. In doing so, they risk falling behind their long-term savings goals. In some cases, people default on their loans and fall even further behind.

The use of participant loans and hardship withdrawals points to another problem — namely that too many people don't have savings or emergency funds outside of their company's retirement plan account. It's no wonder that, too often, they look to their retirement account in times of financial stress. This limits our ability as industry professionals to collaborate with companies to help their employees create good retirement outcomes.

ACTIONS TO TAKE NOW

Engage employers and employees about:

- Personal finances and budgeting, including credit card debt and other loans
- Creating an emergency fund and anticipating milestone events
- Understanding the real long-term costs of withdrawing money early from retirement plan accounts

Success here translates directly to **greater confidence** and **preparedness** to save for their future.

Let's talk about how we can work together to educate and guide people to true financial wellness. **The result may be the loan they never take. And that may make all the difference.**