Vanguard®

# Borrowing from your plan:
## What does it really cost?

# Your employer's plan allows you to take a loan, which can seem like an easy way to pay for a big purchase.

But before you do, think about how a loan could affect your retirement savings.

A loan from your employer's plan may be easy, but it's not free money. It's up to you to decide whether it's worth the risk of having less in retirement.

Taking a loan from your plan won't wipe out your account, but it may stunt its growth. Whenever you take money from your account—even if you're paying it back over time—you reduce the amount available to grow and compound.

## It's your money

You may be able to borrow as much as 50% of your vested account balance, up to $50,000. You repay the loan, plus interest, to your plan account through after-tax payroll deductions. Typically, the interest rate is similar to the rate charged by banks or credit unions, and much lower than credit card rates. Most loans must be repaid within 5 years; however, loans for buying a home may be spread over 10, 15, or even 30 years.*

Plan loans typically come with few strings attached, and they aren't taxed. (Withdrawals, on the other hand, are subject to current-year federal income taxes. If you're under age 59½, you may have to show some kind of hardship to make a withdrawal, and there is usually an additional 10% federal penalty tax.)

For the most part, as long as you have the money available in your account, you won't have to answer questions about how you'll use the loan. You won't undergo a credit check, and you'll pay relatively low fees.

It all sounds good. But that's the easy part.

## Borrower beware

The biggest danger when you take a loan is that you might leave your employer before you've repaid the money.

Depending on your plan's rules, if you leave your employer, the entire balance of your loan may be due. If you can't repay it, the loan amount may be considered a taxable distribution. You would owe federal income taxes and, usually, an additional 10% federal penalty tax if you are under age 59½. And that money wouldn't be available to generate earnings for your retirement.

Borrowing can also undermine your savings in another way. If you take a loan and the market does especially well, you won't share fully in the gains.

## Stop and think

Before you take a loan from your plan, ask yourself these questions:

- **Will I leave my job soon?** If you're in doubt, you may not want to take a loan. Changing jobs when you're in debt to your plan could be costly when the full unpaid balance comes due.
- **Do I really need the money?** If you're planning to borrow for a vacation or a new car, consider putting off the expense—maybe just for a few months—until you can save enough to pay for it.
- **Can I get the money somewhere else?** Try to find a loan with a low interest rate.
- **Can I afford to risk having less money in retirement?** Taking a loan from your plan could reduce the amount you'll have in retirement. Most people need more money than they expect in retirement.

## Where can I get more information?

If you have questions about plan loans or the plan in general, go to **vanguard.com/retirementplans** or call Vanguard at **800-523-1188** Monday through Friday from 8:30 a.m. to 9 p.m., Eastern time.

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**Connect with Vanguard®**

vanguard.com/retirementplans > 800-523-1188

*Specifics on loan rates and terms depend on the provisions of your employer’s plan.

*We recommend that you consult a tax or financial advisor about your situation.*



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