

# Three things to know before borrowing from your retirement account savings

With current economic conditions, you may find yourself in a situation where extra cash is needed. Although your Salem Health 401(k) may seem appealing, it's important to consider all other options before dipping into this account. Here are three important factors to consider before borrowing money from your University of San Diego Retirement Plan:



## 1. It's not free money—it's a loan.

When you tap retirement plan savings, you are taking a loan from your account, which requires repayment. Before you initiate any loans, it's a good idea to know if you can afford to take the immediate reduction to your paycheck and cash flow to repay the loan plus interest.



## 2. Borrowed money is no longer working as hard for you.

The cash you borrow from your retirement account may alleviate some short-term needs, however, you lose the long-term growth potential within your retirement account such as: compounding interest, potential dividends, and participation in any growth in the market.



## 3. Repayment is still required regardless of your employment status.

**Keep this in mind:** You must continue to make payments on your loans regardless of your employment status. If you do not continue to make payments on your outstanding loan, it will be considered in default.

**What happens if you default on your loan?** The IRS will treat defaulted loans as a taxable distribution, hitting you with a tax bill on the outstanding amount—plus a 10 percent early-withdrawal penalty.

**Check out these additional resources:**

Learn more about Plan Loan Considerations [here](#).

[Watch](#) a short video on Understanding Plan Loans

Get answers to Frequently Asked Questions [here](#).



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