# WHAT'S THE HIDDEN COST OF A LOAN?

**When "life happens," borrowing from your retirement account may seem like a convenient solution. However, here are a few reasons to look before you leap:**

**Double taxation.**
You will repay the interest on your loan with after tax dollars. These funds will be taxed again when you withdraw them in retirement.

**Missed compounding.**
You'll miss out on any potential growth the borrowed money could have earned—reducing long-term account growth.

**Future savings at risk.**
Very often, borrowers suspend contributions or fail to restart their savings after paying off a loan, reducing prospects for future income.

**Defaulting comes with big penalties.**
If you fail to keep up payments, you'll be taxed on the entire loan balance, including interest, and will never be able to borrow from your retirement account again. If you're under age 59½ and default on a 403(b) Plan loan, a 10% tax penalty may also apply.

## IMPACT OF A PLAN LOAN

John and Katie both contribute 6% of their $100,000 salary to their retirement plans. With 20 years left until retirement, John takes a **$25,000 plan loan**.

Here's a peek at how that loan could impact their account balances come retirement:

| | JOHN | KATIE |
|---|---|---|
| BEGINNING BALANCE | $50,000 | $50,000 |
| LOAN AMOUNT | $25,000 | $0 |
| BALANCE AFTER 20 YEARS | $314,135* | $393,313* |

| | |
|---|---|
| COST OF PLAN LOAN | $80,178 |

*Assumes a 6% rate of return on contributions and a loan rate of 6.5% (Prime + 1%) with a five-year repayment term.

Even though they both started with the same amount and contributed at the same rate, John's $25,000 loan cost **$80,178** due to loss of compounding!

*Continued on back*

## If a loan is your only viable option:

- Borrow a minimum of $1,000.00 and maximum of $50,000.00, but no more than 50% of your account balance.
- The loan must be repaid within five years for a general purpose loan and 30 years for a residential loan.
- Interest is equal to the current bank prime rate + 1% (federalreserve.org).

Loan repayments are automated monthly by ACH checking account debit. Additional loan repayments are allowed via paper check. If want you to make an additional payment, specify on your check that it be applied to principal only.

### GET HELP WEIGHING YOUR OPTIONS

A dedicated Prudential retirement counselor can answer your questions and help you consider your options. Visit the **"Meet Your Counselor"** section of **ctdcp.com** to schedule a meeting or contact your local counselor.

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Any outstanding loan balance not paid back at termination becomes taxable in the year of default. Under the Tax Cuts and Jobs Act, for defaults related to termination of employment after 2017, the individual has until the due date of that year's return (including extensions) to roll over this amount to an IRA or qualified employer plan.

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