Employer 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 you, the plan sponsor. Today, there's a good bit of debate about how participant loans affect long-term retirement outcomes.

On one hand...
It's not hard to appreciate that employees may be more motivated to enroll in your company plan if it includes a loan feature since it provides comfort that they'll be able to access their savings in the event of an unforeseen need.

On the other hand...
We know if your employees take loans, they'll likely not defer more during the period of time they're making loan payments. In doing so, they risk falling behind their long-term savings goal. And in some cases people default on their loans and fall even further behind.

One option to consider is to limit loans to covering hardship events like certain medical expenses or buying a principal residence or paying for school tuition and fees. Doing this may discourage more casual use of a loan while still making it available for situations of real need.

Loans are meant to be repaid, of course. Hardship withdrawals, by contrast, are not. They are allowable early withdrawals and absolutely reduce an employee's retirement account balance.

The use of participant loans and hardship withdrawals point to another problem - namely that too many people don't have savings or emergency funds outside of their retirement plan account. It's no wonder that too often they look to their retirement account in times of financial stress. This, in turn, limits our mutual ability to help your employees create good retirement outcomes.

ACTION TO TAKE NOW

In this environment, it’s essential to try to help your employees learn critical thinking about how they spend their money, how they budget, and how they make choices about taking on debt. 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.