Five things to know about 401(k) loans and financial wellbeing

With roughly 25% of 401(k) plan participants having an outstanding loan against their account, it is no surprise that three-quarters of employers say they are concerned about the level of participant loans in their 401(k) plans. Here are five facts about 401(k) loans and how they can negatively affect workers' financial wellbeing.

Workers with loans save less than workers without loans.

6.7% with loans vs **8.3%** without loans

Because workers with loans are allocating funds to repay the loan, they save about 20% less than people who do not have loans.

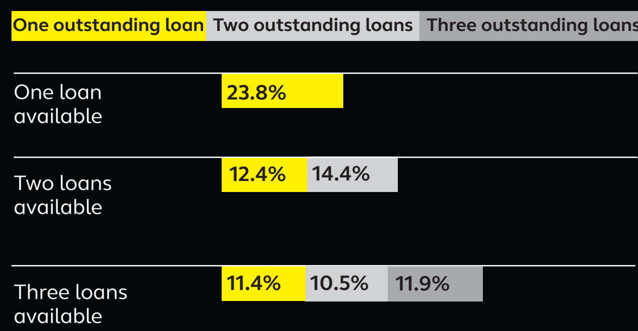
Seemingly small loans can erode retirement savings.

Workers who reduce their contributions to pay off their loans could see their projected retirement balance drop by almost $100,000.

One out of every seven workers with a loan stops saving for retirement.

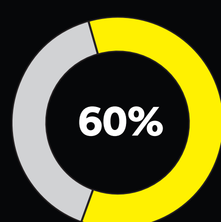
Roughly 15% of workers with loans stop their retirement contributions. Workers with the smallest balances are the most likely to stop contributing which is particularly damaging since contributions are the best way to make small balances grow.

When more loans are offered, workers take them.



Plans that allow for multiple loans have higher loan usage, on average. Additionally, when participants are allowed to take out multiple loans, most loan users have more than one outstanding loan.

When workers leave their employer, most will default on the loan.



Sixty percent of the time when workers with loans leave their employer, they default on it and trigger additional taxes and possible penalties that can amount to thousands of dollars in unplanned expenses.

Sources: *2018 Universe Benchmarks* and *2018 Hot Topics in Retirement and Financial Wellbeing.*

Projection assumptions: participant earns $30,000, starts saving 6% at age 25 and receives a 6% matching contribution. At age 30, the participant takes out a loan equal to 30% of the balance. The loan is repaid over 5 years at 4% interest. During the repayment period, the participant reduces contributions to 2% so that the amount of 401(k) contributions plus the loan repayment is equal to what the plan contribution was before the loan. Interest earned on the account is 6% per year net of fees.

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