



## Understand Plan Loans



## Check out your workshop Resource List

- ← View the helpful Resource List, which contains important tips and additional information. (Select the *Attachments* tab.)



# Four key topics



## Plan Loan Basics

- Workplace plan vs. bank account
- Loan vs. withdrawal



## Advantages & Disadvantages

- Planning considerations
- Maximum amounts
- Repayment



## Additional Considerations

- Hardship withdrawals
- Building an emergency fund



## Requesting a Loan

- Establishing eligibility
- Modeling effects of a loan
- Processing a loan

# How is my workplace savings plan different from my bank account?



**BANK ACCOUNT**  
Used for expenses



**WORKPLACE SAVINGS PLAN** >>  
Invested for retirement



**RULES**

## **IRS RULES**

Tax effects of saving and withdrawing money

## **EMPLOYER RULES**

Matching contributions  
Investment choices  
Taking money out

## Tax effects example

CHRIS'S ANNUAL SALARY

**\$50,000** >>



**CHRIS**

## EMPLOYEE CONTRIBUTIONS

5% WORKPLACE SAVINGS ACCOUNT CONTRIBUTION

**\$2,500** >>

DEDUCTED BEFORE TAXES

CHRIS'S TAXABLE INCOME

**\$47,500**

Chris has **SAVED \$625 IN TAXES** while putting **\$2,500** away **FOR THE FUTURE.**

Chris will have to pay taxes when withdrawing these funds, but may be in a lower tax bracket in retirement.

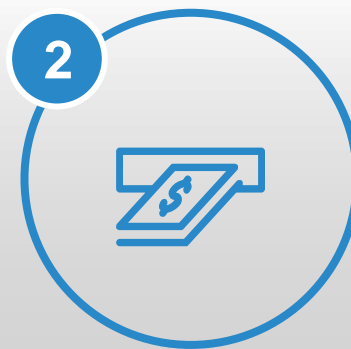
This example is hypothetical and for illustrative purposes only. Other deductions that are not included here could apply. Fidelity does not provide legal or tax advice, and the information provided is general in nature and should not be considered legal or tax advice. Consult an attorney, tax professional, or other advisor regarding your specific legal or tax situation.

# Taking money out

Because of potentially serious tax implications, there are limits on taking money out of a workplace savings account.



**LOAN**



**WITHDRAWAL**

How is a loan  
different from  
a withdrawal?



## WITHDRAWAL

A one-time  
distribution of funds



## LOAN

Borrowed money  
that must be repaid

## PRINCIPAL

(amount of the loan)



## INTEREST

(additional payment based  
on loan terms)



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**AMOUNT** you will have to  
**REPAY** to your account

How is a loan  
different from  
a withdrawal?

**Remember that withdrawals AND loans:**



**REDUCE** the money  
in your workplace  
savings account



**LOSE** the earnings  
that money would  
have gained



Also **LOSE** the  
effect of reinvesting  
those earnings



# How do you think people use a workplace savings plan loan?\*

» Rearrange these four options, so that the most common choice is at the top and the least common is on the bottom, and then click *Submit*

1 ▼ Buy a home or refinance a mortgage

2 ▼ Make improvements to their homes

3 ▼ Pay down high-interest credit cards

4 ▼ Pay outstanding bills

Submit



\*Source: Fidelity Investments, as of February 2021. Data based on responses from 1,315 workplace savings plan participants.



## Advantages and Disadvantages

# Is taking a loan a smart idea?

A plan loan can be an effective option if it's used for sound financial purposes such as:



**BUYING A PERMANENT  
RESIDENCE**



**PAYING OFF HIGH-INTEREST-  
RATE DEBT**



**MANAGING AN UNAVOIDABLE  
EXPENSE**



If you're taking a loan  
for other reasons, you  
may want to consider  
other options.

# Three important questions



**How much money  
can I take out?**



**How do I make  
payments?**



**What are the  
downsides?**

# How much money can I take out?

Two considerations:



**Determine how much  
you need.**

Max IRS limit: \$50,000\* or ½ the  
vested amount in your account  
(whichever is smaller)



**Decide how long you'll  
be repaying the loan.**

Most loan durations = 6 months  
to 5 years

\*If you had a loan from this employer or a related employer plan, the vested amount is reduced by the highest outstanding loan balance for the prior 12-month period.

# What would you like to do next?

» Please select one:

- See a loan amount example
- Continue the workshop

Submit



# Loan amount example



## NO OUTSTANDING LOAN

Plan balance: **\$20,000**

100% vested

Bea can take out a loan for  $\frac{1}{2}$  her vested account balance

**\$10,000**

The IRS allows a maximum loan amount of **\$50,000** (minus the highest balance of any outstanding loan in the past year) **or  $\frac{1}{2}$  the vested account balance**, whichever is smaller.



## HAS AN OUTSTANDING LOAN

Plan balance: **\$100,000**

100% vested, but has **taken a plan loan of \$10,000** in the past year

Len can take out a loan for the maximum permissible limit of \$50,000, **minus his loan balance in the past year of \$10,000.**

**\$40,000**

# How do I make payments?

If you're actively employed, your payments typically come out of your paycheck.



**EMILY**

paycheck	<b>\$1,000</b>
taxes	<b>\$250</b>
loan payment	<b>\$100</b>
<hr/>	
take-home pay	<b>\$650</b>



# What would you like to do next?

» Please select one:

- See a loan payment example
- Continue the workshop

Submit



# Loan payment example



**\$10,000**  
LOAN

	2-YEAR TERM	5-YEAR TERM
INTEREST RATE	5%	5%
MONTHLY PAYMENTS	\$439	\$189
<b>TOTAL PAID BACK</b>	<b>\$10,536</b>	<b>\$11,340</b>
	SHORTER TERM = LARGER PERIODIC PAYMENTS	LONGER TERM = LARGER PAYMENT OVERALL

This example is hypothetical and for illustrative purposes only.

# What are the downsides of taking a loan?



## DOWNSIDE RISKS

- Can impact other financial obligations
- **LEAVE JOB** = balance may be due in full
- **MISSED PAYMENTS** = loan defaults
- **DEFAULT** = subject to taxes and penalty



## MANAGING RISKS

- Take only as much as you need
- Continue to save
- Make contributions to take advantage of any employer matching funds

# What would you like to do next?

» Please select one:

- See a loan default example
- Continue the workshop

Submit



## Loan default example

QUITS JOB 1 YEAR INTO  
A 3-YEAR LOAN FOR

**\$10,000** >>

BALANCE  
DUE IN FULL

**\$6,500** >>

TAXES OWED  
ON LOAN

**\$1,625** >>

ADDITIONAL 10%  
PENALTY

**\$650**

LOAN DEFAULTS  
TAXED AS INCOME



**BETH**

In total, Beth has to pay the IRS **\$2,275** for this default

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Consult an attorney, tax professional, or other advisor regarding your specific legal or tax situation.

A plan loan can potentially impact your retirement picture.

EXAMPLE:  
**WANDA AND  
MARCUS**

Same age, income,  
plan savings amount,  
and contribution rate\*



**WANDA**



**NO  
PLAN LOAN**



RETIREMENT  
ACCOUNT AT AGE 67  
**\$1,042,459**



**MARCUS**



**ONE  
PLAN LOAN**



RETIREMENT  
ACCOUNT AT AGE 67  
**\$1,042,056**

**Pays loan back  
ON TIME  
Maintains REGULAR  
CONTRIBUTIONS**

\*Ending balances are shown in today's dollars. The starting balance is \$100,000, salary is \$75,000, and loan amount(s) are \$20,000. The interest rate on the loan is 7.5%, the market return is 7%, and salary increases at 4% per year, with a 14% starting contribution. These numbers are for hypothetical purposes and do not reflect any actual workplace savings plan loans or investments. No taxes or fees are applied.

# Potential consequences of not managing a plan loan properly

## EXAMPLE: TANYA AND JEFF

Same age, income, plan savings amount, and contribution rate\*



**TANYA**



**1 PLAN LOAN**



**\$959,420**

RETIREMENT  
ACCOUNT AT AGE 67

Reduces her contributions to offset repayment

Resumes regular contribution rate 2 years after repayment



**JEFF**



**2 PLAN LOANS**



**\$780,952**

RETIREMENT  
ACCOUNT AT AGE 67

Stops contributing altogether

Resumes regular contribution rate 2 years after repayment

\*Ending balances are shown in today's dollars. The starting balance is \$100,000, salary is \$75,000, and loan amount(s) are \$20,000. The interest rate on the loan is 7.5%, the market return is 7%, and salary increases at 4% per year, with a 14% starting contribution. These numbers are for hypothetical purposes and do not reflect any actual workplace savings plan loans or investments. No taxes or fees are applied.

## Which of the following are downsides to taking a loan?

» Please check off every item in this list that's a disadvantage of taking a loan from your workplaces savings account, and then click *Submit*.

- Loan interest rates are often lower than normal loan rates
- If you leave your job, any remaining loan balance may be due in full
- Interest you pay on the loan goes back into your account
- Defaulting on a loan can incur taxes and a penalty

Submit







## Additional Considerations

# What is a hardship withdrawal?

Immediate, significant need, such as:



**UNPAID  
MEDICAL BILLS**



**FACING HOME  
FORECLOSURE**

**WITHDRAW ONLY ENOUGH TO MEET THE NEED**



**POTENTIAL  
DISADVANTAGES:**

- limits on contributions
- a permanent reduction in your balance
- taxes on the withdrawn amount
- a 10% penalty if under retirement age

# How to avoid taking money out in the future



**EMERGENCY  
FUND**

## Create an emergency fund

- Get an account separate from your checking account
- Add small, affordable amounts every month
- Use this account for unexpected costs instead of tapping your retirement account

## Emergency fund example



Emily took a loan and was paying it off by deducting \$100 from her paychecks.



**\$100/month**

**EMERGENCY FUND**

**x12**

**IN ONE YEAR, EMILY SAVED \$1,200**

This example is hypothetical and for illustrative purposes only.



Requesting a Loan

# Getting ready



You can manage the loan process online through NetBenefits

## GET STARTED:

- Add a bank account for direct deposit—it's simpler and safer than mailing a check
- Determine your eligibility for a loan by checking your plan rules
- Use the **Loan Savings Loss Calculator** on NetBenefits to see potential loan effects on your savings
- Model loan amounts and payments

# Managing your loan online



You can create and track your loan on **NetBenefits** on the **Loans and Withdrawals** page:

- Initiate your loan request
- Check the status of your loan request
- View your payments

» Check out the **Resource List** in the *Attachments* tab for more information

← Download your Resource List





Thank you for attending our workshop!

## NEXT STEPS

- » Explore the potential impact of a loan at retirement using the **Loan Savings Loss Calculator** on NetBenefits
- » **Set up and preview a loan**

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