

Participant Corner

Borrowing Against Your Retirement: More Costly Than You Think

The Month in Brief

The stock market had a tumultuous August, reacting to the sudden devaluation of the Chinese yuan and the escalation of the trade dispute between the U.S. and China. Ultimately, investors seemed more interested in risk aversion: the S&P 500 lost 1.81% for the month. Demand for bonds helped to send Treasury yields lower; prices of precious metals climbed. Away from the markets, monthly personal spending and retail sales gains were strong.¹

% CHANGE	Y-T-D	1-MO Change	2018
DJIA	13.19	-1.72	-5.63
NASDAQ	20.01	-2.60	-3.88
S&P 500	16.74	-1.81	-6.24
REAL YIELD	12/31 RATE	5 YRS AGO	10 YRS AGO
10 YR TIPS	1.50	2.02	2.86

Sources: barchart.com, bigcharts.com, treasury.gov – 8/30/19^{18,19,21,22}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Monthly Quote:

“The whole point of being alive is to evolve into the complete person you were intended to be.”
 OPRAH WINFREY

Monthly Tip:

If you can reduce some of your fixed, monthly expenses in retirement, you may end up withdrawing thousands of dollars less from your retirement savings per year than you would have otherwise.

Monthly Riddle:

During what month do people sleep the least, on average?

Last Month’s Riddle:

I am very strong and tough, but never rigid. I can be broken, but only in a certain sense. What am I?

Last Month’s Answer:

Your heart

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PARTICIPATING IN THE COMPANY'S RETIREMENT PLAN is a smart and important decision. Smart because you are putting away small amounts today for a comfortable retirement later.

As your account begins to grow, it may be tempting to “dip into” your retirement savings by taking a loan against your retirement plan to pay your annual taxes, repair a leaking roof, catch up your everyday pile of bills, and so on. And while the decision to take a plan loan is yours to make, we want to make sure that you consider what it will really cost.

With a retirement plan loan, you pay yourself back the amount plus interest. But the true cost can be shown with the loss in your retirement savings. You lose money when you borrow from your retirement account for several reasons, which are listed below:

- You lose making money on the earnings, or compounding of those earnings.
- You repay the loan with after-tax dollars.
- There is (typically) an initial set-up and quarterly loan fee.
- Most employees decrease or cease the amount they are contributing to compensate for the loan payment.
- You may not be paying yourself back the same amount you would have earned if you left the money invested.

To further illustrate the costliness of taking a plan loan, consider the following hypothetical example*: Jane took a \$10,000 loan at 7% interest from her retirement account; her account balance before the loan was \$20,000. She previously made contributions of \$150 per paycheck (including the employer match). Because she had to repay the loan, she decreased her contribution to \$50. Additionally, prior to the loan, she was earning a 10% return. Now she will repay the loan over five years. If you take into account loss of interest, compounding, and tax on repayments, the actual retirement plan loan is costing Jane 13.77%! And don't forget about those decreased contributions, which can add up to hundreds of thousands of dollars over many years.

*This example is hypothetical and intended for illustrative purposes only.

Disclosures:

In addition to the options listed here, there may be other options available. You should also consider your other options before rolling over retirement savings. Consider the differences in investment options, services, fees and expenses, withdrawal options, required minimum distributions, other plan features, and tax treatment. This material is not intended to replace the advice of a qualified attorney, tax advisor, investment professional or insurance agent. This is a hypothetical illustration and does not represent an actual investment. There is no guarantee similar results can be achieved. If fees had been reflected, the return would have been less.

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About Capstone Retirement Group

Capstone Retirement Group is a professional retirement plan consulting firm. We partner with plan fiduciaries to identify and implement the optimal retirement plan for their organization.

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