

Road to Retirement: Should You Borrow or Keep Driving?

Before You Take a Retirement Plan Loan Know the Facts

Your retirement plan may allow you to borrow from your account—but before you do, it's important to understand how it can impact your future savings. Think of it like a U-turn on your savings highway. It could cost you more time and money than you expect.

What You Should Know

- **Loan Limits (2025)** – The IRS allows you to borrow the lesser of 50% of your vested account balance or \$50,000. Some plans may offer a minimum loan amount to obtain the loan.
- **Repayment Timeline** – Most loans must be repaid within 5 years (longer if it's for your primary home purchase) with regular payments at least quarterly.
- **Taxes Twice** – Loan payments are made with after-tax dollars, and when you eventually withdraw those funds in retirement, they'll be taxed again.
- **Interest Isn't a Freebie** – The interest you pay goes back into your account, but it's not deductible. You're still paying with after-tax money, and those funds will also be taxed when withdrawn.
- **Lost Growth** – While that money is out on loan, it isn't invested—so you miss out on potential earnings.
- **Reduced Savings** – Participants' contribution rates typically fall by about 0.8 percentage points after taking a loan.
- **If You Leave Your Job** – Any remaining balance usually becomes due right away. You generally have until your tax filing deadline (including extensions) to repay the loan—or it's treated as a taxable distribution. If you're under 59½, there's typically a 10% penalty too.
- **One Loan at a Time** – Many plans allow only one outstanding loan at a time, so borrowing now might limit future options if another need arises.

How Common Are Retirement Plan Loans?

- About 5% of participants currently have an outstanding loan, with an average balance of roughly \$10,600.
- Loan sizes have also been creeping up, recently increasing by about 4%—a bit faster than inflation—showing a trend toward higher borrowing.

Making the decision to take a loan from your retirement plan may seem like an easy option—but it could reduce your future savings and lead to taxes, penalties, and lost growth. Make sure you understand your plan's rules and consider your other solutions first.

Sources:

<https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-loans>
<https://www.asppa-net.org/news/2024/11/new-research-on-401k-loans-and-leakage-unveils-a-big-surprise>
<https://www.asppa-net.org/news/2025/1/good-news-for-401k-savings-participation-rates-in-23>
<https://www.kiplinger.com/retirement/401ks/should-you-take-a-loan-from-your-401-k>
Material connection - Retirement Plan Advisory Group, <https://www.rpag.com/>

IMPORTANT DISCLOSURE INFORMATION

MCF Advisors, LLC ("MCF") is a SEC registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. More information about the adviser can also be found by visiting: <https://adviserinfo.sec.gov/firm/summary/130372>. The above commentary is for informational purposes only. Information prepared from third-party sources is believed to be reliable though its accuracy is not guaranteed. This is not intended as an offer or solicitation with respect to the purchase or sale of any security. MCF may only transact business in those states in which it is registered, or qualifies for an exemption or exclusion from registration requirements. Please remember that past performance is not indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MCF), or any non-investment related content, made reference to directly or indirectly in this blog/newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this blog/newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MCF. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MCF is neither a law firm nor a certified public accounting firm and no portion of this content should be construed as legal or accounting advice. A copy of MCF's current written disclosure statement and customer relationship summary ("Form CRS") discussing our advisory services and fees continues to remain available upon request. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement. If you are a MCF client, please remember to contact MCF, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.