

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 You're still paying with after-tax money, and those funds will also be taxed when withdrawn.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:

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