Strategic Retirement Plan Services

3rd Quarter 2014

Term of the Quarter

Compounding Interest:

In the investment world the power of compounding or compounding interest is the ability of an asset to generate earnings, which are then reinvested in order to generate their own earnings. In other words, compounding refers to generating earnings from previous earnings.

QUESTIONS ABOUT YOUR 401(K)?

Contact Strategic Retirement Plan Services:
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QUESTIONS ABOUT YOUR OTHER INVESTMENTS?

Contact Strategic Financial Group:
(219)736-8902

The Problems with taking a Loan from your 401(k) By Todd Francisco

An unexpected hospital visit or surgery, a necessary home repair, a child asking for a loan. Often times unexpected – and unwelcomed – issues arise in life that can be very expensive. When "life" happens, where do you look to find that extra money you were saving for a rainy day? What if those funds have already been tapped out? What assets would you turn to next?

Prior to 2008, many people would have looked to a home-equity loan for larger sums of cash they could access quickly. However, due to the credit crisis and plummeting home values over the past few years, home-equity loans are not so readily available anymore. Unfortunately, that has resulted in retirement accounts becoming the new "piggy bank" for people who need cash now.

On the surface it is easy to see why the majority of people who need money quickly would think it was harmless to take money out of their retirement account. After all, it is their own money that they have been saving. However, borrowing from your retirement account, no matter the reason, has very serious repercussions that are likely to hurt you in the long run and possibly risk the amount of money you had planned on having in retirement.

First and foremost, borrowing from your retirement account defeats the purpose of why you have the account to begin with. The money being invested is for your retirement. Those funds will likely be worth much more in retirement than they are now.

Secondly, retirement accounts have the ability to grow substantially due to the power of compounding. The key to compounding starts with investing as early as possible and keeping that money at work. When you take a loan from your retirement account you are selling your investments and losing potential profits and compounding power.

A common phrase in investing is to buy low and sell high. When you borrow from a retirement account, you sell your investments and agree to pay back the loan. As you pay back the loan, you are buying the shares you previously sold, but at current market prices. Often times that means that you are buying back stock at higher prices than what you previously paid for them. Therefore, instead of buying low and selling high, when you borrow from your retirement account there is a chance you are doing the exact opposite.

Additionally, most plans charge an upfront fee to process the loan, this can be around $75. You pay interest that does go back into your account, however that is money that could have been invested, and the opportunity loss is the potentially higher returns. Most participants who take loans also lower their contribution rate because of the loan payments. In that case you would lose the ability to reduce your taxable income and the paycheck you have come to expect could now be reduced.

If you fail to pay back your 401(k) loan, for any reason including termination of employment , the loan will be considered a distribution, and subject to income taxes and the

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10% early withdrawal penalty if you are under 59 ½ years old.

Taking a loan from your retirement account actually results in you paying taxes on the money twice. When you are re-paying a loan, you are probably paying it back with after-tax dollars. Later, in retirement, you will pay taxes again on the same money when withdrawn, resulting in being taxed twice on the same funds.

When you take a loan out against your retirement account to pay for other debts, you have simply exchanged one debt for another and you have subjected yourself to all the disadvantages that come with borrowing from your 401(k). Studies also show that if you take a loan out from your retirement account once, you are likely to do so again if you need money in the future, causing even more damage to your retirement savings. For all of these reasons it is so crucial for investors to discipline themselves and avoid borrowing from your 401(k) at all costs. Doing so will allow you to see your retirement savings grow without setbacks thereby helping to make your retirement much more comfortable.

For more questions on loans, contact your plan advisor.

STOCK AND BOND MARKET RETURNS THROUGH SEPTEMBER 30,2014

					ANNUALIZED		
	1 MONTH	3 MONTHS	YTD	1 YEAR	*3 YEARS*	*5 YEARS*	*10 YEARS*
Citigroup 3 Month T-Bill	**0.00%**	**0.01%**	**0.03%**	**0.04%**	**0.05%**	**0.08%**	**1.51%**
Barclays U.S. Agg. Bond Index	**-0.68%**	**0.17%**	**4.10%**	**3.96%**	**2.43%**	**4.12%**	**4.62%**
Dow Jones Ind. Avg.	**-0.23%**	**1.87%**	**4.60%**	**15.29%**	**19.02%**	**14.85%**	**8.15%**
S&P 500	**-1.40%**	**1.13%**	**8.34%**	**19.73%**	**22.99%**	**15.70%**	**8.11%**
Russell 2000	**-6.05%**	**-7.36%**	**-4.41%**	**3.93%**	**21.26%**	**14.29%**	**8.19%**
MSCI EAFE	**-3.81%**	**-5.83%**	**-0.99%**	**4.70%**	**14.16%**	**7.04%**	**6.80%**

Source: Morningstar

Questions?

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