WELLS FARGO Advisors

Any Questions?
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Outstanding loan in your employer-sponsored retirement plan

At year-end 2018, 19% of all 401(k) participants who were eligible for loans had loans outstanding against their 401(k) plan accounts.[1] You should know that having an outstanding loan in your qualified employer sponsored retirement plan (QRP), such as a 401(k), 403(b), or governmental 457(b) can have an impact if you retire, separate from service, or are displaced. Be sure to consult with your employer's plan administrator regarding the loan policy for specifics on the plan's repayment policy and/or loan default provisions. You should also seek the advice of your tax advisor regarding the impact a loan, a loan offset, or loan default may have for you and your family should you be faced with a job loss.

Strategies to consider

- **Repay the loan.** The plan may give a short period of time (e.g., 30 or 60 days) to repay that outstanding balance. However, if not repaid, the outstanding loan balance is generally subject to income tax and possibly an IRS 10% additional tax for pre-59½ distributions made by younger workers.
- **Bank loan.** If you don't have the funds readily available to repay your plan loan, consider whether obtaining a loan from a bank to repay your plan loan would be a good financial strategy.
- **Continue plan loan payments.** Check with your plan administrator to see if you can continue to make loan payments, even though you are no longer employed with that employer. This option is not always available.
- **Rollover cash to an IRA to repay some or all of a loan offset.** If you are unable to repay your plan loan and you separate from service, or the plan is terminated, under the terms of the plan, the plan administrator will subtract your unpaid loan balance from your remaining account balance to pay off the loan. This is called a loan offset. The plan administrator will report the unpaid loan balance as a taxable distribution that may be subject to the 10% IRS additional tax.

  The loan offset amount will be taxed as ordinary income and may be subject to the 10% IRS additional tax. However, you can avoid taxes and penalty by rolling over the loan offset amount to an IRA by your individual federal tax filing deadline, including extensions, for the year the offset occurred. You'll have to get the cash from a source such as personal savings or a loan, but you would have the opportunity to avoid taxes on the offset amount.

  For example, you have an outstanding loan balance of $25,000 when you leave your employer. If you roll to your IRA $15,000 of the plan offset, by your tax fling deadline, plus extension, you are left with a distribution of $10,000. You will owe tax and perhaps a 10% IRS additional tax on the $10,000 when you file your taxes for the year.
- **Roll loan to new plan.** If you are currently working for an employer that offers a QRP that provides for both rollovers and plan loans, investigate the possibility of rolling your loan into your new plan. The loan payments would generally continue through your new employer's payroll.

1. Employee Benefit Research Institute, Issue Brief No. 526, March 2021, *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2018*.

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With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your financial advisor will be with you every step of the way to meet to review your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that can help you live out your unique vision of retirement.

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