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Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

February 2021

Retirement Plan Loans:
To Borrow or Not to Borrow?

U.S. Markets
Stocks were mixed in January, giving up much of the month's gains in the final days of trading, as unprecedented activity in a handful of companies roiled markets.
The Dow Jones Industrial Average dropped 2.04 percent and the Standard & Poor's 500 Index fell 1.11 percent. By contrast, the Nasdaq Composite gained 1.42 percent.[1]

Mixed Signals
The stock market stumbled at the start of the month, retreating amid the slow pace of vaccine distribution and concerns that the economic recovery might take longer than anticipated.

However, stocks regained some upside momentum on news of strong manufacturing data, firmer oil prices, and hopes for an additional fiscal stimulus.

"Act Big," Says Yellen
After touching record highs, stocks drifted lower again, weighed down by rising interest rates, which caused some concerns over current stock valuations.
Market sentiment improved after testimony from incoming Treasury Secretary Janet Yellen to the Senate Finance Committee that lawmakers needed to "act big" on fiscal stimulus, thereby raising hopes for substantial federal spending.

MARKET INDEX	Y-T-D CHANGE	January 2020
DJIA	-2.04%	-2.04%
NASDAQ	1.42%	1.42%
S&P 500	-1.11%	-1.11%
YIELD	**YTD**	**December 2020**
10 YR TREASURY	+0.17%	1.09%

Sources: Yahoo Finance, January 31, 2021
The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid..

Monthly Quote
"Believe you can and you're halfway there."

THEODORE ROOSEVELT

Tip of the Month
At a 4% rate of inflation, expenses will double every 18 years. That's a pretty good argument for growth investing in retirement.

The Monthly Riddle
If an electric train is going south and the wind is blowing north, what direction is the smoke going?

Last month's riddle:
What do the following six words have in common: fast, away, water, through, down, neck?

Last month's answer:
You can put "break" in front of each of them and make a new word.

Retirement Plan Loans:

To Borrow or Not to Borrow?

Although you may have the ability to borrow Money from your retirement plan in the form of a loan, please proceed with caution! If you borrow from your retirement account, you may end up causing harm to your financial futures. Below are a few of the drawbacks to taking a loan from your retirement plan:

- **Double-Taxation:**

Unlike retirement plan contributions, repayments For loans are made on an "after-tax" basis. That means that you use dollars that have already been taxed for your loan payments. Then, you pay tax again on your distributions at retirement. Thus, you will pay taxes twice on your loan amount.

- **Loss of Saving**

Most workers that borrow from their retirement plan cannot afford to pay back the loan as well as continue to save in the plan. Thus, they end up only paying back the principal and interest for the loan, and not saving for their future.

- **Loss of Compounding Return**

The dollars that you borrow earn nothing for you. Most people who borrow money reduce their savings amounts and upon employment termination can't afford to pay back the loan. These factors contribute to the loss of time and compounding return on savings.

- **Cost of Interest Payments**

Although the interest that you will pay on the loan will be paid back to yourself, the amount you borrow will not earn you anything. The dollars you use for the interest are already your dollars. It's like taking money from one pocket and putting it into another. You already have the money!

- **Repayment Upon Employment Termination**

If you terminate employment the outstanding balance of your loan becomes due immediately. If you can't afford to pay back the outstanding balance, it then becomes taxed and penalized as a pre-retirement distribution (assuming you are under age 59 1/2). Therefore you pay federal and state income tax. Generally, workers that borrow money are unable to pay back any outstanding balance upon employment termination. In addition, they have the tax consequence to pay at tax return time!

If you have any questions regarding plan loans or your plan's loan provisions, please contact us at PointOak Retirement Advisors.

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CITATIONS ECONOMIC SECTION:

1. The Wall Street Journal, January 31, 2021

CITATIONS FINANCIAL ARTICLE SECTION:

* As January 31, 2021.
All hypothetical examples assume an 8% average annual return compounded monthly and a 4% annual withdrawal rate after the accumulation period. These are point-in-time views and as such do not take into account any growth or loss during retirement.
Without investment growth/ loss during retirement, a 4% annual withdrawal rate would deplete retirement savings in 25 years.
Examples are for illustrative purposes only and do not reflect the results of any particular investment, which may differ,
or taxes that may be owed on tax-deferred contributions, including a potential 10% penalty for withdrawals taken before age 59½.
Regular investing does not ensure a profit or protect against loss in a declining market.

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