RETIREMENT BASICS

Caution: Taking a Loan From Your 401(k) Can Impact Your Retirement

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CASE STUDY: TAKING A LOAN

During uncertain financial times, you might consider taking a loan from your 401(k) account, and research shows that up to 50% of participants take multiple loans over their careers.[1] While it may be tempting to tap into these assets, taking a loan can have significant long-term implications for your income in retirement.

Key assumptions:

- Age (as of 1/1/2009): 30
- 2009 salary: $75K
- Balance as of 1/1/2009: $50,0000
- Employee contribution: 6% of salary
- Employer match: 6% of salary
- Asset allocation:
  - – 60% US equity
  - – 20% non-US equity
  - – 20% US aggregate fixed income
- Loan repayment terms: 60 months, starting on 2/1/2009. Kate is assumed to take out a new $25,000 loan once each prior loan is paid off at 2/1/2014, 2/1/2019 and 2/1/2024.
- Loan interest rate: 3.25% at 2/1/2009 and 2/1/2014, 5% at 2/1/2019 and 8.5% at 2/1/2024. Based on prime rate at those dates.

Although past performance is not a guarantee of future results, the following example tells a compelling story about borrowing from your 401(k) in an unsettled environment. See below how taking loans affected the account balances of three hypothetical participants over a 17-year period.

Taking a loan can impact retirement savings

Hypothetical examples based on potential results from 1/1/09 through 12/31/25

Source: SPAR, FactSet Research Systems Inc., MFS analysis.

Hypothetical examples are for illustrative purposes only and are not intended to represent the future performance of any MFS® product.

Asset Allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon. **Diversification** is a risk management strategy that mixes a wide variety of investments in a portfolio. **Rebalancing** is the process of realigning the weightings of a portfolio of assets (ADR).

*For purposes of this comparison, return calculations were based on monthly returns from January 1, 2009 through December 31, 2025 for the following indices — the **S&P 500 Stock Index**, which measures the broad US stock market; the **Bloomberg US Aggregate Bond Index**, which measures the US bond market, the **MSCI EAFE Index (net)**, which measures the non-US stock market. Index performance does not reflect the deduction of any investment-related fees and expenses. It is not possible to invest directly in an index. Asset allocations rebalanced monthly. Pay increases effective 1/1 of the following year. Contributions and match made at month-end. The use of a systematic investing program does not guarantee a profit or protect against a loss in declining markets. You should consider your financial ability to continue to invest through periods of low prices. **Past performance is no guarantee of future results.**

Keep in mind that no investment strategy, including ADR, can guarantee a profit or protect against a loss. Also, all investments carry a certain amount of risk, including the possible loss of the principal amount invested.

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See the reverse side for other important information.

By leaving her 401(k) account intact, Amra benefited from the market rebound after the Global Financial Crisis in 2008 and the compounding of those earnings over time.

Actions can cost money

Kate

Kate's decision to take multiple $25,000 loans resulted in her realizing $67,584 less than Amra after 17 years. In addition, Kate had to pay $19,853 in taxes on her loan repayment, further affecting her outcome.[2]

Mike

Mike's decision to take a $25,000 loan meant that he ended up with $30,994 less than Amra at the end of 17 years. In addition, Mike had to pay $5,966 in taxes on his loan repayment, further affecting his outcome.[3]

Amra

By keeping her account intact, Amra's account

- grew off a larger asset base
- benefited from the market rebound after the GFC
- saw more compounding of new contributions and gains

This all led to a higher account balance after 17 years.

The investments or strategies you choose should correspond to your financial situation, needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult an investment professional.

[1] EBRI Issue Brief: How 401(k) Plan Participants Use Loans Over Time. September 12, 2023.

[2] Participants typically repay their 401(k) loans with post-tax dollars. In this example, Kate's hypothetical loan repayments total $88,702. If she had had a marginal tax rate of 22%, she would have paid roughly $19,853 in tax on these repayments over the life of the loan.

[3] Participants typically repay their 401(k) loans with post-tax dollars. In this example, Mike's hypothetical loan repayments total $27,120. If he had had a marginal tax rate of 22%, he would have paid roughly $5,966 in tax on these repayments over the life of the loan.

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