

For Your Benefit

JULY 2018

These are the only three times you should pull money from your 401(k) plan

Posted By: Darla Mercado

You already know you shouldn't tap your retirement plan to fund frivolous purchases, yet in a handful of cases it just might be okay to take a loan.

Retirement plans account for a large chunk of personal wealth: The average 401(k) plan account balance at Fidelity Investments hit \$102,900 as of the end of the first quarter of 2018.

In order to get the most out of your retirement plan, you should let the money accumulate over the course of your career. Time and compounding market returns are your 401(k) plan's best friends.

But, sometimes, emergencies and long-term planning goals will call for the more drastic step of taking a plan loan.

"Plan participants understand that the money is sacrosanct, but they may find themselves in a situation where the 401(k) is the largest source of capital they have," said James A. Cox, financial advisor at Harris Financial Group in Richmond, Virginia.

Here's how to borrow from your 401(k) without ending up with a big tax bill.

Retirement plan loans are different from withdrawals and hardship distributions.

Depending on whether your plan permits borrowing, you're generally allowed to take up to 50 percent of your vested account balance to a max of \$50,000 — whichever is less.

You have five years to repay the loan. That's different from simply withdrawing money. In that case, your plan administrator will withhold 20 percent of the amount to cover income taxes and you'll trigger a 10 percent penalty if you're under age 59½.

Finally, a "hardship distribution" is what happens when an employee pulls his or her own contributions to cover what the IRS describes as an "unforeseeable emergency."

These distributions are included in your gross annual income and may be subject to additional taxes, but they aren't repaid to the plan. This means they permanently lower your account balance at work.

When you can borrow

Once you pull money out of your plan, those dollars no longer benefit from long-term market returns.

If you have a pool of emergency funds, it's best to use that money first. If you're managing debt, it's even better to build that repayment into your budget.

Even your boss wants you to keep your hands off your retirement plan savings.

That said, here are three extreme cases that may warrant a 401(k) loan.

You have an immediate emergency. "Say that you need to meet the deductible on your high-deductible health-care plan, and you have no money in your health savings account," said Aaron Pottichen, president of retirement services at CLS Partners in Austin, Texas.

He is referring to the tax-advantaged health savings account that individuals may use to cover qualified medical expenses. It's also known as an HSA.

You have an urgent cash need, but your credit precludes you from obtaining a competitive interest rate. Ask yourself what you can repay in five years.

You need to pay off high-interest debt that's hampering your longterm financial goals. This is the case if the interest rate on your 401(k) is lower than what your creditor is offering you.

"If you're in 'pay down debt mode,' it's all about what's your cheapest interest rate and how fast can you get the debt down," said Pottichen.

What not to do

In the worst of scenarios, you'll borrow from your retirement plan, fail to repay it and end up with your finances in even worse shape.

Don't borrow if you're planning on leaving. Whether you quit your job or you're fired, you may need to repay the whole balance of your loan within 60 days or else the amount borrowed is considered a taxable distribution.

Don't ignore your debt-to-income ratio. Treat your plan loan the way you would any other extension of credit. The classic rule of thumb is that no more than 36 percent of your gross monthly income should go toward servicing debt.

This is known as the debt-to-income ratio.

Don't blow off your plan's rules for loans. A 2016 study from Aon Hewitt revealed that six in 10 employers have said they'd take steps to curtail the leakage of assets from retirement plans. Those actions include limiting the number of loans available or the amount of money that's eligible for borrowing.

Plans can also establish their own repayment and schedules, which you'll need to follow.

"When you take a 401(k) loan, it comes out of payroll and reduces your take home pay," said Cox. "Either you follow the payment schedule or you fully remit the balance due."

Ruff! Are Pets Good for our Health?

Guinea pigs, fish, dogs, and horses: What do these animals have in common? They may have an impact on our health. Since 2008, NIH has studied how these animals affect our health—from reducing anxiety to helping us remember to take medicine.

“People have been interested in human-animal interaction for hundreds of years but the science has only started blossoming in the past few decades,” said Layla Esposito, Ph.D. “There are a lot of stories about the relationships between humans and pets, but there are still a lot of unanswered questions.”

Dr. Esposito and her team are trying to answer those questions. She oversees the human-animal interaction research portfolio at the Eunice Kennedy Shriver National Institute of Child Health and Human Development (NICHD).

What we know

Although trials may help uncover or confirm health benefits from our pets, there are some things we already know. For example, animals can bring people companionship and help us get more physical activity.

“We know that when you’re playing with a dog or taking it for a walk, you’re obviously increasing physical activity,” Dr. Esposito said.

Stress and anxiety

Another popular area of human-animal interaction research looks at how pets can reduce stress and provide emotional support.

Marguerite E. O’Haire, Ph.D., and her team at Purdue University are funded by the program. They studied if playing with guinea pigs in the classroom helps children with Autism Spectrum Disorder feel calmer and more engaged in social interactions. Their findings? They do.

Now Dr. O’Haire is exploring how service dogs can help veterans. Specifically, how dogs can improve the quality of life for veterans and their families who suffer from post-traumatic stress disorder following military service.

“Through my NICHD grants, it has been exciting to capture data on areas that have historically relied on emotional intuition rather than objective science,” Dr. O’Haire said.

Safety first

The human-animal interaction program studies more than just health. The program also looks at the safety of human and animal participants.

One ongoing study wants to see if dogs can reduce stress, loneliness, and anxiety in children with cancer. Researchers also want to know if the dogs compromise the children’s immune systems during these visits.

“It could open up the doors for hospitals to start letting therapy dogs onto cancer wards, which would be really exciting,” Dr. Esposito added.

NIH’s Clinical Center—the country’s largest research hospital—already uses therapy dogs to comfort some patients during their stays.

Other animals

In addition to dogs and guinea pigs, NIH research has studied how riding horses can help children with developmental disabilities. It’s also researched how feeding fish on a set schedule helps teens to better manage their type 1 diabetes.

Dr. Esposito said she hopes to see more research on our favorite feline friends, cats, since they are popular pets.

Becoming a human-animal interaction researcher

While human-animal interaction research is expanding, it’s still a unique, smaller field.

Dr. O’Haire has one of the few research positions in the country solely dedicated to studying how animals interact with humans.

“I have always been interested in studying both animals and psychology, so this field is the perfect intersection of those interests,” she said. Her advice for young people interested in this or other research careers: find a mentor.

“I would recommend finding a mentor. Whether the mentor is focused on human-animal interaction or related fields, mentorship can be critical to navigating the pathway to successful career development,” Dr. O’Haire said.