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## More workers borrowing against their future, threatening retirement security with 401(k) loans

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DES MOINES, Iowa — "It's my money, why shouldn't I use it?" It's a mindset that can be a slippery slope when it comes to your retirement savings.

Indeed many workers may be robbing themselves of a secure future by viewing their 401(k) account as a piggy bank that can be tapped all too easily.

There are plenty of ways to rationalize borrowing against your retirement account balance, but the real cost is the loss of potential earnings on a tax-deferred basis in your run up to retirement. And it's the intangible nature of this lost future income that undoubtedly makes the consequences of borrowing much harder for many to appreciate.

One key concern is that the recession has helped fuel a growth in 401(k) loans. Borrowing accelerated in 2009 as the recession took jobs and homes away from millions of workers who turned to their retirement accounts just to get by.

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The number of loans outstanding only grew further to a record level last year. More than 1 of every 4 workers with 401(k) accounts, some 27.6 percent, had a loan outstanding, according to human resources consultant Aon Hewitt. The rate had remained steady at around 22 or 23 percent through the mid-2000s.

The consulting company studied the accounts of 1.8 million workers through the end of 2010 and found that using retirement funds for other purposes has become routine for many.

Allowing workers to borrow against their accounts is actually a feature that's intended to encourage savings. Without some access to the money many workers wouldn't contribute to their accounts.

It's a reasonable balance between getting people to save and risking they may not be able to pay back the money, says Jean Young, a research analyst at Vanguard, the nation's largest fund company.

But rather than making it harder to access their funds, she believes 401(k) plan providers would be better off focusing on getting more people to save in the first place. Only about half of eligible workers enroll in workplace retirement plans.

"Without a doubt the reason why loans are spiking is a direct result of the really difficult economic circumstances working Americans are facing," said Marcia Wagner, a Boston-based attorney specializing in retirement issues. "It's economic necessity."

That was the case for Christian McKenzie, 28, of New York City.

After being laid off from a retail job in the spring of 2009, she decided to pursue a master's degree in journalism at the London College of Fashion and used some of her retirement savings for the flight over and for expenses.

It was an emotional choice to take the cash out because McKenzie also had to pay taxes and faced a 10 percent tax penalty for making a withdrawal before age 59 1/2. She ended up using about half of the balance she'd built up from contributing for five years.

"It was really hard," she said. "My family is pretty good with money. They taught me investing basics and saving basics since I was a small child."

Now back in New York, McKenzie is working as a freelancer helping companies with online marketing and is determined to

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resume saving for retirement as soon as she can.

It's very common for individuals who have already tapped into their 401(k), if their plan allows it, to take multiple loans, said Catherine Golladay, vice president of 401(k) participant education and advice at Charles Schwab.

Aon Hewitt's study shows nearly 30 percent of participants with a loan outstanding, also had a second loan.

More damaging, however, is the practice of discontinuing or lowering contributions while repaying a loan. Some programs won't allow participants to make contributions during the loan repayment period.

The Aon Hewitt study shows borrowers saved an average of 6.2 percent of pay, while the average among non-borrowers was 8.1 percent. More than 18 percent of borrowers stopped contributing altogether.

There's also one lingering risk for those with outstanding loans, considering the repayment terms can span several years. If a worker loses a job, or decides to move on to a new employer, most plans require repayment of the entire loan within two to three months. Failure to pay means the loan is treated by the IRS as an early withdrawal and that comes with a tax bill and a 10 percent penalty.

