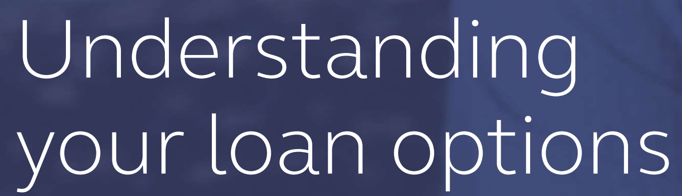
Principal®



Principal®

Frequently asked questions

Can I take a loan from my retirement account?

You can take a loan, but there are usually a few requirements.

- Generally, the maximum loan amount is the lesser of 50% of the vested account balance (the funds you keep if you end your employment immediately) or $50,000. This amount is reduced by the highest outstanding loan during the past 12 months.[1]
- Typically, you'll pay a fee to establish the loan and a quarterly maintenance fee for every quarter the loan is outstanding. When you request a loan, the total interest will be calculated and factored into your payment.
- Your organization's plan might have other requirements you'll need to consider.

What should I consider before taking a loan?

When deciding whether to borrow against your retirement account, consider if you can afford to repay the loan and continue making your regular contributions to help stay on track with your retirement goals. You should review your plan's loan provisions carefully, as outstanding loan balances may become fully due if you change jobs or get laid off. If you aren't able to pay off your loan balance at that time, the outstanding amount could be considered a taxable withdrawal.[2] Remember, your retirement plan can be a critical part of your retirement savings. It helps pay for things like your home and groceries once your regular paycheck stops. Weighing the pros and cons should be a step in the process.

Advantages	
Amount:	You typically can borrow as much as $50,000 or half the vested money in your retirement account, whichever is less. Most loans must be repaid within five years, but some plans allow more time if you're borrowing to buy your principal residence.
Taxes:	You don't have to pay taxes on the money you receive, as long as you pay it back. And, the interest you pay typically goes right back into your retirement account. If you're a resident of Florida, you're responsible for paying any required Documentary Stamp Tax to the State of Florida based on the amount you borrow.
Process:	Approval is easier for a standard retirement plan loan than a hardship withdrawal because there are generally fewer restrictions. A trustee, loan administrator, or plan sponsor sets the criteria for loan approval.

Drawbacks	
Payments:	If payments are automatically deducted from your paycheck, it's unlikely you'll default on the loan as long as you're working for the employer. But, if you leave your job, you may have to pay off the loan balance in full—typically within 60 days. If it's not paid off, the loan is considered in default and treated as a taxable withdrawal. It may also be subject to additional tax penalties.
Lower growth potential:	When you take money out of your retirement savings account for a loan you can miss out on potential investment growth. That's because you have less money in the plan to take advantage of compound earnings. And if the burden of a loan causes you to cut back on plan contributions, it may take you a lot longer to reach your retirement goals.
Interest rate:	Depending on your credit score and other factors, it may be cheaper in the long run to take out a loan outside the plan.

If I have an outstanding loan, can I continue to contribute to my retirement savings account?

Yes, you can continue to contribute to your retirement savings account in the plan while you repay your plan loan(s).

If I take a loan from my retirement account, do I pay taxes on the amount I borrow?

No; however, loan payments will be deducted from your pay on an after-tax basis. Any loan amounts that are past due may cause the entire principal balance to be in default. You'll owe taxes on the outstanding principal balance plus any accrued, unpaid interest.[2] Ask your loan administrator/plan sponsor for details. If you live in Florida—keep in mind you're also responsible for paying the state any required Documentary Stamp Tax based on the amount you borrow.

Is the interest paid on a plan loan tax-deductible?

The law doesn't allow deductions for interest paid on retirement plan loans.

If I have an outstanding loan balance and terminate employment, can I repay my loan?

Depending on your employer's plan, there could be a certain number of days after terminating to pay off the loan balance. You could have additional time (typically up to 60 days, check out the plan's Summary Plan Description or Loan Agreement) after terminating employment to pay off your loan balance. If your loan isn't paid off, it's considered defaulted, which means the balance and unpaid accrued interest will be treated as a taxable distribution to you, potentially subject to additional tax penalties.[2]

If I have an outstanding loan balance and am an active or terminated employee, how do I repay my loan early?[3]

Log in to your account at principal.com, click "Loans & Withdrawals," click "Compare Loans & Withdrawals," click "Pay off a Loan" at the bottom of the page. Here you'll be able to see details on your outstanding loan, including your current balance due. Follow the instructions to submit your payment.

Can I use my retirement plan account balance as collateral for a personal loan?

No, you can't use your retirement plan account balance as collateral for a personal loan from an outside source.

Can I make additional payments to pay off my plan loan early?

Additional payments are generally allowed, but you'll have to contact your loan administrator/plan sponsor for details.

How can I request a loan from my account?

You may be able to submit your request online. To see your loan options log in to your account at principal.com and look for "Loans and Withdrawals" in the top navigation. If you don't see it, ask your plan sponsor for more details.

Questions? Give us a call at 800-547-7754.

[1] Generally, the maximum loan amount is the lesser of $50,000 or 50% of the vested account balance, reduced by the difference between the highest outstanding loan balance within the past 12 months and the outstanding loan balance at the time of a new loan request. Any defaulted loans may further reduce this limit.

[2] Cash distributions are subject to ordinary income taxes (20% is withheld for federal taxes as required by law) and a 10% federal penalty unless you are age 59½ or older or ceasing employment before the year in which you turn age 55. Some states may require state income tax withholding. You may want to consult with your tax advisor before taking a cash distribution.

[3] Terminated employee must be within the time period allowed by the plan to pay off the loan after termination.

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