

MERRILL® SMALL BUSINESS 401(K)

# Know the facts about loans and withdrawals

Knowing you may be able to access your Merrill Small Business 401(k) account before retirement for certain situations may provide you with comfort, but there are important things you should consider before tapping into these funds.

## When to consider a loan

Taking a loan against your Merrill Small Business 401(k) account may seem to have advantages. After all, you'll be paying back yourself, not another entity. Plus, it's convenient to arrange and may even have a low interest rate. But be careful not to lose sight of your long-term goals for retirement in order to meet a short-term need.

Know all of the facts before you borrow against your Merrill Small Business 401(k) account and carefully consider the consequences.

## Limits apply

- The maximum amount you can borrow if you've had no other plan loan in the last 12 months is up to 50% of your vested account balance or \$50,000, whichever is less. If you have had another plan loan in the last 12-month period, your loan amount would be limited to the lesser of 50% of your vested account balance or \$50,000, minus the outstanding loan balance.
- The minimum amount is \$1,000.
- If married, you may need your spouse's consent.
- Loans must be repaid within five years from the date of the loan, unless the loan is used to acquire a primary residence.

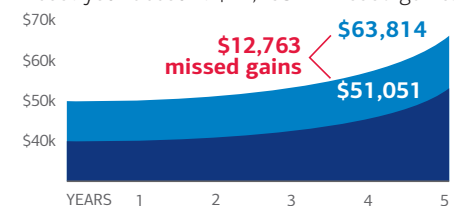
## The more you borrow, the less potential growth in your account

- When money is taken out of a 401(k) account, that money is no longer invested and therefore loses the potential opportunity for tax-deferred compounding growth.

## Missed opportunity

Here's an example:

- You have \$50,000 invested in your 401(k).
- You borrow \$10,000, with a plan to repay that in five years.
- \$40,000 remains in your account.
- Let's assume your account appreciates 5% annually. In five years, that \$40,000 would amount to \$51,051.
- If \$10,000 was not borrowed from your account, \$50,000 would amount to \$63,814 at the end of five years.
- In this scenario, the \$10,000 loan would cost your account \$12,763 in missed gains.<sup>1</sup>



You should review any planned financial transactions, including taking a plan loan or your required minimum distribution (RMD), with your accountant, tax professional and plan sponsor/administrator for any regulatory developments as they may impact your specific circumstances.

<sup>1</sup> This hypothetical illustration assumes a 5% annual effective rate of return and was not adjusted for inflation. Had a different rate been applied, the results would have been different. Hypothetical results are for illustrative purposes only and are not meant to represent the past or future performance of any specific investment vehicle. Investment return and principal value will fluctuate, and, when redeemed, the investments may be worth more or less than their original cost. Taxes are due upon withdrawal. If you take a withdrawal prior to age 59½, you may also be subject to a 10% additional tax.

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## Loan payments are made through after-tax dollars

- Even if a loan is taken from pre-tax contributions, loan payments are made through after-tax dollars. This will decrease your take-home pay and may lead to the decision to change your pre-tax contributions to offset this amount. This could have a significant impact on your future account balance and overall retirement savings strategy.
- In addition to paying taxes on the loan payment amount, individuals will still be required to pay tax on the withdrawn amount when funds are withdrawn in retirement.

### You have to pay to take out a loan

An establishment fee of \$75 for the loan and an annual fee of \$75 per loan will be charged every year until the loan is repaid.

### Interest on a plan loan is not tax-deductible

The interest rate for a plan loan may appear to be lower than a bank or credit union, but the actual cost could be much higher, since the interest is not tax-deductible. For example, if the money is borrowed to purchase a primary residence, the interest paid on the loan will not be tax deductible as it is with traditionally financed mortgages.

### A loan may have to be paid in full immediately

If you leave a job and have an account with an outstanding loan, the balance must be repaid immediately or within a shortened period of time, otherwise the borrowed amount will be considered a “distribution” and subject to taxes, including a potential 10% early withdrawal additional tax.

### Penalties for defaulting

If a loan is defaulted, or not paid back, the IRS considers the outstanding balance a distribution that is subject to taxes, including a potential 10% early withdrawal additional tax.

## Withdrawals

There are a few types of withdrawals: in-service, hardship and mandatory withdrawals, and withdrawals made in retirement. Unlike loans, withdrawals do not have to be paid back, but if you withdraw from your 401(k) account before age 59½, a 10% early withdrawal additional tax may apply, and you may jeopardize your financial security in retirement. It should be a last resort as a source of income.

### Hardship withdrawals

Only certain situations qualify for a hardship withdrawal, and only if all available loans have been taken and other sources of income have been exhausted. Some qualifying situations include:

- Un-reimbursed medical care expenses incurred or necessary for you, your spouse or your children
- Preventing eviction from principal residence due to unpaid mortgage bills or bankruptcy
- Costs directly related to the purchase of your primary residence (excluding mortgage payments)
- Burial or funeral expenses for deceased parent, spouse or children
- College tuition/higher education for you, your spouse or your children
- Repair damage to principal residence that would qualify for casualty deduction

**It is highly recommended to consult a tax professional before making a decision to take a hardship withdrawal.**

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## Mandatory withdrawals

Once you reach age 73, you are required to begin withdrawing money from certain retirement accounts. This is called a “Required Minimum Distribution” or “RMD” (also referred to as “Minimum Required Distribution” or “MRD”). The first distribution must begin by April 1 of the following calendar year after you turn age 73.

However, if you are still working at age 73 and do not own more than 5% of the business you work for, you may be able to defer distributions until April 1 of the calendar year after the year you retire.

RMDs are calculated by dividing the prior year’s balance as of December 31 by a life expectancy factor that the IRS publishes. You can withdraw more than the minimum, as well as satisfy the RMD through one annual payment or periodic payment streams (such as monthly).

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While a hardship withdrawal may be permitted for these situations, it comes at a cost. Withdrawals taken prior to age 59½ are subject not only to regular income tax, but may also be subject to a 10% early withdrawal additional tax. The 10% additional tax does not apply if the early withdrawal is taken in any of the following scenarios:

- You become totally disabled
- You die
- You separate from service through permanent layoff, termination, resignation or early retirement in the year you turn 55 or later
- You separate from service with structured, equal, periodic payments for five years or until you reach age 59½, whichever is longer

**It is also important to note that your salary deferral contributions to your Merrill Small Business 401(k) account will be suspended for six months after the receipt of the hardship distribution.**

## Make an informed decision

To learn more or discuss your options, contact an Ascensus 401(k) Consultant at 866.890.4177, Mon.–Fri., 8:00 a.m.–5:00 p.m. Central Time.

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**Merrill, its affiliates and financial advisors do not provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.**

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