Retirement Income
JOURNAL

Limit participants to three loans: TIAA-CREF

By Editorial Staff *Fri, Jun 20, 2014*

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Nearly one-third (29%) of Americans who participate in a retirement plan say they have taken out a loan from the savings in their plan. Of those, 43% have taken out two or more loans and 44% of borrowers regret the decision, according to a new study by TIAA-CREF of 1,000 randomly chosen plan participants.

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Emergency expenditures was the next largest reason for borrowing, cited by 35%. Women were more likely than men (52% vs. 41%) to borrow to pay off debt. Men were more likely (40% vs. 29%) to borrow to cover emergency expenditure.

Nearly half (47%) of those who have borrowed from their retirement plan savings borrowed more than 20% of their savings, with 9% of respondents borrowing more than 50%.

In addition to borrowing funds from retirement savings plans, many Americans are also contributing less to their plans while they pay back the loan. More than half of respondents (57%) who took out loans decreased their contribution rate during the payback period.

Those ages 18-34 were the most likely to decrease their contribution amount (81%). Forty-eight percent of women kept the same contribution rate while paying back the loan, compared to only 39% of men.

Plan sponsors should consider limiting participants to three loans each from their retirement savings, TIAA-CREF said. These loans should come from participant contributions rather than employer contributions. Fewer loans can mean lower plan expenses and have a positive impact on plan fees.