



## 401(k) Debit Cards: What You Might Not Know

A number of companies are beginning to offer a "401(k) debit card" to employees who invest in 401(k) retirement programs. A 401(k) debit card allows you to borrow up to \$50,000 or 50% of the value of your retirement plan, whichever is less, through use of a debit card. Unlike a debit card that deducts money from your checking or savings account, a 401(k) debit card withdrawal is a loan you make to yourself out of your retirement savings. More akin to a traditional credit card, you must repay the money you withdraw using the card, along with fees and interest -- or you may incur substantial penalties. There are a number of important factors you should consider before using a 401(k) debit card:

- *You must pay fees and interest on amounts you borrow from your 401(k) plan.*

You will likely pay interest and incur fees if you use a 401(k) debit card to borrow money from your retirement savings. While some of the interest you pay will go back into your 401(k) account, a certain amount (called the "margin") will be paid to the vendor of the card. In addition, the sorts of additional fees that may apply include: (i) an annual fee; (ii) a set up fee; (iii) a cash advance fee; and (iv) fees for other services, such as express delivery.

- *If you do not pay the money back in the time period required by the plan, there may be significant penalties and tax consequences.*

Under IRS rules, you typically must repay the amount you borrow in five years or less, and may not fail to make payments for three consecutive months. If you do not meet those conditions, you must pay taxes on your loan balance. In addition, if you are younger than 59 1/2 years old, you will have to pay a 10% penalty.

- *The amounts set aside to borrow may earn a lower rate of return than the rest of your 401(k) assets.*

The money you decide to borrow is set aside in a money market fund until you withdraw it. Money market funds may earn a lower rate of return than other investment options through a 401(k) account, such as investments in mutual funds or stocks.

- *Unlike your 401(k) contributions, you must make repayments on your own, and not automatically through a payroll deduction.*

Typically, 401(k) contributions are deducted directly from your payroll -- once you authorize the deductions, the money goes straight to your 401(k) automatically. Repayments of 401(k) debit card loans, however, are not deducted directly from your payroll -- you must pay the balance yourself.

In short, you should think carefully before taking money out of your retirement account under any circumstances, including with a 401(k) debit card, and weigh the above considerations carefully.

The Securities and Exchange Commission does not regulate or oversee retirement plans, such as pensions or 401(k) plans. If you have a question or complaint about your retirement plan, please contact:

U.S. Department of Labor  
Employee Benefits Security Administration  
200 Constitution Avenue, NW, Room N5623  
Washington, D.C. 20210  
Phone (toll-free): 1-866-444-EBSA (3272)  
Online: [www.askebsa.dol.gov](http://www.askebsa.dol.gov)

For general information about [what you should know about your retirement plan](#), visit EBSA's website, [www.dol.gov/ebsa](http://www.dol.gov/ebsa). If you have concerns about your plan's administration or believe that your benefits have been inappropriately denied, you should [contact an EBSA Benefits Advisor](#). For help in [finding a lawyer](#) who specializes in pension matters, you can visit the website of the National Pension Lawyers Network.

You can find [information about pensions](#) from the EBSA's home page. You can also [learn how fees and expenses affect the total return](#) you will receive for retirement from your 401(k) plan.

#### **Related Items:**

[FINRA Alert: 401\(k\) Debit Cards—Think Before You Swipe](#)

[http://www.sec.gov/answers/401\(k\)debitcards.htm](http://www.sec.gov/answers/401(k)debitcards.htm)

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