



## Proposed Legislation Aims to Limit 401(k) Loans

Sen. Charles Schumer (D-NY) and Sen. Herb Kohl (D-WI) recently introduced a bill, S. 3278, which would prohibit companies from issuing 401(k) debit cards. The cards allow users to take out loans against their 401(k) accounts to make daily purchases.

The bill also prevents consumers who have three or more outstanding 401(k) loans from withdrawing any additional funds from that retirement savings account.

401(k) loans, especially those made with debit cards, are a tempting solution for Americans who have put money away for retirement, but now face economic hardship. The debit cards conveniently allow consumers to take out loans against their 401(k) retirement savings account with a simple card swipe.

According to a study from the American Center for Progress, both the number of people taking out 401(k) loans, and the number of high dollar loans, has increased as a result.

Consumers typically must repay these loans with interest within five years. They are also responsible for paying monthly minimum payments, fees, and additional interest to card issuers.

Traditional 401(k) loans are repaid through payroll deductions, so defaults are unlikely as long as debtors remain employed. In contrast, 401(k) debit card loans are billed directly to the consumer, making defaults far more probable.

According to Sen. Schumer, such loans make poor economic sense in the long run because about \$10,000 in retirement savings is lost for every \$1,000 withdrawn. But those who withdraw are not only short-changing their future, they risk defaulting if they cannot repay the loans with interest within five years.

Sen. Schumer and Sen. Kohl argue that these debit cards allow 401(k) accounts, which are intended to provide Americans with a tax-free opportunity to save for retirement, to operate like checking accounts.

Instead of helping Americans to jeopardize their retirement savings, they argue that banks should provide workers with more economically responsible ways to make ends meet.

ICMA-RC will be monitoring this legislation and has joined with the National League of Cities to alert employees of alternatives to borrowing against their retirement accounts.

Read more about this critical issue on NLC's Web site at <http://www.nlc.org/pressroom/pressreleaseitems/ICMARCRetirementPR.aspx> and at Kiplinger's Personal Finance Online: <http://www.kiplinger.com/magazine/archives/2008/09/the-cost-to-crack-your-nest-egg.html>.

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