

Paying off credit card debt using your 401K Retirement money

Scenario: I have around \$25,000 in credit card debts. Will it be a wise move to use my 401K money and pay off the cc debt? The total amount of cash in the 401K account is 45,000. I am behind on many of the payments and wish to get out of debt asap. Please advice.

Solution: You can only take out a 401k loan provided your company allows for it. Legally, you can borrow up to \$50,000 or half of the money in your 401K retirement account, whichever is less. The period of repaying such a loan is usually 5 years and beyond provided the loan is taken out for a residential property.

However, if you are thinking of withdrawing money from your 401K account, be prepared to make tax payments on the cash taken out. Apart from tax payments, you will have to pay a penalty if you're under 59 and 1/2 years of age at the time of cash withdrawal. The penalty amounts to 10% of your contribution into the 401K account.

Now, when you borrow money from your 401K account, you are in fact paying back the interest into your account and thus it continues to accumulate till your account money keeps growing. This is the advantage of taking out money from your retirement account.

However, there are some demerits of borrowing cash from your 401K account. Once you have taken such a loan and your employment is terminated, your employer will require you to pay off the loan entirely within a period of 3 months of the termination. Otherwise, you will be going through a loan default which will have a negative impact on your credit score. And, when you don't pay down the loan, it is considered as a distribution and hence you may have to pay taxes at the highest marginal rate.

Now that you're paying off the credit card debts, you can minimize your contribution to the [401K account](#). Thus, you can contribute just as much is required to match the employer's contribution towards your account. But if there isn't any match, you may stop your contribution towards the account and then use the extra cash to pay down your credit card debts. Moreover, you should also analyze your finances and try to carry out your expenses according to a planned budget so that you don't come across any problems in paying down the cc debt.

If you have any query on 401K and Retirement Plan accounts, feel free to [Ask our Community](#) and discuss it with others.

About the Author

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