

Tapping into Your 401(k) Can Cost You

The positive power of increase and the negative pull of interruptions

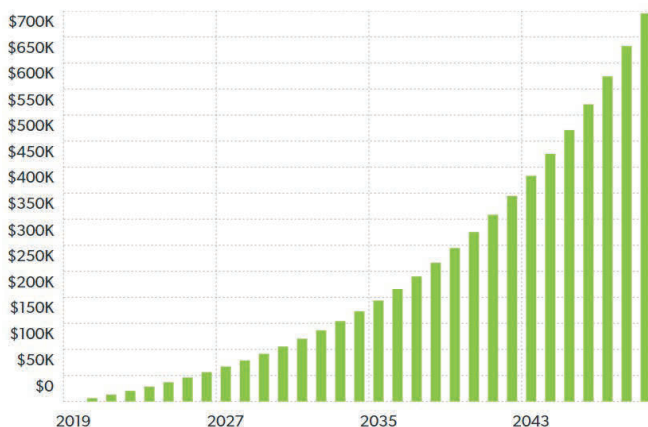
Investing 101: Invest X amount of money at Y percent for Z years. Thanks to compounding, you'll end up with a lump sum much larger than what you contribute. The principle is simple.

But in reality, the practice may be tough. We regularly confront many reasons to stop investing. Major cash events strain any investor's resolve to hold the line on a retirement savings account. Mortgages, weddings, college educations, and health care expenses require cash – sometimes unexpectedly. The DAP 401(k) Plan loan feature looks like a logical resource to fund the unexpected. If only it didn't cost so much later on.

Tax deferred retirement programs like your DAP take small regular contributions and, over time, compound them into large pools of money. Unbroken time is the key to success. When you take money from your retirement program early, you not only remove its value from your total later on, you also reduce your account's potential to compound. Hence, you will end up with less when it is time to withdraw.

Compounding is a snowball effect

If you continually roll a snowball, without interruptions, it will grow exponentially. The same holds true for investing for retirement. Without interruptions and the power of compounding, an employee saving \$6,000 a year through \$500 monthly contributions and an average 8% annual return, will accumulate \$745,179 in savings after thirty years.



What borrowing really costs

When you borrow from your account, you give away a lot. For one thing, you miss out on the earnings your investments

would have generated versus the loan interest. During the time your money is pulled from your account to pay the loan, this money is not participating in the financial markets.¹

If you took a \$10,000 loan from your 401(k) 20 years before retirement, took five years to repay the loan at 5% interest and were earning 8% on your investments, you'd lose about \$2,625 in earnings assuming you repaid the loan on time.¹

Of course, you could lose much more (or much less) depending on the movement of the market. And, of course, there's also the risk that you won't put the cash back at all... which could end up costing you decades of compound interest and which could result in that \$10,000 loan having a price of more than \$62,000 by the time you reach retirement age, if you took out \$10,000 20 years before retiring and never paid it back. You are also missing the company match by not contributing, or free money.¹

There are tax consequences to consider also. When you repay the money from a 401(k) loan, you do so with after-tax dollars rather than with pre-tax money, like your 401k contributions. To make matters worse, interest on a 401(k) loan isn't tax deductible, so if you've taken cash out of a 401(k) to repay student loans, you're not even getting a mortgage interest deduction or benefiting from the student loan interest tax deduction that you would likely otherwise be entitled to take.¹

You'll also have to pay fees to take a 401(k) loan. These fees can be higher than the costs associated with a conventional loan. There is an added risk that you may not be able to pay back your loan in time, whereby the entire unpaid amount of the loan becomes taxable with an added penalty if under age 59 1/2. You are taking a big gamble that you will be able to make the payments and ongoing contributions without a hitch.

Remember the DAP 401(k) is a benefit made for funding your retirement. It won't do the job if you keep tapping into it.¹

¹ Source: *4 Reasons you should never, ever take a 401(k) loan* by Christy Bieber for The Motley Fool August 14, 2017.

Investment Performance and Manager Fees

as of November 30, 2019 (Net of Manager Fee Return)

	One Month	YTD	One Year	Annualized Returns			Annual Manager Fee
				Three Year	Five Year	Ten Year	
Vanguard Target Retirement Funds							
Retirement Income Fund (VTINX)	0.79%	12.04%	10.57%	6.31%	4.50%	5.67%	0.12%
Target 2015 Fund (VTXVX)	0.96%	13.42%	10.92%	7.43%	5.21%	7.22%	0.13%
Target 2020 Fund (VTW NX)	1.32%	15.65%	11.82%	8.55%	5.94%	7.98%	0.13%
Target 2025 Fund (VTTVX)	1.63%	17.34%	12.58%	9.37%	6.44%	8.56%	0.13%
Target 2030 Fund (VTHR X)	1.81%	18.43%	12.77%	9.97%	6.78%	9.03%	0.14%
Target 2035 Fund (VTTH X)	2.04%	19.45%	12.95%	10.55%	7.09%	9.50%	0.14%
Target 2040 Fund (VFOR X)	2.23%	20.49%	13.12%	11.11%	7.39%	9.80%	0.14%
Target 2045 Fund (VTIV X)	2.42%	21.28%	13.31%	11.34%	7.55%	9.89%	0.15%
Target 2050 Fund (VFIF X)	2.41%	21.28%	13.27%	11.34%	7.55%	9.89%	0.15%
Target 2055 Fund (VFFV X)	2.42%	21.27%	13.30%	11.35%	7.52%	(2010 Inception)	0.15%
Target 2060 Fund (VTT S X)	2.41%	21.26%	13.26%	11.34%	7.52%	(2012 Inception)	0.15%
Target 2065 Fund (VLXV X)	2.41%	21.32%	13.35%	(2017 Inception)	-	-	0.15%
Target Risk Funds							
Income Funds	0.74%	6.95%	5.66%	4.88%	3.77%	(2010 Inception)	0.32%
Conservative Fund	1.04%	11.63%	8.75%	6.86%	4.85%	6.41%	0.41%
Moderate Fund	1.43%	16.10%	11.59%	9.10%	6.10%	8.32%	0.48%
Aggressive Fund	1.71%	18.17%	12.19%	10.15%	6.68%	9.35%	0.53%
Index Funds							
Fixed Income Index Fund	-0.05%	8.77%	10.77%	4.06%	(2016 Inception)	-	0.05%
Inflation Prot. Sec. Index Fund	0.14%	7.97%	8.56%	3.10%	(2016 Inception)	-	0.06%
Total Stock Market Index Funds	3.79%	27.33%	15.50%	14.17%	(2016 Inception)	-	0.02%
International Stock Index Fund	0.98%	16.74%	11.30%	9.39%	(2016 Inception)	-	0.08%
Actively Managed Funds							
Stable Value Fund	0.24%	2.80%	3.05%	2.83%	2.57%	2.82%	0.29%
Fixed Income Fund	0.08%	10.23%	11.76%	5.17%	(2016 Inception)	-	0.28%
Diversified Infl. Real Rtrn Fund	-0.66%	13.55%	10.27%	6.70%	(2016 Inception)	-	0.24%
Large Cap Core Stock Fund	3.73%	23.25%	12.95%	13.98%	(2016 Inception)	-	0.54%
International Stock Fund	1.08%	17.67%	12.14%	9.60%	(2016 Inception)	-	0.70%
Small Mid Cap Core Stock Fund	4.12%	27.16%	13.79%	12.87%	(2016 Inception)	-	0.79%
Specialty Funds							
visit www.dapretirement.com for performance							
current performance is available at www.dapretirement.com or www.dap401k.com . Past performance is not a guarantee of future results.							

Contact Information

For personal assistance please call 844.861.4327 Monday to Friday 7 a.m. to 9 p.m. and Saturdays 8 a.m. to 4:30 p.m. (Central Time). After hearing the DAP greeting, state "representative" clearly two times, and you will be connected directly to a DAP specialist. For required minimum distributions (RMDs), distribution changes, or rollovers, please contact Michelle at 314.739.7373.

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