Thinking about taking a 401(k) loan? Think twice.

The Liberty Oilfield Services 401(k) Savings Plan is a long-term savings account that is intended for income in retirement. In general, you should try to avoid withdrawing funds from your account while you're still working. However, if you find yourself in a situation where you need to access the money before retirement, you may have the ability to take a loan from your account.

The Pros

What makes 401(k) loans attractive is that while you do pay interest on them, the rate is relatively low, and you pay the interest to yourself. At the same time, it's possible you could be earning more from your investments than the interest you're paying.

Having loan repayments automatically deducted from your paycheck makes repayments simple, but it also reduces your take-home pay, so you'll be hitting your future savings with a double whammy.

The Cons

There are important potential consequences to consider before taking a loan. First, when you remove retirement savings from your account, you're lessening its ability to earn compound interest. It's exactly this compounding effect that makes tax-deferred savings so attractive. Reducing compounding potential can have a significant effect on your savings in the long run.

In addition, loan fees are taken directly from your account, further reducing its potential growth.

The money you use to repay the loan is taxed twice. Loan repayments are paid back to the plan after tax and join the pre-tax money already in the plan. The money you used to repay the loan will be taxed again upon withdrawal from a traditional retirement plan account.

Failure to repay the loan can have financial consequences too. You will owe income taxes as if you had taken a distribution from your plan account. You will also pay a penalty if you're younger than age 58½ because your defaulted loan will be considered an early withdrawal.

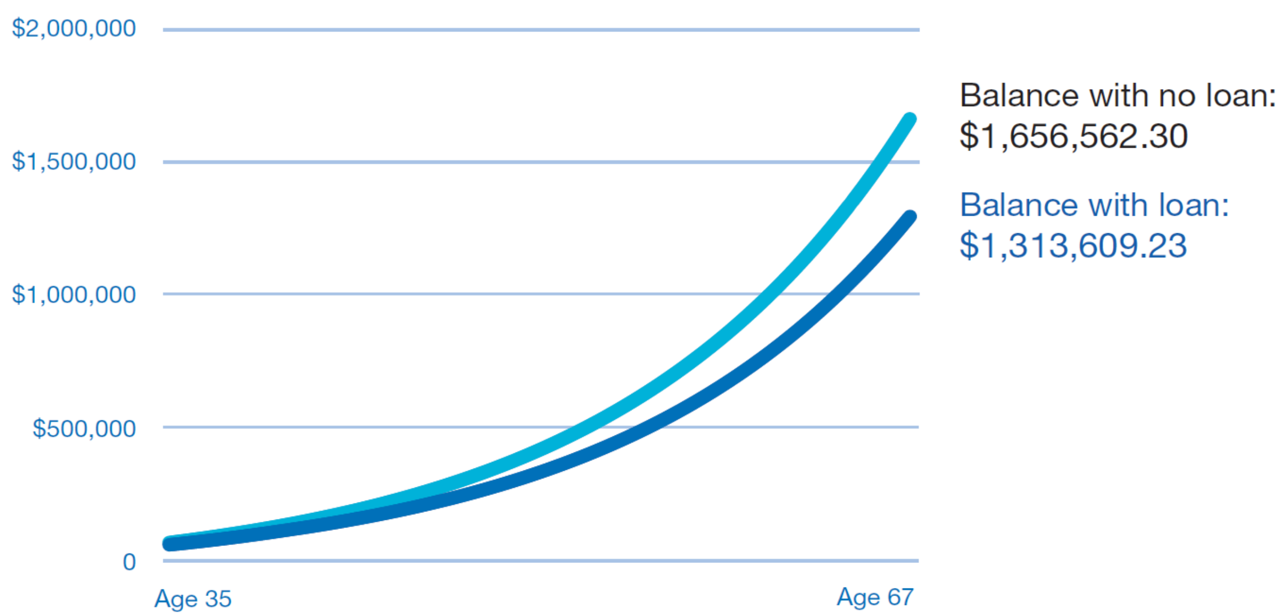
If you have an outstanding loan balance and either leave your job or are terminated, you'll have to pay the loan back within a short period of time, or it will be considered in default. If you happen to be terminated involuntarily and are no longer earning income from your job, the timing of the payback, taxes and penalties can be quite unfortunate.

Additionally, if planning on purchasing a home, you should consider whether borrowing money for the down payment will impact your ability to qualify for the mortgage since the loan from the plan would create a fixed repayment as well as will the mortgage. Underwriters may have a concern about money being borrowed from the plan to make the down payment.

Borrowing from your retirement plan may cost more than you think, especially when you factor in your account's lost growth potential. Consider what happens when a 35-year-old worker with a retirement account balance of $60,000 borrows $30,000 at an interest rate of 5% to be paid back over five years. Assume the worker normally contributed $500 a month to the account, but during the loan repayment period, they can only afford to make after-tax loan payments of $566.14 (including interest).

As shown below, if the account's investments grew by an average of 8% annually, they would potentially give up almost $343,000 at retirement by taking the loan.

Potential Cost of a $30,000 Loan: **$342,953.07**



This chart is hypothetical and for illustrative purposes only. It is not intended to be a projection of future values of any product. The investment return and principal value of an investment will fluctuate and an investor's interest, when redeemed, may be worth more or less than the original investment. Past performance is no guarantee of future results. Asset-based and administrative fees were not included; if they had, the tax-deferred performance would have been lower. Withdrawals prior to age 59½ may be submitted to a 10% federal income tax penalty. This illustration assumes a 25% federal income tax rate, a gross annual growth rate of 8% and a 3% annual wage increase with a corresponding increase in weekly contributions. Note that lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the different in performance between the investments shown. Please consider your personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision as these may further reduce the results of the comparison. Withdrawals from the tax-deferred account will be subject to federal and, if applicable, state income tax.