

## News from the National League of Cities

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### Tapping into Your Retirement Funds Should be a Last Resort, Say NLC & ICMA-RC

Washington, DC – With millions of homeowners across the nation facing the crisis in subprime mortgages, many with defined contribution retirement plans – including public sector employees – may be tempted to tap into them for loans and ready cash. But according to the National League of Cities and ICMA-RC, any early withdrawals from retirement savings accounts should only be considered a last resort.

The rate of borrowing from 401(k), 457 and other workplace savings programs is on the rise, according to reports from several major financial institutions. The Employee Benefit Research Institute estimates private sector participants have nearly \$50 billion in outstanding loan balances in their retirement plans. NLC and ICMA-RC are concerned that public sector employees might consider this option and so are working together to raise awareness among local officials about the potential financial pitfalls. ICMA-RC's primary mission is to provide retirement plans exclusively to state and local governments.

"We are working closely with cities and city employees to ensure they know the wealth of resources available to help them cope with mortgage payments and other financial pressures during these tough economic times," said NLC Executive Director Donald J. Borut. "By joining with ICMA-RC, we are working to raise awareness with city workers and are encouraging them to consider all the alternatives."

The joint effort includes new Web links that will highlight alternatives available to anyone concerned about their mortgages. Information on saving for retirement and basic financial literacy also will be available. The Web site will provide links to articles, worksheets, and other resources, including interviews with NLC and ICMA-RC officials. ([http://www.nlc.org/resources\\_for\\_cities/nlc\\_icmarc\\_resources.aspx](http://www.nlc.org/resources_for_cities/nlc_icmarc_resources.aspx))

"These are challenging times for many Americans who face economic uncertainty," said Gregory Dyson, senior vice president of marketing at ICMA-RC. "But it is important for people to remember that building a secure retirement depends on regularly saving money now and not borrowing against their future. ICMA-RC is pleased to partner with the National League of Cities on this important issue."

Dyson noted, "For example, if you received a \$15,000 hardship distribution at age 35 from an account with a balance of \$30,000, over the course of 30 years the distribution would cost you more than \$122,000 in lost savings, assuming a return on investment of seven percent. That's a very high price to pay for a short-term fix."

Dyson said that borrowing from an employer-sponsored defined contribution retirement plan can be costly in a variety of ways. If a plan offers a hardship distribution, the withdrawals do not have to be repaid, but taxes and other penalties may be levied. Other financial burdens due to early withdrawals for non-hardship reasons from a 457 or 401(a) plan include:

- 1) Any money withdrawn loses the power of compounding interest, which can be significant over the span of several years.
- 2) The loan from the plan must be paid back immediately if an employee changes or loses their job.
- 3) If the loan isn't paid back, the remaining balance is considered a taxable distribution.
- 4) If the employee holding a 401(a) plan is under age 59 ½, any money not paid back will also incur a penalty for early distribution.

Instead, NLC and ICMA-RC are urging city employees and municipalities to seek out several resources that can assist. Links to these programs, which include HOPE NOW and NeighborWorks America, among others, are also available at [http://www.nlc.org/resources\\_for\\_cities/homeforeclosure.aspx](http://www.nlc.org/resources_for_cities/homeforeclosure.aspx).

*The National League of Cities is the nation's oldest and largest organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. NLC is a resource and advocate for 19,000 cities, towns and villages, representing more than 218 million Americans.*

*ICMA-RC is an independent not-for-profit corporation focused on providing retirement plans and related services for over 800,000 public employees in over 8,000 retirement plans. Consistent with its mission, ICMA-RC provides administrative, investment, education, and other retirement-related services exclusively to state and local government employees. For more information visit [www.icmarc.org](http://www.icmarc.org).*

To find out more information about the resources offered, please visit NLC's Web site at [http://www.nlc.org/resources\\_for\\_cities/nlc\\_icmarc\\_resources.aspx](http://www.nlc.org/resources_for_cities/nlc_icmarc_resources.aspx) or contact Sherry Conway Appel at NLC at 202-626-3003, or Milly Stanges at ICMA-RC at 202-682-5290 or [mstanges@icmarc.org](mailto:mstanges@icmarc.org).

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