Considering a loan or withdrawal from your City of San Diego Savings Plans?

To provide financial security during retirement, you need to start saving early, contribute as much as you can to your 401(k) Plan, and invest wisely. Anything that gets in the way may hurt your chances of achieving your retirement goals. If you are thinking about borrowing from your SPSP or 401(k) Plan, or taking an in-service withdrawal from your SPSP or a hardship withdrawal from either your SPSP or 401(k) Plan, it’s important to consider all of your options carefully.

What should I consider before borrowing from my SPSP or 401(k) Plan?

- **If you leave your job, you must make ongoing manual loan payments or pay off your loan balance in full to avoid taxes and penalties.**
  
  When you terminate employment for any reason, if manual loan payments or a payment in full are not made following your last day of employment, generally within 60 days from the last day of employment, the balance will be automatically defaulted and reported to the Internal Revenue Service as taxable income.

- **Losing the benefits of investment growth could leave you with a smaller retirement savings.**
  
  How much smaller? This depends on a number of factors, including the size of the loan, the repayment period, whether you continue 401(k) Plan contributions during this period, the earnings on your account, and the loan interest rate.

- **Make absolutely sure you have considered all of your options.**
  
  Don’t take out the loan impulsively. Borrow only the minimum you need. If you’re eligible, other loans may be better options. Rates may be a little higher but the interest may be tax-deductible.

- **Continue contributing to your 401(k) Plan.**
  
  You can preserve much of your retirement savings if you continue to contribute to the 401(k) Plan while paying off your loan and eventually paying the loan in full. However, if you reduce or cease contributions to the 401(k) Plan, you may not have the savings you need at retirement. Likewise, if you default on your loan or take excessive loans, your future retirement security is at risk.

What should I consider before taking a hardship withdrawal or in-service withdrawal?

- **If you take a withdrawal from your SPSP or 401(k) Plan, those assets that are withdrawn can no longer benefit from being invested in the Savings Plans.**
  
  The investments available in the Savings Plans are typically only available in retirement plans and typically offer a lower operating expense than similar funds available in retail accounts. By leaving your assets in the plan you benefit from these lower operating expenses.

- **You will be subject to taxes.**
  
  There is a mandatory 20% withholding for federal tax and the pre-tax amount withdrawn is considered current income. Withdrawals prior to age 59½ may be subject a 10% IRS early withdrawal penalty.

- **Your contributions will be suspended for 6 months.**
  
  If you request a hardship withdrawal from your 401(k) account, your voluntary contributions made to all qualified and non-qualified deferred compensation plans maintained by the City will be suspended for a period of six months. This includes, but is not limited to, your contributions to the 401(k), 401(a), and SPSP, along with any SPSP employer contributions.

How do I get more information?

Log on to your account at wellsfargo.com. Online you can access a library of articles, calculators, and audio casts under Planning & Education > Education Resource Center that will help you decide whether taking a loan or withdrawal from the Savings Plans makes financial sense to you. You can also call the Retirement Service Center at 1-800-728-3123. Representatives are available Monday through Friday, from 4:00 a.m. to 8:00 p.m. Pacific Time.

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