

NEWS RELEASE

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CPA FINANCIAL PLANNERS URGE AMERICANS TO AVOID BORROWING FROM THEIR RETIREMENT ACCOUNTS TO SECURE CASH

New York (July 10, 2008) – Tough economic times are causing some Americans to adopt a “fire-sale” approach in order to meet their rising expenses; they are even tapping retirement assets, such as 401(k) plans, for quick cash. Most plans allow borrowing, but Americans need to know they may face stiff tax consequences and penalties if they withdraw before age 59 1/2.

The American Institute of Certified Public Accountants and CPAs holding the Personal Financial Specialist (CPA/PFS) credential of the AICPA warn that borrowing from retirement plans can be risky.

“If someone is strapped for cash, the first thing they need to do is go over their cash flow statement and see if they can trim a bit from what they are currently spending,” said Michael Eisenberg, CPA/PFS in Los Angeles, and member of the AICPA National CPA Financial Literacy Commission.

Randy Ryan, CPA/PFS, of Reston, Va., and member of the AICPA Personal Financial Planning Executive Committee, agrees. “Tapping into 401(k) accounts should be a strategy reserved for true emergencies,” he said. “Selling assets may provide a quick financial fix, but without a serious look at where your money is spent you will likely find yourself back in the same situation again.” He recommends prioritizing your monthly expenses and making cuts from any unnecessary spending.

“Then, if your 401(k) plan is the only source of the cash that you need to have right away, borrow from the 401(k) plan instead of making a withdrawal from the plan,” said Lisa R. Featherngill, CPA/PFS of Winston-Salem, N.C., and member of the AICPA Personal Financial Specialist Credential Committee. “You can borrow from your 401(k) plan without incurring a tax liability, and borrowing from your 401(k) plan may be better than selling securities that have dropped in value, unless you have lost confidence in the security.”

Points to remember when borrowing from a 401(k) plan, according to Steve Levey, CPA/PFS, The GHP Financial Group in Denver, are that “loan payments must be made at least quarterly and paid on time and in full within five years or there will be a triggering of income tax on the amount of loan defaulted.

“You will have a tough time catching up if you default,” he cautioned. “Americans need to remember that even borrowing from their 401(k) plan will impact their future retirement security.”

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Ted Sarenski, CPA/PFS, of Syracuse, N.Y., and member of the AICPA Personal Financial Planning Executive Committee, said, “The maximum withdrawal of \$50,000 is also a factor that illustrates the government is not keen on the idea of you liquidating your pensions to pay for current costs.”

For additional information on managing one’s personal finances, visit the AICPA’s 360 Degrees of Financial Literacy website, www.360financialliteracy.org/. The Institute leads this national public education effort, designed to improve the financial understanding of Americans at all age levels. A related campaign, Feed the Pig (www.feedthepig.org), helps 25 – 34 year-olds prepare for long-term financial security.

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