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Machinists' 401(k) loans could be risky

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By Mitchell Schnurman
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Machinists at Lockheed Martin went on strike to preserve their pensions, but they're raiding their retirement savings in the process.More than 1,000 of 3,600 strikers have loans from their 401(k) accounts, including hundreds who've borrowed from their plans this year, according to the company and union.That loan share is two to three times higher than in a typical 401(k) plan. As the strike moves into its second month, the number could swell more, because Lockheed said strikers can apply for loans if they don't have one already.The high demand is no accident. In a booklet for members, the union offered this advice in large bold type: "You can borrow from your 401(k) during a strike!"True enough, but the next line should have been a reminder that workers also have to pay back the money. And if they skip monthly payments while off the job, a reality for many, Lockheed said they'll face a balloon payment by the end of September.Borrowing from a 401(k) has many advantages, including the fact that workers can access a lot of money quickly. But it's risky, too, because a default triggers a penalty, extra taxes and a possible hit to retirement.In general, such loans are recommended for urgent problems only. A strike fund appears to qualify, except for the big question of when paychecks start up again.Nationwide, most 401(k) loans are repaid on time. About 1 in 10 ends up in default, usually because of a lost job, the Financial Literacy Center reports.In those cases, loans are treated as voluntary withdrawals, which carry a 10 percent penalty, plus income taxes on the total amount. Of course, there's also less savings in the retirement kitty.For these reasons and more, many financial planners oppose 401(k) loans. They recommend using other savings or selling investments. For Lockheed workers, racking up credit card debt may even be a better choice; if a prolonged strike ends up tipping a family into bankruptcy, at least retirement assets will be protected.But many strikers are past the point of sophisticated strategies. Glenn Whitmire, an aircraft mechanic at Lockheed for 31 years, is trying to get a hardship withdrawal from his 401(k), because he already has a 401(k) loan."My choice is to do that or go to Tulsa for work, and I don't want to be away from my kids," he said.He's lost much of his savings in a divorce, but he said other strikers are also trying to get hardship withdrawals. Such withdrawals are restrictive and limited to immediate financial need, and he doesn't know whether he'll get the funds.The plant's current strike is already the longest in decades, and last week, Lockheed began hiring temporary replacement workers.Union members are striking largely to maintain pensions for themselves and future hires, and limit increases in health insurance.Most 401(k) loans are repaid through payroll deduction, but that ended with the strike. This month, Lockheed's retirement plan administrator, ING, sent letters to strikers to warn about defaults. ING also said they would receive a coupon book in June, requiring monthly payments.The Machinists union filed a complaint with the National Labor Relations Board, alleging that Lockheed was retaliating against employees. On its website, the union called the letter a scare tactic."It does seem that Lockheed will do whatever they can to scare people into crossing the picket line," the union website said.The letter may increase pressure on strikers, but Lockheed and ING have a responsibility to notify borrowers who are behind on payments. Eventually, there will be consequences, and rules on retirement plans apply during a strike."Something true can be scary, but that doesn't make it any less true," said Mark Johnson, founder of ERISA Benefits Consulting in Grapevine. "The administrator has an obligation to communicate accurately with its members."One major disagreement is over the deadline for default. In most retirement plans, a loan must be repaid within 60 days of leaving the company or it's treated as a withdrawal. But every plan is different, and Lockheed has generous terms.Its deadline is the last day of the calendar quarter after the calendar quarter when the payment was missed, according to its summary plan document. Strikers who skipped payments in April and May will have until September 30 to resume payments. The company said that all missed payments must be repaid by then, too.The union said that employees have a full year before the loans go into default. And it said that missed payments are tallied into a balloon note at the end of the loan, not when payments resume.The one-year delay sounds like a stretch, because that exemption is limited to employees on a company-approved leave of absence. Lockheed said a strike doesn't qualify as company approved, which seems obvious enough.Such details are important, because they affect the recovery time for borrowers. Whitmire said many workers are banking on a lot of overtime after the strike ends, so they can make back payments and replenish retirement accounts.This scenario envisions a new contract in the not-too-distant future. If those plans work out as hoped, the 401(k) loans will look brilliant. They have a 4.25 percent interest rate, with a $25 application fee. Employees can generally borrow half their savings, up to $50,000, for up to 41/2 years. And loans can be filled in a couple of days."If you have no other source of money, it's not a bad idea, but there's a hook," said Dave Diesslin, a Fort Worth financial planner. "You have to pay it back. Otherwise, there's a steep price to pay."When something is easy and convenient and painless, it's probably wrong," he said.Mitchell Schnurman's column appears Sundays and Thursdays. 817-390-7821Twitter: @mitchschnurman

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