

Can worker who is out on unpaid leave suspend payments to her 401(k) loan?

Q. We have an employee out on an unpaid leave of absence. She has informed us she would like to suspend payment on a loan she took out against her 401(k). Is that permitted?

A. Maybe. A plan may permit a participant to suspend payments on a 401(k) loan during unpaid leaves of absence, as long as the period of absence doesn't last for more than a year, and certain other rules are followed.

For example, the loan policy must require that the loan (including interest accrued during the period of the leave) be repaid before the maximum term of the loan (typically five years from the date the loan was taken). That usually means the loan must be reamortized upon the employee's return to work.

This requirement also means that if the last day of the loan will occur during the period of the leave, the loan payments cannot be suspended.

Keep in mind that the plan loan policy must provide for the suspension of the loan payments. If it doesn't, the policy should be amended before any such suspension can be permitted.