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State of New Jersey  
DEPARTMENT OF THE TREASURY  
DIVISION OF PENSIONS AND BENEFITS  
(609) 292-7524 TDD (609) 292-7718  
[www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions)

ANDREW P. SIDAMON-ERISTOFF  
*State Treasurer*

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*Acting Director*

July 21, 2014

**TO:** Certifying Officers, All State-administered Retirement Systems

**FROM:** New Jersey Division of Pensions and Benefits

**SUBJECT: Compliance with Internal Revenue Code — Maximum Pension Loan Balances**

Eligible employees of the Public Employees Retirement System (PERS), Teacher's Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), and State Police Retirement System (SPRS) can borrow up to one-half of all pension contributions posted to their account provided that the total outstanding loan balance will not exceed a maximum of \$50,000; however, Internal Revenue Service (IRS) regulations require that for employees who have subsequent pension loans, any new loan amount when added to the highest balance due for all previous loans during the prior 12-month period cannot exceed \$50,000. This means the "maximum amount" also includes loans from employer-provided plans that are not a State-administered retirement plan (PERS, TPAF, PFRS, or SPRS).

### IRS REQUIREMENT

The IRS requires a new loan amount, when added to the highest balance due (without interest) during the prior 12-month period for all loans from all employer-provided retirement plans cannot exceed \$50,000. This includes retirement plans that an employee may have an interest in due to his or her employment relationship with New Jersey and/or any other governmental plans sponsored or administered by a public sector employer in New Jersey. Amounts received in excess of the maximum permitted by the IRS shall be declared a deemed distribution and subject to additional tax.

In order to comply with IRS regulations, the maximum loan balance is determined using the following factors:

- the amount of the new loan the employee is currently requesting; plus
- the highest outstanding loan balance from the PERS, TPAF, PFRS and/or SPRS in the prior 12 months (without interest — for all existing loans that the employee has due to public employment); plus
- the highest outstanding loan balance from any other governmental plans sponsored or administered by a public sector employer during the prior 12-month period.

As of July 21, 2014, when an employee submits a new loan request online using the Member Benefits Online System (MBOS) or via the Automated Information System at (609) 292-7524, they will be required to indicate any outstanding loans obtained from a retirement plan other than PERS, TPAF, PFRS or SPRS and subsequently provide documentation to the Division of Pensions and Benefits with the highest loan balance (without interest) in the prior 12 month period for any loans that they obtained from the other plan(s) offered by a public employer.

### **EMPLOYER RESPONSIBILITIES**

Please make this information available to your location's employees and forward this letter to your human resources staff, benefit administrators, and any other staff members responsible for the administration of pension benefits for your location's employees. Employees should be advised to maintain documentation for their records for pension loans taken from other plans offered by your location in the event of an audit. Any amounts received in excess of the maximum may be declared a deemed distribution and the employee may be subject to additional tax by the IRS.

### **ADDITIONAL INFORMATION**

Additional information regarding pension loans can be found in Fact Sheet #81, *Loans*.

If you have general questions regarding any of the information provided in this letter, contact the Division's Office of Client Services at (609) 292-7524, or via the Division's Web site at:

<https://www.state.nj.us/treas/pensions/pensionmail.shtml>

For specific questions regarding the tax implications, employees should consult with a professional tax advisor or contact the IRS at 1-800-TAX-1040.

Enclosure

*Fact Sheet #81, Loans*