

A PUBLICATION OF THE NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

Loans

Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS) and State Police Retirement System (SPRS)

REQUIREMENTS

In order to be eligible to borrow from your pension account, you must meet all of the following requirements.

- You must be an active contributing member of an eligible State-administered retirement system. Retirees and members who are not in a "regular" pay status (i.e., suspended without pay or an unpaid leave of absence) are not eligible for a pension loan.
- You must have three years of contributing membership POSTED to your account. (Pension contributions and service credit are updated and posted to your account on a quarterly basis. For most members, eligibility to borrow occurs three years and two months after enrollment.)
- Loans are made in multiples of ten dollars. You may borrow up to one-half of all pension contributions posted to your account provided that your total outstanding loan balance will not exceed a maximum of \$50,000 under the criteria listed below. Internal Revenue Service (IRS) regulations regarding subsequent loans require that 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.
- The \$50,000 maximum is comprised of the following:
 - the amount of the loan you are currently requesting; plus
 - your highest outstanding loan balance from the PERS, TPAF, PFRS and/or SPRS in the prior 12 months; plus
 - the highest outstanding loan balance from any other governmental plans sponsored or administered by your public sector employer (see also "Maximum Loan Balance" on page 2).
- You are permitted no more than two loans in a calendar year.
- You must submit your loan request online using the Member Benefits Online System (MBOS) at: www.state.nj.us/treasury/pensions/mbosregister.shtml or by calling the Automated Information System at (609) 292-7524. A nonrefundable administrative fee is deducted from the requested loan amount. Limited access to a computer or a member's reluctance to use MBOS or the Automated Information System will not be considered sufficient circumstances to allow manual loan processing. Printed applications are no longer accepted.

IMPORTANT REPAYMENT INFORMATION

Before you take a pension loan, read the following repayment provisions carefully:

- Your total outstanding loan balance must be repaid within five years. If you take another loan while you still have an outstanding loan balance posted to your account, the combined loan balance must still be repaid within the original five year period from the first loan. Your minimum loan repayment amount cannot be less than your pension contribution.
- Your maximum loan repayment amount cannot exceed 25 percent of your base salary amount.
- Your interest rate is set for the duration of the loan at the time the loan is processed and is calculated on the unpaid balance of the loan. For the current interest rate set by the State Treasurer and administrative fee go to: www.state.nj.us/treasury/pensions/loans-home.shtml
- A loan balance can be paid in a lump sum (see “Paying Off Your Loan Early” on page 6). Contact the Automated Information System at (609) 292-7524 for a loan pay-off amount.
- If you retire with an outstanding loan balance, you have the option to pay off the outstanding loan balance in its entirety or to repay the loan through deductions from your retirement allowance until the balance of the loan together with interest is repaid. Payments will be the monthly equivalent of the amount deducted from your paycheck immediately before retirement.
- If you die before the outstanding loan balance with interest has been recovered, the remaining balance will be repaid from the proceeds of any other benefit payable to your beneficiary(ies), including group life insurance or monthly retirement benefit payments.

MAXIMUM LOAN BALANCE

The maximum loan balance cannot exceed \$50,000 or one-half of your posted pension contributions, whichever is less. The \$50,000 maximum includes the amount requested combined with the highest balance due (without interest) for all existing loans that you have due to your public employment, including any other governmental plans sponsored or administered by your public sector employer during the prior 12 month period. When you submit your loan request online using MBOS, you will be required to indicate whether you have taken a loan in the prior 12-month period (other than PERS, TPAF, PFRS or SPRS) from plans offered by your public employer (as described above). It is important to maintain documentation for your records of the pension loans taken from other plans offered by your employer in the event of an audit. Any amounts received in excess of the maximum may be declared a deemed distribution and subject to additional tax by the IRS (see “IRS Requirements” on page 5).

The following examples illustrate how the maximum loan balance rule can limit the amount you may borrow:

Example 1: A PFRS member has no loans from the PFRS or any other plan offered by his public employer. He borrows \$50,000 from his total PFRS contributions of \$100,000 on April 1, 2013, and all required loan payments are deducted from his paycheck on a regular basis. On January 1, 2014 he requests a small loan that would bring his total outstanding loan balance back to \$50,000. The loan request is rejected because the highest outstanding loan balance in the prior 12 month period was at the \$50,000 maximum limit. The member will be unable to borrow from

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his account until the highest outstanding loan balance in the prior 12 month period falls below the \$50,000 limit.

Example 2: A TPAF member borrows \$15,000 on March 1, 2013, from a 403b retirement savings plan offered by her school district. At the time the loan is taken, the member had no prior loan. On February 1, 2014 the member attempts to borrow \$40,000 from her TPAF contributions. The member has no prior loan from the TPAF and the amount requested does not exceed one-half of the posted pension contributions. At the time the TPAF loan is requested, the member's outstanding loan balance from the retirement savings plan offered by her school district is \$10,000 as verified by the plan administrator in writing. However, since the highest loan balance in the prior 12 month period for that loan was \$15,000, the maximum amount the member may borrow from her TPAF account is \$35,000. This is because the amount which the member may borrow cannot exceed \$50,000 when *combined* with the highest balance due during the prior 12 month period for any loans that she has due to her public employment.

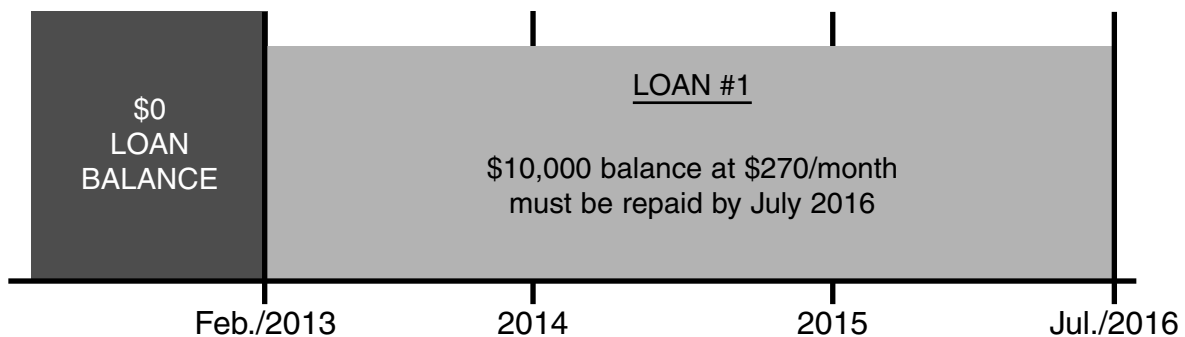
REPAYMENT DEDUCTIONS

The minimum deduction for your loan is set by law as no less than your pension contribution. You can request a repayment larger than the minimum deduction; however, the deduction cannot exceed 25 percent of your base salary.

Some members with an outstanding loan balance may be required to pay more than the minimum deduction. If you take a second loan when you already have an outstanding loan, the two loans are combined and the five-year maximum repayment period that applied to your previous loan also applies to your new loan (multiple loans are also subject to the maximum loan balance requirements described above).

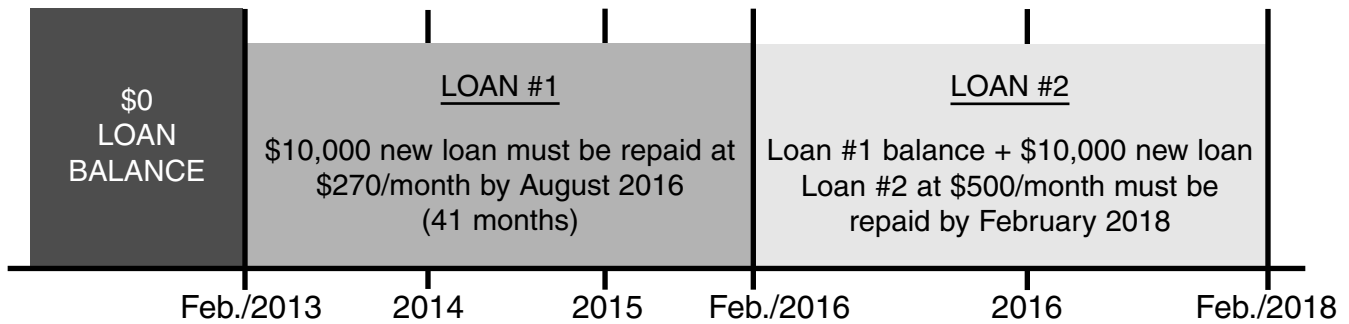
The following examples illustrate how the five-year repayment rule can affect your minimum loan repayment:

Example 1: A member borrows \$10,000 on February 1, 2013 and requests the minimum loan repayment. At the time the loan is taken, the member had no previous outstanding loan. The minimum loan repayment is determined to be \$270 per month payable over 41 months (this is equal to the member's monthly pension contribution). If this member is paid by the State's Centralized Payroll system, the repayment would be 82 biweekly deductions of \$135.



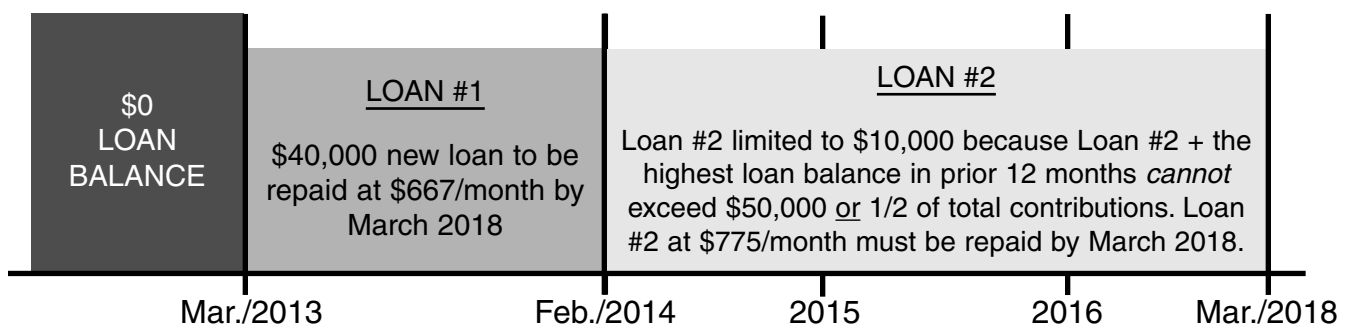
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On February 1, 2016, the member borrows an additional \$10,000 and again requests the minimum loan repayment. Because the member still has a balance remaining on his previous loan, the entire loan must be repaid by no later than February 1, 2018 or five years from the date of the February 1, 2013 loan. Based on a two-year repayment term, the member’s minimum loan repayment on the new loan balance is determined to be \$500 per month.



Example 2: The following example illustrates the five-year repayment rule *and* the maximum \$50,000 limit:

A member borrows \$40,000 on March 1, 2013 with a monthly repayment of \$667, which does not exceed one-half of her posted pension contributions. At the time the loan is taken, the member had no previous loan from her pension or from any other plan related to her public employment. On February 1, 2014 the same member wishes to borrow an additional \$15,000. At the time the additional loan is taken, the member’s outstanding loan balance is \$34,000 (\$6000 has been repaid and posted to her account). However, since the highest loan balance in the prior 12 months was \$40,000, the member’s new loan request is limited to \$10,000 because the amount which the member may borrow cannot exceed \$50,000 or one-half of the posted pension contributions when combined with the highest balance due for an existing loan during the prior 12 month period.



Loan schedule — The number of loan payments and the amount of interest is dependent upon a continuous repayment schedule. If you are not receiving your paycheck for any reason and your loan deductions are not remitted as scheduled, your loan balance will accrue additional interest. It is important that you notify the Division of Pensions and Benefits immediately upon your return to payroll so your loan

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plus additional accrued interest can be rescheduled. Failure to notify the Division in a timely manner will cause additional interest to accrue.

Canceling Your Loan — If you are not satisfied with the loan amount or the repayment schedule when you receive your check, you may cancel the loan by returning the original unmarked and uncashed loan check. When a loan check is returned, the funds are deposited back into your pension account and any remaining loan balance will be rescheduled using the current interest and pension contribution rate. The returned funds will be available to borrow after the check is deposited in your account.

INTERNAL REVENUE SERVICE (IRS) REQUIREMENTS

All pension loans must be repaid within a period not to exceed five years. If you have an outstanding loan balance and apply for a new loan, the entire balance must be repaid within five years of the date of the first loan. Furthermore, the new loan amount, when added to the highest balance due (without interest) during the prior 12 month period for all loans from all retirement plans* cannot exceed \$50,000. Amounts received in excess of the maximum permitted by the IRS shall be declared a deemed distribution and subject to additional tax. Please note that having your loan treated as a distribution does not relieve you of repaying the loan unless you terminate your account by withdrawing your contributions minus the existing loan balance. If you withdraw from the retirement system, your settlement will be the net amount of your contributions minus the outstanding loan. If you return to work and your account is reactivated or you retire, you must repay the full amount of the outstanding loan with additional interest computed from the date you stopped making loan payments.

Under federal regulations, you must make regular periodic payments to repay your outstanding loan. If you take out a loan and fail to make required loan repayments, the Division of Pensions and Benefits will treat your outstanding loan as a deemed pension distribution. A deemed distribution cannot be cancelled by resuming loan payments or repaying the loan in full. Unlike a normal pension distribution, a loan treated as a distribution cannot be rolled over to an IRA or another qualified retirement plan.

If all or any part of your loan is declared a deemed distribution, you will have to claim the loan amount as additional income when you file your federal income tax return for the year in which the loan distribution occurred. If you are under age 59½, you will also be assessed 10 percent federal tax by the IRS at the time you file your federal tax return for taking an early pension distribution. The loan distribution will not be subject to New Jersey state tax.

If your loan is treated as a distribution, you will receive IRS *Form 1099-R* from the Division of Pensions and Benefits in January following the year in which the distribution occurred. The form will indicate how much you must include in your income for tax reporting purposes. Generally, the full amount of the outstanding loan will be taxable; however, if you made after-tax contributions to your pension account, a portion of the outstanding loan will be non-taxable.

If you terminate your employment or take a leave of absence without pay and your loan repayments stop, your outstanding loan will be treated as a deemed distribution unless you either pay off your loan balance by making a lump-sum payment or resume your loan repayments by making monthly payments through the Division's loan billing system. The Division will notify you if your loan deductions stop and provide these options to you after six months of non-payments are posted to your account. You must

**This includes all retirement plans that you have an interest in due to your employment relationship with New Jersey and/or any other governmental plans sponsored or administered by your public sector employer in New Jersey.*

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return your payment option selection within 30 days of the notification letter to avoid having your unpaid loan balance declared a pension distribution.

SUBMITTING YOUR PENSION LOAN REQUEST

Submit your loan request online using MBOS at: www.state.nj.us/treasury/pensions/mbosregister.shtml or by calling the Automated Information System at (609) 292-7524.

If you are having difficulty submitting your loan request, see your human resources representative or benefits administrator. Members who are actively working, but shown as inactive from payroll may still be able to borrow, but a *Certified Loan Request* form must be submitted by the employer to verify the employee's active pay status.

If you have established a security freeze on your account due to identity theft, you will not be able to process a loan online or by phone. Contact the Office of Client Services at (609) 292-7524, and the Division's ID Theft Coordinator will handle the processing of your loan request.

PAYING OFF YOUR LOAN EARLY

You may make a lump sum payment to pay off your full loan amount at any time; however, partial repayment of your loan balance is not permitted. You may request a lump sum payoff letter using the "Letters and Statements" application in MBOS at: www.state.nj.us/treasury/pensions/mbosregister.shtml or by calling the Office of Client Services at (609) 292-7524 and requesting a lump sum payoff letter through the Automated Information System. The *Loan Payoff Letter* will be mailed to you with the amount due and the date that your payment must be received by the Division.

The Division updates your account with pension contributions and loan repayments (including lump sum loan payments) on a quarterly basis. Please note that upon paying off your outstanding loan balance, the funds will not be immediately posted to your account and any future loan request is subject to the restrictions on maximum loan balances set forth in the IRS requirements.

This fact sheet has been produced and distributed by:

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