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STATE OF NEW JERSEY — DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS

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CERTIFIED LOAN REQUEST

All regular pension loan requests MUST be submitted using the Member Benefits Online System (MBOS). Use this form only when a member cannot submit a pension loan request using MBOS because:

1.) The member has been on leave of absence without pay or transferred employers within the last six months;

2.) The member is paid by State supplemental payroll; or

3.) The employer is late submitting the Quarterly Report of Contributions.

Do not submit this request for any other reason, as it will be returned. This request must be certified by the employer. Additional instructions are provided in the following page.

For more information about submitting a loan request using MBOS visit the Division of Pensions and Benefits Web site at: *www.state.nj.us/treasury/pensions*

LOAN PROVISIONS

Before submitting a *Certified Loan Request,* please be certain the member reads and understands these loan provisions **and** the IRS Requirements (listed on the reverse side of the request form).

- To be eligible to borrow, the member must be actively contributing to an eligible retirement system and have at least three years of contributing membership POSTED to the account. (This usually occurs three years and two months after enrollment.)
- Members are permitted **no more than two loans in a calendar year.**
- The loan balance cannot be more than one-half of the contributions posted to the member's account, cannot exceed a maximum of $50,000.
- **Loans must be repaid within five years.** Furthermore, members who have multiple outstanding loans **must repay the balance of all loans taken within a period not to exceed five years from the issuance of the first loan taken after January 1, 2004.** If a loan cannot be repaid within the five-year maximum when paid at the maximum allowable loan deduction of 25 percent of your base salary, the loan may be denied or the member may be issued a loan in a smaller amount than requested. Members with existing loan balances who take a new loan may see the loan deduction increase if the loan cannot be repaid within the five-year maximum when paid at the normal minimum deduction. (See the form instructions and IRS Requirements for additionial details.)
- The interest rate is the prevailing rate set annually by the Treasurer, and is calculated on the the unpaid balance of the loan. A nonrefundable administrative fee may also deducted from the requested loan amount. For the current interest rate and any administrative fee go to: *www.state.nj.us/treasury/pensions/loans_home.htm*
- If the member retires with an outstanding loan balance, the member will have the option to pay off the outstanding loan balance **in its entirety** or to repay the loan through deductions from the monthly retirement allowance until the balance of the loan **together with interest** is repaid. Payments will be the monthly equivalent of the amount deducted from compensation immediately before retirement.
- If the member dies 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 the beneficiary(ies), including group life insurance or monthly payments.

LOAN PROVISIONS *(Continued)*

INTERNAL REVENUE SERVICE (IRS) REQUIREMENTS

Internal Revenue Service regulations require that loans must be repaid within a period not to exceed five years.

The IRS further requires that members who have multiple outstanding loans must repay the balance of all loans taken within a period not to exceed five years from the issuance of the first loan taken after January 1, 2004. If a loan cannot be repaid within the five-year maximum when paid at the maximum allowable loan deduction of 25 percent of your base salary, the loan may be denied or the member may be issued a loan in a smaller amount than requested.

IRS regulations also require members to make timely payments toward outstanding loan balances. Members are notified* after nonpayment (zero contributions) toward the balance of an outstanding loan and offered the following options:

- Pay the loan off through a lump sum repayment;
- Repay the loan in monthly installments through personal billing;
- Take a taxable distribution; or
- If the member returns to employment, repay through employer payroll deductions.

Failure to repay a loan as scheduled may result in the unpaid loan balance being declared a taxable distribution which will be reported to the IRS. The Division of Pensions and Benefits will send the member a *Form 1099-R* for tax filing purposes in January of the following year. the member will be required to include the portion of the loan representing before-tax contribution as income on their federal return. In addition, if under age 59½, the member will be required to pay an additional ten percent tax for taking an early pension distribution.

A "taxable distribution" cannot be cancelled by resuming loan payments or repaying the loan in full prior to the end of the tax year in which the taxable distribution occurs. Please note that unlike a normal pension distribution, a loan treated as a distribution cannot be rolled over to an IRA or another qualified retirement plan. Members who take a loan and subsequently fail to remit loan payments may also be subject to additional IRS penalties. Additionally, active and vested members who have a taxable distribution are required to repay the balance of the loan to the retirement system.

Since these are federal regulations, neither the Boards of Trustees nor the Division of Pensions and Benefits has the authority to waive or delay the application of these provisions.

**Members must return their payment option selection within 30 days of notification of nonpayment; failure to respond within the 30 days will result in the unpaid loan balance being declared a taxable distribution.*