Have You Taken A Pension Loan Since January 1, 2004,

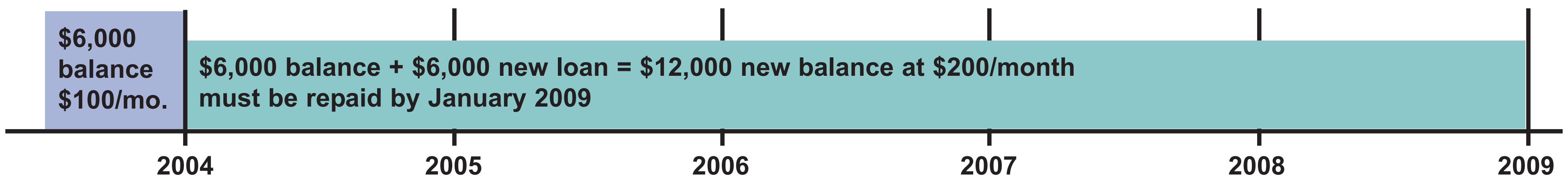
And Thinking Of Borrowing Again?

— THEN YOU NEED TO READ THIS! —

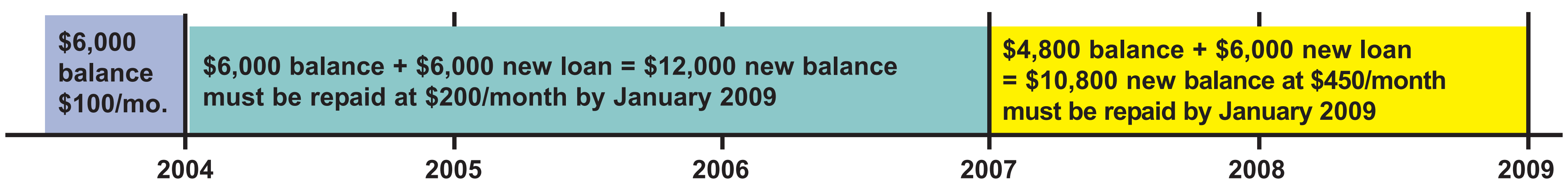
Since January 1, 2004 Internal Revenue Service regulations required that pension loans must be repaid within a five-year period. If you took a loan after January 2004 and your original loan balance was not completely paid off, the repayment period on *any additional loans* will remain 5 years from the date of the *first loan* taken after January 1, 2004.

Take as an example, Charlie Miller who has a loan balance and plans to take several more loans in the future.

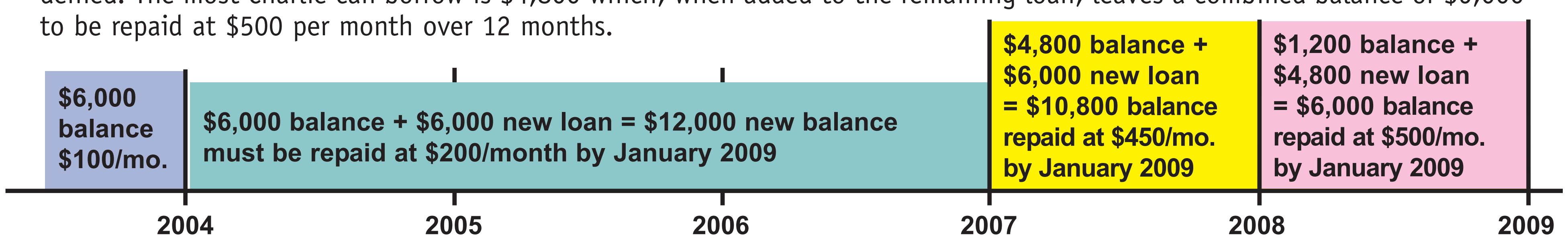
- Charlie makes $24,000 each year. Charlie has taken loans in the past and had an outstanding loan balance of $6,000 when he applied for a loan in January 2004 for another $6,000. Charlie's new loan balance was $12,000. Charlie asked for the minimum repayment schedule; however, because he must pay the loan within 5 years (by the end of **January 2009)**, his repayment schedule was **$200** per month.



- **In January 2007** Charlie decides to take another loan for $6000. He has repaid $7,200 of his existing loan leaving a balance of $4,800. That makes his new combined loan balance $10,800 which **MUST BE REPAID by the end of January 2009!** (Five years from the date of the January 2004 loan.) This means Charlie must repay $450 per month for 24 months, to repay the full loan balance by the end of January 2009. (His loan repayment has increased by $250 per month!)



- **By January 2008** Charlie has repaid $9,600 from his loan leaving a balance of $1,200. Borrowing another $6,000 would give him a new loan balance of $7,200 **TO BE REPAID by the end of January 2009.** This means Charlie's would need to repay $600.00 per month. However, the law states that **a loan repayment cannot be more than 25% of base salary.** Because Charlie's salary is $24,000, his loan repayment cannot be more than $500 per month, so his loan request for $6,000 would be denied. The most Charlie can borrow is $4,800 which, when added to the remaining loan, leaves a combined balance of $6,000 to be repaid at $500 per month over 12 months.



PLEASE REMEMBER WHEN TAKING A LOAN...

1. ***Always* check with the Division of Pensions and Benefits before taking a loan.** You can check your outstanding balance, available loan amounts, and repayment schedule on the **Member Benefits Online System (MBOS)** or by calling the Automated Information System at (609) 777-1777.

2. **If you take a loan, *CAREFULLY* review the repayment schedule listed on the stub attached to the loan check!** By cashing the check you agree to the repayment terms and conditions required by the IRS and the State of New Jersey. If you are not happy with the loan amount or the repayment schedule you can send the **uncashed** check back to the Division of Pensions and Benefits.

3. **The Division of Pensions and Benefits loan regulations will otherwise remain the same:**

- You must have three years of pension membership credit posted to your retirement system account to be eligible to borrow. Pension credit is posted on a quarterly basis approximately 45 days after the end of the fiscal quarter.
- You may borrow up to two times each calendar year.
- You may borrow up to one-half of your posted pension contributions, but not more than than a total balance of $50,000 (whichever is less). Loan amounts must also be payable within the five-year repayment window.
- Your minimum repayment amount is set by law as no less than your full pension contribution: 5.5% or 5% based on union contract for PERS and TPAF, 8.5% for PFRS, 7.5% for SPRS and Prosecutors Part of PERS, and 3% for JRS.
- The maximum repayment allowed is 25% of your base salary.
- The interest rate varies. Please check our Web site at *www.state.nj.us/treasury/pensions/* for the current rate.
- If you fail to make loan payments or repay within a five-year period, your loan may be considered a taxable distribution.

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