Loans

In order to be eligible to borrow from your pension account in the Public Employees’ Retirement System (PERS), Teachers’ Pension and Annuity Fund (TPAF), Police and Firemen’s Retirement System (PFRS), State Police Retirement System (SPRS), or Judicial Retirement System (JRS), you must meet the following requirements:

- You must be an active, contributing member of an eligible New Jersey State-administered retirement system. Retirees and members who are not in a regular pay status (i.e., suspended without pay or on an unpaid leave of absence) are not eligible for a pension loan; and

- 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.

You are permitted no more than two loans in a calendar year. Applications must be submitted online via your Member Benefits Online System (MBOS) account. A nonrefundable administrative fee is deducted from the requested loan amount. Printed applications are not accepted. (JRS members, see the “Submitting Your Loan Request” section.)

You may borrow a minimum of $50, and loan amounts then increase in multiples of $10. You may borrow up to 50 percent of all pension contributions posted to your account, provided that your total outstanding loan balance will not exceed a maximum of $50,000. See the “Maximum Loan Balance” section for details.

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, visit our website at: www.nj.gov/treasury/pensions

MAXIMUM LOAN BALANCE

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, SPRS, and/or JRS in the prior 12 months; plus
- The highest outstanding loan balance from any other governmental plans sponsored or administered by your public sector employer.

When you submit your loan request, you will be required to indicate whether you have taken a loan in the prior 12-month period (other than from the PERS, TPAF, PFRS, SPRS, or JRS) from plans offered by your public employer. 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 Internal Revenue Service (IRS). See the “Internal Revenue Service (IRS) Requirements” section for more information.

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, 2016, and all required loan payments are deducted from his paycheck on a regular basis. On January 1, 2017, 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. He will be unable to borrow from 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, 2016, from a 403(b) retirement savings plan offered by her school district. At the time the loan is taken, she had no prior loan. On February 1, 2017, she attempts to borrow $40,000 from her TPAF contributions. She has no prior loan from the TPAF and the amount requested does not exceed 50 percent of the posted pension contributions. At the time the
TPAF loan is requested, the 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 she may borrow from her TPAF account is $35,000. This is because the amount she 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 public employment.

**FIVE-YEAR END DATE AND MINIMUM REPAYMENT AMOUNT**

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 be repaid within the original five-year period from the first loan.

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 previously described.

The following example illustrates how the five-year repayment rule can affect your minimum loan repayment:

**Example:** A member borrows $10,000 on February 1, 2013, and requests the minimum loan repayment. At the time the loan is taken, he had no previous outstanding loan. The minimum loan repayment is determined to be $270 per month payable over 41 months. This is equal to his monthly pension contribution.

On February 1, 2016, he borrows an additional $10,000 and again requests the minimum loan repayment. Because he 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 first loan (February 1, 2013). Based on a two-year repayment term, his minimum loan repayment on the new loan balance is determined to be $500 per month.

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

**Example:** A member borrows $40,000 (which does not exceed 50 percent of her posted pension contributions) on March 1, 2013, with a monthly repayment of $667. At the time the loan is taken, she had no previous loan from her pension or from any other plan related to her public employment. On February 1, 2014, she wishes to borrow an additional $15,000. At the time the additional loan is taken, the member’s outstanding loan balance is $34,000 ($6,000 has been repaid and posted to her account). However, since the highest loan balance in the prior 12 months was $40,000, her new loan request is limited to $10,000 because the amount she may borrow cannot exceed $50,000, or 50 percent of the posted pension contributions when combined with the highest balance due for an existing loan during the prior 12-month period. Her minimum loan repayment on the new loan balance is determined to be $775 per month, which must be repaid by the original five-year end date (March 1, 2018).
SUBMITTING YOUR LOAN REQUEST
You must submit your loan request using your MBOS account and provide a valid bank routing number and account number.

All loans are disbursed by Electronic Fund Transfer (EFT). Paper loan checks are no longer produced under any circumstance.

By submitting a loan application through MBOS, you are agreeing to the loan amount and terms and conditions of the repayment schedule.

Once the loan application is submitted, a pension loan cannot be canceled. If you are not satisfied with your loan amount or the repayment schedule after your loan is disbursed, you can request a repayment figure for the loan balance, plus any accrued interest prior to the end of the regular repayment schedule. See the “Paying Off Your Loan Early” section.

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; a Certified Loan Request form must be submitted by the employer to verify the employee’s active pay status.

Access to MBOS is not currently available to members of the JRS. To apply for a pension loan, JRS members should complete the JRS Loan Application and mail it to the NJDPB. The application can be found on the NJDPB website.

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

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 New Jersey Division of Pensions & Benefits (NJDPB) immediately upon your return to payroll, so your loan plus additional accrued interest can be rescheduled and repaid by your five-year end date. Failure to notify the NJDPB in a timely manner will cause additional interest to accrue and may result in tax penalties from the IRS. See the “Internal Revenue Service (IRS) Requirements” section for more information.

INTERNAL REVENUE SERVICE (IRS) REQUIREMENTS
Any outstanding loan balance 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. 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 for three consecutive months due to termination of employment or taking a leave of absence without pay, the NJDPB will send you a letter providing options to pay the outstanding balance, either by a lump-sum payment or by making monthly payments through the NJDPB’s loan billing system. Your response is required within 30 days of receipt of the letter. If the payment is not made, the NJDPB will treat your loan as a deemed distribution. Unlike a normal pension distribution, a loan treated as a distribution cannot be rolled over to an IRA or other 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 59 1/2, 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 NJDPB 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.

PAYING OFF YOUR LOAN EARLY
You may make a lump-sum payment to pay off your full loan amount; however, partial repayment of your loan balance is not permitted. You may request a lump-sum payoff letter using the “Letters and Statements” application through MBOS or by calling the Office of Client Services at (609) 292-7524. The payoff letter will be mailed to you with the amount due and the date that your payment must be received by the NJDPB.
**Loans**

**Note:** Due to time frames associated with certifying loan deductions and payments, a lump-sum payoff may not be an option if your loan has less than six bi-weekly or three monthly payments remaining on your entire balance.

The NJDPB updates your account with pension contributions and loan repayments (including lump-sum loan payments) on a quarterly basis. Please note that any repaid funds will not immediately post to your account, and any future loan request is subject to the restrictions on maximum loan balances set forth in the IRS requirements.

**LOAN BALANCE AT RETIREMENT**

If you retire with an outstanding loan balance you have two options: pay off the outstanding loan balance in its entirety, or repay the loan deductions from your retirement allowance until the balance of the loan plus interest is repaid. The monthly loan payment will be calculated to have the loan plus interest satisfied by your five-year end date.

**LOAN BALANCE UPON DEATH OF MEMBER**

If you die before the outstanding loan balance plus 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.

This fact sheet has been produced and distributed by:

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