Loans

Information for:
All Funds

OVERVIEW

Pension loans are a benefit offered to active members of the Public Employees Retirement System (PERS), Teacher's Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), State Police Retirement System (SPRS), or Judicial Retirement System (JRS).

The New Jersey Division of Pensions & Benefits (NJDPB) allows you to borrow from your retirement system 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 at the time of the loan request, provided that your total outstanding loan balance will not exceed $50,000. See the "Maximum Loan Balance" section for details.

The NJDPB updates your account with pension contributions and loan repayments (including lump-sum loan payments) on a quarterly basis, by the end of the month in February, May, August and November. These updates are for transactions in the prior quarter. When you make a payment, those funds will not immediately post to your account, and your future borrowing eligibility may be delayed due to the restrictions on maximum loan balances set forth in the IRS requirements.

All loans are disbursed using Electronic Fund Transfer (EFT). Once a loan is requested it cannot be canceled. Loan disbursements may not be returned. If you are unsatisfied with your loan balance or repayment schedule, you may request a full loan payoff. See the "Paying Off Your Loan Early" section.

REQUIREMENTS FOR TAKING A LOAN

In order to be eligible to borrow from your pension account 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.
- 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; additional loan requests will be denied.
- You must have a valid bank routing number and account number when submitting a Loan Application; the NJDPB does not send paper checks.
- You must submit your application online via your Member Benefits Online System (MBOS) account.

  Note: 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. Members applying for a loan within six months of returning from a leave of absence or transferring to a new employer within the same or different retirement systems, or State employees paid on a supplemental payroll schedule may not be able to access the MBOS Loan Application. In these cases, your employer must complete a *Certified Loan Request,* to verify your salary and/or certify that you are actively employed. Above-referenced applations can be found on the NJDPB website at: ***www.nj.gov/treasury/pensions***
- 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.

INTEREST RATE AND ADMINISTRATIVE PROCESSING

Interest is charged on the declining balance of the loan at a commercially reasonable rate set annually by the New Jersey State Treasurer. When you borrow, you will have the same interest rate for the life of your loan unless you borrow again in a different calendar year after the interest rate has changed. Every time you borrow, the entire outstanding balance is recertified at the current year's interest rate. You can view your loan certifications on MBOS to see your repayment rate and the scheduled number of payments. The new loan must be repaid within five years of the original loan date. The interest rate is determined using the Prime Rate as of December of the previous year plus 2.5 percent. An administrative processing fee applies to all pension loans, which is set annually and based on the actual costs associated with administering the pension loan program. For the current interest rate set by the State Treasurer and administrative fee, visit our website.

MAXIMUM LOAN BALANCE AND BORROWING LIMITS

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. See "Appendix" for detailed examples of borrowing scenarios.

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 choose a payment amount 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. All loans are also subject to the maximum loan balance requirements previously described. See "Appendix" for detailed examples of borrowing scenarios.

LOAN SCHEDULE

Loans are calculated to allow the longest amount of time to pay them off at the lowest monthly repayment rate, unless otherwise requested. 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 if you are off payroll for any amount of time. It is important that you notify the 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. The NJDPB reserves the right to audit your loan balance at any time, including after retirement.

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.

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 biweekly 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. These options and amounts will be provided to you on your *Quotation of Retirement Benefits* after your retirement has been calculated.

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.

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.

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APPENDIX

Examples for Five-Year End Date and Minimum Repayment Amount

Example 1: *A member who has no outstanding loan borrows $10,000 on February 1, 2020, and requests the minimum loan repayment. This is determined to be $270 per month for 41 months based on his monthly pension contribution. Therefore, this loan would be repaid by July 1, 2023. On February 1, 2023, he takes another loan of $10,000 and requests the minimum loan repayment. As he still has a balance left on the first loan, the remaining balance on the that loan plus the new loan must be paid by February 1, 2025 - five years from the date he took his first loan. Based on his new repayment term, his minimum loan repayment is determined to be $500 per month to have the entire loan balance paid off by February 1, 2025.*

Example 2: *A member who has no outstanding loan is eligible for and borrows $40,000 on March 1, 2020, with a monthly repayment of $667. On February 1, 2021, she wishes to borrow an additional $15,000. By this time, she has repaid $6,000 which has been posted to her account. However, since her highest loan balance in the prior 12 months was $40,000, her new loan request is limited to $10,000 as 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 previous balance plus the new balance is determined to be $775 per month, which must be paid by the original five-year end date (March 1, 2025).*

Examples for Maximum Loan Balance and Borrowing Limits Section

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 of the current year, and all required loan payments are deducted from his paycheck on a regular basis. On January 1 of the following year, 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 of the current year 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 of the following year, 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.*