

# Retirement Plan Loan Information Guide

Retirement plan loans may be made to Participants if permitted in the Plan Document and a Participant Loan Program is adopted by the Plan Sponsor. The Plan Administrator, who is generally the Plan Sponsor, has the responsibility to approve or deny Participant loan requests, submit timely loan payments and monitor loan reports.

## Regulations vs. Plan Document and Participant Loan Program

The **Regulations** impose certain loan limits and restrictions:

- **Maximum Loan Amount:** Generally, loans cannot exceed the lesser of 50% of a participant's vested account balance or \$50,000 (reduced by the highest outstanding loan balance in the last 12-month period reduced by any outstanding loan balance at the time of the new loan). The regulations do include an exception to this limit if 50% of the vested account balance is equal or less than \$10,000, the Participant may borrow up to the \$10,000. However, because this exception is optional and requires the Plan Sponsor to obtain additional collateral outside the Plan, the Participant Loan Program is generally written to exclude this exception.
- **Maximum Repayment Period:** Generally, under the level amortization repayment requirement, the term of a plan loan cannot exceed five years. An exception is available for Participants requesting a loan for the purchase of the Participant's principal residence (i.e., a home loan). Generally, the repayment period for a home loan may be any reasonable period and may exceed five years. The Regulations do not address an acceptable repayment period for a home loan; however, the examples provided in the Regulations indicate a 15-year repayment term for a home loan.

The **Plan Document and Participant Loan Program** may establish additional restrictions:

- **Minimum Loan Amount:** The Plan may establish a minimum loan amount that a Participant may borrow; however, the minimum amount may generally not exceed \$1,000.
- **Interest Rate:** A reasonable rate of interest must be charged. The regulations do not establish a safe harbor standard for determining a reasonable rate of interest. Some plans use a formula tied to a commercially-recognized benchmark such as the current prime rate plus 1% or 2%. The Plan Sponsor may determine a rate that satisfies the commercially-reasonable standard.
- **Number of Loans Outstanding:** The Plan may limit the number of outstanding loans a Participant may have at any time.
- **Account Restrictions:** The Plan may restrict the loan proceeds be withdrawn from certain Participant accounts, such as the pre-tax elective deferral account, the rollover account, etc.
- **Loan Purpose:** The Plan may restrict the purpose of the loan be made for hardship or financial necessity reasons only. However, it will be the Plan Administrator's responsibility to obtain proper documentation when a loan is requested.

## The Retirement Plan Loan Process

Two loan request options: (1) Online Loan Request or (2) Paper Loan Request.

### Option 1: Online Loan Request (If applicable to your plan)

- **Loan Application:** If a Participant is considering applying for a loan, the Participant may 'model' different loan scenarios by accessing his/her retirement account. Once logged in, the Participant selects the 'Loans & Withdrawals' tab, then they will use the drop down to select the loan type: personal or residential. The Participant can click on 'What you should know' to view the minimum and maximum loan amounts available for the Participant and maximum duration terms. The Participant can then use the 'Quick Loan Calculator' to choose the desired loan amount and number of payments in order to model different loan scenarios. An estimated payment amortization schedule based on the Plan's payroll frequency will be calculated. The Participant may also contact a Retirement Services to assist with the loan modeling by calling toll-free (888) 755-3039, Monday thru Friday, 8 am to 8 pm ET. If a Participant decides to apply for a loan, they will need to click on 'Get Started' to complete the Online Loan request and submit to the Plan Sponsor for approval.
- **Loan Approval:** The Plan Administrator shall determine whether a Participant qualifies for a loan, in accordance with the provisions of the Plan's Participant Loan Program.

If the Participant is requesting an extended repayment term because the loan is for the purchase of a primary residence, obtaining additional documentation such as a copy of the purchase agreement is advisable prior to loan approval. Similarly, if the Plan document specifies loans are made for hardship reasons only, obtaining additional documentation supporting the hardship claim is advisable prior to approval. The Plan Administrator will receive an email notification of the Online Loan request and will log-in to approve or deny the request.

- **Loan Documents:** The Participant will receive a confirmation number and email notification of the original Online Loan request terms. Upon approval by the Plan Administrator, the loan request will be processed with proceeds released as soon as administratively feasible. The Participant may be required to upload additional information such as purchase agreements or proof of hardship, if applicable, prior to approval.

## Option 2: Paper Loan Request

- **Loan Application:** If a Participant is considering applying for a loan, the Participant may 'model' different loan scenarios by accessing his/her retirement account. After logging into the account, the Participant selects **Loans & Withdrawals** from the menu bar. Under Loans, they can select a **Loan Type** and choose between Personal Loan or Residential Loan. Then they select the **Quick Loan Calculator** link to enter the amount they wish to borrow and the number of payments and select **Calculate**. They can select **Review Amortization Schedule** to view the loan terms and amortization schedule. The loan calculator is an estimate calculation based on the participant's current vested account balance and interest rate assumptions. The Participant may also contact a Retirement Services to assist with the loan modeling by calling toll-free (888) 755-3039, Monday thru Friday, 8 am to 8 pm ET.

If a Participant decides to apply for a loan, he/she will need to complete the Loan Application and submit to the Plan Sponsor for approval. The Loan Application is located on both the Plan Sponsor and Participant Web under the 'Forms' tab.

- **Loan Approval:** The Plan Administrator shall determine whether a Participant qualifies for a loan, in accordance with the provisions of the Plan's Participant Loan Program.

If the Participant is requesting an extended repayment term because the loan is for the purchase of a primary residence, obtaining additional documentation such as a copy of the purchase agreement is required prior to loan approval. Similarly, if the Plan document specifies loans are made for hardship reasons only, obtaining additional documentation supporting the hardship claim is generally required prior to approval. Once approved, the Loan Application may be faxed or emailed to WorkSaveRetire.

- **Loan Documents:** Upon receipt of the completed Loan Application, additional loan documents are drafted and emailed to the Plan Sponsor. The Plan Sponsor works with the Participant and spouse (if applicable) to obtain signatures, and coordinates with payroll to ensure payments are set up according to the amortization schedule provided. If the Plan does not provide for an annuity option at distribution, spousal consent for the loan withdrawal will not be required. Signed loan documents are faxed or emailed back to WorkSaveRetire on the date signed. The originals should be maintained by the Plan Sponsor and kept with the employee's records.

## Loan Fees – Set Up, Maintenance, and Re-Amortization

Loan processing fees are outlined in your Plan Services Agreement and disclosed to participants in the Plan's Annual Notice (fees are generally assessed directly to the Participant's account):

- **Loan Set Up** - this includes adequate security calculation, Promissory Note, and Amortization Schedule.
- **Annual Loan Maintenance Fee** - is assessed annually for recordkeeping.
- **Loan Refinance** - this includes adequate security calculation, Promissory Note and Amortization Schedule.
- **Revised Amortization Schedule** - to re-amortize an existing loan amortization schedule due to missed loan payment(s), leave of absence, or other situations that may require a loan to be re-amortized.

## Changing Payroll Schedule

If the Plan Sponsor's payroll schedule changes and the Plan includes active participant loans, the loans should be reamortized to coincide with the new payroll schedule. Please notify WorkSaveRetire to prepare the necessary documentation, including a Promissory Note Modification form for each Participant to acknowledge the new payment schedule based on the new payroll frequency. A fee is charged for each loan re-amortization; the Plan Sponsor may pay the fee directly or have the fee invoiced with the regularly scheduled quarterly fee.

## Loan Refinances

The Plan Sponsor may choose to allow loan refinances; special language is required in the Participant Loan Program and additional fees do apply. The most common reasons to refinance a participant loan is to increase the amount borrowed or to extend the repayment term to the maximum period allowed (e.g., increasing the payment term on a 2-year loan to 5 years). The term of the refinanced loan and additional amount available are subject to special adequate security calculations. The current interest rate at the time of the refinance will be used; this rate may be greater or less than the original interest rate.

## Loan Payments, Timely Remittance and Payoffs

Loan programs generally require repayment by payroll deduction as long as a loan recipient is employed. All payments of principal and interest made by the Participant are credited to that Participant's account.

The Department of Labor applies the same standards in determining if Plan Sponsors have submitted loan payments timely to the Plan as they do with employee deferral contributions. Generally, Plan Sponsors should submit loan payments to WorkSaveRetire as soon as administratively feasible; generally, no later than 7 business days following the loan payment deduction from payroll.

The loan may be prepaid at anytime, in whole or in part, without penalty. WorkSaveRetire will accept payment directly from the Participant issued in a money order or cashier's check. Personal checks are not accepted. The loan payoff or additional payments may also be submitted as a deduction from payroll.

## Monitoring Plan Loans

A Summary of Participant Loans report is generated and posted to the Plan Sponsor Web under 'Reports' each quarter. This loan report is also available on the Plan Sponsor Web as an "on demand" report that may be generated for specific participants or time periods. The Plan Sponsor should routinely review the participant loan records using this loan report, and contact their Account Manager if discrepancies are identified.

WorkSaveRetire will also review Plan loans on a quarterly basis to determine if any loans are behind on payments or in default status. The Plan Sponsor will be notified if any loan issues are identified.

## Loan Defaults

During quarterly report process, Participant loan balances are reviewed for missed payments or default status. The IRS requires loan payments of principal and interest to be made at least quarterly and repaid within five years (unless it is a principal residence loan). If no payments are made in a calendar quarter or the loan is not repaid within the repayment period, the outstanding loan balance is generally considered 'in default' effective with the last day of the quarter following the missed payment. For instance, if the next payment due date is June 15th and no payments are received in the third quarter, the loan is defaulted as of September 30th.

## Terminations

When a Participant terminates employment, the outstanding loan balance generally becomes due and payable upon termination of employment. The terms of the Loan govern the timing of the repayment requirement upon triggering events such as termination of employment, death, and disability; therefore, please refer to the Plan's Loan repayment provisions. If the terms of the loan provide that upon termination of employment the loan becomes due and payable, then the Plan offsets the outstanding loan balance from the Participant's vested account balance. The loan offset is treated as an actual distribution to the Participant subject to the applicable IRS taxation rules.

## Suspending Loan Payments

A Participant cannot choose to suspend loan payments unless the participant is on a Leave of Absence or Military Leave (discussed below). The regulations require that the loan be evidenced by an enforceable agreement in order for the loan to be exempt as a prohibited transaction. The Participant signs an irrevocable pledge and assignment of interest to secure repayment of the loan. If a Participant defaults on his loan repayments, the result is a deemed distribution of the entire unpaid loan balance because the repayment requirement is no longer being satisfied. The Plan Sponsor is responsible to ensure the payroll department is deducting the loan repayments in accordance with the amortization schedule. Should the payroll department fail to activate loan repayment deductions, please notify your Account Manager immediately to discuss options for correcting this type of failure.

## Leave of Absences

The repayment requirements are not violated if payments are suspended for up to one year because of a bona fide leave of absence. The Plan Sponsor should notify the Account Manager if a Participant with an outstanding loan will be on a leave of absence, as information such as the Participant Leave of Absence Notice and Election Form needs to be prepared and provided to the Participant.

The Participant may be given the option to continue payments or suspend payments during the leave. However, in no instance, can the loan be extended past the original 5 year maturity date. The interest on the outstanding loan balance continues to accrue during this leave.

## Military Leave

The Regulations permit a Plan to suspend the obligation to repay a participant loan for any part of any period during which the employee is performing military services. The Plan Sponsor may suspend loan payments during military duty which may exceed one year. Loan repayments resume when the military service is completed and the loan is repaid by amortizing the loan over the original period or latest permissible term of the loan plus the period of the military service.

Similar to the leave of absence rules, the interest on the outstanding loan balance continues to accrue. The Plan Sponsor should contact the Account Manager if this situation is presented.

## Changing Loan Provisions

Changes to loan provisions may require a Plan Amendment and new Participant Loan Program. The Plan Sponsor may change the minimum loan amount, number of loans outstanding at one time, limit the accounts in which loans can be withdrawn, or restrict the loan for hardship reasons only. If a Plan Amendment is requested to change the loan provision(s), a Plan Amendment Fee will be charged to the Plan Sponsor. Contact your Account Manager to discuss or request changes to your loan program.

## Additional Information

We strive to provide Plan Sponsors with the tools and assistance to carry out their administrative duties and decisions. The Plan Sponsor may contact their Account Manager with any questions regarding loan administration. Participant questions on loan availability or the loan process should be directed to our Retirement Services, toll-free at (888) 755-3039.

The information presented does not constitute tax, accounting or legal advice, and information presented about tax considerations is not intended as tax advice and should not be relied upon for the purpose of avoiding any tax penalties. Clients should review any planned financial transactions or arrangements that may have tax, accounting or legal implications with their personal professional advisors.

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