



State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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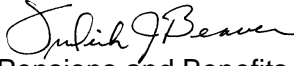
LOCATION:
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TRENTON, NEW JERSEY

MICHELLENE DAVIS
Acting State Treasurer

FREDERICK J. BEAVER
Director

December 4, 2007

TO: Certifying Officers, Human Resources Representatives, and Benefit Administrators

FROM: Frederick J. Beaver 
Director, Division of Pensions and Benefits

SUBJECT: Pension Loan Interest Rate and Administrative Processing Fee — Chapter 92, P.L. 2007

Chapter 92, P.L. 2007, required changes to the pension loan interest rate and the introduction of an administrative fee for pension loans. These changes apply to all loans taken by members of State-administered retirement systems that include loan privileges — the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, Police and Firemen's Retirement System, State Police Retirement System, and Judicial Retirement System.

LOAN INTEREST RATE

Under Chapter 92, pension loan interest rates are to be set annually by the New Jersey State Treasurer at a commercially reasonable rate. Interest rates will be announced each December with any rate change taking effect on January 1st of the new year.

For pension loans taken in 2008, the interest rate will be 4.69%
calculated annually on the declining balance of the loan.

This interest rate was determined using the average closing yield of five-year U.S. Treasury Notes* on the run as of the last business days of September, October, and November 2007. Seventy-five basis points were then added to compensate for credit risk.**

ADMINISTRATIVE PROCESSING FEE

Chapter 92 also authorized the charging of an administrative processing fee on all pension loans taken on or after January 1, 2008.

For pension loans taken in 2008, the administrative processing fee will be \$8.00.

The administrative processing fee is established by the Division of Pensions and Benefits and is set to recover the actual costs of administering the pension loan program. The administrative processing fee is subject to change annually with any change in the fee taking effect on January 1st each year.

* The five-year Treasury Note is the recommended benchmark because the maximum pension loan repayment period as established by the Internal Revenue Code is also five years.

**The added basis points are necessary because once the interest rate is set, it remains in effect for the entire year.

Note that the administrative processing fee is not an added charge, but is taken from the requested amount of the loan.

For example, if a member submits a loan request in 2008 for **\$1,000**, the Division will subtract the **\$8.00** administrative processing fee from the \$1,000 loan and the member will receive a check for the balance of **\$992**. Therefore, when submitting a loan application, a member should always request an amount sufficient to account for the needed loan **plus** the current administrative processing fee.

TIPS ON APPLYING FOR A PENSION LOAN

The Division asks that employers assist by informing employees about the new loan rate and fee. An information sheet is included with this letter and can be used as a hand-out or posted in a common area for employees.

We also offer the following guidance for loan procedures at the end of 2007 and as we begin 2008.

Loans in 2007

All *Loan Applications* received by the Division of Pensions and Benefits **on or before midnight December 31, 2007** will be eligible for the current annual interest rate of 4% with no administrative fee. Because a heavy volume of loan applications is anticipated in December, early submission of the loan request is strongly encouraged for members who wish to take a pension loan prior to the rate and fee changes.

- **To assure the most timely submission and fastest processing** of loan requests, employers should encourage employees to use the **online Loan Application** available on the **Member Benefits Online System (MBOS)**. MBOS loan requests are dated when the member completes and submits the online application. Therefore, an MBOS loan request received *on or before* 11:59 p.m. December 31, 2007 will be eligible for the 2007 interest rate. More information about MBOS and the online Loan Application is available at: www.state.nj.us/treasury/pensions At the Pensions and Benefits home page, click on "Online Member Services – MBOS".
- **Mailed Loan Applications** must be *received in the Division's mailroom* no later than the close of business December 31, 2007. Postmark dates will have no bearing on the loan interest/fee cutoff — members should allow sufficient time for post office delivery.
- **Members who wish to submit a Loan Application in person** must have the application delivered to the Division of Pension and Benefits, Office of Client Services by the close of business December 31, 2007. Members should call before visiting as office hours are subject to change due to inclement weather or other circumstances.
- **All members must meet all other eligibility criteria for taking a pension loan** including at least three years of posted service credit; current payroll status with the employer; etc. **Note that any Loan Application received from a member who has already taken two loans in 2007 will be held for the first available loan processing of 2008 regardless of the receipt date of the application.**

- The loan interest rate and addition of an administrative processing fee is determined by the date and time that the *Loan Application* is received by the Division of Pensions and Benefits and not by the date of the *loan check*. Valid *Loan Applications* received in December 2007 may have a check issuance date of January 2008.

Loans in 2008

All *Loan Applications* received by the Division of Pensions and Benefits **on or after January 1, 2008** will be processed for the new annual interest rate of **4.69%** and charged the **\$8.00** administrative fee. This includes:

- **Mailed or hand-delivered *Loan Applications*** received by the Division of Pension and Benefits *after* the close of business December 31, 2007 — postmark dates will have no bearing on the loan interest/fee cutoff for mailed *Loan Applications*.
- **Online *Loan Applications* received through MBOS** at 12:00 a.m. January 1, 2008 *or after*.

Please also note that if a member has an existing loan and takes a new loan on or after January 1, 2008. *The entire outstanding loan balance will be re-certified at the new interest rate.*

LOAN REPAYMENT

The minimum repayment amount on a pension loan is based on the member's pension contribution rate.

IRS regulations also require that members who have multiple loans outstanding must repay the balance of **all loans** within a period not to exceed 5 years from the issuance of the first loan taken after January 1, 2004. Some members with multiple outstanding loans may be required to pay *more than the minimum deduction*, so that repayment of the full outstanding balance will not exceed 5 years from the date of the first loan.

Furthermore, under state law, loan repayments cannot exceed 25 percent of base salary. If a loan cannot be fully repaid within the five years when paid at 25 percent of base salary, the loan request may be denied or the member may be issued a loan in a smaller amount than originally requested. Members are notified in writing should the Division deny a loan as the result of the minimum repayment exceeding 25 percent of the member's base salary.

ADDITIONAL INFORMATION

Information about pension loans is available to members and employers on the Division of Pensions and Benefits Web site at: www.state.nj.us/treasury/pensions. At the home page click on either "Links for Active Employees" or "Links for Employers," then select "Loan and Account posting information" from the "Quick Links" drop-menu.

If you have additional questions regarding Pension Loans or any of the information provided in this letter, contact the Division's Office of Client Services at (609) 292-7524, or e-mail the Division at: pensions.nj@treas.state.nj.us

Enclosure

CHANGES TO PENSION LOANS FOR 2008

- **Effective January 1, 2008 the interest rate on pension loans will be 4.69%** calculated annually on the declining balance of the loan.
- **For pension loans taken in 2008, the administrative fee will be \$8.00.**
- **The administrative fee is not an added charge.** Fees are taken from the requested amount of the loan. For example, if you submit a loan request in 2008 for **\$1,000**, the Division will subtract the **\$8.00** administrative fee from the \$1,000 loan and you will receive a check for the balance of **\$992**. When submitting a loan application, always request an amount sufficient to account for the needed loan **plus** the current administrative fee.
- **The interest rate and administrative fee are subject to change.** Interest and fees are set annually with any changes taking effect on January 1st each year.
- *Loan Applications* received by the Division of Pensions and Benefits *on or before* midnight December 31, 2007 will be eligible for the current annual interest rate of 4% with no administrative fee. Early submission of Loan Applications is strongly encouraged for members who wish to take a pension loan prior to the rate and fee changes.
 - ✓ **For the most timely submission and fastest processing** of loan requests, use the **online Loan Application** available on the **Member Benefits Online System (MBOS)**. MBOS loan requests are dated when you complete and submit the online application. An MBOS loan request received *on or before* 11:59 p.m. December 31, 2007 will be eligible for the 2007 interest rate. More information about MBOS and the online Loan Application is available at: www.state.nj.us/treasury/pensions At the Pensions and Benefits home page, click on "Online Member Services – MBOS".
 - ✓ **Mailed Loan Applications** must be *received in the Division's mailroom* no later than the close of business December 31, 2007. Postmark dates will have no bearing on the loan interest/fee cutoff — be sure to allow sufficient time for post office delivery.
 - ✓ **Hand-delivered Loan Applications** must be at the Division of Pension and Benefits, Office of Client Services by the close of business December 31, 2007. Call before visiting as office hours are subject to change due to inclement weather or other circumstances.
- **You must meet all other eligibility criteria for taking a pension loan.** *If you have already taken two loans in 2007 you will not be eligible to borrow and the loan request will be processed for the first available loan of 2008 regardless of the receipt date of the application.*
- *Loan Applications* received by the Division of Pensions and Benefits *on or after* January 1, 2008 will be processed for the new annual interest rate of **4.69%** and charged the **\$8.00** administrative fee. This includes:
 - ✓ **Online Loan Applications** received through **MBOS** at 12:00 a.m. January 1, 2008 or *after*.
 - ✓ **Mailed or hand-delivered Loan Applications** received by the Division of Pension and Benefits *after* the close of business December 31, 2007 — postmark dates have no bearing on the loan interest/fee cutoff for mailed *Loan Applications*.
- If you have an existing loan and take a new loan *on or after* January 1, 2008. *Your entire outstanding loan balance will be re-certified at the new interest rate.*