



State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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Director

September 8, 2008

TO: Certifying Officers
FROM: Frederick J. Beaver, Director, 
Division of Pensions and Benefits
SUBJECT: Online Application Requirement for Pension Loans

The Division of Pensions and Benefits is implementing significant changes to pension loan application procedures for members of the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), and State Police Retirement System (SPRS).

ONLINE LOAN APPLICATION REQUIRED

Effective November 1, 2008, an eligible member who wishes to borrow against their pension account, **must submit the loan request online** using the Pension Loan Application accessible through a personal account with the Member Benefits Online System (MBOS).

- The *Loan Application* will no longer be available as a printed form or through the Division's Web site.
- Paper *Loan Applications* that are received by mail as of November 1, 2008, will be returned to members with instructions on submitting the loan request through MBOS (see page 2 for specific exceptions).
- The Loan Fax number, which has been phased out of use since the introduction of loans through MBOS, will be completely disabled.

MBOS ACCESS

The Member Benefits Online System (MBOS) is a set of Internet applications that allow registered retirement system members access to their pension account information.

- MBOS provides members with the fastest, most efficient method for requesting a pension loan. Confirmation of a completed application is provided to the member on screen and by e-mail. Under normal circumstances, a loan application submitted through MBOS before the close of business (4:30 p.m.) on a Friday is processed and mailed on the following Wednesday.

- Employees who are already registered MBOS users currently have access to the online loan application through their MBOS account.
- Employees who are new to MBOS can access MBOS after they register with both the *MyNewJersey* Web site and MBOS. Registration is free; however, the registration process requires several steps and new users should carefully follow the MBOS *Registration Instructions* (see attachment).

If, after following the MBOS *Registration Instructions*, an employee still needs assistance registering for or using MBOS, they should call the MBOS Help Desk at (609) 777-0534 or send an e-mail with the subject line "MBOS E-mail" to: pensions.nj@treas.state.nj.us

EMPLOYER PARTICIPATION

Early and frequent communication with employees will be key elements to a smooth transition to requiring loan applications through MBOS. The Division expects participating employers to play a significant role in assisting with the change.

- Employers should take all available opportunities to inform employees of the coming loan application change using any in-house communication channels.
- As we near the November 1, 2008, implementation date, the Division will provide State employees with pay check messages and payroll inserts through centralized payroll (see attachments).
- Local employers should also make the attached announcement, or similar messages, available to employees to inform them of the pending change.

Exceptions to Online Loan Application

While the majority of member loan requests will require processing through MBOS, a limited number of members are not able to access the MBOS Loan Application. These member groups include:

- Judicial Retirement System (JRS) members who should continue to use the paper *JRS Loan Application*;
- Retirement system members who have established a security freeze on their accounts due to an instance of ID theft (these members must contact the ID Theft Coordinator to request a loan); and
- Employees shown in the loan processing system as inactive from payroll, including:
 - Employees who apply for a loan within 6 months of returning from a leave of absence;
 - Employees who apply for a loan within 6 months of transferring within the same retirement system to a new employer;
 - Employees whose employer was late in submitting the Report of Contributions for the quarterly posting; and

— State employees who are paid on a supplemental payroll schedule.

Members shown as inactive from payroll may still be able to borrow, but a *Certified Loan Request* form must be submitted by the employer to verify the employee's active pay status. (Employees from a late-reporting location, after certification, may only borrow amounts based on the previously posted quarter.) A sample of the *Certified Loan Request* form is attached. Please do not begin using this form until the November 1, 2008, implementation date when it will be available to employers through the online Employers Pensions and Benefits Administration Manual (EPBAM).

Employers and members should also note that limited access to a computer or a member's reluctance to use MBOS **will not** be considered sufficient circumstances to allow manual loan processing.

OTHER PENSION LOAN PROVISIONS

Other provisions of the pension loan program remain unchanged. These include:

- **Eligibility** — Members must have at least three years of pension service credit **posted** to their retirement system account. Pension contributions and credit are posted to accounts on a quarterly basis and normally takes 45 days from the end of a quarter to be posted. For example, if a member was enrolled in the pension fund on January 1, 2006, the member would not have three years posted to the account until the posting in February 2009.
- **Loan Amount** — Eligible members may borrow amounts between \$50 up to one-half of the posted contributions or a maximum loan balance of \$50,000, whichever is less. Loans are made in increments of \$10.
- **Interest Rate** — Interest is charged on the declining balance of all loans at a commercially reasonable rate set annually by the New Jersey State Treasurer. For loan applications received in 2008, the interest rate is **4.69%** on the declining balance of the loan.
- **Administrative Fee** — Chapter 92, P.L. 2007, established an administrative processing fee on all pension loans. For loan applications received in 2008, the administrative processing fee is **\$8.00**. The administrative processing fee is not an added charge, but is taken from the requested amount of the loan to recover the actual costs of administering the pension loan program. The administrative processing fee is subject to change annually with any change announced in December and the new fee taking effect the first of January.
- **Five Year Repayment Rule** — IRS regulations 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.

This means that some members who take multiple loans may be required to pay *substantially higher repayment amounts*, 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 if a loan repayment will significantly increase or the Division must deny a loan as the result of the minimum repayment exceeding 25 percent of the member's base salary.

ADDITIONAL INFORMATION

For assistance registering with or using MBOS, contact the MBOS Help Desk at (609) 777-0534 or send e-mail with the subject line "MBOS E-mail" to: pensions.nj@treas.state.nj.us

If you have questions regarding any of the other 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

Enclosures

MBOS Loan Flier
MBOS Registration Instructions
Certified Loan Request (sample)

State of New Jersey
Department of the Treasury
Division of Pensions and Benefits

MEMBER BENEFITS ONLINE SYSTEM (MBOS) ONLINE LOAN APPLICATION REQUIREMENT

ATTENTION: The Division of Pensions and Benefits is implementing a significant change to the pension loan application process.

Effective November 1, 2008, all pension loan requests must be submitted online using the Loan Application program of the Member Benefits Online System (MBOS). This requirement applies to all eligible members of the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), and State Police Retirement System (SPRS) who wish to borrow against their pension account.

MBOS is a set of Internet applications that allow registered members access to pension account information.

- **MBOS provides you with the fastest, most efficient method for requesting a pension loan.** In most cases, a loan application submitted through MBOS before the close of business (4:30 p.m.) on a Friday is processed and mailed on the following Wednesday.
- **With MBOS you receive immediate confirmation** on screen and by follow-up e-mail that your loan application has been processed.
- **If you are already a registered MBOS user,** you currently have access to the online loan application through your MBOS account.
- **If you are new to MBOS** you can access MBOS after you register with both the *MyNewJersey* Web site and MBOS. Registration is free at: www.state.nj.us/treasury/pensions/mbosregister.htm. Registration requires several steps — new users should read and carefully follow the MBOS *Registration Instructions*.

In addition, as of November 1, 2008:

- *Loan Application* forms will no longer be available as printed forms or on the Division's Web site.
- Paper *Loan Applications* that are received by mail as of November 1, 2008, will be returned to members with instructions on submitting the loan request through MBOS.
- The loan application fax number, which has been phased out of use since the introduction of loans through MBOS, will be completely disabled.

If, after following the MBOS *Registration Instructions*, you still need assistance registering for or using MBOS, call the MBOS Help Desk at (609) 777-0534 or send e-mail with the subject line "MBOS E-mail" to: pensions.nj@treas.state.nj.us

HOW TO ACCESS YOUR PENSION ACCOUNT ONLINE THROUGH THE MEMBER BENEFITS ONLINE SYSTEM (MBOS)

REGISTRATION FOR FIRST TIME USERS

BECAUSE REGISTRATION REQUIRES SEVERAL STEPS,
PLEASE READ AND FOLLOW THESE INSTRUCTIONS CAREFULLY!

REGISTRATION FOR MBOS IS FREE

STEP ONE

Register for a MyNewJersey account at: www.state.nj.us

NOTE: If you already have a MyNewJersey account, go to STEP TWO and use your existing account.

1. Click on the "Register" button and complete the registration information.
2. Create your own Logon ID and Password.

If you write down your logon ID and password to remember them, be sure to keep this written information in a safe place, and do not share them with others to help prevent identity theft!

3. This will open your personal MyNewJersey online account.

STEP TWO

Register for MBOS at: www.state.nj.us/treasury/pensions/mbosregister.htm

1. Click the "Begin MBOS Registration" button at the bottom of the Web page and complete the online MBOS registration form.
2. When registering, you will need your pension Member ID number.

Your pension Member ID can be found on your payroll statement. It can also be obtained from your employer, or by contacting the Division's Office Client Services.

Pension ID Number: _____

3. You will receive an e-mail with an **Authorization Code**. Print this e-mail to have it on hand for STEP THREE.

STEP THREE

Enter the MBOS Authorization Code at your MyNewJersey home page.

1. Logon to your MyNewJersey account and then click the "Enter Authorization Code" link.
2. On the page that opens, enter your MBOS *Authorization Code* and click the "Finished" button.
3. Delete the e-mail with your *Authorization Code*. **It can only be used once.**

STEP FOUR

1. Log back onto your MyNewJersey account and you will see the Pension and Benefits section along the left side.
2. Click the "MBOS logon" button to go to MBOS and your account information.

If you need help, call the MBOS Help Desk at: (609) 777-0534.

*MBOS registration and access is for the exclusive use of pension account members and benefit recipients.
Unauthorized access is subject to prosecution to the fullest extent of the law.*

CERTIFIED LOAN REQUEST

All regular pension loan requests **MUST** be submitted using the Member Benefits Online System (MBOS). Use this form only when a member cannot submit a pension loan request using MBOS because:

- 1.) The member has been on leave of absence without pay or transferred employers within the last six months;
- 2.) The member is paid by State supplemental payroll; or
- 3.) The employer is late submitting the Quarterly Report of Contributions.

Do not submit this request for any other reason, as it will be returned. This request **must** be certified by the employer. Additional instructions are provided in the following page.

For more information about submitting a loan request using MBOS visit the Division of Pensions and Benefits Web site at: www.state.nj.us/treasury/pensions

LOAN PROVISIONS

Before submitting a *Certified Loan Request*, please be certain the member reads and understands these loan provisions **and** the IRS Requirements (listed on the reverse side of the request form).

- To be eligible to borrow, the member must be actively contributing to an eligible retirement system and have at least three years of contributing membership POSTED to the account. (This usually occurs three years and two months after enrollment.)
- Members are permitted **no more than two loans in a calendar year.**
- The loan balance cannot be more than one-half of the contributions posted to the member's account, cannot exceed a maximum of \$50,000.
- **Loans must be repaid within five years.** Furthermore, members who have multiple outstanding loans **must repay the balance of all loans taken within a period not to exceed five years from the issuance of the first loan taken after January 1, 2004.** If a loan cannot be repaid within the five-year maximum when paid at the maximum allowable loan deduction of 25 percent of your base salary, the loan may be denied or the member may be issued a loan in a smaller amount than requested. Members with existing loan balances who take a new loan may see the loan deduction increase if the loan cannot be repaid within the five-year maximum when paid at the normal minimum deduction. (See the form instructions and IRS Requirements for additional details.)
- The interest rate is the prevailing rate set annually by the Treasurer, and is calculated on the the unpaid balance of the loan. A nonrefundable administrative fee may also deducted from the requested loan amount. For the current interest rate and any administrative fee go to: www.state.nj.us/treasury/pensions/loans_home.htm
- If the member retires with an outstanding loan balance, the member will have the option to pay off the outstanding loan balance **in its entirety** or to repay the loan through deductions from the monthly retirement allowance until the balance of the loan **together with interest** is repaid. Payments will be the monthly equivalent of the amount deducted from compensation immediately before retirement.
- If the member dies before the outstanding loan balance with interest has been recovered, the remaining balance will be repaid from the proceeds of any other benefit payable to the beneficiary(ies), including group life insurance or monthly payments.

(Continued on last page)

INSTRUCTIONS

Use this form only when a member cannot submit a pension loan request using MBOS because:

- 1.) The member has been on leave of absence without pay or transferred employers within the last six months;
- 2.) The member is paid by State supplemental payroll; or
- 3.) The employer is late submitting the Quarterly Report of Contributions.

Do not submit this request for any other reason, as it will be returned.

All other pension loan requests **MUST** be submitted using MBOS. For more information about MBOS visit the Division of Pensions and Benefits Web site at: www.state.nj.us/treasury/pensions

PART 1 — MEMBER INFORMATION AND LOAN REQUEST

The member must complete items 1 through 6. We suggest the loan check be mailed to the member's home address instead of work. Loan checks must be mailed and cannot be picked up at the Division of Pensions and Benefits.

The member must indicate the loan amount: No loan may be less than \$50 and increase in multiples of \$10. The loan amount may not exceed 50 percent of the member's total contributions and the loan balance may not exceed \$50,000. If the amount of the loan requested, when added to any existing loan balance, exceeds \$50,000, the member will be issued a check for the difference between the loan balance and \$50,000. The Division will notify members if the requested loan amount will cause the loan balance to exceed the \$50,000. When requesting a loan, be sure to include any administrative fee in the total requested. View current administrative fees at: www.state.nj.us/treasury/pensions/loans_home.htm

The member should request a repayment schedule: Loans have a maximum repayment schedule of five years. Members may specify whether they wish to have the minimum payment, have the loan paid off by a specific date, or pay more than the minimum deduction. If a box is not selected, the loan repayment schedule is set to the minimum payment for no more than a five-year period. (The minimum repayment must be equal to or greater than the member's monthly or, for State employees, biweekly base salary multiplied by the full rate of pension contribution — 5.5 percent of base salary for PERS and TPAF, 8.5 percent for the PFRS, and 7.5 percent for the SPRS and Prosecutors Part of the PERS.) Repayments cannot be less than the minimum amount. Repayments may not exceed 25 percent of base salary.

Members with large existing loan balances who take a new loan will likely see the loan deduction increase if the loan cannot be repaid within the five-year maximum when paid at the normal minimum deduction. The member is notified, in writing, should the Division reject a loan as the result of the minimum loan deduction exceeding 25 percent of base salary.

The member must sign the request. Prior to signing, please be sure the member reads and understands the Loan Provisions and IRS Requirements included with this request form. **Unsigned requests will not be processed.**

IMPORTANT NOTICE: If a member is not satisfied with a loan amount or repayment schedule when the check is received, the loan may be canceled by returning the original uncashed loan check. If a loan check is returned, the funds are deposited back into the pension account and will be available with the next quarterly posting.

BY CASHING THE LOAN CHECK THE MEMBER IS AGREEING TO THE LOAN AMOUNT AND THE REPAYMENT SCHEDULE AS OUTLINED IN THE LOAN TERMS AND CONDITIONS.

PART 2 — EMPLOYER CERTIFICATION

The employer must complete the Certification portion of the request.

Indicate the reason why the *Certified Loan Request* is being submitted. Complete the items for current salary, and the additional return to payroll and/or transfer information as appropriate.

The employer must sign the *Certified Loan Request*. Mail the completed request to the Loan Section, Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295, or fax the completed request to (609) 292-3613.

LOAN PROVISIONS (Continued)

INTERNAL REVENUE SERVICE (IRS) REQUIREMENTS

Internal Revenue Service regulations require that loans must be repaid within a period not to exceed five years.

The IRS further requires that members who have multiple outstanding loans must repay the balance of all loans taken within a period not to exceed five years from the issuance of the first loan taken after January 1, 2004. If a loan cannot be repaid within the five-year maximum when paid at the maximum allowable loan deduction of 25 percent of your base salary, the loan may be denied or the member may be issued a loan in a smaller amount than requested.

IRS regulations also require members to make timely payments toward outstanding loan balances. Members are notified* after nonpayment (zero contributions) toward the balance of an outstanding loan and offered the following options:

- Pay the loan off through a lump sum repayment;
- Repay the loan in monthly installments through personal billing;
- Take a taxable distribution; or
- If the member returns to employment, repay through employer payroll deductions.

Failure to repay a loan as scheduled may result in the unpaid loan balance being declared a taxable distribution which will be reported to the IRS. The Division of Pensions and Benefits will send the member a *Form 1099-R* for tax filing purposes in January of the following year. The member will be required to include the portion of the loan representing before-tax contribution as income on their federal return. In addition, if under age 59½, the member will be required to pay an additional ten percent tax for taking an early pension distribution.

A “taxable distribution” cannot be cancelled by resuming loan payments or repaying the loan in full prior to the end of the tax year in which the taxable distribution occurs. Please note that unlike a normal pension distribution, a loan treated as a distribution cannot be rolled over to an IRA or another qualified retirement plan. Members who take a loan and subsequently fail to remit loan payments may also be subject to additional IRS penalties. Additionally, active and vested members who have a taxable distribution are required to repay the balance of the loan to the retirement system.

Since these are federal regulations, neither the Boards of Trustees nor the Division of Pensions and Benefits has the authority to waive or delay the application of these provisions.

**Members must return their payment option selection within 30 days of notification of nonpayment; failure to respond within the 30 days will result in the unpaid loan balance being declared a taxable distribution.*