

Borrowing from your Deferred Compensation Account



The State of New Mexico Deferred Compensation Plan Loan Program

Many employers are faced with the same question from employees: “Why can’t I use ‘my money’ in my deferred compensation account to pay down debts, buy a home or help my child through college?”

In the past, the answer was easy—the law didn’t allow it. Today, though, some employers have elected to allow employees to take loans from their supplemental retirement account. The State of New Mexico Deferred Compensation Plan has adopted this option on behalf of its employees.

While taking a loan from the State of New Mexico Deferred Compensation Plan can be a benefit, it also can open you to potential liabilities.

What you should know

- Loan repayments are made with after-tax dollars. Because repayments are made with after-tax dollars, you may be taxed twice: once on the repayment dollars and again when you take distributions from the plan.
- Loans must be repaid with interest. Federal law requires that the Plan charge you a reasonable rate of interest on the use of your money.
- If a default on the loan occurs, the loan is considered to be a distribution, and the entire outstanding loan amount, including accrued interest, is subject to income taxes. A loan is considered to be in default when a missed payment and its applicable interest is unpaid. A default fee is also assessed.
- The true cost of the loan may be more than the interest alone, especially if the market gains significantly over the life of the loan, which means that you could end up with significantly fewer assets for retirement than you planned.
- The advantage of compounded earnings is lost on the amount that you borrow.
- Retirees may also request loans. However, in the event that you request a payout from your deferred compensation account, you must maintain a balance in your account that will cover the amount of the outstanding loan.
- Reasonable repayment terms—one to five years for general purpose loans and up to fifteen years for primary residence loans.

Interest rate

The interest rate is based on market conditions at the time the loan is processed. Generally, the rate is the “Prime Rate” + 1%.

“Prime Rate” is defined as the Prime Rate published by The Wall Street Journal two weeks prior to the end of the most recent calendar-year quarter.

Nationwide reserves the right to redefine how the interest rate is calculated by advising the Plan in writing at least 30 days in advance of when the new definition goes into effect.

Note: Taking a loan could force you to liquidate investments at a lower value than their purchase price if market conditions at the time you take the loan are unfavorable.

Note: If your loan proceeds include money held in your rollover account and are attributable to an IRA or a qualified plan such as a 401(k) plan, any deemed distribution that is reported to the IRS as income may also be subject to a federal 10% early distribution tax.

Nationwide representatives don’t give tax or legal advice. Check with your tax advisor regarding questions you have and any other taxes that may be required.



Nationwide®
On Your Side

Frequently asked questions

Why do I pay interest on money I borrow from myself?

Your plan's loan program is similar to programs that you could find at any lending institution such as a bank or savings-and-loan. In fact, a loan from your State of New Mexico deferred compensation plan account is not only governed by the Plan document, but is also regulated by the IRS and lending law. Plan administrators can't make exceptions to the loan policy and procedures. You pay yourself back with interest.

How do I qualify for a loan?

Call Customer Service to complete the loan application process, pay an application fee and acknowledge receiving a Truth-in-Lending document.

What if my loan monies come from my rollover account?

If your loan proceeds include money held in your rollover account and are attributable to an IRA or a qualified plan such as a 401(k) plan, any deemed distribution that is reported to the IRS as income may also be subject to a federal 10% early distribution tax.

What are the minimum/maximum loan amounts?

The minimum loan amount is \$1,000. The maximum available loan amount is 50% of your account up to \$50,000. Systematic payouts are taken into consideration and will reduce the balance of funds available for loan consideration. The exceptions to this policy are Unforeseen Emergency Withdrawals and Purchase of Service Credits, which are addressed separately.

What are the terms of the loan?

Primary residence loans are structured to be repaid within fifteen (15) years from the date that the money is disbursed. General purpose loans are structured so that they will be repaid within five years of the date the money is disbursed.

How many loans might I be granted?

Only one outstanding loan from the Plan may be granted at any given time. A new loan will not be granted prior to full repayment of any outstanding loan. If a participant defaults on a loan, (s)he will not be granted another loan from the Plan until the defaulted loan—including accrued interest and fees—is paid in full.

What are the fees associated with taking a loan?

All loan fees appear as administrative charges on your statements.

- Application fee—\$50, nonrefundable
- Annual fee—\$50, assessed on the anniversary date of the loan while the loan is outstanding
- Default fee—\$50, assessed on the date of default and paid annually
- Insufficient Funds Fee—\$25 for each insufficient fund payment

Nationwide reserves the right to change the fee amount after advising the Plan in writing at least 30 days in advance of when the new fee schedule goes into effect.

The State of New Mexico Deferred Compensation Plan has asked Nationwide to administer its loan program available through your retirement account.

How do I make loan payments?

You must pay the full amount of each payment (principal and interest) from a checking or savings account on the specified due date. Loans may be repaid in full prior to the term due date without penalty if the payment is made with a lump sum payment.

Non-payment of the full amount by the specified due date will result in the following:

- If you fail to make full payment on the due date, Nationwide will send written notification advising you that you must pay the missed payment plus interest within 30 days after the date of the missed payment.
- A loan is considered to be in default if you fail to pay the missed payment plus interest within 30 days after the date of the missed payment. Your account will also be assessed a default fee.

In the event of death, the amount of the outstanding loan will affect your beneficiary's tax status and amount of receipt of account assets.

Defaulted loan

Once a loan is in default (see above), Federal law requires that the entire loan amount be reported to the Internal Revenue Service as a deemed distribution. This means that the entire amount of the outstanding loan and accrued interest-to-date on the date of default will be includable in your income and is subject to income tax.

Note: Your deferred compensation contribution schedule continues and is not impacted by loan approval and the repayment schedule.

Are there any instances where my payments may be suspended for a period of time?

In compliance with USERRA and other applicable laws, Nationwide may suspend a participant's obligation to repay a loan under the Plan during the period in which the participant is serving on Active Duty with the military. At the expiration of this suspension, the outstanding loan balance, including accrued interest and fees, will be re-amortized and the participant will be required to execute an amended loan agreement or repay the recomputed balance in full.

What happens if I have a loan and I leave State employment?

Options regarding repayment vary according to the circumstances surrounding departure from State employment. Call us to discuss your circumstances.

To Recap:

Before making the decision to apply for a loan from your deferred compensation account, remember it is designed to be used in retirement. Ask yourself these important questions:

- **How much can I afford to borrow?**
- **How much will the payments be?**
- **Can I afford to make my loan payments and my regular deferrals every month?**

 **For more information, contact a customer service representative toll-free at 866-827-NMEX (6639)**

 **Visit us on the web at NewMexico457DC.com**

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