TEXA$AVER℠
401(k) / 457 Program

Loan Information

Borrowing From Your Texa$aver Account

Planning for unexpected expenses can be difficult. Before you tap into your Texa$aver account, make sure you understand how a loan could affect your retirement savings.

Taking Texa$aver loan

As a participant in the Texa$aver 401(k)/457 Program, you may borrow a portion of your account balance as long as you meet the required minimum balance for the loan. Loan repayments are deducted from your payroll check after tax. A one-time $50 loan application fee is deducted from your loan check. There is also a monthly loan maintenance fee of $2.08 deducted from your account balance after your first loan repayment has been made. Participants no longer working for the State of Texas or a participating college or university cannot take a loan.

Types of loans available

- **General loans** are available for any reason and must be repaid within 12 to 60 months. These loans are processed without additional supporting paperwork. Your signature on your loan check means that you accept the terms of the loan.
- **Residential loans** may be used for the purchase of your primary residence only and must be repaid within 61 to 180 months. You must provide certain documentation when you request a residential loan.

The amount you may borrow

The minimum amount you may borrow from your Texa$aver account is $1,000. The maximum amount you may borrow is the lesser of $50,000 or the greater of: (1) 50% of your account balance or (2) $10,000 (see examples below). The maximum amount available for your loan is reduced by the amount of any outstanding loan within the previous 12 months. Texa$aver allows a maximum of two loans per plan at a time. The loan limits apply to all your loans combined.

For example:

- If your balance is $1,050 to $10,000, you may borrow the entire balance.
- If your balance is $10,001 to $20,000, you may borrow up to $10,000.
- If your balance is $20,001 or more, you may borrow 50% of the balance, up to $50,000.

Loan interest is not tax-deductible. Loans are not subject to federal income taxes unless you do not repay the loan in full. If the loan goes into default, the outstanding loan balance and interest are reported as taxable distributions for the year of the default.[1] You will receive an IRS Form 1099-R to claim the outstanding amount as earned income on your taxes.

Requesting a loan

Apply for a loan in two ways:

- Log in to **www.texasaver.com** and select your plan. Click on "Loans & Distribution," then "Loan Request." The "Loan Cost Calculator" can help you determine your repayment schedule.
- Call (800) 634-5091 toll-free to request a loan.

If your loan application is processed and approved, a check will be mailed within two to five business days.

The pros and cons of taking a loan	
Pros	**Cons**
Access to your money	The interest you incur and pay back to yourself may be less than the money you would have earned if you had kept the amount invested.
Loan does not affect your credit rating	Defaulted loan balance and accrued interest are treated as taxable distributions in the year of default.
	You could be contributing less, or not at all, to your retirement account while paying back a loan.
Automatic payroll deduction	Loan repayments are made with after-tax dollars.

Loan repayment

You repay yourself, with interest, through after-tax payroll deductions. You do not deduct the loan interest on your income tax return. You can make partial loan repayments, or you can pay your balance in full at any time. Loan refinancing is not available.

Leave of absence

If you take an authorized leave of absence, you may suspend loan payments up to 12 months, provided the suspension and revised repayment schedule do not cause you to exceed your original loan terms.

Paying off existing loans

If you are paying off an existing loan to secure a new loan, a money order or certified bank check will expedite your request. For any check remitted that is returned for insufficient funds, you are subject to the bank's specific penalties.

Military duty

If you are called to active military duty, loan repayment and the default process are suspended. The loan repayment period is extended for the period of time you are on active military duty under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA).

If you are on an authorized leave of absence or military leave, you may submit monthly manual loan repayments through a money order, certified bank check or personal check to the addresses below.

401(k) loan repayment address:
Wells Fargo Bank, N.A.
P.O. Box 912220
Denver, CO 80291-2220

457 loan repayment address:
Wells Fargo Bank, N.A.
P.O. Box 912223
Denver, CO 80291-2223

For more information, contact Texa$aver at (800) 634-5091

No longer working

If you retire or terminate employment, your payroll deductions stop. Payments on your loan are still due. You can pay off your loan in full or continue to make payments to Empower Retirement on a monthly basis. If you do not continue to make scheduled payments or pay off your loan, the outstanding balance and accrued interest (pursuant to IRS regulations) are considered in default.

If a loan defaults, the outstanding balance and interest are reported as taxable distributions for the year of the default and you will receive an IRS Form 1099-R to claim the amount as earned income. In addition to the ordinary income tax, you may also be subject to a 10% early withdrawal penalty.[1]

Any defaulted loans continue to accrue interest, reduce the amount you are able to borrow and the number of loans available to you, and may require you to repay the defaulted balance to the plan. Also, the monthly loan fee of $2.08 continues to be deducted from your account.

Roth

Loan distributions are made pro rata from both your before-tax and Roth (after-tax) contributions to your Texa$aver account. Loan repayments are then reallocated back to your Texa$aver account based on the pro rata amounts. You cannot choose which money type is withdrawn for loan distributions.

How are Roth loans taxed?

Loans are treated the same whether you have made before-tax or Roth (after-tax) contributions to your Texa$aver account.

Let's say you have contributed both before-tax and Roth money to your 401(k) and/or 457 Plans. The loan is prorated by the amounts of money you have in before-tax and Roth contributions. If the loan is repaid in full, there are no tax consequences.

If the loan defaults, the portion of the loan attributable to Roth is fully tax reported, regardless of how long you have held the Roth account. A default is not considered a qualified distributable event, so taxes and penalties may apply.

1 Withdrawals are subject to ordinary income tax. A 10% early withdrawal penalty may apply to withdrawals made prior to age 59½ in the 401(k) Plan.

Examples of how Roth loans are taken:

Maria has made before-tax and Roth (after-tax) contributions to her 401(k) account. Maria has a $15,000 401(k) account balance: $10,000 in before-tax contributions and $5,000 in Roth contributions. She takes a $2,000 loan.

Loans are taken pro rata based on the combined balance of the before-tax and Roth money types. So for Maria's loan, two-thirds will come from her pre-tax contributions ($1,333.33) and one-third will come from her Roth contributions ($666.67) to her 401(k) account.

George has only made Roth (after-tax) contributions to his 401(k) account. For George, all loan distributions and repayments are Roth.

Loan fees

Fees are assessed when you take a loan from your Texa$aver account.

- A one-time, non-refundable $50 loan application fee is deducted from your check amount when your loan is processed.
- A $2.08 monthly maintenance fee is deducted from your account for each loan until the loan is paid in full.

Interest rates

The interest rate for a General Loan or a Residential Loan is equal to the prime rate plus 1%, as printed in *The Wall Street Journal* on the last business day of the prior month.

The Servicemembers Civil Relief Act (an update to the Soldiers' and Sailors' Civil Relief Act of 1940) imposes a 6% maximum limit on the interest rate charged to military service members for loans during active military service.

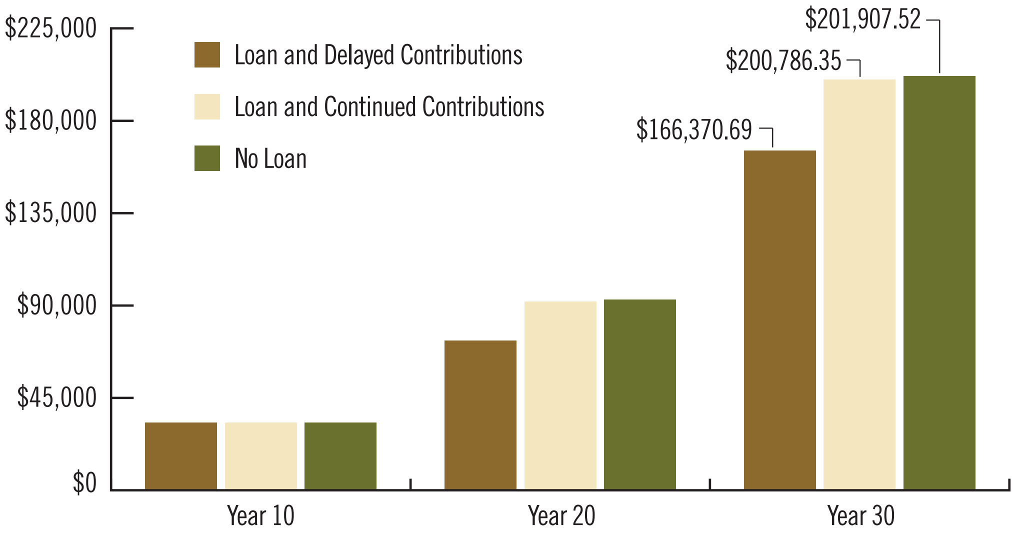
Loan interest is not tax deductible.

Impact on your savings

The chart below shows the progression of three hypothetical retirement accounts that each grow 6% annually over 30 years but differ in a few fundamental ways.

- **No-Loan account:** Monthly contributions of $200 are made for 30 years and no loans are taken out.
- **Loan with continued contributions:** Monthly contributions of $200 are made for 30 years. At the end of Year 10, a $10,000 loan is taken out; monthly loan repayments of $188.91 are then made for five years.
- **Loan with delayed contributions:** Monthly contributions of $200 are made in Years One through 10. At the end of Year 10, a $10,000 loan is taken out. At that point, contributions are delayed and only repayments of $188.91 per month are made for five years. After the loan is paid off, $200 monthly contributions resume.

Effect of taking a loan against your retirement account



FOR ILLUSTRATIVE PURPOSES ONLY. This illustration is hypothetical and does not represent the performance of any investment options. It assumes a 6% annual rate of return compounded monthly and reinvestment of earnings, with no withdrawals other than the loan. The loan repayment calculation assumes a 5.25% annual interest rate on principal (hypothetical prime rate of 4.25% plus 1%), amortized over five years. For the hypothetical accounts in which loans are made, the illustration reflects a one-time $50 application fee that is deducted from the proceeds of the loan at the time the loan is made and an additional quarterly loan fee of $6.25 during the five-year repayment period.