NJ TRANSIT Defined Contribution Plan

457 and 401(k) Account Reduction Loan Highlights

These highlights are intended to answer frequently asked questions regarding 457 and 401(k) loans. Loans are not permitted in the 401(a) Plan. If you have further questions, please contact your registered representative toll free at **(800) 25-GO-NJT (800-254-6658)**; press option "1."[1]

May I take a loan from my Plan account?

Yes, an account reduction loan is available from the Plan. An account reduction loan is a loan from your account that reduces your account balance by the amount of the loan.

How much can I borrow?

You may borrow up to the LESSER of 1) 50% of your total vested account balance OR 2) $50,000, reduced by the amount that your highest outstanding loan balance in the last 12 months exceeds your current total loan balance. This applies to loans in both the 401(k) and 457 Plans combined. You must have a minimum vested account balance of $2,000 to borrow the minimum loan amount of $1,000. You must have a minimum vested account balance of $100,000 to borrow the maximum loan amount of $50,000.

What is the maximum number of loans I can take?

In the 401(k) Plan, you can take a maximum of two loans. In the 457 Plan, only one loan is allowed.

How is this taken from my account?

Amounts borrowed will be prorated against all of your investment options for the amount borrowed.

What is the interest rate I must pay back?

The interest rate is the prime lending rate declared in *The Wall Street Journal* on the first business day of the month in which the loan is processed plus 1%. This rate is fixed for the life of the loan.

Will all of the interest be paid back into my account?

Yes. All interest payments will be paid directly to your account and invested according to your current deferral allocation at the time of repayment.

What are the fees for the loan?

There is a one-time $50 loan origination fee that is charged for each new loan. The origination fee is deducted from the loan amount. There is no maintenance fee for loans.

How are loan payments made?

Loan payments are made through payroll as after-tax deductions. These deductions are in addition to any current contributions you may be making.

May I pay my loan by personal check?

No. Scheduled loan payments must be made by payroll deduction.

What happens if I sever employment?

Upon severance of employment, you must choose one of the following options within 60 days:

1. Pay off the entire amount owed on the loan.
2. Treat any outstanding balance as a taxable distribution.[2]

How do I apply for a loan?

There are two ways to apply for a loan:

1. Call KeyTalk at **(800) 25-GO-NJT (800-254-6658)** and press "1."[1]
2. Visit the website at **www.25GONJT.com**.[1] You will need your Personal Identification Number[3] (PIN) to apply.

How long will loan processing take?

Once you apply by calling KeyTalk toll free at **(800) 25-GO-NJT (800-254-6658)** and pressing "1" or by visiting the website at **www.25GONJT.com**, checks are generally mailed within seven to 10 business days.

How do the deductions get processed?

Your payroll department will be notified to begin the deductions from your pay approximately 30 days after the loan is processed. ***Please note: It is your responsibility to verify that the appropriate loan deductions begin in order to avoid defaulting on your loan.***

How do I avoid my loan defaulting due to a leave of absence?

To avoid default due to a leave of absence, the leave of absence cannot be longer than one year and it cannot extend beyond the maximum loan term. In addition, you cannot receive a rate of pay (after income and employment tax withholding) that is less than the amount of the installment payments required under the terms of the loan. Interest continues to accrue during your leave of absence. A loan payment change request form must be completed when you take a leave of absence. You may obtain this form by calling KeyTalk at **(800) 25-GO-NJT (800-254-6658)** or by visiting the website at **www.25GONJT.com.** If you default and remain an active NJT employee, your loan will continue to accrue interest. When you return from leave of absence, your payments will resume, but this distribution may be considered a taxable event if a default occurred during your leave.

1 Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.
2 Outstanding defaulted loans deemed a taxable distribution may be subject to a 10% early withdrawal penalty in addition to federal and state income taxes. The 10% early withdrawal penalty does not apply to 457 plan withdrawals.
3 The account owner is responsible for keeping the assigned PIN confidential. Please contact Great-West Retirement Services® immediately if you suspect any unauthorized use.

What does it mean to take a loan from my account?

When you take a loan from your retirement Plan, you are actually borrowing money from your account. You will pay back the money to the account, with interest, over a specified period of time in substantially equal installments. You also may be charged a loan application fee. Generally, the number of loans you may take is limited.

How can the loan affect my savings?

Remember the main purpose of your retirement Plan—saving and investing for retirement. When you make regular payroll deductions over a long period of time, your contributions and their earnings can really add up thanks to compounding—earnings on what you have already earned, as well as on your initial investment.

The most dramatic effect that borrowing from your retirement account can have is that it reduces the value of your account. Until the full amount is repaid, you cannot realize the effects of tax-deferred compounding at the same level as before you took out the loan. The result: Your total account balance at retirement may be considerably less.

Plus, if you have a loan to repay, you may decide you can't afford to contribute to your account for awhile, which can further impede your growth potential. And when you "borrow" from your account, you're essentially selling some of the investments in the account to make the money available. If the market is down when you take out the loan, you may have to take a loss.

What are the tax implications of taking a loan from my retirement Plan?

Unlike certain other types of loans, such as a home equity loan or second mortgage, the interest you pay on a retirement account loan is not tax-deductible. In addition:

- If you suspend contributions to your account in order to pay off the loan, you will not be able to realize one of the tax advantages of before-tax contributions: reducing your current taxable income.
- The loan is tied to your employment. If you sever employment before the loan is repaid, you will have to repay the balance in full or the remaining balance will be considered a taxable distribution subject to ordinary income taxes and the early withdrawal penalty (if applicable). You would also have to claim the loan as income when you file your taxes.
- When you pay back your loan, you do so with after-tax dollars. And when you withdraw money from the account in retirement, it will be taxed, as well.

What are some other options?

There may be alternatives to borrowing from your retirement Plan. You may qualify for a home equity loan or other type of secured credit loan, which may offer an interest rate comparable to that of a retirement account loan. And, unlike the retirement account loan, the home equity loan may be tax-deductible. If you are car shopping, see what kind of loan the dealer offers. Or if you need the money for college, you may qualify for a low-interest college loan.

What's best for me?

Everyone's situation is different. The amount you need to borrow, your time frame for repaying it, how close you are to retirement, and whether you can continue contributing to your retirement Plan account while repaying the loan are important concerns. Consider each of these factors before deciding which option is best for you.

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