CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN

Loan Program: Questions & Answers About Loans

What is a loan program?

A loan program allows Plan participants to borrow money from their Deferred Compensation Plan account balances, then pay back the borrowed amount, with interest, through biweekly payroll deductions.

How much can I borrow?

You are eligible to take two simultaneous loans from your account at any given time. However, the sum of both loans cannot exceed 50% of your account balance or $50,000 (less the highest outstanding loan balance over the last 12 months), whichever is less. The minimum loan amount is $1,000 (meaning you must have at least $2,000 in your account to be eligible to take out a loan).

How much interest will I pay?

The interest rate is set at 2% above the Prime Lending Rate as declared in *The Wall Street Journal* on the first business day of each month. This amount is fixed for the life of the loan.

Will 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.

When do I pay back the money?

When you take out your loan you will be required to begin an immediate payroll deduction. The term of your loan will depend on the type of loan and term period you select.

How long will I have to repay the loan?

This depends on the type of loan. General purpose loans, which can be used for any purpose, can be set for up to 60 months (five years) at the choice of the participant. Home purchase loans, which may be used for purchase of a principal residence, can be set for up to 180 months (15 years).

Are loan payments made with before-tax dollars, like contributions?

No. Loan payments are made with after-tax dollars.

Can I take out more than one loan?

Yes. You are eligible to take two simultaneous loans from your account at any given time. However, the sum of both loans cannot exceed 50% of your account balance or $50,000, whichever is less.

Will I be charged a fee for taking out a loan?

Yes. There are two fees associated with the loan: a $50 loan origination fee and a $25 annual maintenance fee (assessed quarterly at $6.25 per quarter). These amounts will be deducted directly from your account balance.

How do I take out a loan?

A participant may initiate a loan by calling Participant Services at (888) 457-9460 or through the Plan website at www.cityofla457.com. You will need your passcode[1] to apply. The website also provides loan modeling "what-if" scenarios so you can assess the payment associated with a given loan amount.

Is my loan subject to review and approval?

Participants do have the option of submitting a paper form. Your eligibility for a loan is based on your agreement to all loan requirements as stated at the time of submitting a loan application, as well as your status as an active employee and meeting the following minimum criteria: having a minimum account balance of $2,000 and being active on the City payroll.

When assets are taken from my account, may I specify from which investment options?

No. Loan distribution amounts will be prorated across all money types and all available investment options in your account.

Can loan repayments be made by personal check?

All regular loan payments must be made through payroll deduction. Payoffs can be made at any time via money order or certified check made payable to Empower Retirement. Payments should be mailed to Empower Retirement, Dept. 0889, Denver, CO 80256-0889 or via Express mail to: U.S. Bank 10035 E. 40th Avenue, Dept. 0889, Denver, CO 80238

Can additional payments above the payment amount be deducted from my paycheck?

The Plan allows you to make additional payments, either to reduce the principal or to pay ahead principal and interest payments (up to 180 days of payments only) or to pay off your loan, by submitting a check payment in addition to and separate from regular payroll deductions. If you decide to make additional payments, you must note whether the payments are to reduce the principal or to pay ahead principal and interest payments. Please contact Empower Retirement for appropriate forms and instructions.

What happens if I miss payments and fall behind on my loan?

Participants can fall into arrears (i.e., miss payments) on loan repayments if they go into a non-pay or reduced pay status such that their loan repayment cannot be taken from their paycheck. For example, if you are out of work because of a leave of absence (injured, injured on duty, maternity leave or other leave of absence), the loan payments will not be taken from your paycheck (if one is received). It is your responsibility to notify the City if you are on an employer-approved leave of absence and to make the necessary loan repayments in order to avoid having the loan go into default. Participants are required to complete a Loan Payment Change Form when on an employer-approved leave of absence.

Empower Retirement sends late notices before defaulting your loan. Empower Retirement also provides information in the late notice about how the participant can make up the missing payments with applicable deadlines. Should you miss these deadlines, your loan will still default regardless of your reason for defaulting.

How do I restart my loan repayments after having been on a leave of absence?

Contact the City to restart your loan payments and to make up any missing payments. You will need to complete a Loan Payment Change Form when you return to work.

If the loan has already been defaulted and you are still employed by the City, payments will be restarted. However, payments will be credited to your account as after-tax payments.

What happens if I default on my loan?

The entire outstanding loan balance, including accrued but unpaid interest, will be declared to the government as a taxable distribution, and you will owe taxes on that distribution. You will receive a 1099-R form to report the income on your tax return. Empower Retirement will continue to maintain the loan balance on your account, even though it has defaulted, until a qualifying event has been met.

Do I pay a tax penalty for defaulting?

There is no tax penalty, but you will owe tax on the defaulted portion of the loan, which will be reported as a taxable distribution in the year that it went into default.

If I default will it affect my credit rating?

No. Loans against section 457 deferred compensation accounts are not reported to credit rating agencies. Your entire loan amount will be reported to the Internal Revenue Service (IRS) as a taxable distribution, and you may owe taxes on the distributed amount.

Is taking out a loan from the Deferred Compensation Plan better or worse than taking out a conventional loan?

Each participant must determine the answer to that question on an individual basis. Some of the factors to consider include the following:

- A deferred compensation plan loan allows you to pay interest back to your own account, but any amounts borrowed out of your account will not be able to realize investment gains during the time you are using them for other purposes.
- If taking out a deferred compensation plan loan results in you reducing or eliminating your ongoing contributions to the Plan, your long-term accumulation of assets in the Plan will be negatively affected.
- If you default on a loan and your loan is declared a taxable distribution, you may face unwanted tax consequences, such as being pushed into a higher tax bracket.
- Loan repayment amounts will be taken out of your paycheck and you will NOT have the option of voluntarily suspending or discontinuing those repayments, regardless of potential changes to your financial situation.

This document is not intended to provide complete information about loans and the loan process. Please refer to the Plan document and IRS regulations for complete information, both of which ultimately govern the loan policy for the Plan.

What happens when I retire or leave employment from the City?

You can convert any outstanding active employee loan into a retiree loan and continue making payments, or your loan balance can be treated as a taxable distribution. Contact (213) 978-1601 to find out more information on these options.

Contact Empower Retirement at (888) 457-9460 or visit the Plan website at www.cityofla457.com for more information.[2]

1 The account owner is responsible for keeping the assigned passcode confidential. Please contact Empower Retirement immediately if you suspect any unauthorized use.

2 Representatives of Empower Retirement do not offer or provide investment, fiduciary, financial, legal or tax advice or act in a fiduciary capacity for any client unless explicitly described in writing. Please consult with your investment advisor, attorney and/or tax advisor as needed.

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