

# TDA Loans



One of the many benefits provided by TRS is your ability to borrow from your Tax-Deferred Annuity (TDA) Program funds. This brochure highlights the important features of this benefit.

## ELIGIBILITY

You must meet the following criteria to be eligible for a TDA loan:

- You have participated in the TDA Program for at least one year;
- You are an in-service member or a member on a leave of absence; **or** you have TDA Deferral status; and
- You are not currently in default on a TDA loan.

You may have up to five outstanding TDA loans at once. According to Internal Revenue Service (IRS) regulations, outstanding loan balances may not be combined with new loans. Each loan will be treated independently (*i.e.*, separate loan balances, repayment terms, interest charges, and insurance premiums).

**Please note that your request for a loan may be delayed or canceled if TRS does not have your date-of-birth documentation on file.**

## LOAN AMOUNTS

TDA loans must be taken in multiples of \$10. Generally, the minimum TDA loan amount that you may borrow is \$1,000. However, you may borrow a minimum of \$250 if you have an existing TDA loan; your total outstanding TDA loan balance must be at least \$1,000.

- In general, the maximum new TDA loan amount you may request is limited to the *least* of the amounts described in restrictions **A**, **B**, and **C** below.
- If you take a loan at annuitization, the maximum is the amount described in restriction **B** below.
  - A.** \$50,000, less your highest combined loan balance during the previous 12-month period from the TDA, Qualified Pension Plan (QPP), and New York City Deferred Compensation Plan (DCP) loan programs.
  - B.** 75% of your TDA account balance, less any outstanding TDA loan balance.
  - C.** The greater of (i) 50% of the combined value of all your TRS accounts (TDA and QPP), less any outstanding QPP and TDA loan balances, or (ii) \$10,000, less any outstanding TDA and QPP loan balances.

TRS will also limit your maximum loan amount so that the total per-installment payment amount on all TRS loans does not exceed your net pay.

The value of your accounts is based on your most recent account balances and the most recent unit values of the variable-return Passport Funds (if applicable) available to TRS when your loan is calculated.

There may be a two-month lag in the updating of account balances. For example, a loan issued in March may be based on the account balances for January.

Please be advised that any loan balance you may have from a New York City DCP 401(k) or 457 account may affect the loan amounts you may borrow from your TDA account; if you have a DCP loan, your available TDA loan amounts may differ from the estimates provided by TRS before you apply. Also be advised that adverse tax consequences will result if the combined balance of your DCP and TRS loans exceeds \$50,000, which is the maximum loan amount allowable under all public employer-sponsored programs. Please note, since TRS must first verify your DCP loan status and balance before determining the amount you may borrow from your TDA account, the processing of your loan application may be delayed.

To find out the amount you are eligible to borrow or any loan balances, please log in to the secure section of our website.

## **LOAN APPLICATIONS**

If you are in active service, are on a leave of absence, or have TDA Deferral status, you may apply for a TDA loan on our website, provided you have registered for secure access. Alternatively, you may file a paper “TDA Loan Application” (code LO15). If you file for a loan at annuitization, you must file a paper “TDA Loan Application” or e-form equivalent.

TRS issues loans each Wednesday; the funds are available the Friday of the same week. Loans are issued in one of two ways:

- **Electronic Fund Transfer (EFT):** You may be eligible to receive your loan via EFT if you are paid on the City of New York payroll and receive your paychecks through direct deposit, or if you receive your monthly advance payments or retirement allowance via EFT. In either case, you may elect that your loan be forwarded via EFT to the account where the above payments are deposited. (Note: City University of New York (CUNY) members paid on the New York State payroll, and Charter School members, cannot receive loans via EFT.)

- **Check:** If you receive your loan by check, TRS is not responsible for any delays or loss through mailing. In the event of a delay or the loss of a check, interest charges on your loan will continue to accrue and your repayment schedule will remain unchanged.

Since TRS issues loans on a weekly basis, TRS must generally receive paper loan applications by the close of business on Wednesday of the preceding week. (If a holiday occurs during the week, TRS must receive your paper loan application by the first business day of the week.) Online loan applications must be received by 11:59 p.m. on the Sunday preceding the week they are issued.

If you apply for a TDA loan at annuitization, TRS must receive your application no later than one business day before your effective annuitization date. In this case, your loan check will be issued after your effective annuitization date (generally the third Wednesday after your annuitization) to meet IRS requirements. You may apply for a TDA loan after retirement only if you elected TDA Deferral status when you filed for retirement under the QPP. Your TDA loan amount will be debited from your TDA account.

On the online or paper application, you may designate how your account should be debited to provide funds for your TDA loan. You may elect to have your account debited in any combination of your Passport Funds, provided you have sufficient funds in each investment program you designate. If your election is not valid due to insufficient funds in an investment program, or if you do not designate how your account should be debited, your TDA loan amount (including the service charge) will be debited from your Passport Funds proportionately.

Generally, if you would like to change the loan amount or repayment terms you elected on your application, you must submit a notarized request indicating any changes no later than the next business day after TRS receives your loan application. However, for a loan taken at annuitization, you have until the close of the business day immediately preceding your effective retirement date to submit this notarized request.

If you would like to cancel your TDA loan application, TRS must receive a notarized “Request for Withdrawal

of Form/Application/Online Filing” (code MI5) or e-form equivalent by the following deadlines:

- If you filed a paper loan application, TRS must receive your cancellation request no later than the close of the next business day after TRS receives your loan application.
- If you filed an online TDA loan application Monday-Thursday, TRS must receive your cancellation request no later than the close of the next business day.
- If you filed an online TDA loan application Friday-Sunday, TRS must receive your cancellation request by 9:30 a.m. on the first business day following the weekend.

If your cancellation request is not received by the appropriate deadline, TRS will process your loan application.

**Please note that your loan may not be returned after it has been issued.**

## **INTEREST**

You will be charged monthly interest on your outstanding loan balance. The interest rate on your TDA loan is equal to the annual rate of return that you will receive on TDA investments in the Fixed Return Fund. Therefore, for members who are serving in (or retired/resigned from) titles represented by the United Federation of Teachers (UFT), the interest rate on TDA loans will be 7%; for other members, the interest rate will be 8.25%. The interest rate in effect when the loan is issued will be applied for the entire term of the loan. All interest you pay will be credited to your TDA account.

## **SERVICE CHARGE**

A non-refundable service charge will be added to each TDA loan you take, to cover the administrative costs of issuing a loan. At the time this brochure was published, the service charge was \$30. You may incur an additional service charge for any requested action that necessitates a recalculation of your repayment amount.

## **INSURANCE**

Your new TDA loan will be fully insured against your death 30 days after your loan is issued. Prior to that date, there will be no insurance coverage.

Insurance premiums of 0.3% will be included in your regular loan payments, as long as you maintain an outstanding balance and your loan is not in default.

If you default on a loan, any unpaid insurance fees will be deducted from your TDA account. (See “Defaults” section.)

## **REPAYMENT**

### **In-Service Members and Members with TDA Deferral Status**

Other than the amount representing insurance charges, your TDA loan payments will be credited to your TDA account according to the investment elections in effect at the time your payments are made. If you are a member with TDA Deferral status, you may indicate how loan payments should be credited when applying for a loan; your election on your loan application will also apply to payments for any other TDA loans. Please note that in-service members or members with TDA Deferral status may change how their TDA loan payments are credited in the future, either on our website or by filing a “TDA Investment Election Change Form.”

With the exception of a loan taken at annuitization, your TDA loan must be repaid within five years (60 months) of the date the loan was issued. If you are an in-service member, loans are normally repaid through payroll deductions of at least 2% of your contractual salary **(If your payroll deductions do not commence as indicated on your loan statement, or if they are unexpectedly interrupted, you must notify TRS immediately.)**

Please note that you will be responsible for any interest and insurance charges that accrue during the period when payroll deductions were expected but not received by TRS. (If you are employed by the UFT or the Council of School Supervisors & Administrators (CSA), your union will deduct the appropriate amounts from your paychecks and provide monthly loan payments directly to TRS on your behalf.)

If you are a retiree with TDA Deferral status, you have a choice of how you want to repay any TDA loans: automatic deductions from your monthly retirement allowance or monthly direct payments to TRS. To change your loan repayment method, you may file a “Request to Change TDA Loan Repayment Method” (code LO105) or online equivalent.

To reduce your loan balance, you may make a partial payment in addition to your regularly scheduled payments. Partial payments would not stop payroll deductions (if applicable) and would not change the amount of your regularly scheduled payments. You can make partial payments online in the secure section of our website.

If you want to change the terms of your loan (*e.g.*, amount or duration of payments), you must submit a written request to TRS. A service charge would be applied to the reamortization of your loan.

If you want to repay your total outstanding loan balance in a lump sum, you may file a “TDA Loan Repayment Request Form” (code LO11t) or online equivalent. Upon receipt of the form, TRS will calculate the total amount required to repay your outstanding loan balance and send you written notification of the repayment amount and payment instructions.

In certain cases, if you are an in-service member and make a lump-sum payment in June or July (after summer paychecks with loan payment deductions have been issued), you will be refunded for those summer payments later. You may avoid loan payment deductions for the summer months by filing a “TDA Loan Repayment Request Form” by the last business day in February.

## Leave of Absence

If you take a leave of absence, you automatically qualify for a 12-month grace period when loan payments need not be made; however, interest and insurance charges will continue to accrue on the unpaid balance. If you have outstanding loans when your leave begins, the grace period will commence upon the receipt of payroll records indicating your change in status. If TRS issues a loan to you during your leave of absence, the grace period will begin upon issuance of the loan, unless you elect on your “TDA Loan Application” to begin making regular payments instead.

If you take advantage of the 12-month grace period, your loan payment amount will include the interest and insurance charges that will accrue during this time. In addition, your payments will be recalculated and you must recommence scheduled loan payments when your grace period ends or you return to active service (whichever is sooner).

However, you may elect to initiate immediate repayment at any time during the grace period. This option allows you to avoid paying the additional interest and insurance charges that accrues from the time you make the repayment to the end of the grace period.

If your leave of absence exceeds the 12-month grace period, you must make monthly TDA loan payments after the grace period in order to avoid defaulting on your loans. TRS must receive these payments by the 15<sup>th</sup> of the month. Payments may be submitted online through the secure section of our website. Make your check payable to the “Teachers’ Retirement System of the City of New York.” Please include the payment voucher attached to your loan statement with your loan payment.

Note: If you transfer your TRS membership to an eligible New York City or New York State public retirement system during your leave of absence, you will be given a 30-day period in which to fully repay any outstanding TDA loan balance to TRS with a lump-sum payment. If you do not fully repay your total outstanding loan balance within 30 days of your notification letter, the total balance will be transferred to your new retirement system—if the system offers a

Section 403(b) Plan with a loan provision. If your new retirement system does not offer a Section 403(b) Plan with a loan provision, your loan balance cannot be transferred. In this case, your total outstanding loan balance will be considered a distribution; this information will be provided to the IRS. (To be eligible to transfer your TRS membership while on a leave of absence, your leave must be unpaid.)

- c) Receive a portion of the loan amount as a Direct Cash Payment and have TRS directly roll over the balance. To roll over all or part of your TDA loan, you must file a “TDA Loan Direct Rollover Election Form” (code LO58) or e-form equivalent. (If you elect to have TRS directly roll over your TDA loan, you may not change the rollover institution after your annuitization date.)

### **For CUNY Employees Paid on the New York State Payroll**

TRS will receive payment for only one outstanding TDA loan through automatic payroll deductions. For any additional TDA loan balance, CUNY members must make monthly payments directly to TRS. Payments are due to TRS no later than the 15<sup>th</sup> of the month. TRS will provide monthly loan statements with payment instructions. In general, direct monthly payments will be required for the duration of the loan.

## **LEAVING ACTIVE SERVICE**

### **Retirement**

Unless you elect TDA Deferral status, any outstanding TDA loan balance you have on your effective retirement date will not be repaid to TRS and will be considered a distribution; this information will be provided to the IRS. If you elect TDA Deferral status at retirement, you may maintain an outstanding loan balance and avoid a distribution; monthly direct payments to TRS will then be required.

Any new TDA loan taken at annuitization will not be repaid to TRS. Instead it will be considered a distribution; this information will be provided to the IRS. You will have the following three choices regarding the disbursement of a TDA loan taken at annuitization:

- a) Receive the entire loan amount as a Direct Cash Payment;
- b) Have TRS directly roll over the entire loan amount (minimum \$200) to one or more eligible Individual Retirement Arrangements (IRAs) or other successor programs; or

### **Resignation/Termination/Membership Transfer**

If you have an outstanding TDA loan balance when you resign or are terminated, you will be given a 30-day period in which to fully repay the balance with a lump-sum payment. If you transfer your TRS membership to an eligible New York City or New York State public retirement system that offers a Section 403(b) Plan with a loan provision, and do not fully repay your total outstanding TDA loan balance within this 30-day period, the total outstanding TDA loan balance will be transferred to your new retirement system.

If your total outstanding balance is not repaid within the 30-day period or transferred to a new retirement system:

- If you are *vested*, you may elect TDA Deferral status by filing a “TDA Deferral Status Election Form (For Vested Members)” (code TD31) with TRS within the 30-day period. If you elect TDA Deferral status, you will have the option to repay your outstanding TDA loan balance through monthly payments, provided that your loan has not been outstanding for five years or longer. If you do not elect TDA Deferral status within 30 days of your notification letter, your outstanding TDA loans would be closed. Your total outstanding TDA loan balance will be considered a distribution; this information will be provided to the IRS.
- If you are *not vested*, your TDA loans will be closed. Your total outstanding TDA loan balance will be considered a distribution; this information will be provided to the IRS.

## **DEFAULTS**

With the exception of a TDA loan taken at annuitization, your TDA loan will be in danger of default if you have an outstanding loan balance five years (60 months) after the loan's issuance date, or if your total past due amount is equal to or greater than the equivalent of three regular monthly payments. If either of the above occurs, TRS will request that you submit full repayment of the total outstanding balance (including interest and insurance charges). If TRS does not receive full repayment by the date requested, you will default on your TDA loans. Your insurance will be terminated, and any outstanding insurance charges will be deducted from your TDA account balance.

Any defaulted TDA loan balance will be deemed a distribution; this information will be provided to the IRS.

If you have TDA funds available for withdrawal, your TDA loans will be closed; if a portion of those funds are TDA contributions and earnings you had accumulated as of December 31, 1988, those funds will be reduced. If you do not have TDA funds available for withdrawal, your remaining TDA defaulted loan balance will continue to accrue interest until it is either repaid to TRS or TDA funds become available to close the loans. You will not be eligible for future TDA loans unless you repay any remaining TDA defaulted loan balance.

## **TAX CONSEQUENCES OF DISTRIBUTIONS**

Generally, loans are not taxable. Please note the following tax information on loans that are considered distributions:

- The total taxable portion of the distribution is federally taxable and may be subject to state and local taxes; TRS suggests that you consult a tax advisor.
- You may also incur an IRS-imposed 10% penalty on any taxable portion of the distribution if your service is terminated prior to the year in which you reach age 55, or if the distribution occurs before you reach age 59½.

Except for defaulted loans, all or part of the taxable amount of a TDA loan balance that is considered a distribution may be rolled over to one or more eligible IRAs or other successor programs within 60 days of notification by TRS. Any amount that is rolled over will not be taxable until it is distributed to you. If you would like to roll over any portion of your eligible amount, you must provide the funds to do so. Defaulted loans (which are classified as “deemed distributions”) are not eligible for rollover.

### **Loans at Retirement**

Unless you elect TDA Deferral status at retirement, any outstanding TDA loan balance at retirement that you do not repay within 30 days of the date of TRS' notification letter will be considered a distribution.

## Loans at Annuitization

Please note the following tax information on TDA loans at annuitization:

- If you have an existing outstanding TDA loan balance at annuitization, it will be considered a distribution.
- New TDA loans taken at annuitization are considered distributions, and will not be repaid to TRS.
- IRS regulations require TRS to withhold 20% of the taxable amount of a loan taken at annuitization that you do not directly roll over. TRS will send the amount withheld to the IRS as credit toward your federal income taxes for the year of distribution.
- If you have an outstanding TDA loan balance at annuitization and you take a new TDA loan, TRS is required to withhold an amount equaling 20% of the taxable portion of any existing loan balance and of any new loan amount that you do not directly roll over.
- If you receive a new loan at annuitization as a Direct Cash Payment, withholding from any outstanding loan balance must be taken, even if all or part of the new loan is tax-free. If the total withholding amount exceeds the amount of your new loan, TRS will issue you a check in the minimum amount of \$10. Any remaining withholding deficit will be applied against a TDA withdrawal you receive in the same tax year; this withholding will be in addition to any withholding that will ordinarily be applied to a TDA withdrawal that you receive directly.

For your convenience, TRS forms and publications are available on our website.

*This publication should not be solely relied upon, as it is based on currently available information that is subject to change. In all cases, the specific provisions of the governing laws, rules, and regulations prevail.*



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