Knox County Retirement

# PARTICIPANT LOANS

Effective September 1, 2016, eligible active participants of the Asset Accumulation and STAR Plans are allowed to take out a loan from their retirement accounts online.

Eligible Participants*:

- Actively employed
- Paid on a 12-month payroll cycle,
- Fully vested in your accounts**, and
- Have a minimum balance of $20,000

Participant Loan Program Sunset
Unless extended by the Board, this Participant Loan Program will end on June 30, 2018. No loans may be originated after June 30, 2018.

## Loan applications online at www.usicg.com.

*You are **not** an eligible participant if you are employed by: Knox County Schools, Charter Schools, E-911, or the Metropolitan Drug Commission.
**STAR participants do not have to be fully vested in the Employer Supplemental Contribution Account.

**Before taking a loan from your retirement plan, consider:**

- The impact of borrowing from your future
- The costs of a retirement plan loan
- Taxes and loan default consequences
- A loan's impact on your investment strategy

**For information on loan provisions or any additional questions please contact:**

**USI Consulting Group**
**(866) 305-8846, plan code 524**
**Monday - Friday 8:00 am to 5:00 pm ET.**

1016.T0802.99102

# Knox County Retirement System Participant Loans

The Knox County Retirement and Pension Board (*the Board*) is pleased to announce the addition of a loan request feature for the Knox County Retirement System Asset Accumulation and STAR Plans. Eligible participants are now able to model and request a loan from the usicg.com website, subject to the terms of the plan. The website will also display the status of your loan from the time the application is entered through processing and mailing of your loan check.

For qualified eligible participants, once you request and confirm your loan using the website, it is automatically submitted for processing from your account. Requests are generally processed within one business day, and checks are mailed within three business days from the date your loan is processed. You will receive a Promissory Note and Disclosure attached to your loan check. By signing the loan check, you acknowledge receipt of this documentation and agree to all terms of the loan. We encourage you to keep this paperwork for your records.

Included is a **Quick Reference Guide for Plan Loans** that provides step by step instructions on how to apply for a loan using the usicg.com website. We hope that you find this guide and new Loan Program helpful and easy to use, should you wish to initiate a loan from your account in the future.

**Before taking a loan from your retirement plan, consider:**

- The impact of borrowing from your future
- The costs of a retirement plan loan
- Taxes
- Loan default consequences
- A loan's impact on your investment strategy

## Participant Loan Program Highlights*

**Eligible Participants**
Active participants in the Asset Accumulation or STAR plan who are fully vested**, paid on a 12-month payroll cycle, and are **not** employed by:

- Knox County Schools,
- Charter Schools,
- E-911, or
- The Metropolitan Drug Commission

**Loan Provisions**

- Minimum loan amount: $5,000
- Maximum loan amount: 25% of vested balance up to $50,000, subject to applicable IRS rules
- Maximum loan term may not exceed five (5) years
- Only one (1) loan is permitted at any time

**STAR Participants do not have to be vested in the Employer Supplemental Contribution Account.

**Fees**

- Interest Rate of 4% per year *(as of September 01, 2016)*
- $50 origination fee
- $35 annual administrative fee *(paid in semi-annual installments)*

**Loan Default Notice**
A defaulted loan shall be treated as a deemed distribution, taxable in accordance with federal law.

**Participant Loan Program Sunset**
Unless extended by the Board, this Participant Loan Program will end on June 30, 2018. No loans may be originated after June 30, 2018.

**The Board reserves the right to modify, amend or terminate this Program or any provision at any time. Participant Loan Program documents can be found at www.knoxcounty.org/retirement.*

**If you have any additional questions please contact:**

**USI Consulting Group**
**(866) 305-8846, plan code 524**
**Monday - Friday 8:00 am to 5:00 pm ET.**

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# Quick Reference Guide for Plan Loans

If you have any additional questions please contact;

USI Consulting Group
(866) 305-8846, plan code 524
Monday - Friday 8:00 am to 5:00 pm ET.

## Following is a summary of the steps to apply for a loan from your retirement account via the USICG website:

1. Log on to **www.usicg.com**.
2. Click on the **Retirement Account Access** button.
3. Select **Participant Login** under the Participant Account Services menu.
4. Enter your User ID and Password and click the **Login** button.
5. Select Loans from the drop-down menu located at the top of the screen. Click **Loan Calculator and Request** to get started. *(From this menu option you may estimate loan payments and request loans, check the status of loans taken and view loan payoff details.)*
6. Enter the loan amount, term of the loan *(in months)* and your daytime telephone number (*in case any information needs to be verified*).
7. Click **Calculate Payment** to estimate your loan repayment amount per pay period and amount available to borrow from your account.
8. Click **Request Loan** to accept the terms shown on the screen and apply for the loan.
9. Review the Loan Request Verification screen and click **Confirm** if all terms are correct (*you may also Edit or Cancel your request*). Clicking Confirm submits your loan for processing.
10. Read and Print a copy of the Loan Request Confirmation for your records. Follow "Loan Processing Steps" below.

## Loan Processing Steps

In general, once you verify the terms and submit your loan request it will be processed within one business day. You may check on your loan request by clicking on Loan Application Status under Loans in the drop-down menu on the top of your screen on the website. Loan checks are generally mailed within three business days from the date your loan is processed. The loan check will be mailed to the address shown on the loan request screen. If this address is incorrect, please contact USI Consulting Group (see contact information to the left) before submitting your loan request.

You will receive a Promissory Note and Disclosure attached to your loan check. By signing the loan check, you acknowledge receipt of this documentation and agree to all terms of the loan. This paperwork should be retained for your records.

## Loan Repayment

Plan loans must be repaid. When you apply online, and choose how much you would like to borrow, you will be informed of the amount that will be withheld, after tax, from your County paycheck, and for how long. Please note, in planning your loan that the repayment is **in addition** to your 6% mandatory pre-tax employee contribution. When you take a loan, you have both deductions from your paycheck.

Knox County Retirement

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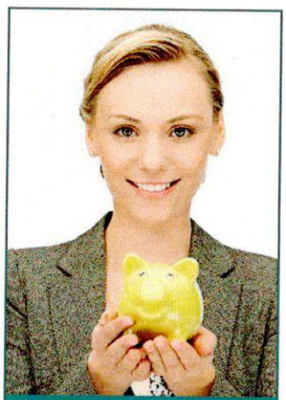
# How Loans May Affect Your Retirement Savings

## Is taking a loan from your retirement savings account a good idea?



### Before taking a loan from your retirement plan, consider:

- The impact of borrowing from your future
- The costs of a retirement plan loan
- Other influential factors
- Your alternatives
- A loan's impact on your investment strategy

Knox County Retirement

This information is for educational purposes only. All investments have some kind of risk. This is an educational tool to help you make informed financial decisions in planning for your retirement. It does not advise or recommend specific investments or investment strategies.

Having the option to borrow from your retirement savings plan can provide a sense of comfort. Knowing you can access your money in a pinch may even make you willing to save a little more. But is it really a good idea?

Individual circumstances vary, so there is no simple answer to this question.

## The Impact of borrowing from your future

The common perception is that borrowing from yourself is the best approach — you pay interest and principal back to your account. And it's easy — your loan payments are usually taken directly out of your paycheck. Another advantage is that qualification is usually automatic *(if your loan request meets your plan's borrowing criteria)*.

However, taking a loan from your retirement savings plan may not be in your best interest. Before you draw from your retirement savings, consider your retirement savings goals. The reason that you save in a retirement savings vehicle is to grow and accumulate a nest egg to secure your future. When you draw upon that, you may be setting yourself back from reaching your goals. It's important to weigh the particular need for a loan with your intent to grow your retirement savings. Consider the costs and alternatives before you decide whether or not to borrow from your future.

## The costs

Compare the costs of other loan alternatives with the costs of borrowing from your retirement savings:

**Loan fees**

Each Participant loan will be subject to a $50 origination fee and a $35 annual administrative fee for the duration of the loan. The loan origination fee will be deducted from the Participant's account at the time the loan is made and the annual administrative fee will be deducted semi-annually in installments of $17.50 each. Fees may be revised prospectively by the Board.

**Interest rates**

Every loan must bear a reasonable rate of interest. The interest rate for a loan will be specified at loan origination and will be fixed for the term of the loan. The applicable interest rate will be determined by the Knox County Retirement and Pension Board, upon recommendation of its Investment Committee. The interest rate for a new loan will be reviewed periodically and may be subject to change. Effective September 1, 2016, until changed, the interest rate will be 4% per annum.

## Other influential factors

There are a few other factors you should be aware of before choosing to take a loan from your retirement savings plan:

**What if you leave your employer or transfer to a non-eligible class ( Knox County Schools, Charter Schools, E-911, the Metropolitan Drug Commission) before your loan is paid off?**

One major factor to consider when deciding whether or not to borrow from your retirement savings account is what happens if you leave your employer or transfer to a non-eligible class. Pursuant to the Loan Program, you have a short period of time to repay the loan. If you don't do so, the outstanding balance is treated as a distribution and subject to income tax and often a 10% tax penalty *(if under age 59 ½)*. Taxes may be as much as 45% of the total loan amount!

**Tax considerations**

A general misperception is that borrowing from your retirement savings plan gives you a tax advantage. In fact, there is no tax advantage to taking a loan from your retirement savings. Even though the loan amount is taken from your pre-tax dollars, you will use after-tax dollars to repay the loan and interest. Loan repayments are not tax-deductible. If you don't repay your loan, the balance plus interest will be reported as taxable income.

## Your alternatives

Other borrowing options may provide the cash flow that you need without dipping into long-term savings. Loans are available from many different sources with a variety of rates and terms. Some, like home equity loans, offer attractive interest rates and possibly a tax deduction.

## A loan's impact on your investment strategy

When you borrow, you actually create a fixed income investment *(bond)* in your retirement plan. A bond is a loan — you pay yourself back principal plus regular interest payments. Fixed income investments produce returns only from interest payments. Stocks, on the other hand, have the potential to generate higher returns.

If you are an aggressive investor with most of your savings invested in stocks, taking a loan could significantly alter your investment mix. It is important to keep this in mind when you calculate your expected rates of return and savings goals. You may find you'll need to adjust your investment strategy to compensate for the portion of your account now allocated as a fixed income investment *(the loan)*.

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