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# Defined Contribution Loan Application

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Did you know that borrowing from your retirement plan account may have a major impact on your ability to retire with sufficient funds? Before you decide to borrow against your account, you should consider the following:

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## It's For Your Retirement

The MERS Defined Contribution Plan is a retirement plan where you have an active role in determining your financial goals, making investment choices, and monitoring your retirement portfolio. If you are like many of our members, this plan is an important source of your retirement income.

## The Borrowed Money is Not Growing

Money that is borrowed from your MERS Defined Contribution account is no longer invested. The example below perhaps best demonstrates the impact of taking a loan from your retirement plan.

*When John was 30 years old he took a \$25,000 loan from his Defined Contribution account with a term of 5 years and an interest rate of 5.25%. John hopes to retire in 25 years at age 55 and expects to earn on average 7% from his investments. If his loan is repaid on time he will lose \$36,812. If his loan is not repaid, and is defaulted on, he will be subject to a 10% penalty, and his loss will rise to a total \$175,635 from the inception of the loan until his retirement.*

BankRate.com has provided a free online calculator that can assist you in finding out how much money (in terms of growth in your retirement savings) you'll potentially lose while you are paying off a loan from your retirement account. Note: while this calculator is for a "401k loan," keep in mind that a 401k savings plan in the private sector is very similar to the governmental MERS 401(a) Plan.

[www.bankrate.com/mlink/calc/401kl.asp](http://www.bankrate.com/mlink/calc/401kl.asp)

## You Lose Some Tax Advantages

When you repay the loan, it is with money that has already been taxed. As you know, one of the benefits of contributing to the MERS Defined Contribution Plan is the fact that the money is invested pre-tax. When you take a loan you aren't taxed on the proceeds, but the money used to repay the loan has already been taxed so your additional interest going into the account will effectively be taxed twice—at the time of contribution and again when eventually withdrawn from the account in retirement.

## The Loan is Tied to Your Job

If you leave your job, your entire outstanding loan amount will be due immediately. If you are unable to repay your loan, then the balance is considered "defaulted." This means that the unpaid balance becomes a taxable event the year that the repayments stopped. The defaulted amount is treated as ordinary taxable income to you. Additionally, you may be subject to a 10% penalty if you are under the age of 59½.

# MERS Loan Guide (For Defined Contribution Retirement Plan)

## Frequently Asked Questions

### Am I eligible to request a loan?

Some MERS employers have adopted provisions allowing employees to borrow against the amount in their Defined Contribution account. If you are unsure if your municipality allows for loans, contact your employer or the MERS Service Center.

Additionally, you must be actively working in order to request a loan from your account. Former employees and beneficiaries may not take a loan.

### Must I have my spouse's consent to obtain a loan?

No.

### How many loans can I take out?

Loans can be initiated once per 12-month period, and no more than two outstanding loans can be allowed at a given time.

### What is the minimum and maximum amounts that I can borrow?

The minimum amount for a loan is \$1,000.

The maximum loan is 50% of your vested account balance, up to \$50,000. This amount is also reduced by the highest outstanding loan balance(s) over the past 12 months. If you are active in several plans at one time, you may not borrow up to the maximum from each plan. The \$50,000 maximum is based on all plans combined. Please see the Maximum Loan Amount Worksheet (below) to assist you in estimating your maximum loan amount. The actual amount that may be borrowed will be calculated using your account balance on the day the loan is made.

### Maximum Loan Amount Worksheet

To estimate the maximum amount of a loan for which a participant may be eligible, calculate each step and select the lesser of the total of Step 1 or Step 2. If the participant has had no outstanding plan loan in the last 12 months, you may enter \$50,000 as the total in the Step 1 and proceed to Step 2.		
Step 1	A. \$50,000 is the maximum	\$50,000
	B. Enter the highest outstanding loan balance(s) during the previous 12 months, including any defaulted amounts from any retirement plan including 401(a), 457 or 403(b)	
	Subtract Line B from Line A	
	Step 1 Total	
Step 2	C. Enter 50% of your present vested account balance	
	D. Enter any current outstanding plan loan balance(s) including any defaulted amounts from any retirement plan including 401(a), 457 or 403(b)	
	Subtract Line D from Line C	
	Step 2 Total	
Step 3	Maximum loan amount, enter the lesser of Step 1 or Step 2 totals	▶

# MERS Loan Guide (For Defined Contribution Retirement Plan)

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## What types of loans are available?

A general purpose loan may be obtained for any purpose, and may be issued for a period of up to 5 years.

## Do I have to put up collateral and qualify for a loan in the same way I would at a bank?

No. The remaining balance in your MERS Defined Contribution account will serve as collateral.

## How are loans treated for tax purposes?

Funds borrowed from the Plan under these conditions are not treated as distributions, provided they are repaid in accordance with the terms of the loan. Therefore, no taxes are withheld or due when a loan is received.

## May I deduct the interest I pay on the loan from my taxable income if I itemize deductions?

No. Under federal tax law, no deduction is permitted for interest paid on a loan from the plan, regardless of the purpose of loan.

## How is the interest rate determined for Plan loans?

The interest rate for general purpose loans will be based on the prime rate published in The Wall Street Journal (or any successor thereto) plus 2.00%, and such rate is fixed for the life of the loan.

The interest rate will be the established rate in effect on the date the loan application becomes effective and is approved by MERS. Any loan interest charged on your loan will be deposited into your Defined Contribution account to your credit as it is repaid. Interest payments on the loans by participants are not deducted for tax purposes.

## What are the loan processing fees?

There is a \$150 processing fee charged against the remaining balance of your account for each executed loan.

## How does a loan affect the investment of my accounts?

Any loan to you will be considered to be a separate investment of your accounts. Loan proceeds will come from the fund or funds in which your accounts are invested on a pro-rata basis.

## How is my loan balance invested?

If you take a loan on your account, the portion of the account used to pay the loan is no longer invested in your account. Once you make repayments to your account, each repayment is added back against the balance of your loan and is invested back into your account according to your investment directives for new contributions at the time of each repayment. While the amount of interest repaid to your account through the loan repayments may seem like a fair return on your dollars when compared to a savings or money market account, it could still provide less potential return than equity markets, or other possible investment classes available within your account. Further, the longer the length of your loan, the more potential impact to your account from this lost opportunity to invest your dollars in higher potential asset classes.

## What are the loan repayment rules?

Loan repayments will begin within 30 days using after-tax dollars. Your loan must be repaid through payroll deductions in substantially level payments on each payroll date over the period of the loan. If the scheduled payment amount is greater than your pay on such date, the shortfall will be taken out of your next paycheck. If the shortfall cannot be taken out of your next pay check, you must pay any repayment amount not collected through payroll deduction by promptly delivering to your employer a check or other negotiable instrument (not cash) payable to your employer.

Repayment is due in full upon the expiration of the loan term or your severance from employment, whichever occurs first.

*Please note:* Alerus will accept additional payments beyond what is required, however, these will only be accepted in payments equal to the amount expected and will not adjust the schedule provided herein. For example, if the loan payment is \$100, additional payments of \$200, or \$300, and so on, are acceptable.

## May I pay less than my required loan payment amount?

No. Your loan payment amount is deducted by your employer; this amount may not change.

## May I pre-pay my outstanding loan?

You may pre-pay the entire outstanding principal balance of your loan and accrued interest at any time, without penalty. Prepayments must be made by check or other negotiable instrument (not cash) to your employer. Contact MERS for your loan payoff amount.

# MERS Loan Guide (For Defined Contribution Retirement Plan)

## Are there tax breaks on making a loan repayment?

Loan repayments are made directly to your account, but these repayments are done with after-tax money. Unlike the pre-tax contributions that you made to your account that can help reduce your taxable income for a given year, loan repayments do not. Furthermore, loan repayments to your account could actually be taxed twice, since they will be taxed as ordinary income when withdrawn upon termination or retirement, for whatever proportion the loan was taken on pre-tax dollars.

## May I re-finance an outstanding loan?

No. However you may take out a second loan if you are eligible.

## May I receive a loan while there is an unresolved domestic relations order involving my accounts?

No. You may not receive a loan while the Plan administrator is determining the qualified status of a domestic relations order affecting your account.

## May I suspend loan repayments during an unpaid leave of absence?

Subject to certain limitations, you may suspend your loan repayments for up to one year while on an approved unpaid leave of absence. The suspension may not extend the loan beyond its original term, and any suspended payments (and accrued interest) will become due and payable not later than the end of the original loan term. If you choose to continue loan repayments during an approved unpaid leave of absence, your payments must be made by check or other negotiable instrument (not cash) payable to your employer.

## May I suspend loan repayments during a leave for protected military service?

If you take a leave of absence for a period of military service protected by federal law, you may elect to suspend loan payments during such period. Upon completion of your military leave, you must resume making loan repayments in an amount not less than the original repayment amount and in installments not less frequent than required under the terms of the original loan. The loan must be repaid in full (including interest that accrues during the period of military service) by the end of a period equal to the original term of the loan plus the period of military service. Any balance due and payable at the end of such adjusted loan term must be paid in one payment by check or other negotiable instrument (not cash) payable to your employer.

## When does a loan default?

If you terminate from employment and there is an unpaid balance on your loan, the unpaid portion should be paid immediately. If it is not paid immediately, you have until the earlier of a full distribution, or the last day of the quarter following the quarter you left employment to repay the outstanding amount. If a final repayment is not received and there is still an amount owed at that time, the defaulted amount is treated as taxable income, reported to you on a 1099 in January of the following calendar year. Additionally, you may be subject to a 10% penalty if you are under the age of 59½.

For more detailed information regarding the taxability of your loan(s), please read your loan application carefully. You may wish to consult with a tax advisor or an accountant before applying for a loan.

### You can submit this form online!

If you already have a myMERS account, you can upload this form online. Look for the **File Upload** feature in the top navigation to easily and securely submit completed forms.

You may also mail completed form to MERS' recordkeeper at:

Alerus Retirement Solutions  
P.O. Box 64535  
St. Paul, MN 55164



## MERS Defined Contribution Loan Application Form

Please print clearly • Retain a copy for your records

### Employer verification - *To be filled out by your employer*

Name of employer*	Municipality number*	Division number (6 digits)*
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### 1. Information about you

Last name*	First name*	Social Security number*	Phone number (with area code)*
Mailing address*			
City*		State*	Zip code*
Email address		Citizenship* <input type="checkbox"/> U.S. Citizen <input type="checkbox"/> U.S. Resident <input type="checkbox"/> Non-resident alien (submit IRS Form W-8BEN)	
Marital status* <input type="checkbox"/> Single <input type="checkbox"/> Married	<b>Have you been divorced at any time following your date of employment with this employer?*</b> <input type="checkbox"/> No <input type="checkbox"/> Yes – If yes, you must submit a copy of your Judgment of Divorce to MERS before your distribution can be processed. Ex-spouse(s) name(s):		

**Next pay date** (Date selected must be at least 2 (mm/dd/yy) weeks out from date Loan Application was submitted):

#### Reporting frequency

Your payroll schedule may not align with your reporting frequency to MERS. If this is the case, you need to adjust your payments with your employer accordingly so that equal payments are withheld from each paycheck. The amortization and repayment schedule provided will be based on the reporting frequency on file with MERS.

### 2. Amount of loan

You must be an active employee in order to take out a loan from your Defined Contribution 401(a) plan. You may not apply for a loan any more frequently than once per rolling 12-month period. You may not have more than two outstanding loans at any one time. You must not have defaulted on any previous loans with this employer.

To estimate the maximum amount of a loan for which you may be eligible, calculate each step and select the lesser of the total of Step 1 or Step 2,

Step 1	A. \$50,000 is the maximum	\$50,000
	B. Enter the highest outstanding loan balance(s) during the previous 12 months (including any defaulted amounts from any retirement plan including 457 or 403(b))	
	Subtract Line B from Line A	
<b>Step 1 Total</b>		
Step 2	C. Enter 50% of your present vested account balance	
	D. Enter any current outstanding plan loan balance(s) including any defaulted amounts from any retirement plan including 457 or 403(b)	
	Subtract Line D from Line C	
<b>Step 2 Total</b>		
Step 3	Maximum loan amount, enter the lesser of Step 1 or Step 2 totals	

**Amount of loan requested** (can be any amount less than or equal to the maximum amount above) ▶

There is a \$150 per loan processing fee. This amount will be deducted from the remaining balance in your account.  
 Note: If the amount requested exceeds the available funds, the loan will be processed for the maximum amount available.

# MERS Defined Contribution Loan Application Form

## 3. Repayment schedule

Choose repayment term (not less than one year nor to exceed five years):

1 year     2 years     3 years     4 years     5 years    OR    \_\_\_\_\_ months    OR    \_\_\_\_\_ payments

## 4. Delivery process

Check made payable to you will be mailed to your address on file along with loan verification documents. Information will also be mailed to your employer. You will then have the option to accept the check and the terms of the loan agreement or deny the loan and return the check to Alerus Retirement Solutions.

**Overnight check delivery:** You may request overnight shipping of checks for a fee of \$35 (taken from remaining account balance if available, or from distribution amount). Please allow up to two business days for processing.

**Note:** Checks are issued from *Alerus Financial*, MERS' recordkeeper.

## 5. Your signature

My signature acknowledges that I have received, read, understand, and agree to all pages of this *Defined Contribution Retirement Plan Loan Application Form*. I certify that all information, including the **outstanding loan amounts provided in Section 2 are correct**.

I understand that the final loan details will be calculated when this form is received and processed by MERS staff, and that the final loan details will be provided when the loan is disbursed, and that I accept the terms of the loan once I have received the payment. If I do not accept the loan terms, I must return the loan amount before loan repayments begin.

If I fail to complete the terms of the loan, the remaining loan balance will be considered in default. The IRS will treat any amount in default as though received by me. To the extent I have not previously paid income taxes on the defaulted amount, it will be treated as ordinary income and I will be taxed accordingly, as required by law. This taxable amount may also be subject to an IRS 10% early withdrawal penalty.

MERS assumes no responsibility for any adverse tax consequences of defaults on loan repayments. MERS makes no representations or guarantees as to the effect the loan may have on your tax liability.

Qualifying participant signature\*

Date (mm/dd/yyyy)\*

Participant name\* (please print clearly)

Social Security number\*

## 6. Employer signature (REQUIRED for submission)

As the fiduciary of the loan program, the employer is responsible for following the terms of the loan program as outlined in the MERS Loan Addendum. I certify that the participant in Section 1 is an active employee.

Employer signature\*

Date (mm/dd/yyyy)\*

Employer representative name (please print clearly)\*

\* Required field

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