Municipal Employees' Retirement System
Municipal Employees' Retirement System of Michigan
800.767.MERS (6377)
www.mersofmich.com

Defined Contribution or 457 Loan Application

for Qualified Individuals related to the CARES Act

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:

Use this form if you are a Qualified Individual under the CARES Act and wish to take a loan from your MERS Defined Contribution Plan or traditional 457 Program (Roth 457 accounts are not eligible for Loans).

The Borrowed Money is Not Growing

Money that is borrowed from your MERS Defined Contribution or 457 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: This calculator is for a "401k loan," which is very similar to the governmental MERS 401(a) Plan.

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 or 457 program 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interest going into the account will effectively be taxed twice–at the time of contribution and again when eventually withdrawn from the account in retirement.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.

CARES Act

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

In response to the CARES Act, MERS is amending its Loan Provisions for Qualified Individuals as follows:

Loan Application

Any loan made during the 180-day period beginning on March 27, 2020, and ending on September 22, 2020, only, from the Defined Contribution Plan or 457 Program to a participant who is a qualified individual as defined in the MERS Plan Document, an employer may provide that the maximum amount that can be borrowed at the lesser of:

1. 100% of the present value of the participant's vested account balance on the date of distribution, or
2. $100,000, reduced by the excess of the participant's highest outstanding loan balance(s), if any, during the prior 12 months over the balance(s) immediately prior to the date the loan is made.

Repayment for Existing Loans

Payments due between March 27, 2020, and December 31, 2020, can be suspended for one year. If participants do not make payments during this time, the loan will be re-amortized upon the expiration of this period. See the Loan Repayment Suspension Application for details.

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 or 457 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.

CARES Act

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

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

The maximum loan:

- up to $100,000, or
- The greater of $10,000 or 100% of the present value of the participant's vested account balance, reduced by the excess of the participant's highest outstanding loan balance(s), if any, during the prior 12 months over the balance(s) immediately prior to the date the loan is made.

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 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.

CARES Act

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 $100,000 as the total in the Step 1 and proceed to Step 2.

Step 1	A. $100,000 is the maximum	$100,000
	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 100% 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 qualified individuals related to the CARES Act)

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.

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 or 457 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?

CARES Act

The fee for processing a loan has been waived during the period through which CARES Act modifications are in effect.

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.

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.

What happens if I do not pay back the loan?

When you receive a loan from your account, it is not a taxable event, nor are there withholdings on the amount that you receive on the loan. However, if there is an amount that you have not paid back to your account, and repayments discontinue, then that 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.

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 there is an amount you have not paid back to your account, and repayments discontinue, that balance is considered “defaulted.” The unpaid balance becomes taxable the year that the repayments stopped. The defaulted amount is treated as taxable income. Additionally, you may be subject to a 10% penalty if you are under the age of 59½.

However, the program allows you to “cure” the default by repaying the entire outstanding balance before the end of the calendar quarter following the quarter during which you terminated employment.

What are the consequences of a loan default?

If your loan is in default then, the entire outstanding balance of the loan, including accrued, but unpaid, interest up to the date of default will be a taxable distribution and reported on Form 1099-R. That amount will be included in your gross income. The defaulted loan will continue to exist and interest will continue to accrue until the defaulted loan is fully repaid or you experience a distributable event. Additionally, you will be precluded from applying for future loans, even if the defaulted loan is fully paid off.

Note: The defaulted loan (including unpaid interest accrued after default) is considered outstanding and is applied to determine the available loan amount from all qualified employer plans of the same employer.

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

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MERS Defined Contribution or 457 Loan Application Form *(CARES Act)*

Please print clearly • Retain a copy for your records

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.

Name of employer*	Municipality number*	Division number (6 digits)*
Employer signature*		Date (mm/dd/yyyy)*
Employer representative name (please print clearly)*		

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* ☐ U.S. Citizen ☐ U.S. Resident ☐ Non-resident alien (submit IRS Form W-8BEN)

Marital status*
☐ Single
☐ Married

Have you been divorced at any time following your date of employment with this employer?*

☐ **No** ☐ **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 weeks out from date Loan Application was submitted): (mm/dd/yy)

Type of account you are requesting a loan from: ☐ Defined Contribution ☐ 457

Reporting frequency – Your payroll schedule may not align with your employer's 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

Amount of loan requested – You may use the worksheet on page 2 to estimate the maximum amount of loan available to you but MERS will make final calculations. If the amount requested exceeds the available funds, the loan will be processed for the maximum amount available

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

MERS Defined Contribution Loan Application Form

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.

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

5. Certification as Qualified Individual

My signature acknowledges that I have received, read, understand, and agree to all pages of this *Defined Contribution or 457 Loan Application Form for Qualified Individuals under the CARES Act*. I certify that all information is correct.

I am an active employee. I understand that I may not apply for a loan any more frequently than once per rolling 12-month period. I may not have more than two outstanding loans at any one time. I affirm that I have not defaulted on any previous loans with this employer.

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.

Only participants who meet the requirements of the CARES Act as a "Qualified Individual" can get a plan loan under the conditions described above. A Qualified Individual is a person who, on or after January 1, 2020, and before December 31, 2020, meets one of the following criteria:

1. I was diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (referred to collectively as COVID-19) by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act);
2. My spouse or my dependent was diagnosed with COVID-19 by test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act); or
3. I have experienced adverse financial consequences because:
   a. I, my spouse, or a member of my household was quarantined, furloughed or laid off, or had work hours reduced due to COVID-19;
   b. I, my spouse, or a member of my household was unable to work due to lack of childcare due to COVID-19;
   c. A business owned or operated by me, my spouse, or a member of my household closed or reduced hours due to COVID-19; or
   d. I, my spouse, or a member of my household had a reduction in pay (or self-employment income) due to COVID-19 or had a job offer rescinded or start date for a job delayed due to COVID-19.

By signing below, you are certifying that you meet the legal requirements of the CARES Act as a "Qualified Individual" and you are hereby applying for a plan loan under the CARES Act. You are responsible for maintaining records establishing that you are qualified individual for your personal tax records.

Qualifying participant signature*	Date (mm/dd/yyyy)*

Qualifying Participant name* (please print clearly)	Social Security number*

* Required field

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