EMPLOYEE BENEFITS

County of Riverside Human Resources

Great Benefits For A Great Place To Work

Attn: All employees in Management, Confidential, Unrepresented, DDAA, LEMU, LIUNA, SEIU, and RSA Bargaining Units participating in the 457 Deferred Compensation Plan

We are pleased to announce that a loan provision has been added to your County of Riverside 457 Deferred Compensation Plan (the Plan). Effective October 15, 2007, the provision allows you to borrow money against your own Plan balances. The anticipated goal of the loan program is to allow you greater flexibility to manage your finances. Before initiating a loan through the Plan, it is advised that you understand the loan program guidelines and impact of taking the loan. The following discusses some of the common questions asked regarding the loan provision.

457 Deferred Compensation Plan Loan Information

What is the interest rate on the loan?

The interest rate will be equal to the prime rate plus one percent (1%) as reported in the *Wall Street Journal* at the beginning of each quarter. The interest rate will be fixed for the duration of each loan. All principal and interest payments are credited to your account.

What are the set-up fees and annual fees?

There is a one time $50.00 set-up fee for the loan and a $50.00 annual loan maintenance fee that will be charged to your account. If you default on your loan, a loan default fee may also apply.

What is the minimum and maximum loan amount?

A participant may not request a loan if their account balance is less than $2,000. A minimum loan amount is $1,000. The IRS has set maximum limits as to how much you may borrow from your account as described in the table below:

Account Balance	Maximum Loan Amount
$0 - $1,999	Loans not allowed
$2,000 - $100,000	50% of your Account Balance
Over $100,000	$50,000

The $50,000 maximum loan amount is reduced by the highest loan balance during the past 12 months in any and all tax-deferred retirement plans with the County of Riverside.

If I have an account with both Valic and Nationwide, can I take out a loan with each vendor?

Yes. You are eligible to have one outstanding loan per vendor. However, the minimum and maximum values still apply for each vendor and the combined loan amount cannot exceed $50,000. There is a one time $50.00 set-up fee and $50.00 annual loan maintenance fee charged to your account for each vendor. If you default on your loan, a loan default fee of $50.00 may also apply. Please refer to your loan program agreement from your provider at the time you take out a loan.

What is the re-payment method?

Each loan will be amortized into level monthly payments. Payments are made through Automated Clearing House (ACH) debit from your savings or checking account. The re-payments are made on an after-tax basis and deducted directly from your checking or savings account.

How does a loan affect my account?

An amount equal to the loan is transferred from your investment funds to a loan account. Therefore, if investments perform well, you may be missing additional growth potential on your account. As the loan is repaid, the collateral account balance is decreased by the amount of principal repaid. The principal and interest payments are deposited into your investment options according to your investment allocation for future contributions

How many years can I take to repay my loan and can I pay off my loan early?
The length of loan repayments can be up to five years. If the loan is for the purchase of your primary residence, loan repayments can be up to 15 years (a purchase does not include mortgage payments, refinances, or second home loans). If the loan is for the purchase of your primary residence and you want the payments to exceed five years, supporting documentation may be required. The entire amount of the loan, including outstanding principal and any accrued interest may be paid prior to the end of the term of the loan. There is no prepayment penalty for early payoff.

What happens if I retire or terminate employment?

If you retire or terminate employment, you will be required to continue your monthly payments. The same default rules apply. If the payment is not received, the loan will be in default and become a taxable distribution from your account. If you terminate employment and take a distribution from the plan, your loan balance will also be a deemed distribution in the tax year in which the default occurred. You will receive a Form 1099 reporting the income associated with the deemed distribution. If you wish to continue the loan payment, you can not take a distribution from the plan.

When do you consider a loan in default and what are the consequences of a default?

Your loan is in default if any scheduled repayment remains unpaid at the end of the calendar quarter following the calendar quarter in which the repayment was due, or there is an outstanding principal balance existing on a loan after the last scheduled repayment date. A default on a loan creates a taxable event, whereby the amount of unpaid principal will be reported as income. In addition, borrowers with a loan in default will be prohibited from obtaining further loans from the Plan until the loan has been repaid.

What should I consider before taking out a loan?

- While a loan meeting the Internal Revenue Code requirement is not treated as a taxable plan distribution, in the event you default on the loan, it will be treated as ordinary taxable income to you. For those nearing retirement, this increase in income for the tax year resulting from a loan default may influence decisions concerning Social Security and Medicare benefits.
- Loan Payments are made from your after-tax proceeds, unlike retirement plan contributions, which are made on a pre-tax basis. The loan is also not tax deductible and does not offer any tax advantages.
- The money you borrow-or take out of your retirement plan account no longer appreciates in value. Therefore, your have less money available to invest and you may have less market value appreciation over time.
- Repayment delinquency can have serious consequences. A loan typically is deemed a distribution when scheduled repayments are not made and the loan is deemed as a distribution. A deemed distribution is a taxable event.

How do I proceed in getting the loan process started?
Please contact your 457 Deferred Compensation provider at the number below:
Nationwide (**877) 677-3678 or VALIC (888) 568-2542.**

Alternative formats are available. Reasonable accommodation is available if requested at least two weeks prior to the date of assistance needed. For assistance, please call Employee Benefits at (951) 955-4981 and select Option 2, for retirement benefits.

.