

403b Plan Loans and Hardship Withdrawals – FAQ

On June 11, 2011, the Kalamazoo College Board of Trustees adopted a resolution to allow the Kalamazoo College Defined Contribution Retirement Plan and the Kalamazoo College Tax Deferred Annuity Plan to offer Loan and Hardship Withdrawal features beginning August 1, 2011. Plan loans and hardship withdrawals will only be available on retirement plan balances resulting from employee contributions. Those account balances attributable to Kalamazoo College contributions will not be available for either loans or hardship withdrawals.

Does this change require any action on my part?

You are not required to take any action on your retirement account as a result of this plan change. The change simply makes available features that were not previously offered to plan participants.

Are there potential negative consequences to taking a loan or hardship withdrawal from my retirement account? Yes. You should give careful attention to the following before considering a retirement plan loan or hardship withdrawal:

- When you take a loan, you will be required to set aside from your account and invest in the TIAA Traditional Annuity Fund an amount equal to 110% of your loan.
- The loan interest you will pay is not tax deductible.
- If you fail to make timely repayments, and your loan defaults, the unpaid balance will be treated as taxable income in that year and, if you are under age 59 ½, subject to an additional 10% penalty tax. These defaulted funds and potential future earnings will then not be available to you as retirement savings.
- Hardship withdrawals will reduce your retirement savings. In addition, hardship withdrawals are taxed as income in the year of withdrawal and if you are under age 59 ½, are subject to the 10% federal early distribution penalty tax.
- Federal regulations prevent you from making additional retirement plan contributions for six months following a hardship withdrawal, and the College will therefore discontinue its matching contributions for the same period. This will further reduce the amount of savings you have available for retirement.

Retirement Plan Loans

How much can I borrow from my retirement account?

The amount you can borrow is limited by the IRS rules that govern IRS Code 403(b) retirement accounts. Loans are generally available for a minimum of \$1,000 and a maximum of \$50,000. This limit is an individual limit and applies to all available retirement plan loan accounts including account balances in your Tax Deferred Annuity account held with the College.

Is there a limit on how many retirement plan loans I can take?

Yes, you cannot have more than three loans outstanding at one time.

Is there a collateral requirement?

Yes there is a collateral requirement. Your retirement plan loan is made by our retirement plan provider, TIAA-CREF. TIAA-CREF requires that you set aside an amount equal to 110% of your loan as

collateral. This amount will be invested in the TIAA Traditional Annuity fund within your account. Your TIAA Traditional collateral will continue to earn interest as long as funds are held there.

Is there interest charged on my loan?

Yes, TIAA-CREF will charge interest for your plan loan. Interest rates are variable and subject to change every twelve months. The initial rate you pay will be the same as the Moody's Corporate Bond Yield Average for the calendar month ending two months before your loan is issued. (The Moody's Corporate Bond Yield Average on 5 July 2011 was 5.45%.)

Is loan interest tax deductible?

No, the interest you pay on retirement plan loans is not tax deductible.

How long can I take to repay my loan?

You have from one to five years. If the loan is for purchase of a primary residence, you may have ten years to repay.

How do I repay my loan?

You may repay your loan monthly or quarterly. Your payments are made directly to TIAA-CREF.

Can I prepay?

Yes, you can make full or partial prepayments at any time without penalty.

What happens if I cannot make a loan payment?

If TIAA-CREF does not receive your loan repayment by the last day of the month it is due, the outstanding loan balance will be in default. You will have until the end of the calendar quarter following the calendar quarter in which the payment was due to pay the total overdue amount. If you fail to do so, TIAA-CREF will report the outstanding loan balance to the IRS as current taxable income. The overdue amount will then be deducted from your collateral. Defaulted loan amounts are taxable as ordinary income. If you are under the age of 59 ½, your default may also be considered an early distribution from your retirement account and will be subject to a 10% federal tax penalty.

How do I apply for a retirement plan loan?

For more information, call TIAA-CREF at 800 842-2252. You may apply directly online by logging into your accounts at www.tiaa-cref.org, or you can start the loan process by calling TIAA-CREF.

Hardship Withdrawals

What is a hardship withdrawal?

The IRS allows current plan participants to take retirement plan withdrawals under certain conditions if a plan participant is experiencing an immediate financial need that cannot be satisfied by any other means including retirement plan loans.

What are the financial events that qualify for a hardship withdrawal?

- Purchase of the employee's principal residence
- Preventing eviction from the employee's principal residence or foreclosure of a mortgage on the principal residence
- Expenses incurred as the result of certain casualty damages to the employee's principal residence
- Medical expenses (that are deductible) incurred by the employee, spouse or dependents
- Payment of the next 12 months of post-secondary tuition and related educational fees, including books, for the employee, spouse or dependents
- Payments for burial or funeral expenses for the employee's parent, spouse, child or dependent

Who determines whether my financial need qualifies for a hardship distribution?

TIAA-CREF will make the hardship determination. They will use their internal systems of check for plan loan availability or other forms of retirement distributions. They will also collect and review acceptable documentation for the proof of the hardship event.

Is there a limit on how much I can withdraw?

Yes, you can only request an amount that is necessary to relieve the documented financial need. In addition, only those account balances attributable to your employee contributions are available as a source for hardship withdrawals.

Are there tax consequences as a result of a hardship withdrawal?

Yes, TIAA-CREF will report the amount of the withdrawal to the IRS as taxable ordinary income in the year you received your distribution. If you are under the age of 59 ½, your withdrawal will also be considered an early distribution from your retirement account and will be subject to a 10% federal tax penalty.

Are there other potential negative consequences to receiving a hardship withdrawal?

Yes, once you receive a hardship withdrawal you will be prevented from making additional retirement plan contributions for six months. The College will discontinue its matching contribution for the same period. This will reduce the amount of savings you have available for retirement.

How do I apply for a hardship withdrawal?

For more information or to start the hardship withdrawal process, call TIAA-CREF at 800 842-2252.