West Virginia Higher Education Policy Commission
West Virginia Community and Technical College System

1018 Kanawha Boulevard, East, Suite 700
Charleston, West Virginia 25301

(304) 558-2101

www.hepc.wvnet.edu
www.wvctcs.org

June 15, 2015

Dear Participant,

In recent months, the Teachers Insurance Annuities Association of America-College Retirement Equities Fund (TIAA-CREF) and Great West Life and Annuity (Empowerment Retirement) retirement planning experts have identified a serious concern about the increased level of personal borrowing from employee retirement accounts. We share their concern that a short-term need for a loan from your retirement plan can have devastating effects on your ability to retire with the funds you will need in the future.

A greater than expected number of higher education employees is reaching that threshold. In our TIAA-CREF program alone, there are more than 18,000 outstanding loans with a total loan balance of nearly $41 million. Every year, the number and dollar value of loans from the plan increase. Sadly, 20 percent of the loans go into default each year and the cost of making, administering, and collecting the loans is borne by all plan participants – not just borrowers.

Saving for retirement is an important commitment. Yet, with the many priorities and financial demands you face every day, we know that staying focused on building your retirement assets can be difficult.

The West Virginia Higher Education Policy Commission (Commission) and the West Virginia Council for Community and Technical College Education (Council) take seriously our commitment to help keep your financial future on track and to maintain the integrity of the retirement programs. With this in mind, we are changing the loan policy for the West Virginia Higher Education Qualified 401(a) Retirement Plan.

The loan policy changes apply to all institutions and organizations participating in the West Virginia Higher Education Qualified 401(a) Retirement Plan. Both retirement program vendors, TIAA-CREF and Great West Life and Annuity Insurance Company are subject to the new loan policy. The changes will help safeguard your retirement savings, while still providing you with emergency access to funds you may need today.

Loan Policy Changes

Effective July 1, 2015, the following changes will be implemented:

- No more than three loans can be outstanding at any given time. The three outstanding loan maximum **includes** any loans currently in default.
- All costs associated with loans made after the effective date of this provision will be borne by the borrower.
- Upon full implementation of the new WVOASIS HRM/Payroll system and implementation of a Payroll Advantage Loan program, future loans must be repaid via payroll deduction.

As always, before taking a loan from your retirement account, we encourage you to weigh your decision carefully and examine other options first.

Real Costs of Borrowing from Your Retirement Account

The primary purpose of your retirement plan is to build savings for your future. Using your retirement account as a rainy day fund for current expenses can cost more than you think. Here's how a retirement plan loan can derail your long-term financial goals:

- **Savings slow down:** The income used to pay toward plan loans (and other debt) reduces your ability to meet other financial obligations and savings goals – including saving for retirement.
- **Retirement plan earnings freeze:** A loan from your retirement removes your money from selected investment markets – not just what you borrow, but also what is held as collateral in case of default. The notion that "you're paying yourself back" when you repay a retirement plan loan overlooks the lost earnings and compounding growth your investments could have earned if not borrowed as a loan. For example, a $10,000 loan from your retirement account, paid back over five years, could mean you are foregoing more than $3,500 in potential earnings. Add to this the interest you are paying on the loan and the cost is even greater. *(This scenario assumes the borrower is 40 years old, with 25 years left until retirement; taking out a five year loan, with 6% loan interest; and that there would have been an 8% return on funds over the next 25 years if the loan had not been taken. This is a hypothetical illustration. These returns are for illustrative purposes only and do not reflect actual performance or the fluctuations inherent in investing.)*
- **Tax consequences:** Borrowed funds are taxed twice. Loan repayments are made with money on which you have already paid taxes. That money will be taxed again when withdrawn at retirement.
- **Defaults:** If you default on the loan, you will not only reduce the amount of money available for retirement, but you may trigger additional taxes and other penalties.

For additional information, please see the enclosed "Frequently Asked Questions" document.

Remember, with retirement being years from now for some, it may seem like a good idea to borrow from your retirement account. However, the years to retirement serve to allow your investments to grow. Borrowing from your retirement now will harm you in the long run by lowering your chances of having the investments necessary to retire when you are ready. Let's work together to help manage your financial responsibilities today – so you can keep your retirement savings working hard for your future.

Sincerely,

Paul L. Hill
Chancellor

James L. Skidmore
Chancellor

cc: Ms. Patricia Clay, *Vice Chancellor for Human Resources*
Dr. Edward Magee, *Vice Chancellor for Finance and Plan Fiduciary*
Mr. Bruce Walker, *General Counsel*
Mr. Matt Turner, *Executive Vice Chancellor for Administration*

West Virginia Higher Education Policy Commission
West Virginia Community and Technical College System

Frequently Asked Questions
Loan Policy Changes
July 1, 2015

1. **How do the policy changes impact the number of loans allowed if I have assets in more than one plan?**

   Only assets in your 401(a) qualified plan are subject to the new loan policy.

2. **What if I have outstanding loans that originated prior to the effective date?**

   Beginning July 1, 2015, employees are limited to a maximum of three outstanding loans at any given time. The number of loans outstanding includes existing loans in repayment and loans on which they may have previously defaulted. So, an individual with one loan in current repayment status is eligible to obtain additional loans. Remember, the amount available for an additional loan is reduced by the existing outstanding loan balance. An individual with three or more loans whether in current repayment or default status, will not be eligible for additional loans until the number of loans outstanding is reduced to under three. Individuals who previously defaulted on a loan can repay the loan, making themselves eligible for loans in the future.

3. **Why have the Commission and Council decided to limit loans?**

   Discussion surrounding loan limitations have taken place for approximately three years. The number of outstanding and defaulted loans from the retirement program were becoming noticeable large, and increasing steadily. This increase in funds removed from the plan threatened the financial retirement future of borrowers. Left unchecked, the growing volume of loans could potentially degrade plan integrity. Additional reasons for limiting loans from the Qualified 401(a) retirement program include:

   - to protect long-term financial interests of plan participants by preventing use of retirement accumulations as a source of revolving credit;
   - to prevent delayed or inadequate retirement income due to erosion of current retirement accumulations due to loan collateral provisions and default distributions;
   - to improve administrative efficiencies by reducing administrative costs to the plan;
   - to protect participant's earnings potential of long-term investments;
   - and to limit the possibility of adverse tax consequences for participants who default on loans.

4. **What if I have taken a loan and defaulted, but I'm in a difficult financial situation and need help?**

   The number of defaulted loans count against the three loan limit. Also, the defaulted loan amount reduces the amount of money available for loans in the future. Loans defaulted prior to the effective date of this provision will not limit an individual's ability to obtain future loans (up to a maximum of three outstanding loans at any given time) but it may reduce the amount you can borrow. Defaulted loans may be repaid by the borrower in order to create eligibility for future loan requests.

5. **Who do I contact if I have questions about this change?**

   Contact the Human Resources or Benefits Office at your institution or contact your retirement program and ask to speak with a financial consultant.

   To reach a TIAA-CREF financial consultant, call **800 842-2888**, Monday to Friday, 8 a.m. to 10 p.m. and Saturday, 9 a.m. to 6 p.m. (ET). Automated service is available 24/7.

   Contact an Empower Retirement participant services representative by calling **(866) 467-7756**, Monday to Friday, 7 a.m. to 6 p.m. (MT). Or consult their website at **https://www.empower-retirement.com/participant**.

6. **What should I do if I need money today?**

   Whether your investments are with TIAA-CREF or Great West Life and Annuity (Empowerment Retirement), you can visit TIAA-CREF's public website to see alternative avenues for you to consider before taking a loan from retirement savings. Read "Should you borrow from your retirement plan?" at **https://www.tiaa-cref.org/public/advice-guidance/advice-about-unexpected-events-and-emergencies** to learn more about how to maintain your financial composure when life throws you a loop. Before you make any decisions about your immediate financial needs, or to establish a financial plan for future emergencies, speak with a TIAA-CREF advisor. Consultants are available by phone at **800 842-2252**, Monday to Friday, 8 a.m. to 10 p.m. and Saturday, 9 a.m. to 6 p.m. (ET).

   To schedule a One-on-One Advice Session with a TIAA-CREF Financial Consultant, call **800 732-8353**, Monday to Friday, 8 a.m. to 10 p.m. (ET), or visit **www.tiaa-cref.org/schedulenow** for a consultation at your workplace, at a local TIAA-CREF office or by phone. Visit **www.tiaa-cref.org/wvhepc** for additional information.

   To speak with a financial advisor with Empower Retirement, contact a participant services representative by calling **866 467-7756**, Monday to Friday, 7 a.m. to 6 p.m. (MT). Or consult their website at **https://www.empower-retirement.com/participant**.