SETON HALL UNIVERSITY

Department of Human Resources

Good Afternoon,

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

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. Seton Hall University takes our commitment to help keep your financial future on track and to maintain the integrity of the retirement programs very seriously. With this in mind, Seton Hall University is changing the loan policy for the University retirement plans (i.e., the Seton Hall University Defined Contribution Plan, the Seton Hall University Tax Deferred Annuity Plan). The changes will help safeguard your retirement savings, while still providing you with emergency access to funds you may need today.

Loan Policy Changes

<u>Effective January 1, 2016</u>, the following changes will be implemented:

- No more than four (4) loans can be outstanding at any given time. The four (4) outstanding loan maximum includes any loans currently in default, any active loans plus any deemed distributed defaulted loans.
- Participants with more than four (4) existing loans will be grandfathered, but will not be able to take out additional loans after January 1st until the number of outstanding loans falls below four (4).
- Paperwork for any new loan must be received in appropriate form prior to December 4, 2015 to ensure that loan will be processed before the change in loan policy on January 1, 2016. .

Real Costs of Borrowing from Your Retirement Account

The primary purpose of your retirement account 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 down retirement account 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 account 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 account 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.

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

If you should have any questions about this upcoming loan policy change, please contact TIAA-CREF’s National Call Center at 1-800-842-2252 or the Seton Hall Benefits Department at 973-761-9176.