Loan Default Fact Sheet

NYCERS | NYC EMPLOYEES' RETIREMENT SYSTEM

Tier 3, 4, and 6

February 2025

Note to Reader: This Fact Sheet describes the consequences of a Non-Performing Loan and explains how you can avoid these consequences in the event you are no longer on City payroll.

When is a pension loan placed in default?

Failure to make payment on an outstanding loan for over 90 days will lead to your loan being placed in default. A loan that has been placed in default is also known as a Non-Performing Loan.

What are the consequences of a Non-Performing Loan?

If you have a Non-Performing Loan, it means that:

- You will not be eligible to take another loan until the outstanding balance of your Non-Performing Loan is paid in full.
- Your Non-Performing Loan may be taxable for Federal income tax purposes as a taxable distribution. There is an additional 10% early distribution tax penalty for members who are under the age of 59½.
- Your Non-Performing Loan will no longer be insured against your death. If a beneficiary is due to receive a benefit, the amount of that benefit will be reduced by the amount of the outstanding loan.
- Any future retirement benefit you are entitled to receive will be significantly reduced due to the unpaid outstanding loan balance and interest that continues to accrue on such balance.

I stopped making loan payments because I left City service. What options do I have to avoid my loan being placed in default?

If you have left City service you can avoid the consequences of a Non-Performing Loan by:

1. Paying the entire outstanding balance of your loan; **OR**
2. Continuing to make payments on a monthly basis.

Shortly after your separation from City service, NYCERS will send you a loan payment coupon offering these two payment methods. If you choose to make monthly payments, you will receive a loan payment coupon each month until your balance is paid in full, provided that you continue making payments. Submit your check or money order made payable to NYCERS with the loan payment coupon.

I stopped making loan payments because I am on a leave of absence. What options do I have to avoid my loan being placed in default?

If you are on an approved leave of absence or military leave you can avoid the consequences of a Non-Performing Loan by:

1. Paying the entire outstanding balance of your loan; **OR**
2. Continuing to make payments on a monthly basis (see previous question); **OR**

3. Contacting NYCERS' Call Center at (347) 643-3000 to learn about the special repayment options that may be available to you if you are on a military or approved leave of absence.

What special repayment options are available to me if I am on an approved leave of absence or military leave?

If you are on an approved leave of absence, the obligation to repay your loan may be suspended for up to one year. However, your loan repayment schedule cannot exceed the five-year limitation specified by IRS regulations.

If you are called to Active Military Duty, the obligation to repay your loan will be suspended while you are on Military Duty. If you chose a repayment schedule of less than five years, the repayment schedule will be extended for the same amount of time you were on Active Military Duty. However, your loan repayment schedule cannot exceed the five-year limitation specified by IRS regulations.

During the suspension of your obligation to repay your loan, interest continues to accrue at a rate of 6%.

To utilize this special repayment option, you must provide a letter (on official letterhead) from your commanding officer stating that you are currently on Active Military Duty.

Why do I have to pay income taxes on a Non-Performing Loan?

Internal Revenue Service (IRS) regulations specify that a pension loan is to be treated as a taxable distribution if payments have not been made for over 90 days. When this occurs, a 1099-R tax form will be generated in January of the following year reporting the outstanding balance of your loan to the IRS as taxable income.

Generally, the taxable amount is the outstanding loan balance at the time of default. If you paid any income taxes at the time your loan was processed, there may be a non-taxable amount and a taxable amount that would be reflected on your 1099-R tax form. In certain cases, your Non-Performing Loan may not be taxable at all, in which case, a 1099-R tax form will not be generated.

If I pay taxes on my Non-Performing Loan does that mean that it is no longer outstanding?

No. Paying taxes on a Non-Performing Loan does not relieve you of the obligation to repay the loan. Remember, an unpaid outstanding loan balance will affect any retirement or death benefit that becomes payable in the future.

If I pay my outstanding loan after it has been placed in default and deemed taxable, are the tax consequences no longer applicable?

No, you will still incur a tax liability. Re-payment of your defaulted loan does not relieve you of this consequence. However, since you are still obligated to repay the loan and because interest continues to accrue on the outstanding balance, it is recommended that you pay it to avoid further consequences such as a reduction in a retirement or death benefit.

Does my Non-Performing Loan continue to accrue interest?

Yes. Your outstanding loan will continue to accrue interest until your retirement date or date of death, whichever is earlier. This can have a significant impact on any retirement benefit or death benefit that becomes payable.

How does an unpaid outstanding loan affect my future retirement benefit?

If you have an unpaid outstanding loan balance at retirement, a reduction will be applied to your retirement benefit. The amount of the reduction depends on your age at retirement and the amount of your outstanding loan. The table below illustrates the benefit reduction in dollars for every $1,000.00 of an outstanding loan for some sample ages (based on a table of factors for 2025 retirements):

How does an unpaid outstanding loan affect a death benefit my beneficiary/ beneficiaries receives at the time of my death?

Any death benefit payable would be offset by the outstanding loan amount. Suppose your beneficiary is entitled to receive an Ordinary Death Benefit of $100,000 and you have an outstanding loan amount of $20,000 at the time of your death. The death benefit would be reduced to $80,000.

Outstanding Loan Reduction Amounts Based on 2025 Loan Factors*

Age	Annual Reduction per $1,000 of Loan		Age	Annual Reduction per $1,000 of Loan		Age	Annual Reduction per $1,000 of Loan	
	2025 Non-Uniformed	2025 Uniformed		2025 Non-Uniformed	2025 Uniformed		2025 Non-Uniformed	2025 Uniformed
55	$66.05	$66.86	62	$74.34	$75.40	69	$87.12	$88.61
56	67.06	67.90	63	75.80	76.92	70	89.61	91.17
57	68.12	68.98	64	77.36	78.52	71	92.34	93.99
58	69.24	70.13	65	79.03	80.25	72	95.28	97.04
59	70.41	71.33	66	80.83	82.12	73	98.48	100.36
60	71.64	72.61	67	82.77	84.12	74	101.99	104.01
61	72.96	73.98	68	84.86	86.27	75	105.85	108.04

* Please note that the examples shown above reflect Service Retirement only. If you retired under Disability, these numbers would change and your reduction may be greater.

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Forms, Brochures, Fact Sheets at www.nycers.org
Upload Documents at www.mynycers.org
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