



what loans cost



what's the real cost of borrowing from your qualified retirement plan account?

There are important financial consequences to think about when considering a loan from your account*. As a general rule, plan loans should be your last resort and only if you find yourself in a financial emergency. We want to provide you with information you'll need to help make an informed decision. Here are some factors to consider:

Impact to your retirement income

Taking a loan from your retirement savings means that you'll have less set aside for retirement. Although you repay the loan amount with interest, you might potentially earn a higher return by keeping the money invested.

When you take a loan, potentially you lose the benefits of compound growth – earning returns on both the principal amount contributed and the growth previously earned. As a result of compounding in a rising portfolio that is taxed on a deferred basis, your retirement account could grow faster if the income from an investment option (as well as the principal) is left in the account.

Tax implications

One of the key benefits of contributing to your plan is that ongoing contributions are made before taxes are deducted from your salary. Although money borrowed for a loan is taken from those pre-tax contributions, loan repayments are made with post-tax dollars. When you withdraw the money at retirement, you'll pay taxes on all withdrawals, even though repayments were made with post-tax dollars. Interest payments that you make on the loan aren't tax deductible either.

We strongly recommend that you see a professional tax or financial adviser if you are considering taking a loan.

Repayment schedules may not fit your overall financial plan

Plan loans must be repaid within specified time periods which may not fit your overall financial plan. Loan repayments may become your financial priority, meaning that you may not be able to maintain the same level of contributions to your retirement plan - or be able to make any at all.

Loan default

If you aren't able to repay the loan, or if you terminate employment without having paid it back in full, the outstanding (unpaid) amount is considered to be a withdrawal. In effect you would owe state and federal taxes on the amount of the withdrawal, as well as a 10% penalty if you were under age 59½. There are few exceptions to this rule.

There are very limited circumstances under which you will not be subject to the early withdrawal penalty.

Please check with your company's plan administrator for specific details on your plan regarding events of default and your tax adviser on the tax(es) that may apply to you upon a loan default.

Loan fees

In addition to interest payments, there are usually fees associated with taking a loan. Most third party administrators charge a loan set-up fee, and may also charge an annual fee to administer the loan. Also, John Hancock USA charges a monthly recordkeeping fee under the plan's contract.

how loans work

While taking a loan from your plan account is really borrowing from yourself, these loans are subject to rules and regulations, some of which may vary from plan to plan.

Reasons for taking a loan

Although many plans do not place restrictions on reasons for taking a loan, some plans will only permit it as a result of immediate and heavy financial need, termed hardship. For plans that do consider hardship for loan purposes, you may be required to provide proof of need. Check with your plan administrator for your plan's specific rules.

Generally, there are three reasons for taking a loan. They are:

- **Hardship.** If your plan only allows loans as a result of hardship (as mentioned above), and one of these conditions applies to your reason for taking a loan, select "hardship" as the reason for taking your loan.
- **Primary residence.** Select this option if you are taking a loan for the purchase of a primary residence.
- **General purpose.** If your plan does not place restrictions on reasons for taking a loan, and if your loan is not for the purchase of a primary residence, select "general purpose" as the reason for taking your loan. You will be asked to indicate the specific reason for the loan.

In general, the hardship situations that qualify as immediate and heavy financial need may include: certain medical expenses not covered by insurance, payments necessary to prevent eviction from a principal residence or foreclosure on the mortgage on that residence, funeral expenses and repair of a primary residence, or payment of education expenses for yourself, your spouse or your child.

Model your loan

You can model a loan online by accessing our website at www.jhpensions.com.

Experimenting with different loan scenarios will help you to determine the potential loan amount and the repayment schedule most appropriate for you.

Repayment schedules

Loans must generally be repaid within five years. An exception is if the loan is used to purchase a primary residence. In this case, your plan may give you longer to repay the loan.

If you terminate employment, most plans will require the loan to be repaid in full. If you fail to do so, the outstanding balance will be deemed to be distributed to you, resulting in income tax and possibly a withdrawal penalty. Repayment of a plan loan is generally made through direct payroll deduction, set up by your company.

Spousal consent

If you are married and would like to take a loan from your plan account, most plans require your spouse to provide consent.

Minimum amounts

Usually, loans of under \$1,000 are not permitted.

Maximum amounts

Normally, the maximum amount you can borrow from your plan account is 50% of your vested balance, or \$50,000, whichever is less.

If you had a prior loan, or currently have one or more existing loan(s), taken from this and any other qualified retirement plan maintained by your employer, the maximum amount you can borrow may be further reduced. Your vested balance is all of your contributions plus all, or a portion of, employer match, if any, that is allocated to your account. If you don't know your eligible amount, it will be confirmed when you request a loan.

Required forms

All the forms you'll need to process your loan request can be obtained through your plan administrator.

- Truth in lending notice
- Promissory Note and Irrevocable Pledge and Assignment
- Consent of spouse (if you are married and if your plan requires it)
- Amortization schedule
- Instruction sheet for you and your plan administrator
- ARA Request for New Loan Form

In addition to the administrative loan forms, you will be required to sign a promissory note, guaranteeing that you will repay the loan amount within a specified time period. For some plans, if you're married, a spousal consent form will be required, which will need to be notarized or witnessed by your plan administrator.

Important note:

When you enrolled in your company's qualified retirement plan, you should have received a copy of the plan's loan policy. If you don't have a copy of the loan policy, your plan administrator can provide you with one. We strongly recommend that you review the loan policy before you model and request a loan, so that you are aware of specific conditions and limitations with respect to loans, and the requirements around the reasons for your loan.



* If plan permits loans - please refer to your Summary Plan Description or ask your plan administrator for details.

This information does not constitute legal or tax advice with respect to any taxpayer. It was neither written nor intended for use by any such taxpayer for the purpose of avoiding penalties, and it cannot be so used. If it is used or referred to in promoting, marketing, or recommending any transaction or matter addressed herein, it should be understood as having been written to support such promotion, marketing, or recommendation, and any taxpayer receiving it should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Group annuity contracts are issued by John Hancock Life Insurance Company (U.S.A.) (John Hancock USA). John Hancock Investment Management Services, LLC, a registered investment adviser, provides investment information relating to the contracts. Product features and availability may differ by state. In New York, products are issued by John Hancock Life Insurance Company of New York.

© 2006 John Hancock Life Insurance Company (U.S.A.), a Manulife Financial company. All rights reserved.