Loan Taxability

NYCERS | NYC EMPLOYEES' RETIREMENT SYSTEM

All or part of your loan may be subject to Federal taxes if it exceeds taxable distribution thresholds established by the Internal Revenue Service (IRS). NYCERS offers you three loan processing methods that may help you make an informed decision about the tax consequences associated with the loan.

Three Loan Processing Methods

New Loan: You are applying for a loan for the first time, or you have paid off a prior loan in full. The loan could have Federal tax consequences if it exceeds IRS thresholds.

Original Terms: You have an existing loan that has not yet been paid in full. If your new loan is approved, the amount of the new loan will be added to the existing balance. Under this method, the consolidated amount will be paid within the original repayment schedule (not to exceed five years) of the existing loan. Your loan may be subject to Federal taxes.

Refinance: You have an outstanding loan that has not yet been paid in full. If your new loan is approved, NYCERS will consolidate the existing balance with the new amount, and a new repayment schedule (not to exceed five years) will be implemented. This method may result in the highest tax consequence.

Access Your Account via MyNYCERS

With a registered MyNYCERS account, you can view your loan availability, potential tax consequences, or pay off a loan. If you are a Tier 3, 4 or 6 member, you can also apply for a loan online. Register for/log in to MyNYCERS at www.nycers.org.

Frequently Asked Questions

Why does NYCERS tax my loan?
NYCERS does not tax your loan. IRS regulations determine whether your loan is taxable.

How will I know if my loan is taxable?
If your loan is taxable, when you apply, you will be provided with an authorization letter that explains the tax consequences under each processing method described above. You must select how you want the loan processed and return the authorization letter **before** your loan can be processed. If you are applying for a loan via your MyNYCERS account, you will be asked to select your processing method as part of the online transaction.

What happens if my loan is taxable?
You will have the option to have income taxes withheld from your loan transaction. Whether or not you have taxes withheld, you will be issued a 1099-R by the end of January of the following year after you take the loan indicating the taxable amount to be claimed on your tax return. If you are under the age of 59½, you may also incur a 10% penalty for an early distribution. If you are at or near retirement, NYCERS is required to withhold 20% from any taxable amounts that are distributed to you.

Why do I have to repay my loan if I have to pay taxes on it?
You still have an obligation to pay the balance of your loan even if you pay taxes on it. In addition, if you have an outstanding loan at retirement, it will reduce your retirement benefit. The amount of the reduction depends on your age at retirement and the size of the loan. You may repay the total amount of the loan any time after retirement. By doing that, you will increase your monthly pension checks prospectively only.

Can I avoid income taxes by rolling over the taxable portion to an Individual Retirement Account (IRA) or another retirement account?
This rollover is an option ONLY if you are taking this loan at or near retirement. If that is the case, you will be provided with the option to roll over funds to another tax-deferred retirement account such as an IRA.

For complete details on taxability, please see the "Taxes" section of the Loans Brochure for your tier – Brochure #912 for Tiers 1 and 2; Brochure #911 for Tiers 3, 4, and 6.