Proposal to Implement a Loan Program for the 403(b) Retirement Account

Background
In November of 2011, a majority of faculty voted for, and the administration approved, access to our 403(b) plans through hardship withdrawals and loans. The administration was subsequently informed that our plan does not permit hardship withdrawals but the implementation of a loan program was begun. Upon learning that a loan program would impose additional administrative costs to all employees, the Faculty Council halted implementation of the loan program under the premise that additional fees represented a "reduction in benefits."

On Wednesday, April 11, 2012 the faculty voted on a resolution to implement the loan program. 85 faculty members voted in favor, 39 apposed, and 11 abstained. While those in favor of the program outnumbered those opposed by a margin of 2-to-1, the proposal did not carry the required majority of all eligible faculty members. Less than two-thirds of eligible faculty voted.

Purpose
The faculty who were engaged in discussions about the details of the plan, and the costs involved, were supportive of the plan, and no significant objections were raised. Based on evidence that the proposal of April 11 was misleading in regard to the costs and risks of the loan program, this revised proposal is being presented to more clearly articulate the costs and to stress the benefits of the program.

The loan program

- **The loan program is a benefit to all employees.** The administration has agreed to provide the loan program with faculty approval, to all employees (faculty, staff, and administrators). The plan will allow employees to borrow up to the lesser of $50,000 or 45 percent of your total contributions *at an extremely low cost*. Example: If you have contributed $75,000 to the 403(b) base account (the amount you have to contribute from your pay each period), you may borrow up to $33,750

- **Loan payments can be taken out of your paycheck.** You will be limited to only one loan at a time and each loan must be repaid within 5 years. There is no penalty for paying off the loan early. Loan payments can be taken out of your paycheck.

- **You are actually borrowing the money from TIAA-CREF**. For collateral, they will move 110 percent of your loan ($37,125 in the example above) from your account to the TIAA annuity, which will *pay you a minimum of 3 percent per year* on the outstanding balance. As you make loan payments, the principal will be moved from the annuity back to your account to be invested as you wish.

- **Your net borrowing cost is currently 1.75%.** Currently, TIAA charges an interest rate of 4.75 percent. Because you are receiving a 3 percent return on your collateral, your net borrowing cost is 1.75 percent per year.

Costs of a loan program

- **Administrative costs are minimal and are spread across all employees.** TIAA-CREF will impose a minimal fee for administering the program. This fee will be spread proportionally among all faculty, staff, and administrators regardless of whether they take out a loan. The fee of 1 basis point for each employee means that for every $100,000 in your account, your returns each year will be reduced by about $10.

    - **Example:** For most employees, the annual cost is considerably less than the daily change in their equity account. For example, if your account receives a 10 percent return next year without the loan program, you would receive a 9.99 percent return if we adopt the program. This means instead of receiving a dollar return of $10,000, you'd receive $9,990.

- **NO RISK TO THOSE CHOOSING NOT TO BORROW!**

    - Because the administration is limiting employees to one loan at a time, and because employees will be able to have loan payments deducted from their paycheck each period, employees will not default on their loan while they are employed at JCU.

    - Borrowers who leave JCU will be able to continue making payments, or will have to pay off the principal balance within 60 days, their choice.

    - If borrowers default on their loans after they leave JCU, their default does not affect the accounts of, or costs to, JCU employees.

    - The actions of those who borrow will not jeopardize the balances of, or affect the costs to, those who do not borrow.

Resolved: The faculty members of John Carroll University ask the administration to implement a 403(b) loan program.