



City of Fresno
Deferred Compensation Plan

LOAN PROGRAM

For more information about your Deferred Compensation Plan, call a Fidelity representative at 1-800-343-0860, Monday through Friday, 5:00 a.m. to 9:00 p.m. Pacific Time

Effective September 1, 2006, plan loans were available to Participants of the City's Deferred Compensation Plan. Should an unexpected financial need arise, your Deferred Compensation Plan now offers you the option of borrowing from your deferred compensation plan account. Please take the time to review this important information and carefully consider the pros and cons of taking a loan from your deferred compensation account.

How much can I borrow?

Provided that you have the funds available in your account, you may borrow a minimum of \$1,000 up to a maximum of 50% of the vested market value of your account or \$50,000, whichever is less.

How many loans can I take?

You may only have one outstanding loan at a time.

How do I repay the loan?

Loan payments will be deducted directly from your bank account by Fidelity's monthly Electronic Loan Payment service.

Are there any fees?

There is a \$35 one-time loan application fee, and a \$3.75 maintenance fee is assessed quarterly on your Fidelity statement.

How do I apply for a loan?

As long as you are an active employee, you can request a loan application directly from Fidelity at **1-800-343-0860** or on line at **www.fidelity.com/atwork**. Once you initiate the loan, you will receive loan paperwork from Fidelity. Complete and return the forms to Fidelity.

Weigh the PROS and CONS of the Loan Program

Even though it might seem easier to forget about saving for retirement when you need cash now, you should compare the potential benefits of taking a loan from your plan today with the potential costs to your overall savings over time. After all, the whole point of your Deferred Compensation Plan is to save enough money now to be able to live more comfortably when you retire.

ADVANTAGES

- ▲ **Cash Readily Available**—Loan amounts are usually available within three weeks.
- ▲ **Convenient, automatic repayment**—Loan payments will be deducted directly from your bank by Fidelity's monthly Electronic Loan Payment Service.
- ▲ **You pay interest back to your account**—While you're paying back a loan, principal and interest are credited to your plan account. So, you're paying yourself the interest with every loan payment.
- ▲ **No distribution taxes or penalties**—As long as you repay your loan on time, no taxes or penalties apply.

DISADVANTAGES

- ▼ **Consider tax consequences**—Simply put, you are borrowing money you contributed on a *pretax* basis and paying it back with *after tax* income. Fast-forward to retirement age when you take a distribution from your plan. You will essentially be paying taxes twice on the loan amount you borrowed: first with after-tax money while you repay the loan, then again when you withdraw money when you retire. [Remember, money into your Deferred Compensation Plan is not tax-free, it's tax-deferred, so you WILL owe taxes when you withdraw money at retirement.]
- ▼ **Penalties**— If you default on your loan or otherwise fail to pay it back within the agreed upon time frame, your loan balance will be considered a distribution and subject to ordinary income taxes.
- ▼ **Loss of potential Investment Returns**—Any money you borrow from your plan is "out of the market" and could miss out on any opportunities for growth, if the stock market is rising. When you take money out of your account, even for a limited period of time, you lose some of the benefits of compounding—the ability of your savings to build potential earnings on top of previous earnings.

Fidelity offers an online loan calculator that can help you determine whether it makes sense for you to take a loan from your Plan. From Fidelity's web site, www.fidelity.com/atwork, log on to NetBenefits and click on the *Planning Center* tab. A representative can also help you understand your plan's loan guidelines and the impact on your account before you initiate a loan.

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