COUNTY of VENTURA
Deferred Compensation

401(K) LOANS WHILE ON LEAVE OF ABSENCE

What happens if you're on an unpaid leave of absence or on leave of absence with reduced pay and you have a 401(k) loan? It depends on your individual circumstance.

- If you are on an unpaid leave of less than one year and you do not have a 5-year loan, you do not have to make loan payments during your leave. Fidelity will automatically reamortize your loan when you return to work.
- If you are on an unpaid leave of absence of less than one year, and you have a 5-year loan but the end of the 5-year repayment period will be after your return to work, you do not have to make loan payments during your leave. Fidelity will automatically reamortize your loan when you return to work.
- If you are on an unpaid leave of absence of less than one year, have a 5-year loan, and the end of the 5-year repayment period will occur during your leave, you must make loan payments during your leave.
- If you are on an unpaid leave of absence that will last more than one year, you must make loan payments during your leave regardless of the length of your loan repayment period.
- If you are on a reduced pay leave, but are earning enough to make your full loan payments, you do not need to make additional payments.
- If you are on a reduced pay leave of less than one year, are making no loan payments or partial loan payments, and you do not have a 5-year loan, you do not have to make loan payments during your leave. Fidelity will automatically reamortize your loan when you return to work.
- If you are on a reduced pay leave of less than one year, are making no loan payments or partial loan payments, and have a 5-year loan but the end of the 5-year repayment period will be after your return to work, you do not have to make loan payments during your leave. Fidelity will automatically reamortize your loan when you return to work.
- If you are on a reduced pay leave of less than one year, are making no loan payments or partial loan payments, have a 5-year loan, and the end of the 5-year repayment period will occur during your leave, you must make loan payments during your leave.
- If you are on a reduced pay leave that will last more than one year, and are making no loan payments or partial loan payments, you must make loan payments during your leave regardless of the length of your loan repayment period.

For more information, or to make arrangements to make loan payments during your leave, contact the Deferred Compensation Program at 805/654-2620. If you do not make these mandatory loan payments during your leave, your loan will be defaulted. Consequences of a loan default are discussed below. It is your responsibility to make your loan payments and ensure your loan does not default.

What Happens if You Default?

First of all, what is a loan default? It starts when you stop making payments on your 401(k) loan. This can be during an unpaid or reduced pay leave of absence when you don't make your required loan payments as detailed above. You have the obligation of making your loan payments. However, when you don't make those payments, your loan is defaulted.

The first consequence of the loan default is taxation. You are taxed on the amount of the outstanding balance. In addition to regular income taxes, you may be responsible for a 10% early withdrawal penalty depending on your age. These taxes and penalties can become a heavy obligation at tax time.

The second consequence is that the defaulted loan will continue to count towards the loan limit (both in maximum number of loans and maximum loan amount) until the defaulted amount is paid off. This means that, when calculating your future loan eligibility, the defaulted loan – plus accrued interest - will count as if it were an active loan.

The final consequence is that you will not be able to take out a new 401(k) loan for three years after the date of your default – whether you repay the defaulted amount or not.

As you can see, there are definitely negative consequences if you choose not to make your required 401(k) loan payments during your leave. You will receive notice from both Fidelity and the County that your loan is going to default. Don't ignore these communications. Once your loan defaults, the default cannot be cured and you are subject to the consequences detailed above.