

## TAX-SHELTERED ANNUITIES

# The Whats, Whys, and Hows of TSA Loans

## Frequently Asked Questions

Here are answers to some of the most commonly asked questions about fixed-rate 403(b) tax-sheltered annuity (TSA) loans.

### AM I BORROWING MY MONEY?

You are actually taking a loan from ReliaStar Life Insurance Company (“ReliaStar,” a member of ING) rather than from your TSA. By applying for a loan, you have assigned a portion of your TSA’s value as collateral for your loan. In essence, you are borrowing against the value of your annuity, which means that none of the funds in your TSA has been withdrawn.

### DO I HAVE TO PAY MY LOAN BACK?

Yes. Under Internal Revenue Code, Section 72(p), loans are required to be repaid according to the agreed-upon repayment schedule within five years (longer for principal residence loans). You may make your payment by submitting a personal check with a coupon or by establishing a pre-authorized check plan. ReliaStar requires a payment each month for the amount shown on the coupon.

### WHAT HAPPENS IF I DON’T MAKE MY PAYMENTS OR IF MY PAYMENT IS LATE?

The Internal Revenue Service (IRS) requires regular repayments of loans from plans. To be in compliance with this regulation, each loan payment must be paid within a 27-day grace period following the due date. A payment received after this grace period is considered a missed payment. If you qualify for a distribution, according to IRS regulations, funds will

be taken from your contract value to cover the missed payment. If you do not qualify for a distribution and miss four payments, the entire loan will be in default and considered a deemed distribution and be taxable income for the year in which it occurred. Please be aware that at the point the 27-day grace period (before or after the due date of your fourth missed payment) extends over the calendar quarter, the entire loan will be considered in default. A distribution to cover a missed payment or defaulted loan is considered taxable income. Please consult your tax advisor for additional information.

### WHAT IS THE INTEREST RATE CHARGED ON MY LOAN?

Except for the ING MVA Annuity and FutureLink EIA products, your loan is currently charged 5.5% interest, compounded yearly. Also, the interest your TSA earns on the amount equal to the loaned funds is reduced to 3%. On the surface this may look like a 2.5% loan, but it is not. The true cost of the loan is the interest rate charged (5.5%) plus the difference between the interest credited to the loaned funds (3%) and the nonloaned funds. If we use 6% as the interest rate for nonloaned funds, the true cost of the loan would be 8.5% ( $5.5\% + [6\% - 3\%] = 8.5\%$ ).

### WHAT HAPPENS TO THE INTEREST I’M CHARGED? IS IT TAX DEDUCTIBLE?

The interest you are charged on your TSA loan is paid to ReliaStar much like the interest you are charged on a loan from a bank. In some cases, this interest may be tax deductible, but usually it is not.

ReliaStar cannot make this determination for you. However, in general, the Internal Revenue Code, Section 72(p), states that any interest paid or accrued on a loan is not tax deductible as long as the loan is secured by amounts attributable to salary reduction (i.e., the value of your TSA). To determine whether or not the interest you will pay on your TSA loan is tax deductible for you, please consult your tax attorney or accountant.

### CAN MY MONTHLY TSA CONTRIBUTION BE USED TO MAKE MY LOAN PAYMENTS?

No. You make contributions to your annuity on a pretax basis. The IRS requires that loans be repaid with after-tax funds. Therefore, your TSA contributions are not eligible to be used when making your loan payments.

### CAN I PAY OFF MY LOAN EARLY?

Currently, ReliaStar allows you to pay more than the required monthly payment. In doing so, your principal loan balance will be paid down more quickly. Keep in mind, however, that you cannot “prepay” a monthly payment: If you pay more than the required amount, you are still not released from making your payment the following month. If you wish to pay your entire loan balance off early, please contact ReliaStar for written consent and the payoff amount at the time you are ready to make the final payment.



### WHAT IF I'M ON AN UNPAID LEAVE OF ABSENCE FROM MY EMPLOYER?

If you're on an unpaid leave of absence, federal law allows your loan payments to be deferred for the length of your leave or one year, whichever is less. *ReliaStar must be advised of your leave in writing by your employer prior to your leave to obtain this payment deferral.* Your loan will continue to accrue interest at the specified rate during the leave. At the end of this time period, your loan payments must resume and the remaining loan balance must be paid within the original term.

### CAN I HAVE MORE THAN ONE LOAN?

Except for the ING MVA Annuity and StrataFlex annuity, you may take up to four loans in a calendar year on a nonguaranteed basis if you have funds available. ReliaStar allows you to take loans up to the maximum allowed by IRS regulations. The minimum loan amount must be at least \$500 for most fixed annuity contracts and \$1,000 for the StrataFlex annuity, ING MVA Annuity, and certain other annuity contracts. Generally, total loans must not exceed the lesser of \$50,000 or 50% of your TSA's value. Prior loan activity may affect the amount available. Please call our toll-free number, 1-877-884-5050, and speak with a customer service representative if you'd like a quote.

### HOW DO I FIND OUT MORE?

For information about loans on ING MVA Annuity, see Form No. 05453; for the FutureLink EIA, see Form No. 03925. Of course, your ING representative will be happy to answer any questions. You may also call a customer service representative at 1-877-884-5050.

All guarantees are based on the financial strength and claims-paying ability of ReliaStar Life Insurance Company.

This bulletin is intended to respond to commonly asked questions about TSA loans. It's not intended to provide legal or financial planning advice. We recommend you see an attorney, accountant, or qualified financial planner for individual advice.

Refers to the following TSA policies: T-264 2-87, T218 2/86, T-193 11-83, T-304 9-88, 03803 12-96, 03804 12-96, 13000 2-95, 13004 2-95, 13076 7-99, 13078 7-99, 13081 7-99, 15248 5-92, 15218 R8-90, 15187 11-90, 15385 1-92, and 15255 12-93.

Portions of this bulletin also apply to Policy Form Nos. 03501 7-00, 03801 3-98, and 04201 11-00.



[www.ing.com/us/tsa](http://www.ing.com/us/tsa)

Annuities are issued by ReliaStar Life Insurance Company, a member of ING.

© 2003 ING North America Insurance Corporation

Cn352743142004

N.P.MS.32 (3/03) 15476

