

Employer Information Circular

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Important Insights for Understanding the New 403(b) Regulations

New federal regulations that became effective January 1, 2009, made significant changes in the way the 403(b) plans are managed. The new rules are complex. As a result, you may be facing unintended consequences and unexpected problems.

This circular will help you to better understand the new regulations and make informed decisions in the best interest of your employees.

The Immediate Challenges

Third-party administrators are receiving an unprecedented number of calls from school districts and employees regarding their 403(b) plans. Following are some of the challenges you also may be experiencing:

- Your third-party administrator is also a vendor and your employees feel that your administrator has made it difficult for their 403(b) plan provider to be an approved vendor.
- Your employees cannot reach your third-party administrator—not even to leave a message.
- Your third-party administrator has suspended deductions until later this year.
- Your third-party administrator is not processing distributions and loans because it is not ready to undertake the tasks required to do so.
- Your third-party administrator does not have processes in place for loan requests.
- Your third-party administrator has incorrectly required vendors to sign an information sharing agreement before approving them.

Misunderstanding About Information Sharing Agreements: What Can You Do?

Many third-party administrators have incorrectly told school districts that under the new rules their vendors must sign an information sharing agreement. This is not true. Moreover, many third-party administrators have prepared agreements that have nothing to do with information sharing requirements in the new regulations. Many plan providers, including CalSTRS Pension2[®], are unwilling to sign these agreements because they contain provisions that are not required and may not be in the best interest of employees. As a result, your employees may not have the investment choices they want.

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If a vendor is missing from your list of approved vendors, ask your third-party administrator to explain why. Specifically, ask why the vendor refused to sign the information sharing agreement. Ultimately, the decision whether or not to offer a 403(b) provider is yours.

Disclosure Required By Third-Party Administrators: Your Responsibility

Many third-party administrators offer free compliance to 403(b) plan providers in exchange for exclusive rights to offer other products. Section 44041.5 of the California Education Code requires third-party administrators to disclose any fees, commissions, cost offsets, reimbursements, or marketing or promotional items they received from investment vendors. (See the AB 2462 Disclosure fact sheet attached.)

If you have questions about your third-party administrator and its investment products, ask if it has received any financial benefit from its vendors.

You, in turn, must inform your employees of the relationship.

CalSTRS 403bComply

CalSTRS 403bComply offers resources and services to help you comply with the new 403(b) regulations and avoid many of the problems that others have been encountering.

The Strengths

- CalSTRS 403bComply has one of the most comprehensive vendor lists, with 52 vendors, including Vanguard, CalSTRS Pension2, T. Rowe Price, Fidelity and TIAA-CREF.
- CalSTRS 403bComply responds to most calls within the next business day.
- CalSTRS 403bComply has not stopped deductions for employees who changed to an approved vendor.
- CalSTRS 403bComply restarts deductions immediately if employees change to an approved vendor online.
- CalSTRS 403bComply began processing distributions and loans on January 5, 2009 and will soon offer this process online.
- CalSTRS 403bComply provides all enrollment and other 403(b) plan services online.
- CalSTRS 403bComply is available through an interlocal agreement under California Government Code section 6502. No Request for Proposal is required.

For more information, including a list of approved vendors, go to www.CalSTRS403bComply.com. Or call 888-426-2684 or e-mail us at 403b@CalSTRS403bComply.com.

AB2462 Disclosure

Section 44041.5 of the Education Code requires the disclosure of any fees, commissions, cost offsets, reimbursements, or marketing or promotional items received by the third party administrator...

A third-party administrator shall disclose to any employer seeking his or her services any fees, commissions, cost offsets, reimbursements, or marketing or promotional items received by the administrator, a related entity, or a representative or agent of the administrator or related entity from any plan provider selected as a vendor of an annuity contract, custodial account, or deferred compensation plan by the employer. A third-party administrator that is affiliated with or has a contractual relationship with a provider of annuity contracts, custodial accounts, or deferred compensation plans shall disclose the existence of the relationship to each employer and each individual participant in the annuity contract, custodial account or deferred compensation plan.

Section 2493 requires CalSTRS to disclose to an employer seeking the services described in this section any fees, commissions, cost offsets, reimbursements, or marketing or promotional items received by the system or a third-party administrator from any plan provider selected as a vendor of an annuity contract or custodial account by the employer. If the system or a third-party administrator is affiliated with or has a contractual relationship with a provider of annuity contracts or custodial accounts, the system or third-party administrator shall disclose the existence of that relationship to each employer and employee participating in the annuity contract or custodial account.

CalSTRS Pension2 is a separate program from 403bComply which is run by a separate administrator. 403bComply receives no fees from that program.

Pension2, while completely separate from 403bComply, receives 8 bps on assets in the 403(b) and 457 accounts. However these fees are paid directly by the plan participants and facilitated via an arrangement through TIAA-CREF.

Daily administration of CalSTRS Pension2 account is provided by TIAA-CREF and receives no preferential treatment from the separately run 403bComply program. It must comply with the same requirements as all other vendors.