

A better way. . .

Finally – There’s a better, more progressive way to streamline your School District’s 403(b) retirement plan

Effective January 1, 2009, the new IRS regulations will require School Districts that sponsor a 403(b) retirement plan as part of their employee benefits package, to take more responsibility for the administration of the plan. Although compliance with the new regulations seems daunting, by going through the process of becoming compliant, your School District now has a tremendous opportunity to truly improve the overall quality of this very important employee benefit.

For the first time in 40 years, the IRS has made significant changes in how School Districts must administer their 403(b) retirement plans. This new regulation is a continuation of the government’s regulatory changes to private sector retirement plans over the past decade.

In 2001, the government passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) which made sweeping changes in how private sector retirement plans are administered. It also provided, for the first time, the ability for non-profit entities to offer a 401(k) or 403(b) plan. EGTRRA also increased the amount a participant can save through pre-tax deductions and gave retirement plan participants who change jobs, the ability to roll a 403(b) into a 401(k) and vice versa. All of these changes were put in place as a way to streamline retirement plans as a whole. Whether you work for a School District or a for-profit corporation, the government wants your retirement benefit to be effective, portable and meaningful to you at retirement.

In 2006, after giving EGTRRA a chance to be tested, the government passed the Pension Protection Act of 2006, which made EGTRRA permanent, and brought about the next round of regulatory changes to retirement plans, designed to fine tune what EGTRRA had started.

Now the government has moved its regulatory focus to public sector retirement plans like your School District’s 403(b). Based on their history of reform in the private sector since 2001, we should expect similar regulations to follow in the coming years, each of them designed to slowly consolidate the structure of retirement plans into one consistent form that will be regulated by the government to ensure that the benefit is truly designed in the best interest of the plan participants.

How 403(b) Affects You

There are a number of formalized procedures your School District will need to implement in order to be compliant with the new regulations. Foremost among the new rules is that 403(b)s must have a written plan document and be operated according to the plan’s written terms, similar to 401(k) plans. We realize that for many, this could be challenging

to implement, so we're here to help. Henderson Brothers Retirement Plan Services has been successfully managing client retirement accounts for more than 15 years, and we're completely conversant in all IRS codes and requirements. We can prepare all the documents you will need to set your plan on the right course.

Here's a simple comparison to show you how the 403(b) regulations will change the way you operate your School District's retirement plan process.

<u>Changes for 403(b) Programs</u>	
Current Regulations Pre January 1, 2009	New Regulations After January 1, 2009
Plan Document Not Required The IRS does not require 403(b) programs to have a formal written document detailing the plan its provisions.	Plan Document Required This formal written plan document must include all material provisions regarding eligibility, benefits, applicable contribution limits, a description of available contracts provided under the plan, loan procedures and provisions, hardship distributions and the time and form of any other distribution to be made from the plan as well as any other terms and conditions applicable to the plan.
Multiple Plan Documents No current provision.	Multiple Plan Documents Permitted The regulations do not require only one plan document, multiple plan documents are permitted.
Investment Options Each School District establishes its own rules and participation criteria to allow vendor companies into the School District. Employer notification of program availability by specific vendor varies among School Districts.	Investment Options All contracts (e.g., annuities) and custodial accounts (e.g., mutual funds) available must be described within the plan. School Districts will be required to maintain a current list of all providers authorized to provide products to employees as part of the plan. Thus the School District controls the authorization process.
Excess Contributions Excess contributions are required to be returned prior to April 15 of the calendar year following the year the excess contribution deferral was made.	Segregation of Excess Contributions Excess employee deferrals may be returned to the employee prior to April 15th of the calendar year following the year that the excess contribution deferral was made.

Meaningful Notice of the Plan

No formal rules exist to require employers to notify employees about their 403(b) program. Each School District follows its own procedures on payroll deferral changes.

Termination of the Plan

Currently it is not possible for a 403(b) program to be terminated and all of the assets to be distributed. Current practice would freeze the 403(b) program and not permit additional contributions.

Catch -Up Contributions

Regulations provide for both catch-up contribution programs i.e., age 50, and the special catch-up contribution based on service. There is no provision for coordination.

However, other contributions that exceed the 415(c) limit (such as employer contributions) can not be returned to the employer. Instead these over-contributions must be deposited in a separate contract and treated as a 403(c) taxable contribution and be immediately included in the gross income of the employee.

Failure on the part of the employer to establish a separate contract to comply with section 403(c) for purposes of accepting excess contributions would disqualify the entire contract and all amounts held in that contract become immediately taxable.

Meaningful Notice of the Plan

Employers are required to give their employees "meaningful notice" of their rights to participate in a 403(b) program and must provide an effective opportunity to make or change an elective deferral election.

Termination of the Plan

The proposed regulations would allow an employer to amend the 403(b) plan document and create a provision permitting the employer to terminate the plan and authorize all benefits accumulated under the plan to be distributed because of the termination.

Catch -Up Contributions

There are no changes in the provisions providing for catch-up contributions. However, the regulations specify how the special catch-up contribution (based on service) is to be coordinated with the over-50 catch-up contribution. The regulations clearly state the employee may be eligible for both catch-up contributions, but any deferral in excess of the permitted annual elective contribution amount will first be counted toward the special catch-up contribution and then be counted toward the

Exchanges and Transfers

Allow in-service transfers among 403(b) vendor options under a provision set forth in Revenue Ruling 90-24 without restriction. Account balances may be charged due to the specific company's redemption policy. However, such redemption penalty does not affect the ability to transfer among 403(b) provider options.

Deposit Requirements

There is no mandated time schedule for transmittal of employee contributions into the 403(b) investments.

Employer Contributions Permitted for Five Years Following Employee Severance

Permit post-severance employee contributions into a 403(b) for up to five years after service.

age 50 catch-up contribution. The regulations also define how years of service will be determined for purposes of establishing eligibility for the special catch-up.

Exchanges and Transfers

Transfers among different funding vehicles within the same 403(b) Plan are permitted, as well as transfers to another 403(b) program of the same employer or a different employer if offering the same vendor investment option. However, in-service transfers to investment options not specifically named in the plan document would not be permitted. Also, the amount transferred from an existing 403(b) plan to a new 403(b) plan must equal the account balance contained in the original account before the transfer.

Deposit Requirements

Requires that employers must transmit the employee's salary reduction contributions as soon as practicable, but no later than the 15th business day of the month following the date on which the amounts would have been paid to the employee.

Employer Contributions Permitted for Five Years Following Employee Severance

The regulations clarify that post severance contributions by employers into employee 403(b) account are permitted for up to five years after severance from the employer.

Streamlining 403(b) Administration

This is where your School Districts can use this regulation as a huge opportunity to make substantial improvements in the effectiveness of their 403(b) retirement plan benefit by taking advantage of the tools the private sector has used to become compliant with recent 401(k) regulatory changes.

The most substantial of these tools is the ability to use a Record Keeper to administer the plan and the investments.

Your 403(b) Opportunity/The Value of a Record Keeper

The Record Keepers accessible through Henderson Brothers Retirement Plan Services provide many services across numerous investment options through a single point of contact rather than the cumbersome layers of TSA providers that are still in use prior to January 1, 2009.

A Record Keeper provides daily services to plan sponsors and participants--including voice and Internet access to benefit accounts, maintaining and archiving transactions, quarterly and annual reporting, loan and hardship administration and maintaining investment company partnerships through a streamlined platform.

Due to the changes in IRS regulation, retirement plan Record Keepers who never offered their programs to Public School Districts are now competing for such business throughout the United States. Under a retirement plan Record Keeping platform, the participant has access to thousands of investment options that are purchased through employer-sponsored and institutional rates. Common retail expenses such as up-front transactional sales charges are waived. A participant's account through a group Record Keeper is always portable and liquid. There will never be a penalty charge when participants initiate account transfer from the group record keeper.

“As retirement plans become more and more focused on compliance, there is a growing trend toward a single platform for plan administration. For employers offering 403(b) plans, this would mean a dramatic shift from the multiple-vendor model that most currently employ.”

Ginny Boggs
Senior Compliance Consultant
Milliman USA, Insight, Autumn 2007

Multi-provider Model vs. Record Keeper

The first chart illustrates the current, multi-provider model. The complexity of the approach with its multiple Tax Sheltered Annuity vendors and brokers, each with their own set of investment options for participants is confusing, often causing employees to make poor choices or no choice at all. The Record Keeper approach shown in the second chart simplifies and streamlines the process for School Districts and participants alike.

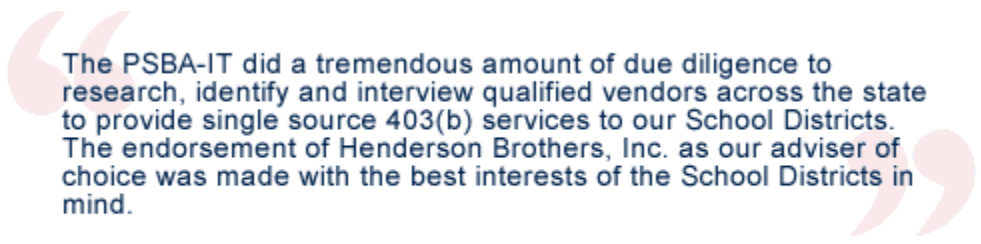
The Henderson Brothers Retirement Plan Services solution is turnkey for your School District. The Record Keeper manages the entire financial process, including record keeping, common remitting and third party administration services. Participant investment options are available through a single source which allows employees to choose funds from numerous investment companies without the burden of having to establish a second, third or fourth 403(b) account. Henderson Brothers Retirement Plan Services offers “best of class” investment options to your participants – all in one

consolidated account – with more than 1,000 mutual funds from nearly 80 fund families (vendors).

Don't leave this important decision hanging over your head! Contact Henderson Brothers Retirement Plan Services to ensure that your 403(b) plan is completely compliant with the new IRS regulations.

Retirement Plan Services Solution

Retirement Plan Services Solution...



The PSBA-IT did a tremendous amount of due diligence to research, identify and interview qualified vendors across the state to provide single source 403(b) services to our School Districts. The endorsement of Henderson Brothers, Inc. as our adviser of choice was made with the best interests of the School Districts in mind.

Barb Moyer, Director of Sales and New Business Development, PSBA-IT

The Henderson Brothers Difference

Here's how Henderson Brothers' consolidated management solution can help your School District make sense of the new 403(b) regulations.

Streamlined Administration...

- The Henderson Brothers Retirement Plan Services solution is turnkey because the Record Keeper handles common remitting, administrative and compliance services
- The Record Keeper provides a clean, fully automated single point-of-contact providing all account information on a single client statement
- By automating monitoring, providing a comprehensive list of low-cost investment options and consistent, customized communication materials for your employees, Henderson Brothers Retirement Plan Services make administering and managing your 403(b) program easy!

Lowest Cost...

- We work with Record Keepers who have the technology and relationships to offer investment options from numerous investment companies

- Our vendors consolidate the dollars of all participants, giving participants greater purchasing power
- Participants pay lower (if any) service charges that will decline over time, as assets accumulate in the School District's (not just the individual participant's) 403(b) program
- Lower expenses = more retirement money for plan participants – providing a better participant experience
- *Investment Options...*
- We offer "best of class" investment options to participants - all in one consolidated account
- Access to more than 1,000 mutual funds from nearly 80 investment companies (vendors) are available through a single Record Keeper

Two Options for Compliance...

Henderson Brothers Retirement Plan Services has developed two paths for compliance through a Record Keeper platform, knowing it may take some School Districts longer to completely transition to a single Record Keeper.

The first is to make a clean split.

- This path is used by School Districts that recognize the value of this opportunity and are prepared to stop sending any new contributions to their old vendors. The process is simple:
- Henderson Brothers Retirement Plan Services will work with the School District to determine which platform best fits the needs of the participants in the School District's plan
- Henderson Brothers Retirement Plan Services will create a plan document for the School District
- These changes in how the plan is being administered are fully communicated to the participants of the plan
- Group education/enrollment meetings are held to promote universal availability of the plan and answer any questions about how the plan will be administered
- Participants can choose to leave their current investments where they are, or work with the Henderson Brothers Retirement Plan Services representative to roll their money into the new plan

We also understand that some School Districts have contractual or cultural barriers that may prevent them from being able to take advantage of a Record Keeper as their single platform all at once. For those School Districts, we have a second path that gives them

the flexibility to migrate to a Record Keeper over time, while keeping their existing vendors in place during the transitional period.

- This path involves installing a Record Keeper as the main option
- This Record Keeper will receive all the funds from the School District and forward funds to the legacy vendors for the School District
- This allows the Record Keeper the ability to administer the School District's compliance responsibilities, as well as give the School District the ability to manage the contractual or cultural issues until a time they no longer exist

Our Partners...

For administration of your 403(b) plan, Henderson Brothers Retirement Plan Services has assembled a group of partners that are among the leaders in the defined contribution market. We're sure that one or more of our partners can help us create the perfect plan for your School District. Call us to learn more.