



403(b) Plan Changes

IRS Gives 403(b) Plans a New Look (12/07)

Executive Summary

For the first time in 40 years, the Internal Revenue Service (IRS) has issued new regulations mandating changes to the oversight and administration of 403(b) plans. The new regulations, which are generally effective January 1, 2009, squarely place the responsibility for plan compliance and participant well-being on the plan sponsor. These changes indicate that the IRS intends to bring the 403(b) plan environment more in line with the regulatory environment of 401(k) plans. It is likely that the IRS will continue to make changes to 403(b) plans.

Written Plan Document Requirement

One of the most significant changes is the new requirement that all material provisions of the plan be in a written format. Details such as who has administrative responsibility for the plan, the investment policy, eligibility requirements, contribution provisions, distribution provisions, statutory limitations, loan provisions and hardship provisions must be part of the plan document. The plan document may be an assimilation of multiple documents, but the underlying requirement is that the plan's operation must agree with the plan document.

Administrative Coordination Responsibility

Under the new regulations, the 403(b) plan sponsor becomes responsible for the coordination of the administrative functions between all providers utilized in the plan. This is a significant shift from the individual participant responsibility of the past. In the current 403(b) environment, a plan could have dozens of providers. Monitoring for plan document and regulatory compliance in a multiple vendor environment may prove onerous for many 403(b) plan sponsors. Choosing the correct model and number of vendors will minimize the impact of the new regulations on the plan sponsor.

Plan Run in Best Interests of Participants

Although the 403(b) changes place more responsibility on the plan sponsor, plan participants will benefit significantly. Depending on the specifics of the plan, over a 30-year career, participants could save hundreds of thousands of dollars in reduced fees and expenses. Lower fees and expenses mean more money for participants in retirement. In addition, with more coordination required between vendors, it will be easier for plan participants to plan for retirement.

Addressing the Changes

The current 403(b) environment is fraught with high fees, a lack of coordination between vendors and a legislative environment that favors brokers over the participants. To add to the stress of the 403(b) plan sponsor, the IRS has made it clear that they will be auditing 403(b) plans for compliance after the January 1, 2009, effective date. It is critical that each plan sponsor evaluate its current situation and develop a plan for addressing the changes that must be made.