



Welcome to the New Age of 403(b) Plans. Do You *Know* What Challenges Face Your Organization?

The IRS's new rules bring 403(b) plans closer to the standards set for typical 401(k) plans and result in significant changes for tax exempt organizations and their employees. The new regulations clarify several points on fiduciary responsibility and mandate organizations to have a written plan in place. Additionally, in an effort to ease the administrative burden, the new IRS rules also encourage employers to limit the number of vendors offered to employees while introducing due diligence expectations that impact the daily management of each plan.

Challenges to Overcome

There are numerous issues 403(b) plan sponsors will need to address. These include obtaining complete and accurate financial information, obtaining the necessary participant record reports and ensuring the plan is properly administered. For some, the first challenge may be to get their arms around the investment options currently offered in their plans. With multiple investment providers offering numerous products, as well as accounting and recordkeeping services delivered by multiple firms, it could initially be difficult for some to track down their plan's holdings. There also will be strategic choices to be made. If, for instance, employers choose to reduce their options or change them entirely, they may have to weigh the costs of surrender charges for terminating contracts that typically run for terms of five to seven years.

COMPLETE AND ACCURATE FINANCIAL INFORMATION — Although the first audit is not required until the 2009 plan year, the IRS Form 5500 requires the Statement of Net Assets be fully comparative. Therefore, 2008 financial information must be included in the plan's 2009 audited financial statements. Have your 2008 audit completed before the rush will ensure that any missing information or roadblocks are overcome in time to meet the required filing deadlines.

Most 403(b) plans are often treated more as individual account arrangements than a formal plan, and therefore they have not received a statement of net assets and activity statement at the plan level. This consolidated plan information needs to be available for 2008 to meet the presentation requirements of ERISA, and for 2009 for the auditors to complete the plan audit.

DETAILED PARTICIPANT RECORDS — The new standards require auditors to perform procedures at the participant level. Plan sponsors will need to ensure records are available by participant. This could be a significant request, especially if each individual is given his/her own account number and they are not linked together by sponsoring organization. Also note, you will need to provide information for participants regardless of their current employment status with your organization.

HANDS-ON PLAN ADMINISTRATION — Previously, sponsors of a 403(b) plan had minimal involvement in the plan, as virtually all plan recordkeeping was outsourced. The plan sponsors typically withhold participant contributions and remit them to appropriate vendor. If the organization contributed to the plan, the sponsor would also remit its contributions to the insurance company. Now that the plans will be audited, it is expected for the plan sponsor to have control over the plan (even if certain functions are outsourced) and the auditors will need to understand these controls. Early consideration of the significant accounting procedures and internal controls could help make the audit more efficient; again, having your 2008 audit completed in advance of the deadline can help identify processes and procedures that need attention.

Cost of Non-Compliance

The impact of not following the IRS's new regulations for 403(b) plans can be costly. Failure to comply could result in substantial IRS and Department of Labor penalties. For instance, the cost of a late filing is \$1,000 and the cost of not filing is \$50,000.

Not only can fines be imposed on your organization, but on you and other individuals that are responsible for managing the Plan. There are also tax implications that individual contributors can be faced with if the plan is not administered correctly causing what was meant to be an employee benefit to become hardship.

Last summer the IRS issued new 403(b) regulations—these are the first changes that 403(b) plans have seen in more than 40 years. Is your plan ready for the scrutiny?

Preparation Checklist:

- Form an advisory committee
- Review current providers
- Create an investment policy statement
- Establish procedures and standards for monitoring your Plan
- Establish fiduciary criteria
- Determine the need for outside advisory expertise
- Issue an RFP
- Complete your 2008 audit early to avoid unforeseen challenges

Steps to Take Right Now

Employers have only until the end of 2008 to prepare for the new rules. There are a number of steps to make the change, as well as Plan operations and management, much easier. Beginning now you can do the following:

- Form an advisory committee of five to seven members to oversee and manage your 403(b) plan and have them establish fiduciary criteria and establish procedures.
- Create a list of all providers and review them for investment performance, investment options, fees, expenses, and service standards.
- Develop an investment policy statement that provides guidelines regarding fund options.
- Implement a written plan document, and if you already have one you should review it for compliance with the new rules.
- Issue a Request for Proposals spelling out your new requirements and distribute to current and potential vendors.
- Offer investment education to employees so they can make better decisions regarding their options.

Because 403(b) plans have been largely unscrutinized for many years—and some have evolved into highly complicated investment platforms—the transition is not going to be easy. What is certain is that employers will be looking hard at their 403(b) plans in the next year, as they have only until the end of 2008 to prepare for the new rules.

For assistance getting started, contact 403(b) expert: **Rance Buss, CPA** at **713-968-1634** or by email at **rbuss@mjlm.com**.

