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# The *Steady Pulse*

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## Changes are coming for 403(b) Plans *By Matt Porter, Principal*

With the recent passage of the Pension Protection Act (PPA), the congress' Department of Labor, and the IRS have, in effect, recognized that the traditional defined benefit plan is in a decline. The PPA also acknowledged that employer-sponsored defined contribution plans will be critical to American workforce's ability to live comfortably in retirement. In the healthcare and not-for-profit world, 403(b) plans will often be that plan.

With the PPA codifying the importance of the 403(b) plan, the IRS is preparing rule changes that are intended to make 403(b) plans look and act much more like their 401(k) cousin. These regulations represent the first changes to 403(b) plans in over 40 years! Overall, these regulations will require much more employer involvement than in the past. Employers must not only offer 403(b) programs but create guidelines for how those programs are run.

Some of the proposed changes include:

- Adopt a Plan document
- Employer must designate approved investment providers and products
- Transfers must be restricted to those approved providers and products
- Universal Availability (requires employers to permit all employees to make salary reduction contributions unless they are in an excluded group)
- 403(b) plan termination
- Guidance on issues such as contribution limits, hardship distribution, salary deferral and catch-up contributions

### Approved Providers and Products

**One of the changes that will dramatically alter the landscape of a 403(b) plan is that employers must designate approved investment providers and products.** This change suggests the creation of an advisory committee to evaluate these and other areas like similar fiduciary committees for 401(k) and DB plans. This new committee will review potential vendors, evaluate, choose and monitor investment options, create and oversee compliance with an Investment Policy Statement, interact with the vendor and oversee the overall plan. This change represents a monumental shift of responsibilities from the employee to the employer but also provides a huge opportunity to improve the quality and effectiveness of the 403(b) plan.

In this new regulatory landscape, multiple-vendor, annuity-based structures will give way to the single-vendor, mutual fund-based structure common within the 401(k) landscape. This represents a shift from a “retail” (e.g.: high commission, high expense) structure to a more “institutionalized product.” It becomes possible to offer participants a well-diversified investment program with lower expenses and better potential returns as well as an entire suite of enhanced services. In this setting, new ways of interacting with participants become possible. We anticipate that quarterly statements consolidate information, state of the art participant websites provide daily access to all plan information, and robust participant education meetings will become standard. In short all the enhancements that have evolved in the 401(k) environment over the last 25 years will become available.

These changes, if approved, will go into effect on January 1, 2008. While the prospect of change may seem overwhelming, this is an opportunity to improve your 403(b) plan and to improve your participants’ ability to retire comfortably.

DiMeo Schneider & Associates, L.L.C. has years of experience working with 403(b) plans and 401(k) plans. Please e-mail Megan McKechnie at [mmckechnie@dimeoschneider.com](mailto:mmckechnie@dimeoschneider.com) for a free copy of “5 Steps to a Better 403(b) Plan.”

Inflows