What has changed? Highlights of the new regulations:

I. Written Plan Description Requirement

Effective January 1, 2009, all school districts that offer 403(b) salary reductions for their employees must adopt a written plan description. The plan description must include basic plan provisions covering plan eligibility and benefits (including time and form of distributions available, applicable limits, and a contact list offered by the plan. The written plan also can incorporate other documents like annuity contracts and custodial agreements. But in case of a conflict between terms of the plan and the 403(b) contract, the terms of the plan will prevail. The IRS provided Model Plan Language for public schools only in Revenue Procedure 2007-71. If a public school district adopts the Model Plan language word for word (some provisions are optional), the plan will have equivalent approval status of a plan in receipt of a private letter ruling from the IRS.

Important Note: If an employer fails to have a written plan by January 1, 2009, the 403(b) annuity contracts purchased by its employees will no longer qualify as 403(b) contracts and contributions will be fully taxable.

What You Need to Do:

- Decide what features you want the plan to offer. (Will you offer loans, hardship distributions, transfers, or rollovers from other 403(b) and qualified plans? Will former employees and retirees be participants in the plan? Who will be listed as vendors?)
- Review IRS model plan provisions to determine which ones might be used for your plan. If not a public school, be aware that some of these model provisions might not work for your plan.
- As a practical matter, we believe the written plan description for most schools should be in place by the beginning of the fall 2008 school year.

II. School Districts Are Responsible for More Plan Administration

After your written 403(b) plan becomes effective, self-certification by plan participants concerning any withdrawals, loans, or distributions from their plans is no longer allowed.

These administrative services will now be the responsibility of the school districts (plan administrators). This will involve choosing whether loans and hardship distributions are available and approving them, subject to IRS and policy rules. Your school district can perform these services or you may delegate that responsibility to an administrator or multiple parties, but not to an employee (participant).

If your district decides that you need outside administrative assistance, we strongly recommend you use an independent administrator to do so. In this way, your employees' confidential information can be protected. Also, any product vendor that offers no-cost administration should be scrutinized. Often times, the companies will hide these fees in lower interest rates or higher fund charges.

What You Need to Do:

- Decide who will provide the administrative services for your plan. Decide if you need a plan administrator or not.
- For more information about an independent plan administrator, contact ISC Group at (800) 888-3520

III. Direct Transfers and Exchanges

The new 403(b) regulations still allow for the change of contracts within the same plan ("exchange"); a transfer of assets from one plan to a plan of a different qualified employer ("transfer"); and the purchase of permissive service credits from state defined benefit plans with 403(b) money. The practical effect of the new rules is to require an agreement between the school and the vendor to share information regarding that participant's 403(b) account/annuity before an exchange or transfer is made.

Contract exchanges between annuity contracts within a 403(b) plan will only be allowed if:

- Plan descriptions provide for exchange.
- Contract to which the exchange is being made has distribution restrictions at least as strict as those imposed by the old contract.
- Benefits payable to the participant or beneficiary immediately following the exchange is at least equal to the benefit before the transfer.
- Exchange is made to a product vendor named in the Plan description or who has entered into an information sharing agreement with the school district or employer.

Plan-to-Plan Transfers are allowed for both current and former employees, provided certain conditions are met:

- Both the transferring and receiving plans provide for transfers.
- Benefits payable to the participant or beneficiary immediately following the exchange is at least equal to the benefit before the transfer
- Distribution restrictions after the transfer are at least as stringent as immediately before the transfer.
- Same information sharing agreement requirement with vendor as above.

What You Need to Do:

- Make sure your plan description addresses permitted vendors for the plan. This can be done with a specific list or a generic description from which a vendor can be identified.
- Plan description should state that a participant can exchange investments within the plan between and among approved vendors listed in the plan and vendors with whom the District has an information sharing agreement.
- Plan must state if it will accept a transfer from another 403(b) plan or a rollover of a participant's 403(b) contribution from another qualified plan.

IV. Information Sharing Agreements

To administer your 403(b) plan properly, you will need policy information for all accounts to be covered by the plan. This includes information from both current and former product vendors to whom you have remitted salary reductions.

You will want to start gathering historical information on former vendors as they, and your current vendors, must be referenced in your plan description.

For product vendors who are named in the plan, you need to have them agree as to how and when information is to be shared in the plan. This can be done in a variety of ways. A way of doing this could be in letter form with an acknowledgement line for the vendor, in a vendor agreement, or as part of the Hold Harmless agreement.

ISC's Commitment

By receiving 403(b) salary reductions from you, please know that we agree to provide you the required information on all Plan 403(b) accounts, whether held by your employees because of salary reductions and/or transfers, as necessary for you to administer your plan properly. We, in turn, understand that you will provide us information and guidance about how you want those ISC accounts administered.

What You Need to Do:

- Start gathering historical information on vendors with whom your plan participants currently have 403(b) investments.
- Decide if you want to develop your own standardized information agreements or will you enter into the agreements offered by product providers?
- Begin entering into information sharing agreement with product vendors unless the product vendor is named in your plan. You may enter into an information sharing agreement with ISC by calling ISC's Toll-Free number (800) 888-3520. An agreement will be provided to you that you can execute and return to us.

V. Universal Availability

If the employer allows any employee to make elective deferrals to a 403(b) plan, all employees must be permitted to make elective deferrals (of $200 or more), unless they are in a category of employees that the Code permits to be excluded.

What You Need to Do:

- We recommend you annually notify your employees of their right to participate in your 403(b) plan. ISC can provide written Universal Availability Agreements upon request.

VI. Loans

A School District (plan sponsor) can choose whether or not its plan will allow participants to take loans from their 403(b) plan. Compliance for loans is now the responsibility of the employer (plan administrator). The IRS continues to look for violations of loan limits and defaulted loans. That is one of the reasons that it has placed requirements in the regulations regarding information sharing agreements between plan sponsor and product vendors.

I S C

ISC Group, Inc.
3100 Monticello Ave, Suite 800
Dallas, TX 75205

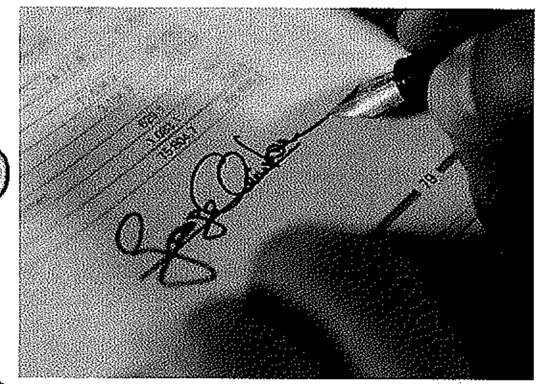
www.ISCGroup.com

Toll-Free: (800) 888-3520 *Fax: (214) 520-3203*

New 403(b) Regulations

ISC Group, Inc.
3100 Monticello Ave.
Suite 800
Dallas, TX 75205

Summary of New 403(b) Regulations:



How the Changes Will Affect You