

403(b) Retirement Plans: Old World vs. New World

By: CELESTE A. GURULÉ, CFP

Managing Director, Advisor Based Sales

Retirement Solutions, Lincoln Financial Group

The new 403b regulations require employers to take greater responsibility and oversight for their 403b plans. With this greater burden, comes the opportunity for employers to enhance retirement plans and provide greater value to their plan participants.

In the old world of 403b plans there was often no plan document. Instead the employer would look to each of the product contracts to determine plan features and benefits like loans and hardship withdrawals. In addition, employers often had little or no involvement in monitoring plan providers other than through the payroll deductions that were sent to each provider. From the provider perspective, often the contact was only with plan participants rather than with the plan sponsor.

In fact, providers viewed 403b plans as the most “retail” of all of the retirement plan markets in the sense that the sale of 403b products was usually with individual participants rather than with the plan sponsor. Because of the individual sales process and the fact that many plans had multiple providers, there was often very little control of the educational message to plan participants.

Also, with the previous 90-24 rules, the employer often had very little control or oversight over movement of money from one product and provider to another. In addition, prior to the new rules employers were not required to monitor participant contributions and withdrawals and left it up to participants and providers to self certify that tax rules were being followed.

New World for 403(b) of Plans

The new rules will allow sponsors to have better control and oversight of plan features and transactions, getting their programs more organized. The new regulations are also providing sponsors with the opportunity to get a handle on the number of vendors and product features they wish to offer in their programs going forward. This can result in better administrative services provided to sponsors and improved plan fees.

One obvious benefit to employers is the requirement to now spell out plan details, features and benefits. Since employers now have to formally list their approved providers, they have the opportunity to evaluate which products are the most appropriate for their plan and participants, including product structure, costs, flexibility and ongoing service.

Today, the employer has the opportunity to demand that each provider cover at least the five basic educational messages including:

- What is the plan and why does it exist?
- Why should I participate?
- How much do I need to contribute given my retirement goals?
- Where or how should I invest my contributions to maximize growth and balance against undue risk given my specific circumstances and risk profile?
- How am I doing each year towards achieving my goals?

The employer now has the opportunity to determine and demand the service model and other services to be offered to participants. Employers also may want to consider adopting some of the procedures allowed by the Pension Protection Act such as auto-enrollment to maximize plan participation.

In addition, plan sponsors will now be able to deliver better and more consistent plan and financial education to participants, including investment advice. In the new 403(b) world, sponsors will enjoy better leverage over plan providers and a true partnership with them. The market will see more competitive pricing, better technology, and more fiduciary support for sponsors.

To realize these potential benefits, plan sponsors will need to:

- Seek plan design advice;
- Review current vendors' commitment to the market, product features, pricing, flexibility, administrative and compliance assistance, and education and communication services;
- Consider engaging a consulting firm that specializes in 403(b)s;
- Select vendors with experience in plan conversions, flexible compliance solutions, common remitter capabilities, robust technology, participant advice capabilities, and competitive pricing;
- Work with vendors to develop a consistent participant education program;
- Develop annual plan goals;
- Develop a plan Investment Policy Statement; and
- Require a detailed annual plan review from vendors and/or the plan's consultant.

With all of the administrative changes for 403(b) plans, plan sponsors will need guidance from providers and trusted advisors so that they can help their participants reach a more secure retirement.

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Celeste Gurulé is Managing Director of Advisor-Based Sales a part of Lincoln Financial Group's Retirement Solutions segment. Celeste leads more than 200 advisors in the employer-sponsored marketplace. She is a graduate from the University of California at Berkeley with a Bachelor of Arts Degree in Political Economics and holds a CFP designation.