

IRS Regulations Issued on Tax-Deferred Annuities

Recently, the Internal Revenue Service issued new rules affecting 403(b) retirement plans. We are in the process of examining the new regulations and its impact on chapters and members. The regulations include new requirements on the part of employers including a written plan document that standardizes the offerings of 403(b) vendors.

The bulk of the regulations go into effect January 1, 2009 with the exception of plan transfers which allow employees to transfer 403(b) funds among investment providers, contracts and accounts before taking a distribution from the plan. These transfers are commonly called 90-24 transfers after the IRS Revenue Ruling 90-24 which allows transfers among 403(b) vendors without school district involvement or oversight. This only applies to exchanges among different contracts or custodial accounts (example: transfer of funds from Security Benefit Life to AIG) and not within your current investment vehicle (transferring investment options within your Security Benefit Life plan).

The new regulations state that an employer and a vendor must enter into an agreement prior to allowing any 90-24 transfers. This will allow for the sharing of necessary information to facilitate compliance with the 403(b) regulations. The regulations state that the new information sharing requirements will apply as of January 1, 2009 to 90-24 transfers that are completed after September 24, 2007. If the transfer occurs with a vendor that is not part of the employer's information sharing agreement by January 1, 2009, the participant's new investment contract/account will be disqualified and become taxable as of January 1, 2009.

As a result of the tax consequences and uncertainty about the new regulations and information sharing agreements with vendors, some districts may freeze 90-24 transfers. CalSTRS is in the process of releasing a circular about the 90-24 transfers to districts. This circular can be viewed on MyCTA in the Member Benefits Resource Center.

Members may wish to contact their tax advisor or plan advisor if they are considering or plan to make a 90-24 plan transfer. CTA does not provide tax or investment advice.

Retirement investing is important to our members. We will continue to study the new regulations and identify ways to help members maintain quality investment options.