403(b) Contract Exchanges and Transfers

Overview

If you are the plan sponsor of a 403(b) plan, it may not be a surprise to you to see your plan participants with more than one investment account. This is not be confused with one or more mutual funds in their retirement account. In this article we are discussing separate accounts. Picture one Fidelity account and one Vanguard account as well as a TransAmerica account – all registered in the name of the 403(b) plan, for the benefit of that one participant. This is a very common 403(b) experience and while the industry seems to be moving in a direction where all accounts are held in one place – in one account, these legacy style arrangements are alive and well.

Under this legacy arrangement, participants do have the ability to contribute their 403(b) contributions and employer contributions, if applicable, to one or more of these accounts at their discretion. They also have the ability to close one account and open another.

This discussion centers around moving some, or all, of an existing account to another account that is registered in the name of the plan, for the benefit of that same participant. This is otherwise known as a **contract exchange** or **contract transfer.** A contract exchange involves the transfer of a participant's account assets from one 403(b) contract to another 403(b) contract within the same 403(b) plan.

When a participant decides to move all, or some, of their monies between their accounts within the plan, some of these investment account providers treat these withdrawals as "rollovers" when they are technically contract exchanges or contract transfers.

Why is this even important to you?

What is critical to maintain throughout these exchanges are the types of monies these are – we in the industry refer to them as "sources". A 403(b) contribution is considered a "source". Profit sharing contributions, matching contributions, Safe Harbor contributions are all considered "sources".

If your plan is designed in a way to only allow participants to take certain withdrawals from certain "sources", you want to maintain that integrity when monies are moving from account to account otherwise you run the risk of distributing sources of money that are not allow to be distributed under the terms of your plan.

> For example, your plan may not allow in-service withdrawals until someone reaches age 59 ½. If a participant decides to move monies from one account to another and these investment vendors report them as "rollovers", your plan may place these dollars into the participants account in a rollover source, which for many plans is a source that is accessible at any time. Maybe you have a hardship provision that only allows access to monies only contributed by the plan participant. If the monies are brought into the participants account as a rollover or placed in the incorrect sources, you run the risk of allowing access to monies that would not have been otherwise available.

As the industry continues to shift, it will be important for you to play a roll in this transfer exercise. Our participant website provides your participant(s) an opportunity to select a contract exchange form – a form that they can complete and provide to you for signature/approval. This form asks for information such as source detail as well as a copy of the most recent investment statement (to ensure this is indeed an account-to-account transaction). Even in situations where a plan participant may complete a traditional rollover form, you may want to introduce a step in your review process to confirm if the rollover is possibly a contract transfer. This will help to ensure the monies coming into the retirement plan make it to the right destination.

If you have any questions regarding this process, or the form(s) themselves, please do not hesitate to contact your plan consultant.