Teachers' Nest Eggs May Need Tending

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(NAPSA)—Big changes are required for school employee retirement plans by the end of the year, when new regulations take effect. For teachers and other workers participating in 403(b) plans, inaction on the part of their employers could prove costly.

The Department of Treasury issued sweeping new regulations in July 2007 requiring the most significant changes to 403(b) plans in more than 40 years. The new regulations increase the responsibility of employers who sponsor those programs, such as public schools, hospitals, nonprofits and universities. In particular, it's estimated that only one in five K-12 school organizations have taken steps to bring their plans into compliance.

As a result, existing 403(b) accounts could become taxable if employer organizations do not conform to the new regulations before January 1, 2009. This could result in an enormous tax bite out of the $650 million in tax-deferred money that employees have invested to date.

At the crux of the matter is the requirement that employers now define, monitor, administer and coordinate their own 403(b) programs—a tall order for many school districts. Plans must have documentation that specifies plan provisions and outlines the responsibilities of the plan sponsor, annuity contract issuers, any other service providers and employee participants with regard to the plan benefits, eligibility, contribution limits, annuity contract descriptions, loans, hardship withdrawals and distributions.

Starting in 2009, all 403(b) contributions must be made through district-approved 403(b) investment providers. Subsequently, individuals will no longer be allowed to select their own investment providers from the open marketplace.

In addition, 403(b) accounts held outside of an employer-defined program will no longer be eligible for tax-deferred contributions. Employees who are age 59½ or older or have ended their employment are eligible to roll their 403(b) assets into an IRA without tax penalty, although it may not be advisable if surrender charges are incurred.

If you work in a K-12, nonprofit or other affected organization, talk to your employer to learn if you can continue contributing to your 403(b) account with your current investment provider. Ameriprise Financial provides a free resource kit with easy, step-by-step instructions to help employers make plans compliant by January 1. Employers can call (800) 269-1292 or visit the 403(b) help center online at ameriprise.com/403b for more information.

If your employer offers a 403(b) and you would like to discuss your account with an Ameriprise financial adviser, you can locate one by visiting ameriprise.com or calling (800) 980-7622.