



**ALPENA-MONTMORENCY-ALCONA
EDUCATIONAL SERVICE DISTRICT**

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**IMPORTANT INFORMATION ABOUT YOUR
403(b) TAX DEFERRED ANNUITY PLAN
PLEASE READ!**

To: All Alpena-Montmorency-Alcona E.S.D. Employees
From: Tony Suszek, Business Manager
Date: October 29, 2008

This is an important letter for those of you who have, or may be thinking about, a 403(b) tax-deferred investment through payroll deduction. As of Jan. 1, 2009, the IRS is changing the way school districts deal with 403(b) contributions, and although it creates headaches for school districts, it will have a number of positive effects for 403(b) investors. You need to know about these new rules, how they will affect your investments, and what changes you have to make, if any, to your plan. Many of you will **NOT** need to make alterations to your 403(b), but if you must change your plan or provider, you will be notified in writing by the business office the week of Nov. 17, 2008. **It is important to note that NO IMMEDIATE ACTION IS NECESSARY for any 403(b) investor.**

This letter will help you understand 1) the new regulations; 2) the steps we as a district have taken to comply; 3) why this is a good thing!; 4) the options you have as an investor and what you should do after reading this letter; and 5) where to get more information.

1. The new regulations

The IRS, as of Jan. 1, 2009, requires every school district to have its own written 403(b) plan. It also requires that the district be responsible for meeting all 403(b) rules and regulations. Districts that do not follow the exact letter of the law will no longer be able to offer ANY 403(b) tax-deferred investments, so it is in the best interest of every district, and individual staff investors, to do this right.

2. What we have done to comply

Confronted with a responsibility to write investment plans and to set up and do the IRS-required record-keeping, school districts looked to each other for help. The AMA and three of its districts joined a consortium of 253 school districts across Michigan to form the Michigan Retirement Investment Consortium (MRIC). The MRIC retained a third-party administrator, TSA Consulting Group of Fort Walton Beach, FL, to 1) choose five top investment vendors and a single service provider for all of the districts and 2) to oversee the ongoing program.

These vendors have been chosen by MRIC on the basis of service, performance, and fees and include:

- ❖ **AIG/Valic**
- ❖ **MEA/Paradigm/Prudential**
- ❖ **Plan Member Services**
- ❖ **The Legend Group**
- ❖ **Waddell&Reed/Nationwide, and**
- ❖ **Midwest Capital Advisors as single-source provider.**

These vendors handle many of the individual companies and funds to which our staff make 403(b) investments. All current 403(b) vendors for northern Michigan were invited to participate, but some were unable or unwilling to do all of the record-keeping required now by the IRS. Those were eliminated from further consideration.

Three additional vendors, called "wild cards" have also been approved by TSA Consulting Group and signed the necessary record-keeping compliance agreements to continue to serve our staff. These include:

- ❖ AXA Equitable
- ❖ MetLife
- ❖ 403b ASP

The company called **403b ASP**, in particular, represents many local brokers. As time goes on, this "wild card" vendor list may grow.

3. Why this is a good thing!

When people hear "new regulations," "change," and particularly "IRS," the common reaction is: worry.

However, much about this new way of doing things is positive for school employees. Specifically:

- ❖ **It is designed to better protect investors.** After the IRS uncovered fraud and abuse in the private sector's 401K tax-deferred investment programs, it tightened regulations to do a better job of tracking how much money was being contributed by individuals and where the profits were going. Next, it turned its attention to school employees' 403(b) plans, where similar regulations will make sure your investments and any profits are correctly documented and put in your account. That's what TSA Consulting Group, as a third-party administrator representing school employees, is charged to do.
- ❖ **Many of the 403(b) plans will remain as before, requiring no changes.**
- ❖ **With the combined "buying power" of 253 school districts, MRIC is able to negotiate lower fees.** Commissions in many cases will drop considerably.
- ❖ **Investors have access to high-quality products.** When MRIC chose its 5 core vendors and single source provider, performance was a key criterion. These vendors and their products have a proven record.
- ❖ **Good service.** Another of the three selection criteria is service. These vendors in many cases provide an impressive level of personal attention.

4. Your options and what you should do after reading this letter

Three questions immediately spring to mind!

- ❖ Can I keep my current 403(b) plan?
- ❖ Can I stay with my friendly, familiar investment advisor?
- ❖ Is there anything I need to do right now?

The answers are maybe, maybe and no. Keeping your current 403(b) depends on whether or not it is carried by a company participating with the consortium.** Keeping your local financial advisor also depends on consortium participation. Your 403(b) may be in, but your investment advisor out; your investment advisor may be in, but your product out. In many cases, both will be in. If not, it is important to note that although the new rules go into effect Jan. 1, 2009 and payroll deduction to ineligible plans or providers will cease as of Dec. 31, 2008, you are not required to act immediately. A few pay periods may go by with no 403(b) deductions while you evaluate your investments and choose carefully, but it may be better to make a smart, slow decision than a regrettable fast one.

If you must make changes because your current product or provider has been eliminated, you may:

- ❖ freeze your investment and take it out when you retire;
- ❖ freeze your investment and take it out when "surrender charges" have expired;
- ❖ freeze it and start a new 403(b) plan;
- ❖ transfer it to a new, approved plan and pay whatever surrender charges may be applicable; or
- ❖ take the money out and pay the applicable taxes.

A financial advisor can help you better understand these options.

5. Where to get more information

Contact your local financial advisor and/or plan to attend the **403(b) core vendor fairs on November 5 and December 8** and the **local vendor fair on November 19**. If you can't attend, pick up vendor packets at the business office (after November 5). While we do not give investment advice, we would be happy to answer your questions about our operations related to 403(b) annuities. We'll be in contact with you the week of November 17, 2008 if your 403(b) plan requires change.

Vendor Fairs **November 5, 19 and December 8** **3:00 to 7:00 p.m.**

Your chance to get acquainted with the five new "Core" vendors is **November 5** at the AMAESD conference rooms.

Core vendors will be available for you to ask questions about your current 403(b), explore others, or pick up materials at your convenience between 3-7 p.m.

Core vendors will make one-by-one 10-minute overview presentations at both 4:00 p.m. and 5:30 p.m.

A second introductory session for core vendors is set for **December 8** from 3:00 to 7:00 p.m. at the AMAESD, although the format for this presentation may differ.

An additional annuity fair, featuring local brokers is scheduled for **November 19** from 3:00 to 7:00 p.m. at the AMAESD.

***Which 403(b) products are approved? One core vendor alone represents 150 fund families with 1,500 individual mutual funds, so obviously we cannot list them all here. Also, TSA Consulting Group continues to negotiate with companies that may eventually come in under the "wild card" provision. To find out whether any of the core vendors carry your particular 403(b), find out its specific name and come to the Nov. 5 fair, the Nov. 19 fair, the Dec. 8 fair, or pick up a packet of core vendor materials at the business office that lists phone numbers and websites.*