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403(b) ADVISOR

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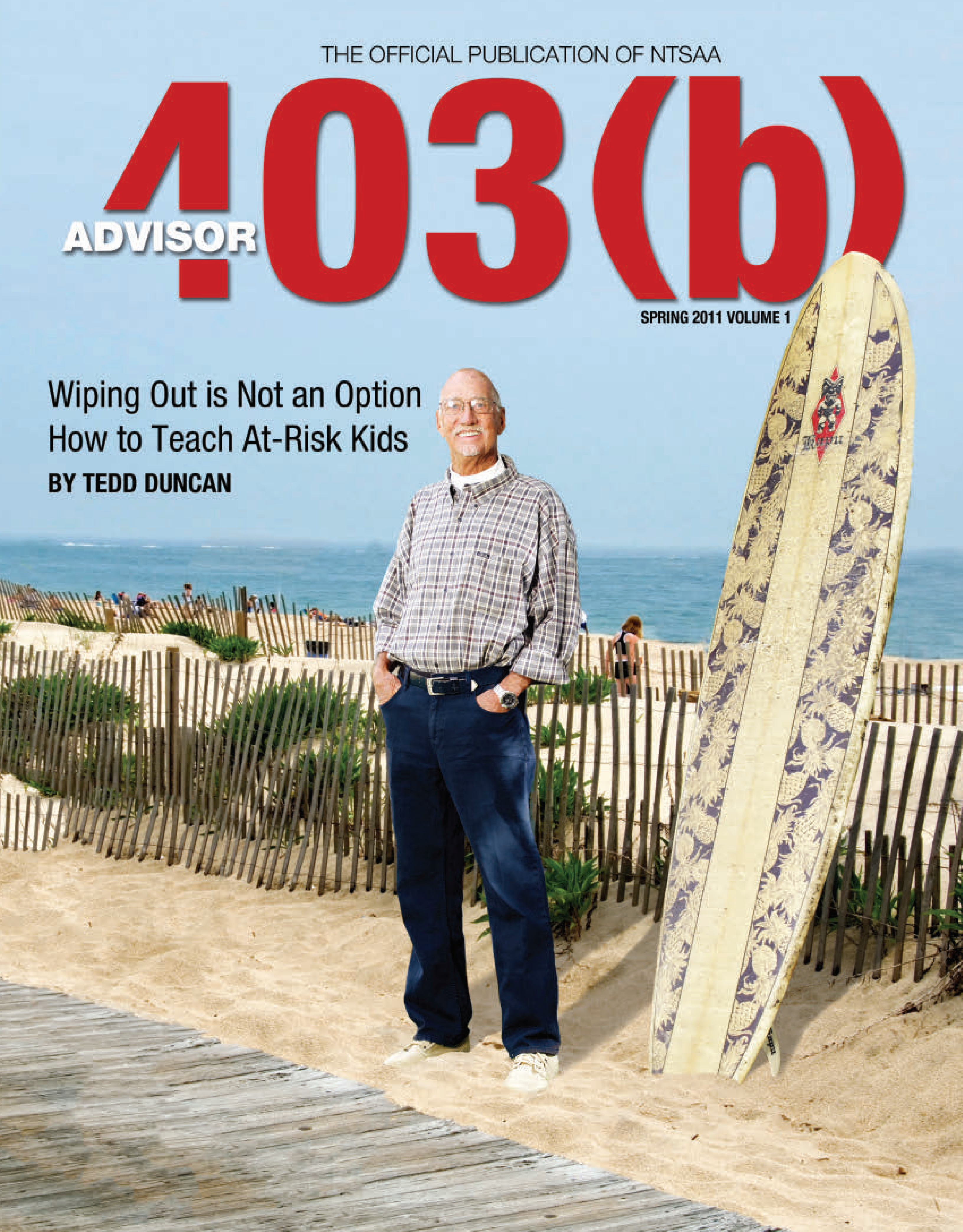
Wiping Out is Not an Option
How to Teach At-Risk Kids

BY TEDD DUNCAN



403(b) ADVISOR
The Exclusive Magazine for 403(b) and 457 Investment Professionals

FEATURES

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ADVISOR 403(b)

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ONE TO KNOW ONE

By Steve Sullivan

Two teachers entered the profession at the same time. Sarah taught English. Her academic record, which had been stellar all through high school and university, had gotten her hired. She was studious, soft-spoken and earnest. She lasted one year.

Dan taught math. He was the scourge of priests, nuns and lay teachers throughout his school career. He modified his behavior enough to get through college and he remained a life-long rebel. But he was a gifted teacher. So successful that he now teaches teachers how to teach math.

I was somewhere in between; it took three years for me to admit teaching wasn't for me. But it was long enough to observe one inescapable fact: The worst students often end up becoming the best teachers.

Tedd Duncan fits that mold to a T. Tedd's cover story is of a problem student who became a gifted teacher of troubled children. Then, after he left his mark on the lives of his students, he retired and joined the ranks of 403(b) advisors, where he left his mark on the retirements of fellow teachers.

Tedd's story headlines 403(b) Advisor's sophomore edition. The magazine made its first appearance as a freshman at this year's NTSAA Annual Conference in Orlando. If you couldn't make the conference, check out our center spread of photos. It was two-and-a-half days packed with dynamic speakers, fascinating sessions, intense discussions, tireless networking, vendor interaction, and a most surprising cast of characters on the Karaoke stage. Several of the articles in this issue began as presentations at that meeting, and there'll be more to come. So be sure not to miss next year's event in Vegas.

We also welcome three new additions to the magazine's regular lineup. Frank Owen kicks off the first "(b) Heard," a forum for the expression of individual opinion about issues relevant to the 403(b) community. Sarah Simoneaux introduces "Grade Points," a department dedicated to the importance of professional education. And Kent Schutte provides the first of a series of "Sales Nuggets." This one's only good for 2011 so you've got about six months to get busy.

And finally, I urge you once again to contribute. We're always interested in your stories, your sales ideas, and now your opinion. So please, fill my e-mail box, stevensullivan08@comcast.net, with great stuff.

Steven Sullivan is the editor of 403(b) Advisor.

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TREND SPOTTING

BUILDING RETIREMENT FROM FLOOR TO CEILING

By Richard Ford and Steve Hanson

Will your clients' retirement savings last a lifetime?

Most advisors in the 403(b) market have long been focused on helping their clients save for retirement. As clients approach retirement, however, many advisors feel ill prepared to help clients with a new set of questions such as:

- Will the retirement income I've saved be enough to cover basic living expenses?
- Will I have enough money to travel, pursue a new hobby, or cover unexpected expenses?
- Will I be able to leave assets to my heirs?
- How can I invest my nest egg for continued growth while protecting it from market volatility?
- How can I make sure my savings last my lifetime?

Going forward, successful advisors will not only be able to help clients save for retirement, but will also be prepared to help clients transform their savings into a reliable source of income that will last throughout retirement.

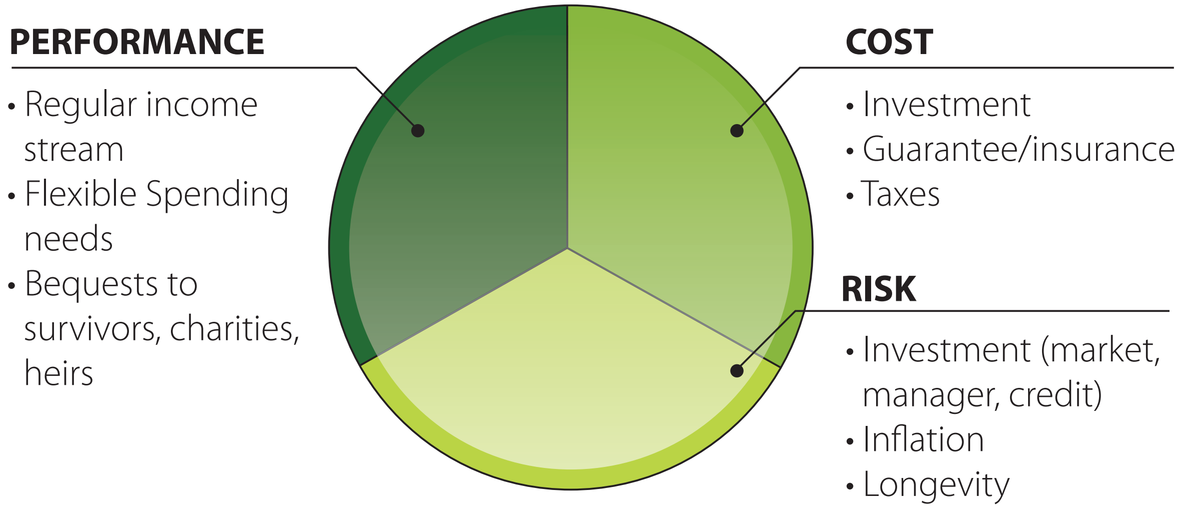
DIFFERENT PEOPLE, DIFFERENT DREAMS

Gone are the days of the "one size fits all" retirement. Today's retirees have better health and longer life expectancies. They stay active and want to be able to leave a financial legacy and contribution to society. Retirement is now the opportunity for re-engagement: new career, back to school, part-time job, volunteering.

Gone also are the days of a single-product solution. What has emerged is the need for financial advisors to adopt a process-oriented approach and use an entire suite of product solutions. The new theme in retirement income planning is to first build a base of guaranteed income before exposing the client's assets to market upside potential.

How large does the guaranteed income base need to be? It depends on the client's individual circumstances, but nearly all retirees will have some need for a portion of their income to be guaranteed.

BALANCING PERFORMANCE, RISK AND COST



RETIREMENT, MORE THAN A LIFETIME PAYCHECK

As more workers take their retirement savings in lump sums, the challenge of converting these savings into a regular stream of income is a critical issue for the U.S. retirement system. Many retirees must structure plans to meet current expenses as well as finance potentially long life expectancies and ballooning health care costs. Simultaneously, they need to be able to tap their assets for unpredictable expenses such as out-of-pocket medical and long-term care costs.

BALANCING PERFORMANCE, RISK AND COST

Retirees seek an investment strategy — a retirement income framework — with a balance of performance, risk and cost that is suited to their unique circumstances.

Performance is no longer simply a measure of return on investment. Rather, it includes three broad income and asset-based objectives important to retirees, namely:

- Generating a regular income for predictable or regular living expenses
- Meeting discretionary or unpredictable spending needs, including out-of-pocket health care or long-term care costs, unexpected housing or transportation expenses
- Providing bequests to survivors, heirs or charities

Although the emphasis on each of these objectives will vary by individual, all three typically play some role in the decision process.

Risk mitigation is another important element. Individuals living in retirement face investment, inflation and longevity risk. Negative returns, especially early in retirement, can derail your client's income plan. Inflation can't be avoided and even with 2 percent inflation, a dollar loses about 40 percent of its purchasing power over 25 years.

Unique to the distribution phase is longevity risk: the risk of spending savings too quickly and depleting assets prematurely. The challenge in managing longevity risk is to balance spendthrift tendencies against excessive frugality.

Costs for retirees come in three types: investment costs, guarantee costs (providing protection against the market, longevity, or other risks) and taxes. Higher costs generally reduce an individual's ability to achieve his or her goal for a given level of risk, while lower costs enhance an individual's probability to exceed his or her goals.

THE PLANNING PROCESS

How can advisors help clients address these issues? The answer is to adopt a disciplined approach that places an emphasis on process, not product. If you follow a disciplined process, you will build trust with your client and be better able to assess your client's needs, and the product solutions will evolve naturally from the process.

THE SHORT FORM

- Successful will be prepared to help clients transform their savings into a reliable source of income that will last throughout retirement.
- Build a base of guaranteed income before exposing the client's assets to market upside potential.
- Retirees seek an investment strategy with a balance of performance, risk and cost that is suited to their unique circumstances.
- Determine anticipated expenses, reliable income sources, other assets, and the appropriate mix of products to meet client's needs.
- Assessing the client's income variability tolerance is more art than science.

Step 1: Quantify and categorize anticipated retirement expenses

Use a budget worksheet that categorizes retirement expenses into three separate categories: essential, important and discretionary. Essential expenses are housing, utilities, food, health care and taxes. Important expenses are clothing, transportation and insurance. Discretionary expenses are items such as travel, hobbies, entertainment and gifts.

Step 2: Identify and quantify known and reliable income sources

Income sources include Social Security, state or corporate pensions, employment income, rental property income, and any other sources that can be considered reliable.

Step 3: Quantify assets earmarked for retirement income generation

Important for the advisor is to identify known client retirement assets including: 403(b), 457(b), 401(k) workplace retirement accounts, IRAs, non-qualified investments, home equity, inheritance, and other investments. It's essential that clients put all their cards on the table so you can effectively help them.

Step 4: Assess the client's income variability tolerance

This step is critical and can be difficult because it's more of an art than science. A questionnaire is helpful in developing a plan that they can live with and stick to over the long term.

Step 5: Product Allocation – determining the appropriate mix of products and strategies to meet the client's needs

Remember, a single product solution likely won't work in today's retirement paradigm. A guiding principle is to build a guaranteed income floor. Your client's assets have a new job to focus on: generating income, not generating return. There are numerous guaranteed and non-guaranteed products to fill the gap in product allocation, including:

- immediate or deferred income annuities
- variable annuities with guaranteed lifetime income riders
- fixed indexed annuities with lifetime income
- managed mutual fund portfolios deploying systematic withdrawals or a time segmented withdrawal strategy

In conclusion, individuals and advisors face the challenge of integrating newer and traditional strategies into a personalized retirement income plan. The right approach ultimately depends on the same principle that governs investment decisions in the accumulation years — the need to strike a careful balance between return, risk and cost.

Richard Ford is chief marketing officer and Steve Hanson is vice president of product development for PlanMember Services Corporation based in Carpinteria, Calif.

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GOVERNMENT IMPACT

RETIREMENT POLICY IN A WORLD OF DEFICITS

BY BRIAN H. GRAFF, ESQ., APM

Your profession is essentially controlled by the federal government. The tax code that created your choice of career and your clients' opportunity to save for a dignified retirement can be taken away at any time.

Continuing political support for employer-based retirement savings programs could be seriously weakened in a world of burgeoning deficits that Congressman Paul Ryan (R-Wis.), incoming chairman of the House Budget Committee, and others have articulated. Whether we like it or not, those deficits exist, and tax expenditures clearly are part of the revenue picture that the National Commission on Fiscal Responsibility and Reform (Commission) examined at the request of President Obama.

In its recommendations, that Commission proposed to either eliminate all the incentives for retirement savings or, alternatively, severely cut the annual limits on contributions. If you think this simply "can't happen," you should know that the last time Congress did tax reform (in 1986) they cut the annual contribution limit down to only $7,000. Deficits today are ten times the amount they were in the 1980s. Such proposals, if enacted, would clearly decimate workplace savings programs. Why would they propose such a thing?

WE'RE NUMBER ONE

Recent estimates from the Joint Committee on Taxation show that taxes deferred under workplace retirement plans, combined with deferred taxes on rollover individual retirement accounts, will make tax incentives for retirement savings the No. 1 tax expenditure in 2013. In case you are wondering, being No. 1 in this case is not a good thing. First and foremost, it means that in a world of deficits we get a lot of unwanted and unwarranted attention.

There are some unfortunate and significant distortions associated with the perceived "cost" of tax incentives for employers to provide retirement benefits. Keep in mind that tax expenditures to promote retirement benefits are not like the tax expenditures for health benefits. The health care benefits offered to participants in a health plan are not taxed; not this year and not in the future.

THE SHORT FORM

- The National Commission on Fiscal Responsibility and Reform proposed to eliminate all incentives for retirement savings or severely cut the annual limits on contributions.
- Taxes deferred under workplace retirement plans, combined with deferred taxes on rollover IRAs, are the No. 1 tax expenditure in 2013.
- Retirement benefits, unlike health benefits, will ultimately be taxed but Washington doesn't give credit for those taxes.
- If the voluntary employer-sponsored retirement system were to get credit for the amount of future tax dollars it generates, tax expenditures would cost much less than under current budget scoring procedures.
- Your business depends on your becoming politically active.
- Tell Congress how many people you touch in the course of your day, week or year.

BUDGET SCORING

Retirement benefits, by contrast, will ultimately be taxed. However, because of how tax spending is scored in Washington, DC, we don't get credit for those taxes. What goes out counts against us, but what comes in later outside the five-year federal budget window isn't credited. As far as Congress is concerned, the concept of present value is misunderstood or is ignored.

Federal budget scoring produces a significant distortion in tax policy. If the voluntary employer-sponsored retirement system were to get credit for the amount of future tax dollars it generates, many of the tax expenditures that promote retirement savings would cost much less than they appear to cost under budget scoring procedures used by the Joint Committee on Taxation. Because of that distortion, however, Congress tends to do much less to promote retirement savings than it would if tax incentives for retirement savings scored better than they do.

We recently did a study with the U.S. Chamber of Commerce and others to show the effect of tax expenditures to promote employer-provided retirement benefits. The conclusion of that research was that the measurement of tax expenditures for retirement savings should be based on the present value of the expenditure. We are currently doing a follow-up study that will reveal the true "cost" of retirement saving incentives. Nevertheless, members of Congress are locked into a mindset of cash-basis expense reporting and will likely never appreciate the fact that, unlike the other tax expenditures, the expenditures for retirement benefits are tax deferrals and not tax exclusions.

TARGET OF CRITICS

The voluntary employer-provided retirement system has attracted frequent criticism during the past few years. Much of the criticism grew out of the market adjustment that occurred in 2008-2009, when many people lost a considerable amount of their retirement savings in employer-provided plans.

Particularly for workers in their late 50s and early 60s who had an expectation of a certain amount of savings, it was devastating to see their account balances down by 20 percent or 30 percent. The market adjustment led to many questions about what is working and what is not working in the voluntary retirement system.

Fortunately, since then, the market has rebounded. Many of those accounts have recovered, but a question, a fair one, still lingers: Why do so many working Americans have no private savings or retirement benefits through their employers?

RETIREMENT PLAN DATA

We do know, and there is widespread agreement on this claim, that workplace retirement savings plans work. Data provided to ASPPA/NTSAA by the Employee Benefit Research Institute on 401(k), 403(b) and 457 retirement savings plans show that employees earning between $30,000 and $50,000 are more than 15 times (71.5 percent vs. 4.6 percent) more likely to save for retirement if they can do so through an employer-sponsored defined contribution plan than they are if their only option is to save on their own through an IRA.

That gap in rates of saving cannot be ignored. It derives from a culture of saving that employers promote, with your help, by offering retirement benefits and matching contributions. It reflects the convenience of saving through payroll deductions. When workers are without that culture and convenience and must decide on their own to set up and contribute to an IRA, less than 5 percent choose to save. Traditional IRAs are not a highly effective incentive for workers without workplace retirement plans to save for retirement.

WHO BENEFITS?

Still, the current workplace retirement plan system continues to be accused of only benefiting the wealthy. That is simply not true. If you look at the distribution of tax expenditures for employee savings retirement programs, 62 percent of deferred taxes benefit households with annual gross incomes of less than $100,000. Income statistics also show that 75 percent of the deferred taxes benefit households with annual gross income of less than $150,000.

The data clearly contradicts the argument that the majority of tax expenditures for employer-sponsored retirement savings benefit the wealthy. Nonetheless, we need to remember that 47 percent of households pay no federal income taxes and therefore receive no benefit

from those tax incentives. That is why households with annual income of less than $50,000 pay only 8 percent of individual income taxes. Households with annual income of less than $100,000 pay about 26 percent of individual income taxes. The fact that about 62 percent of the tax expenditures for defined contribution plans go to those families shows that the current tax preference actually shifts the benefit toward middle- and lower-income workers.

GET INVOLVED

For better or for worse, your profession is essentially controlled by the federal government. The tax code that created your choice of career and your clients' opportunity to save for a dignified retirement can be taken away at any time. We know that employer workplace plans work. As Congress begins the debate on tax reform, ASPPA/NTSAA's Government Affairs Committee will be working hard to deliver that message. If tax reform is constructed in a manner like 1986, it will be disastrous. Now is not the time to be reducing retirement savings incentives that will ultimately reduce coverage. By contrast, we need to consider steps to expand retirement plan coverage—the only way working Americans have ever meaningfully saved.

But, we are going to need your help. It is going to take a concerted effort to prevent what happened in 1986 from happening again. Becoming politically active needs to be part of your business plan, because guess what, your business — the retirement plan business — will depend on it. So, go meet your local member of Congress at a town hall meeting and tell him or her about the critical importance of the current retirement savings incentives – without them, America workers will not save. Tell them how many people you touch in the course of your day, a week, a year. Believe it or not, members of Congress will care about what you think. Don't let Congress change your business without hearing from you first. You will make a difference.

Brian H. Graff, Esq., APM, is executive director/CEO of ASPPA in Arlington, Va.

A TIME FOR CORRECTION

By Frank R. Owen III

This article is the opinion of the author and does not necessarily reflect the views of NTSAA or ASPPA.

Now may be the perfect opportunity to reverse the new 403(b) regulations' unintended consequences.

One of the most dramatic regulatory actions in recent history was the enactment of the U.S. Treasury Department and Internal Revenue Service's massive changes to the 403(b) regulations in 2007. Most of us would agree there were problems — improper loans, distributions, QDROs, missed required minimum distributions (RMDs), contribution limits, among others — but did the regulatory changes accomplish their purpose?

Like many actions with good intentions, the regulatory changes that shook the 403(b) world solved some problems and created others. These changes have resulted in reduced competition in the market and confusion in the relationship between advisor and clients, thus producing a drop in enrollment participation. Many participants are stuck in old "deselected" products that are no longer approved, and they can't exchange to a fixed account, for example, because their plan doesn't have one.

Many companies have and will continue to exit the 403(b) marketplace. Also, some employers will be forced to either redirect public funds intended for education to monitor a marketplace that they have no desire to control or actually limit their employees' options in the retirement arena. Many whose livelihood depends on this marketplace will be squeezed out by bigger companies.

When defined benefit pension plans are clearly identified as underfunded and Social Security is staring at deficits within the next few years, can we afford to allow these problems to disrupt the 403(b) marketplace?

Earlier this year in his State of the Union Address, President Barack Obama pledged to review and eliminate all unnecessary regulations. He stressed that some oversight was necessary and justified. At the same time the new House of Representatives elected in 2010 also claimed the need to remove excessive legislation.

What an opportunity!

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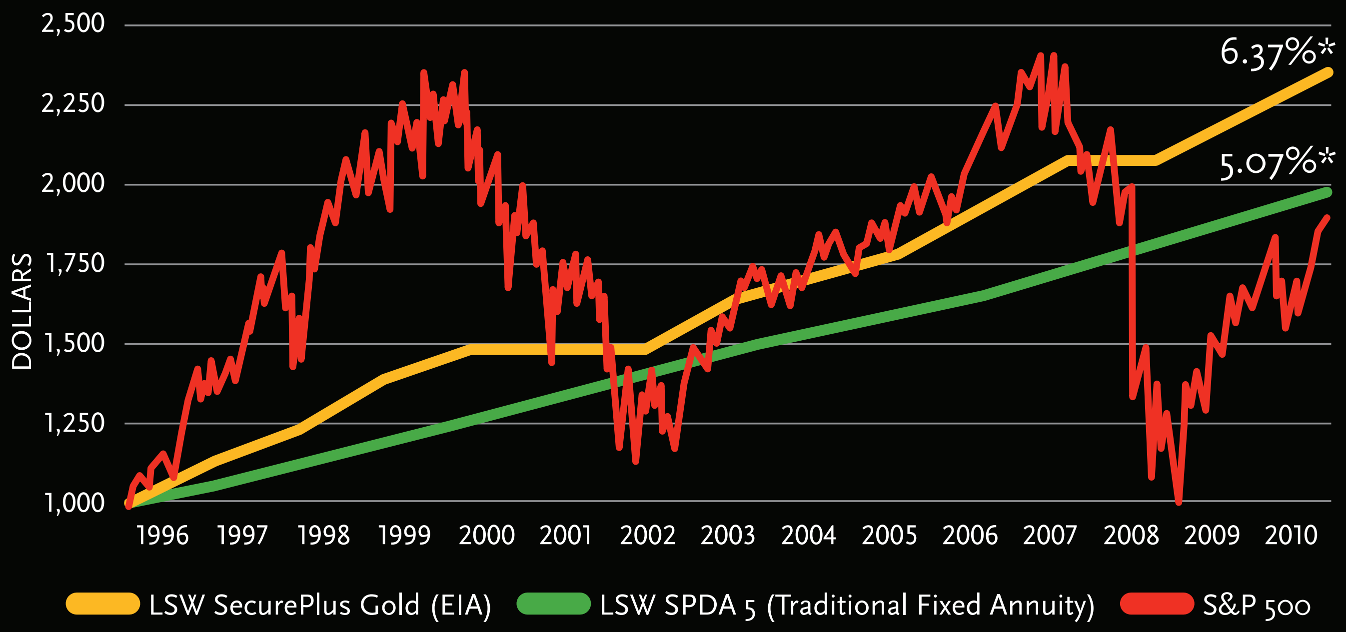

The chart compares the 14-year accumulation value (premiums + interest credited) of LSW's *SecurePlus Gold* (Policy Form Nos. 7912 and 7918), an indexed annuity, and LSW's *SPDA 5* (Policy Form No. 7682), a traditional fixed annuity. Both policy terms have a 10 year withdrawal charge period. The above illustration is reflective of a single premium payment into both LSW annuities, with an issue date of 10/21/1996. The S&P 500 Index results are without dividends. The annuity values are measured each year on 10/21. Past interest credited results are no indication or guarantee of future interest credits. *Interest rate is annual effective rate.

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or additional investments to help them achieve their primary objective. So let's apply this process to our advocacy efforts to proactively address the concerns and provide workable solutions. If we see problems and complain about the action, we must have alternatives; so here is a simple alternative for us to propose in 2011.

Has anyone ever filed a tax return and forgotten to attach a 1099 or W-2? When the IRS cross-references the employer's copy against your 1040 form, it identifies the conflicts, and here comes a letter from the IRS. Those who are identified pay the taxes, interest and penalty for their mistake. It seems to work. Could we use that same principle in the 403(b) marketplace?

Let's look at a procedure for the use of a 5498 form already in place for every IRA plan. The insurance company, registered investment company or investment advisory firm sends a copy of the form to the client and one to the IRS. The form reflects the participant's December 31 balance, and the IRS now has a way to track RMDs and other information. Some people have money in more than one place, so they get more than one 5498 form.

In the past, it has always been the responsibility of tax holders and their tax advisors to comply with IRS laws. The new regulations, however, have placed that accountability at the employer level, thus leading to more restrictive environments to encourage savings.

Why couldn't we expand that form to include all qualified plans and information on loans, withdrawals, contributions, etc.? Yes, it would create "havoc." The IRS would have to enlarge the form and, using 21st century technology, could easily track those who exceed limits and hold them accountable. Expanding the 5498 form places the burden back on individuals and their tax advisors.

With these new regulations, I believe the IRS has created some unintended consequences. If that was not the IRS's intention, then correcting those consequences is the only obvious and reasonable choice. With NTSAA/ASPPA's voice and support, members, through the advocacy effort of ASPPA, can flex their muscles and reach out to the president and Congress to correct these unintended consequences.

As members of NTSAA/ASPPA, we need to support the advocacy effort with funding and active involvement. If we do not, we must be willing to settle for the status quo, and take it sitting down. Why would we want to do that?

Frank R. Owen III is president of FR Owen & Associates in Charlotte, N.C.


Do your clients need
a retirement plan checkup?
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FINDING OPPORTUNITIES IN 457(b) PLANS

By M. Kristi Cook, TGPC

403(b) and 457(b) plans are essentially the same marketplace and client base with the same issues. So it's easy to use the skills you've learned in one to master the other.

In our marketplace, there are several types of plans available for accumulation of retirement funds or deferral of current compensation. While we're most familiar with 403(b) plans, there are many opportunities for savvy financial advisors who understand how to work with 457(b) plans.

The first step in preparing for success when working with 457(b) plans is understanding that different rules apply based on the type of employer sponsoring the 457(b) plan. Plans sponsored by governmental employers are similar to retirement plans and have provisions that 403(b) advisors are more familiar with, such as rollovers, aged 50+ catch-ups on deferrals, loans and correction of excess contributions by refunding the excess. 457(b) plans sponsored by tax-exempt organizations, however, are not permitted to include these features and may be more restrictive than 403(b) advisors are aware. Thus, advisors are first cautioned to learn the rules applicable to the plans offered in the marketplace(s) in which the advisors intend to succeed. NTSAA's publication The Source, 403(b) & 457(b) Plans, 3rd Edition is an excellent resource for this purpose and can be ordered online at www.asppa.org/Document-Vault/Docs/EE/source-3rd-ed.aspx.

Assuming that you've mastered the rules and selected the marketplace(s) in which you want to work, you should consider the following opportunities that are unique to 457(b) plans:

1. *Younger employees*. Because the IRC §72(t) early distribution tax does not apply to 457(b) plans, younger employees are more willing to make 457(b) contributions since future withdrawals would not be subject to the mandatory 10 penalty tax. If they leave their employer at any age, there is no penalty tax.

2. *Early retirees*. Similarly, 457(b) plans are excellent vessels for early retirement plan contributions where payments are distributed before age 59½. Retirees would have access to their incentive funds without a penalty tax reduction.

3. *Double deferrals*. Because the contribution limits in 457(b) plans are technically not subject to the contribution limitations of IRC §402(g), participants may defer the full deferral limits in the 457(b) plan ($16,500). If the participant is also eligible to participate in a 403(b) plan, the individual may contribute the full deferral limit into the 403(b) plan ($16,500), for a total of $33,000 in 2011. There is no offset on the contribution limits between 457(b) plans and any retirement plan.

4. *Double catch-up for governmental plans*. If the individual is a participant in a governmental 457(b) plan, then the aged 50+ catch-up is also available in the 457(b)

THE SHORT FORM

- Different rules apply to 457(b) plans depending on the type of employer sponsoring them.
- NTSAA's publication The Source, 403(b) & 457(b) Plans, 3rd Edition is an excellent resource for understanding these rules and can be ordered online at www.asppa.org/Document-Vault/Docs/EE/source-3rd-ed.aspx.
- Once you've identified your marketplace and gained competency in it, identify which products you plan to use and understand how they work.

plan and also in any other type of plan the employer may sponsor, such as a 403(b) or 401(k) plan.

To illustrate how this may work, assume that the superintendent of Lucky School District wants to maximize her deferrals in 2011. She's 52 years of age and her salary for 2011 is $180,000. The district's plan document permits aged 50+ catch-up contributions, but does not permit the 15 years of service catch-up. What is the most she can defer into the district's 403(b) and 457(b) plans in 2011?

Since she's at least aged 50, she can defer $22,000 ($16,500 + $5,500) into her 403(b) account under the district's 403(b) plan. Because there's no offset rule between 457(b) plans and retirement plans, she can defer the same amount into her account under the district's 457(b) plan for a total of $44,000 in deferrals in 2011. Note that aged 50+ catch-up contributions are not available in 457(b) plans sponsored by tax-exempt organizations (nongovernmental).

5. *Discriminatory benefits permitted*. Contributions to 457(b) plans are not subject to nondiscrimination testing. Therefore, employers may make contributions for selected employees without violating discrimination standards. In fact, 457(b) plans of tax-exempt organizations must discriminate in favor of key management personnel and highly compensated employees, making 457(b) plans an excellent tool for providing special benefits to this select group of employees.

   A special provision under ERISA requires tax-exempt employers sponsoring 457(b) plans to exclude all employees except those included in a "top hat" group. Accordingly, where the employer's regular retirement program may not provide a sufficient benefit to executives and selected management staff, a 457(b) plan may be used to provide a discretionary or discriminatory supplemental benefit without violating nondiscrimination testing standards.

6. *Roth contributions*. The Small Business Jobs Act of 2010 permitted governmental 457(b) plans to include Roth contributions beginning on January 1, 2011. Similarly, Roth conversion features may also be included in a 457(b) plan, although the conversion features may not yet be included in many documents as employers await further IRS guidance.

   Like the Roth opportunities in a 403(b) or 401(k) plan, participants may make Roth contributions without regard to their annual compensation, and participants may contribute pre-tax and Roth 457(b) contributions that, in the aggregate, do not exceed the annual contribution limits described in items 3 and 4 above ($16,500 for 2011 + aged 50+ catch-up for governmental plans). Many participants are making pre-tax contributions in one type of plan and Roth contributions into the other type of plan because there are no offset rules between 457(b) plans and other types of retirement plans.

Once you've identified your marketplace and gained the basic technical skills necessary to be competent in it, you need to identify which products you plan to use and understand how they work so you can figure out which opportunities offer the best chance for success. You can use your experience mastering 403(b) relationships to find and develop 457(b) opportunities. It's the same marketplace, the same client base, and they have the same issues. You now have an additional option and answer.

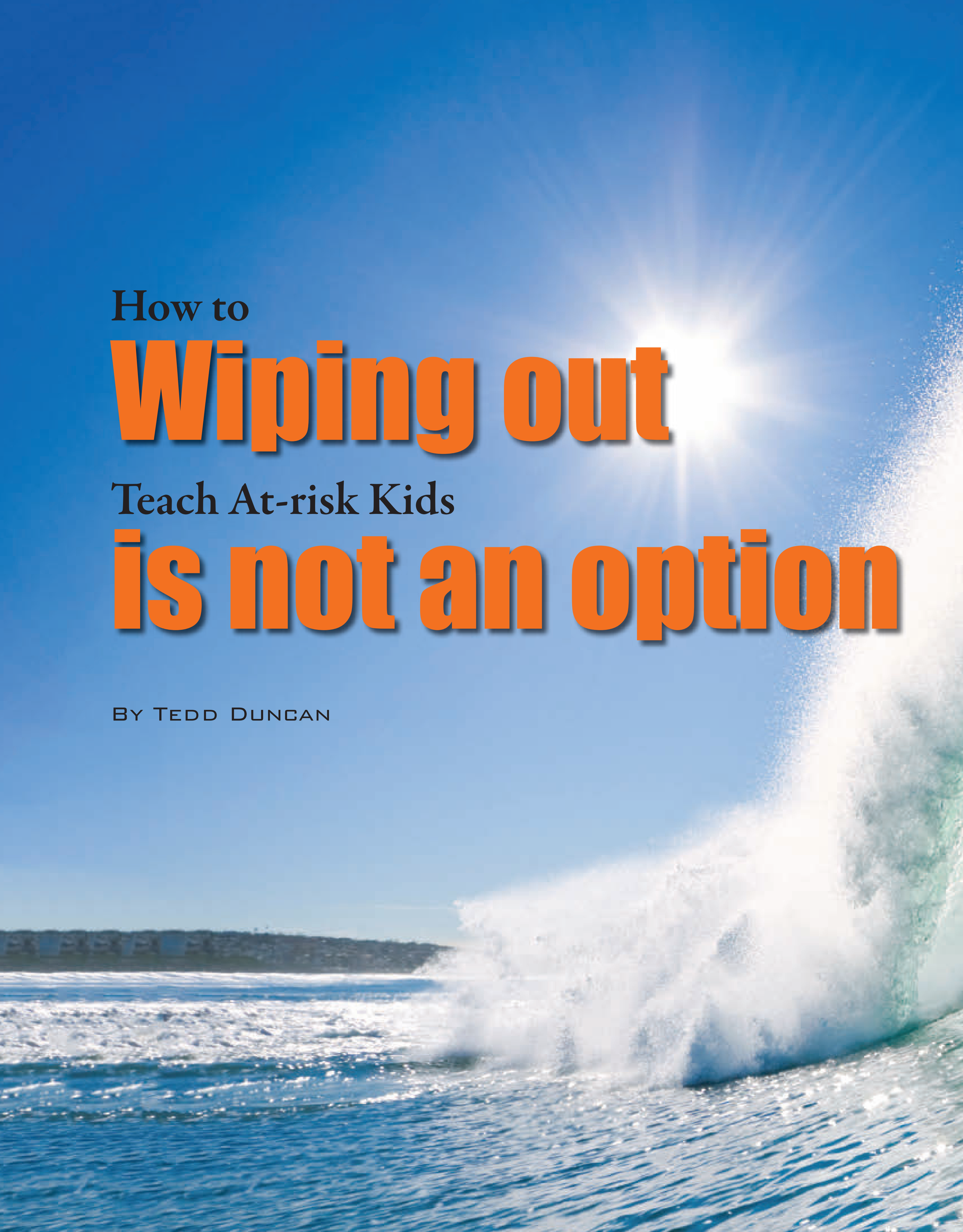
M. Kristi Cook, TGPC, is an attorney specializing in benefit programs for tax-exempt and governmental employers. She works in Jenkintown, Pa.

Are Your Clients at the Head of the Class?

Have you created some surefire techniques for educating participants about retirement and investments that have actually increased enrollment in a sponsor's 403(b) plan?

We'd like to hear about it.

Summarize your ideas in a brief email to stevensullivan08@comcast.net and you could be the bylined author of the next Lesson Plan in *403(b) Advisor.*



How to Teach At-risk Kids
Wiping out is not an option

By Tedd Duncan

After a lifetime in education and helping colleagues plan their retirement, Tedd Duncan now gets to enjoy his.

I've been a surfer since I was 7 years old. I've ridden a surf board all over the world, from my native California to Hawaii to Fiji, Mexico, and the East Coast.

I also wasn't much of a student. I got thrown out of high school and went to Glendale Community College and California State University, Los Angeles, because it seemed to be a lot more fun than high school. So I guess it's not surprising that when I graduated from CSULA in 1970, I didn't have much of an idea of what I'd be doing for the rest of my life.

I certainly would never have guessed that I'd spend the next 33 years successfully teaching at-risk children in La Crescenta and Glendale California, part of the Glendale Unified School District.

Those were the Viet Nam years so my options were limited: either get a job or go into the army. I had a student deferment at the time and I was looking for a way to keep it and not have to go into the army. By sheer accident I discovered an intern program for elementary school teachers in Temple City.

"I've seen too many of my colleagues work too long, have a year in retirement, and not live long enough to enjoy it."

I'd never considered a career in education so I talked to the master teacher before I made a decision. I also discovered that the school principal's philosophy about kids was about the same as mine: Everybody should have equal access and be treated with dignity and respect, regardless of their personal lives or their inability to control their behavior. That was exactly where I'd been coming from in high school. Though I was never academically challenged in school, I was certainly behaviorally challenged.

I did a year as an intern. Then I was hired by Glendale Unified at Dunsmore Elementary School where I worked at the sixth grade level in a self-contained classroom and as an after-school sports coordinator.

I also met my future wife, a first grade teacher, on my first day of teaching. We've been married 34 years.

At Dunsmore I had the good fortune to work under an extremely demanding administrator. He wanted very complete and thorough lesson plans, and expected everybody to handle his own discipline problems. I struggled with it in the beginning but I developed habits that made it a lot easier for me to succeed as a teacher. I learned that the best insurance against discipline problems is a good lesson plan.

I think my own experiences in high school, along with my internship, made me ready to deal with even the most difficult students. I preferred a disciplined approach and that worked best for me in rewarding good behavior. We all have to stop inappropriate behavior for the safety of the kids, but if you can catch the kids doing it right and pat them on the shoulder without embarrassing them, the good behavior will get repeated.

After four years at Dunsmore, I moved to John Muir Elementary School where I taught for 14 years. And every year I found my classes contained more and more kids who were considered "at risk" or troubled.

One year, when I got my class list, I finally went down to talk with my principal. "Ken," I said, "why is it that I've got every problem kid coming into the sixth grade?"

Ken gave me a sly smile. "You don't think that's intentional?" he said. "You're the only one who'll work with them. If I don't put them in your class they spend the day down in my office."

"Okay," I said, "I get it. But what happens if you ask a life guard to swim out too far?"

"He'll drown. But hey, you're a surfer. That won't happen to you. And I'll see to it you get extra money if you can put together a program that will quantify your success in working with these kids."

The extra money was tempting, and I knew he wasn't going to change the class list anyway, so I started putting together a program.

It's really not so much the program that matters with at-risk kids but the attitude of the person who's running it. I found that no matter how rough around the edges these kids were, they all wanted to be successful but they needed the tools to do it. For many of them, school was the very best thing that was going to happen to them all day long.

The John Muir community was alarmed at the number of kids who weren't finishing high school. One of the definitions of an at-risk student is one who won't be around on high school graduation day. My job was to make sure that for these kids, school was not going to be punishing and arduous, but rewarding and successful. And once they realized they had an advocate rather than an adversary, they'd start making the effort required to succeed.

I went back to Point Loma for graduate work. My master's thesis was on at-risk education, which forced me into actually writing a true, testable program rather than just a series of lesson plans.

It worked out better than I expected. As a result of the success of the program, I was given an opportunity to share my program and philosophy at numerous conferences and seminars all over California as well as help other districts set up programs.

A middle school principal at one of the conferences approached me after my presentation. He said, "You know, I'm not really supposed to do this but I'm going to do it anyway. Would you consider bringing your program and your attitude about kids over to my school?"

I wanted to give it a shot with the older kids and it seemed like a pretty comfortable move. The older the kids get, the more they realize they're in trouble, the more they realize they need an advocate, and the more willing they are to jump on board and become part of something that allows them to feel good about themselves. I found it even easier to work with middle school kids than I did elementary school kids.

"...the more they [kids] realize they're in trouble, the more they need an advocate..."

SECOND CAREER

Teachers are very bright people but most don't have a lot of financial savvy. And that included me.

About 24 years ago, well along in my teaching career, one of my colleagues decided to retire. She annuitized her tax-sheltered annuity, which had quite a bit of money in it. A few years later her husband needed some non-emergency medical work and she needed $10,000 cash. She called the insurance company and they explained to her that when she annuitized her account, she forfeited rights to the principal of her investment and no longer had loan provisions or access to her account for distributions. She called me

the company gave me an opportunity to educate other teachers and help them develop more suitable 403(b) retirement plans.

About four years ago I decided it was time to retire from teaching. And in November last year, I retired from PlanMember. It wasn't a difficult choice. My last year was so much fun and I kept getting better at it every year. But I was old enough to retire and healthy enough to be able to enjoy it, so why not go out on top?

I don't regret the decision at all. I've seen too many of my colleagues work too long, have a year in retirement, and not live

"Everybody should have equal access and be treated with dignity and respect, regardless of their personal lives..."

because she knew I had my annuity with the same insurance carrier. She wanted to know if this was possible.

I said I didn't know. Annuities are a valuable vehicle for providing a stream of retirement savings but I sure didn't like the idea of forfeiting the entire principal of my investment for a promise to pay me some amount of money in the future. And I certainly didn't like giving up access to all of my investment simply because the insurance company promised to pay me an annuity.

So I, too, called the company. That's when I learned how little I knew about the product I had invested. Because I thought there had to be a better way to deal with something as crucial as planning for retirement, I decided to go back to Glendale Community College and study finance.

Turned out I didn't have to. Through a series of connections I wound up talking to Jon Ziehl, a stockbroker and son of a superintendent who is CEO and founder of a firm called Investors Retirement & Management Corporation (now PlanMember Financial Corporation). He felt that the 403(b) marketplace needed high quality investment choices similar to what was available for Fortune 500 companies and statewide pension plans. Jon promised that after six weeks of training I'd not only know enough to manage my own investment portfolio, I'd know enough to be able to help others – like my colleague – manage theirs. And if I liked what they were doing at IRM I could hang my securities license with them.

This small four-office firm is now called PlanMember Financial Corporation and has an impressive new office facility located in Carpinteria, Calif. They have 400 independent advisors serving 120,000 customer accounts in 2,300 plan sponsors nationwide and are licensed as a Broker/Dealer and Registered Investment Advisor in all 50 states. Working at

long enough to enjoy it. I don't have that problem. All our planning has allowed us to travel to Greece, Turkey, Italy, China, the Bahamas, South and Central America and Hawaii.

And in addition to playing a lot of golf, I'm still a surfer dude. I just had to give up riding the nasties and wait till the surf is waist high so I don't drown.

Tedd Duncan is a former teacher and a former registered representative with PlanMember Securities Corporation in Carpenteria, Calif. He lives in La Crescenta, Calif.

Positioning Your Practice for the Future

One way to adapt to the changing world of 403(b) is to take control of it by careful business planning and disciplined implementation.

By Brad Corbin

“What value do I have to offer my current clients that I’ve not offered in the past?”

If you were born between 1946 and 1964 and you entered the financial services industry between 1980 and 1990, you likely match the profile of today’s typical independent financial advisor. When we were young, our generation was at the forefront of heralding change in our society. We struggled to be different, to resist the status quo. We wanted the world to be a better place and we weren’t afraid of changing in the process. Isn’t it funny how our attitude about change has shifted since those youthful and carefree days?

For years we’ve been able to make an excellent living in a unique niche market helping a very deserving clientele. Teachers are an excellent example of the backbone of working Middle America. They get up each day, go to school to help shape and mold young minds for future entrepreneurs. Their lives are somewhat routine and based on doing the same successful things over and over to produce the desired outcome.

Sound familiar? We as independent financial advisors also found a rhythm in our professional lives. We used the same methods to find new clients, the same techniques to set appointments with them, the same basic sales presentation, and same systems to serve them once the sale had been made. We were living in a perfect world that was safe and predictable.

So what happened? One morning you woke up and noticed that the world had changed. You were no longer allowed to see your clients at school. The products you had sold for years weren’t included in the new plan at your school. Your annual income had dropped, or would soon, due to commission reductions or flat elimination from the market.

Where do you go from here? How can you reinvent yourself? How can you position your practice to meet the challenges of this new future?

The following is a simple four-step approach to creating a new direction for your practice.

SET YOUR GOALS

There’s nothing more powerful than a written goal. Writing it down will transform a dream into a goal. Think of your goals as nothing more than a dream with a deadline.

The first step is to determine exactly what you want your business to look like. Let’s assume for this example that you’re no longer able to sell in your primary market as in the past. You now have to find alternative ways of generating income for your business.

THE SHORT FORM

- Set goals.
- Develop a plan.
- Get resources.
- Implement the plan.

Draw a mental picture of your business as you want it to be. See yourself working with clients, staff, new products and services, or even new markets. Now with that picture in your mind, make a list of goals that will lead to that image.

Your list may include:

1. Maintain (or increase) my current income level with my existing client base.
2. Develop a new client base with my current product/service offering.
3. Diversify my income stream to include non 403(b) revenues.
4. Expand my product/service offering to include life insurance, long-term care (LTC) or fee based advisory programs.
5. Make the transition from transaction-based compensation to recurring asset-based revenue.
6. Increase the overall value of my practice.

The good news is you have an existing client base that you've developed over the years. Your clients trust you and look to you for assistance in retirement planning. Now you have to spend a little time thinking of new ways to help them as they approach retirement. In the past you worked with your clients to accumulate funds for retirement. You may now want to reposition yourself as a retirement income specialist. Show them how you will work with them to provide for their retirement income needs.

These ideas must be translated into goals for your practice. Keep in mind these goals are written on paper, not carved in marble. We change and so do our clients. You should review your goals constantly and adjust them to keep them fresh and relevant.

MAKE YOUR PLAN

You cannot do a goal! To achieve a goal you must take many steps that, when completed, add up to the accomplishment of the desired outcome. The next step is to develop a detailed plan that will formulate your goals into achievable and measurable steps.

So let me ask you a question: Do you currently have a written business plan? It doesn't have to be an encyclopedic volume with charts and graphs. It can be a simple two or three–page document that covers these basic areas:

- Vision and mission – This may sound academic and unnecessary for your practice, but the questions addressed by vision and mission statements are critical to your success in growing your business. Your vision is simply a statement that expresses where you want your business to be in the future. Your mission statement addresses how you're going to get there. It can be thought of as a statement of "how we do things around here."

For example, your vision statement may be: "To be my client's trusted advisor."

This simple statement clearly states what you want your practice to be. It looks at the end game and positively states the image you desire to achieve. You want your clients to see you as the person they trust and will seek out when they have financial questions or needs.

Your mission statement could be: "Each client's needs are unique and must be met on their terms."

This statement indicates that the way we do things around here is not cookie cutter but tailored to each individual client's situation.

Keep in mind that your vision and mission statements are exactly that, yours. They're important because they force us to take a stand and state how you want to operate in the future. They're an expression of what we want and how we're going to get it.

environment, consider these questions:

"The most elegant business plan in the world is useless if it's not executed."

- Strategic objectives – This is nothing more than a list of your key business goals. You should have between three and six strategic objectives that you'll focus on each year. Examples might be:
  - To generate $X in gross commissions this year.
  - To increase my asset-based residual commissions by X percent this year.
  - To grow my assets under management to $X this year.
  - To add X new clients this year (or to fire X clients this year).
  - To close X new long-term care sales this year.

Your strategic objectives should be SMART— Specific, Measurable, Attainable, Realistic, and Time referenced.

- Action plans – Each strategic objective should have a list of specific activities and tactics with an implementation timeline to achieve that objective.
- Accountabilities and deadlines – Each action plan should also note who is responsible and when each item is to be completed

As you think about writing a business plan that will reposition your practice to meet the challenges of the new business environment, consider these questions:

What value do I have to offer my current clients that I've not offered in the past? You've spent the past 20 years working with your clients and helping them save for retirement. Now they're approaching a new phase in their lives, converting assets into retirement income. You can help in this process by becoming a retirement income specialist.

Perhaps they have a great defined benefit plan and won't need their supplemental retirement plans for living expenses. In this case, you can help them with ways to reposition those assets into a product such as life insurance that will allow them to have access to cash for emergencies and pass the balance on to their heirs tax free should they not need it.

How about long term care needs? You should have this conversation with all your clients. It helps build a stronger relationship with your client when you're seen as a financial advisor rather than a single-product sales rep. It will also create additional sales opportunities.

What new client base can I develop with my existing products and services? Often your products and skills are very transferable to a different client base. Try to find a different set of clients who have a need to work with someone like you. If you've focused on public school teachers and staff, for example, you may consider federal or state employees as potential clients. Their pension plans and supplemental retirement programs are similar to those offered teachers and your products and services should line up nicely with their needs.

How can I take my practice from transaction based compensation to recurring asset-based income? There are many ways to change how you're compensated for the service you provide your clients. You can use advisory products that are fee based or select trail options wherever available. Recurring revenue will not only provide you with a more predictable personal income stream, it will also increase the value of your business.

GET RESOURCES

Now that you have your goals clearly identified and an action plan on how you'll achieve them, you must align your plan with the proper resources to help you get there. Resources that are readily available to you are:

- Partners. This includes product vendors, your broker dealer or registered investment advisor (RIA), and trade associations such as NTSAA/ASPPA. Each of these partners offers resources, training, technology and support you can leverage in executing your business plan.

- Personnel. Your business plan should leverage the talents of your staff, freeing up time to do what is most productive and profitable. Don't get trapped into doing mundane functions that can be delegated to others in your organization.
- Technology. Use technologies such as eMarketing, prefilled or fillable forms, online business processing and banking. Use your website to drive more sales, serve your clients, and advertise your services. The tools of yesterday, such as cold calling, print advertising, and direct mail, have nearly become obsolete.

- Products and services. Keep up with the many new products and services being introduced each year. Examine each new product for innovative ways to help your clients.

JUST DO IT

The most elegant business plan in the world is useless if it's not executed. It won't build your business sitting on the bookcase in your office. It's a dynamic document that needs to be implemented, reviewed regularly, and adapted to keep up with a changing business environment. Nike's slogan, "Just do it," says it like it is. It doesn't take a lot of thought, just a little action.

There's another wise saying that states: "The thousand mile journey begins with the first step."

So what are you waiting for? You've set your goals, you've made your plan and you've aligned the resources you need to achieve that plan. So now, JUST DO IT!

Brad Corbin is managing director for GWN Securities Inc. in Palm Beach Gardens, Fla.

Q&A

ABOUT THE NEW ROTH ROLLOVERS IN 403(b) PLANS

Here are some things you need to help your clients understand the statutory provisions, explanations, and IRS guidance governing the new in-plan Roth rollovers.

BY SUSAN DIEHL

Late in 2010, the industry was buzzing about the new rule that permits a plan participant to convert pre-tax money into a designated Roth account within the same employer's plan, referred to as an in-plan Roth conversion or in-plan Roth rollover (IRR). But as great as this new opportunity sounds, there are many steps involved to make it happen. Moreover, until November 26, 2010, when the IRS issued guidance (IRS Notice 2010-84) there were more questions regarding this new rule than there were answers.

The effective date for IRRs applies for eligible distributions after the date of enactment (Sept. 27, 2010). The types of employer-sponsored plans that may provide for IRRs include 403(b) plans, 401(k) plans, and beginning in 2011, governmental 457(b) plans.

The IRR can be accomplished by either a direct rollover or by a distribution to the individual who then rolls over the funds into his or her designated Roth account in the same employer's plan within 60 days.

WHAT PLAN DOCUMENT AMENDMENTS ARE NEEDED?

Employers are not required to permit IRRs. However, if an employer chooses to allow IRRs, the plan must also contain a designated Roth account feature, which means that participants must be given the option of deferring from compensation as a Roth post-tax deferral in addition to continuing to offer pre-tax deferrals. The employer may not use a designated Roth feature only to accept IRRs.

An employer may need to consider the following amendments depending on the current plan language:

- A designated Roth deferral amendment, if the employer's current plan document doesn't already provide for designated Roth elective deferrals
- An IRR amendment
- An amendment to add or revise the plan's in-service withdrawal provisions. The Joint Committee explanation (as well as the subsequent IRS Notice) provides that an employer may restrict in-service withdrawals to be converted only within the plan to the designated Roth source. (But a plan cannot be amended to restrict a distributable amount to be made only as an IRR direct rollover, if the terms of the plan already permitted such a distribution. Such a restriction would violate the protected benefit rules.)

If the plan is subject to ERISA, the employer will be required to make certain disclosures to the participants within 210 days after the year the amendment is made.

WHAT'S THE DEADLINE TO ADOPT THESE PLAN AMENDMENTS?

Generally the later of Dec. 31, 2011 or the last day of the plan year in which the in-plan conversion is effective.

For 403(b) plans, the deadline is the later of the plan's remedial amendment period (as described in IRS Announcement 2009-89) or the last day of the first plan year in which the amendment becomes effective. The extension of time to adopt a plan amendment applies to any plan amendment that's adopted as a result of the new rule. Thus, the extended amendment period applicable to 403(b) plans applies to all of the amendments listed above.

WHO MAY COMPLETE AN IRR?

Although operationally an IRR stays within the same plan, the amount is still considered a distribution. Therefore, an IRR is available only to a participant or a surviving spouse beneficiary.

WHAT ARE CONSIDERED DISTRIBUTABLE EVENTS?

An IRR must constitute an otherwise "eligible rollover distribution." In other words, the participant electing an IRR must have met a triggering event under the plan for a distribution that's eligible for rollover.

Also, depending on the plan's language regarding in-service distributions and the participant's age, the specific money source eligible for an IRR may be limited.

For example, a participant under the age of 59½ who is still working isn't eligible to take a distribution from the pre-tax deferral source (including in an ERISA plan with any safe harbor or qualified match or qualified non-elective employer contributions). Thus, the participant can't elect an IRR from that source.

But if the plan allows in-service distributions from the employer, nonelective contributions or regular match (under the 24-month rule, 60-month rule, or attaining a specified age), after-tax employee contribution or rollover sources, those amounts could be potentially eligible for an IRR.

HOW ARE THESE EVENTS TAXED?

Designated Roth contributions and gains or losses attributable to such contributions must be maintained in a separate account, or with separate accounting. All designated Roth contributions are after-tax amounts and create "basis" under the employer's plan for taxation purposes upon a subsequent distribution. Unless a subsequent distribution is a "qualified distribution," the participant will be subject to taxes only on the earnings portion of the distribution, since the basis amount has already been taxed.

IRRs are subject to federal income tax in the same manner as if the distribution were rolled over (converted) to a Roth

THE SHORT FORM

- Employers are *not required* to permit IRRs but may if the plan contains a designated Roth account feature.
- For 403(b) plans, the deadline is the later of the plan's remedial amendment period or the last day of the first plan year in which the amendment becomes effective.
- An IRR is available only to participants or surviving spouse beneficiaries.
- To be eligible for an IRR a participant must have met a triggering event under the plan.
- All designated Roth contributions are after-tax amounts and create "basis" under the employer's plan for taxation purposes upon a subsequent distribution.
- The taxable amount of an IRR can be included in gross income in the tax year in which the distribution is made.
- There is no way to undo an IRR.
- Direct-rollover IRRs are not subject to 20 percent mandatory tax withholding.

IRA, including the same pro-rata basis recovery rules attributable to after-tax employee contributions that apply to direct conversions to Roth IRAs.

Additionally, if the IRR occurred in 2010, the taxpayer automatically is subject to the two-year income spread (half taxed in 2011 and the remaining half taxed in 2012), unless the taxpayer elects to include the entire taxable amount in gross income in 2010. The taxpayer will make this election on the 2010 IRS Form 8606.

IRRs aren't subject to the 10 percent premature distribution tax, unless a distribution is made from the designated Roth account before that specific conversion amount was in the account for a five-year period. This is the same rule that applies to conversions to a Roth IRA.

WHEN IS THE TAXABLE AMOUNT OF AN IRR INCLUDIBLE IN GROSS INCOME?

It's includible in the taxable year in which the distribution is made. For IRRs that were distributed in 2010, however, the taxable amount of the IRR is included in gross income ratably with one-half included in 2011 income and the remaining one-half included in 2012 income.

It should be noted that the taxpayer is deferring the income over 2011 and 2012, rather than spreading the tax liability using the income tax rates in effect in 2010. The taxpayer's election (using the two-year spread or the 2010 income inclusion) applies to all of an individual's 2010 IRRs.

"It's important for advisors to be aware of the advantages and pitfalls contained in new rules..."

The election that applies to all of an individual's 2010 IRRs, however, is independent from the election with respect to conversions to Roth IRAs. The taxpayer's election of the two-year spread or the 2010 income inclusion applies to all of an individual's conversions to a Roth IRA and a separate election applies to all of an individual's IRRs.

The eligible IRR is treated as a distribution and taxable event. An IRR will be reported on Form 1099-R using a code "G" in box 7 by the payor – typically the vendor(s) under the plan.

NO RECHARACTERIZATION!

If a participant or spouse beneficiary elects an IRR, the statute language does not provide for any recharacterization. In other words, there is no way to undo an IRR!

ARE DIRECT-ROLLOVER IRRS SUBJECT TO 20 PERCENT MANDATORY TAX WITHHOLDING?

No. Although the IRR made as a direct rollover is a taxable event, it's not subject to the 20 percent mandatory tax withholding requirements. A taxpayer should consult with his or her tax advisor, however, to determine if the estimated tax deposit rules apply to the IRR in order to avoid the penalties for failing to have enough withholding or failing to make estimated tax deposits.

WHEN DOES THE FIVE-YEAR AGING OR THE FIVE-YEAR RECAPTURE RULE APPLY?

There are two separate five-year rules that apply to designated Roth accounts under an employer's plan:

- Five-year aging determines whether a participant or beneficiary is receiving a qualified distribution where none of the distribution is taxable. The five-year aging period begins on Jan. 1 of the year that the first designated Roth contribution is made. A participant has only one five-year aging period and the employer is required to track and report it on the Form 1099-R.

- The five-year recapture period determines whether a participant is required to recapture the 10 percent premature distribution tax on a distribution from the designated Roth account that's attributable to an IRR, unless another exception applies at the time of the subsequent distribution. The five-year recapture period applies to each IRR. The five-year period begins on Jan. 1 of the year of the IRR and ends on Dec. 31 of the fifth year.

"A non-spouse beneficiary is not permitted to make an IRR."

WHAT IS THE 10 PERCENT RECAPTURE TAX RULE?

At the point of the IRR, the 10 percent premature distribution tax doesn't apply, although the taxable amount of the IRR must be included in the taxpayer's gross income. But a special rule applies if any distribution is made from the designated Roth account that is allocable to the IRR before that specific IRR has remained in the designated Roth account for a five-year period.

For example, Carol makes a taxable IRR during 2011 in the amount of $20,000. For the five-year recapture rule, the five-year period begins on Jan. 1, 2011, and ends on Dec. 31, 2015. On April 30, 2015, she takes a distribution that includes $6,000 allocable to the taxable amount of the 2011 IRR. If Carol is under age 59½ at the point of the 2015 distribution (or doesn't meet any other exception to the 10 percent additional tax), she would owe a tax equal to $600 (10 percent x $6,000) on her 2015 income tax return, although the $6,000 was already included in her gross income in 2011.

Had Carol waited until 2016 to take the $6,000 distribution (assuming, of course, that the amount of the distribution is permitted), the five-year recapture period would have been met with respect to her 2011 IRR and she would not owe the 10 percent premature tax for 2016.

IS A BENEFICIARY OR ALTERNATE PAYEE PURSUANT TO A QDRO ELIGIBLE TO ELECT AN IRR?

They're eligible to elect an IRR in the same manner as the plan participant.

A non-spouse beneficiary is not permitted to make an IRR. A non-spouse beneficiary may, however, elect a direct rollover to an inherited IRA, including a direct rollover conversion to an inherited Roth IRA.

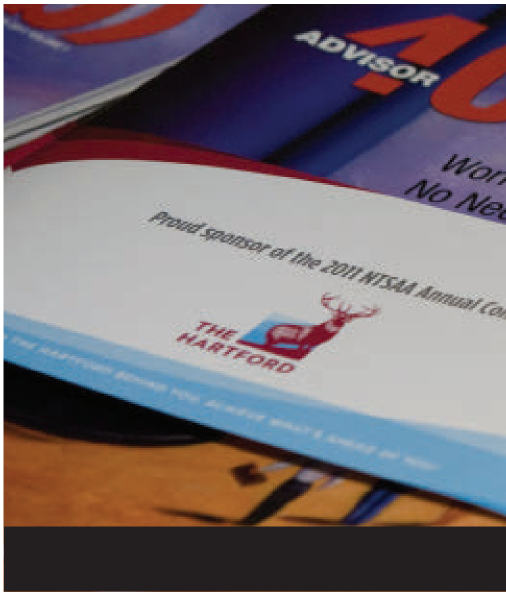
WHY WILL WAITING UNTIL 2013 TO MAKE AN IRR (OR CONVERTING TO A ROTH IRA) AFFECT AN INDIVIDUAL'S TAXATION?

Effective in 2013, the Patient Protection and Affordable Care Act (PPACA) imposes a 3.8 percent Medicare tax on unearned income (interest, dividends, capital gains, annuities, royalties, rents, etc.) if the taxpayer's adjusted gross income for the year exceeds $200,000 ($250,000 for joint filers). This 3.8 percent Medicare tax will be paid by the taxpayer and not through withholding by an employer. This change will affect conversions to Roth IRAs and IRRs where, as a result of the conversion, the taxpayer's AGI exceeds $200,000 ($250,000 for joint filers).

For example, Lucy is age 52 in 2013. She's unmarried and files a tax return as an individual. Her income sources in 2013 are: wages, $75,000; unearned income, $50,000 (interest, dividends); taxable conversion, $100,000. Her adjusted gross income is $225,000. Since Lucy's AGI exceeds $200,000, she's subject to a 3.8 percent Medicare tax on her unearned income amount of $50,000. In this example, the additional tax equals $1,900 (3.8 percent x $50,000). This tax is in addition to normal income taxes due on her total taxable income for the year.

Clearly, it's important for advisors to be aware of the advantages and pitfalls contained in the new rules governing in-plan Roth conversions and rollovers.

Susan Diehl is president of PenServ Plan Services, Inc. in Horsham, Pa.



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Orlando, FL

February 2-5, 2011

Though the Magic Kingdom was just beyond the horizon, it was a "Whole New World" at NTSAA's 2011 annual meeting in Orlando this past February. Sessions were designed to help advisors, TPAs, and broker/dealers navigate the post-regulation landscape of 403(b)s.

Speakers such as ASPPA's Executive Director/CEO Brian Graff alerted NTSAA members to the challenges facing them on Capitol Hill and briefed them on how their membership in NTSAA is crucial to meeting those challenges.

NTSAA members earned professional education credits at sessions that delved into ERISA issues, church plans, FIAs, government benefits, TPA relationships, recruiting and mentoring, and too many sales ideas to count.

NTSAA members had countless opportunities to network during the two-and-a-half day event. Veterans shared war stories with rookies, and vendors had the chance to conduct round-table discussions with attendees on a variety of topics.

Next year the NTSAA annual meeting assumes a new identity: The 403(b) Advisor Summit™ in Las Vegas. So be a wiser adviser and become a part of a dynamic organization designed to help your business grow and prosper in the new world of 403(b).

The 403(b) Advisor Magazine makes its official debut

Another outstanding NTSAA general session

New president Scott Hayes
thanks outgoing president Chris DeGrassi

The Hartford engages attendees at the NEW TABLE TALK in the exhibit hall

Bob Architect, Ellie Lowder and Kristi Cook enjoy a session break

Keynote Speaker David Pearce Snyder

Here are a few interesting statistics shared by renowned futurist David Pearce Snyder about the baby boomers, the folks who will soon be retiring in droves:

45% intend to work into their 70s and beyond, 27% expect to be working into their 80s; new pension rules now permit "phased retirement" and 20% plan to "start their own business."

52% are the principal caregivers for their aging parents; 18% are caring for one or more dependent parents/in-laws in their own homes, 35% expect to do so by 2015.

In 2009, 80% of boomer offspring returned home to live after graduating from college (the "baby boomer-rang"); over 30% stay more than one year, and 13% are still there at age 30!

Between 10% and 12 % of boomer families are home to one or more grandparent plus one or more offspring; 16% of all families will be three-generation households within 5 years (1/4 of pop.).

The "ever shy" Chris DeGrassi

Unfortunately, there were enough microphones to go around

What, us sing? Next!

Karaoke Night in Margaritaville

If you ever doubted that America's got talent, you weren't there for the NTSAA luau at the annual meeting in Orlando.

Well, maybe talent isn't the word. Try *chutzpah*.

From executive directors to association presidents and past presidents to association staffers, the line to take the stage and croon into the mic was virtually endless.

And yes, some of them actually had talent.

But if you thought this was wild, next year's The 403(b) Advisor Summit™ will be in Las Vegas. And nothing this big could ever stay in Vegas.

Jill Snyder needed little coaxing

Martella Joseph gets her groove on

Well someone had to be the audience and snicker from the back

WORK SMARTER BY LEVERAGING CHEAP TECHNOLOGY

Want to dictate, network, text, keep track of appointments and expenses without spending an arm and leg?

There's an app for that.

By

Yannis P. Koumantaros, CPC, QPA, QKA

and

Adam C. Pozek, ERPA, QPA, QKA, QPFC

Evangelists.

Every day we consult with our clients about the importance of saving for retirement and what needs to be done to adjust one's retirement trajectory to have an adequate retirement. Many of us work more than 40-hour weeks, make house calls, and give out our cell phone numbers to offer 24/7/365 access to ourselves, the trusted advisors.

So why do we care about leveraging cheap technology to make ourselves more efficient? Simple: So we can help more people achieve an adequate retirement in our working lifetime. It's our duty to seek out the most efficient ways to service our clients. Technology was created because someone recognized an opportunity to make all of us more efficient.

1 VLINGO www.vlingo.com

I recently saw a bumper sticker that read, "Honk if you love Jesus. Text while driving if you want to meet him."

If you drive in any major metro area, you know how taking your eye off the road, even for a quick second, can lead to disastrous results. In fact, many states have enacted laws imposing significant fines for texting while driving. Vlingo makes such concerns a thing of the past. By simply tapping the screen or pushing a button, Vlingo lets you send texts or e-mails, update your Facebook or Twitter status, run a Google search, or get directions, all with your voice.

It's kind of like having a virtual butler or concierge. Just ask and ye shall receive ... all for a one-time cost of less than $20.

2 COPYTALK www.copytalk.com

If you've ever had an assistant, it's reasonable to assume that one of the expected tasks was transcribing or dictating meeting notes, documenting action items, or preparing email drafts. Many times, especially in between appointments or after hours, there's just not enough time to call your assistant or fellow staff member to cover these tasks while you're on the road.

Meet Copytalk, a transcription service via phone, allowing subscribers to record voice mail messages up to four minutes each 24/7/365. The results are delivered to an email address or secure website the same day for only $79.95/month for the unlimited plan. In fact, I dictated this section of the article by recording it via Copytalk.

Finally, it's an assistant that works your hours, is never asleep, and takes dictation while you're on the road and between appointments.

3 TEAMVIEWER

www.teamviewer.com

Complete access to your desktop computer from any web browser – and, it's free! Have you ever been on your way to a sales presentation or client meeting only to realize that you have the wrong version of your slides on your laptop?

With TeamViewer, it's not a problem. By simply logging into your account online, you have complete access to all of your files as if you were sitting at your desk. You can open your e-mail and send the updated slides to yourself on your smartphone or at your client's office.

Better yet, just launch and present the slideshow from within TeamViewer itself. Conduct online meetings without requiring attendees to download and install software or transfer files between computers. You can even use it as an instant messaging system. And your IT department can rest easy knowing that TeamViewer uses some of the highest security standards to secure your connections and protect your data.

In addition to the web portal, TeamViewer also has a smartphone app that allows you to make a secure, direct connection.

And did I mention that it's free?

4 EXPENSIFY

www.expensify.com

Expense reports that don't suck! It doesn't matter whether you work in a large advisory firm or you're your own boss and the only employee. Expense accounts are a fact of life for Americans who need to separate personal and business expenses.

Here's how it works: Sign up for an account online and then download the application onto any smartphone. While traveling to visit your clients, you can document business mileage, meals and entertainment, travel expenses, and anything else. In fact, the mobile application allows you to take photos of your receipts while on the road and upload them directly into your Expensify account online.

In addition, you can link your credit card(s) to get IRS Ready eReceipts from 94 percent of U.S. credit card companies and create full-color PDF reports. Free to submit, and only $5 per month per submitter to approve, (with the first two free) the expenses can then be submitted for approval, downloaded into QuickBooks, and reimbursed to employees by direct deposit or credit card.

Think about all the money you'll save by properly documenting your reimbursed and unreimbursed business expenses; you can even sell your clients cheaper services.

These are just a few of the many cheap technologies that are available, and new applications hit the street regularly. Whether it's managing contacts, posting your latest blog entry, preparing your expense account, or just sending a quick e-mail, there are inexpensive mobile applications to help you maximize every working minute, better serve your clients, and get in front of more prospects.

And, if you need to take a break from evangelizing to reflect on your day, don't worry, there's an app for that, too. For only $1.99, you can get a "personalized examination of conscience." Don't believe us? Check out Confession: A Roman Catholic App at www.littleiapps.com.

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Adam and Yannis are always on the lookout for new and creative mobile applications and other technologies. If you have any tips or suggestions, please e-mail them at adam.pozek@dwcconsultants.com and yannis@spectrumpension.com.


ASPPA
American Society of Pension
Professionals & Actuaries
Newsroom
Working for America's
Home
ASPPA
Statements & Releases
Issues
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ASPPA & NTSAA
Request Municipal
Advisor Exemption
Craig Hoffman, ASPPA's General Counsel and Director of Regulatory Affairs responds to the U.S. Securities and Exchange Commission (SEC) request for comment on Release No. 34-63576 for Registration of Municipal Advisors.
Contact
703.516.9300

Online Newsroom Keeps NTSAA Members Current & Connected

CLICK. FOLLOW. LEAD.

Keeping current in the retirement plan industry is now easier than ever. Thanks to ASPPA's online newsroom, you can watch a government affairs video, read a news release, view event photos, or download position papers on retirement plan issues, all while visiting the ASPPA website and clicking on the newsroom link.

As part of ASPPA's ongoing campaign to raise greater awareness about the organization we developed an online newsroom to provide 24/7 access to news and information relevant to the media, members and other external influencers.

The ASPPA newsroom is powered by technology that aggregates content through one central site, allowing visitors to share news, view video and event photos, and to read policy statements from ASPPA and its affiliates, including NTSAA, NAIRPA, CIKR, ACOPA and AIRE. The technology also allows us to pull in content from our social media platforms on Twitter and Facebook, and to push out news to the media via RSS and other feeds to explain ASPPA's mission, purpose and activities.

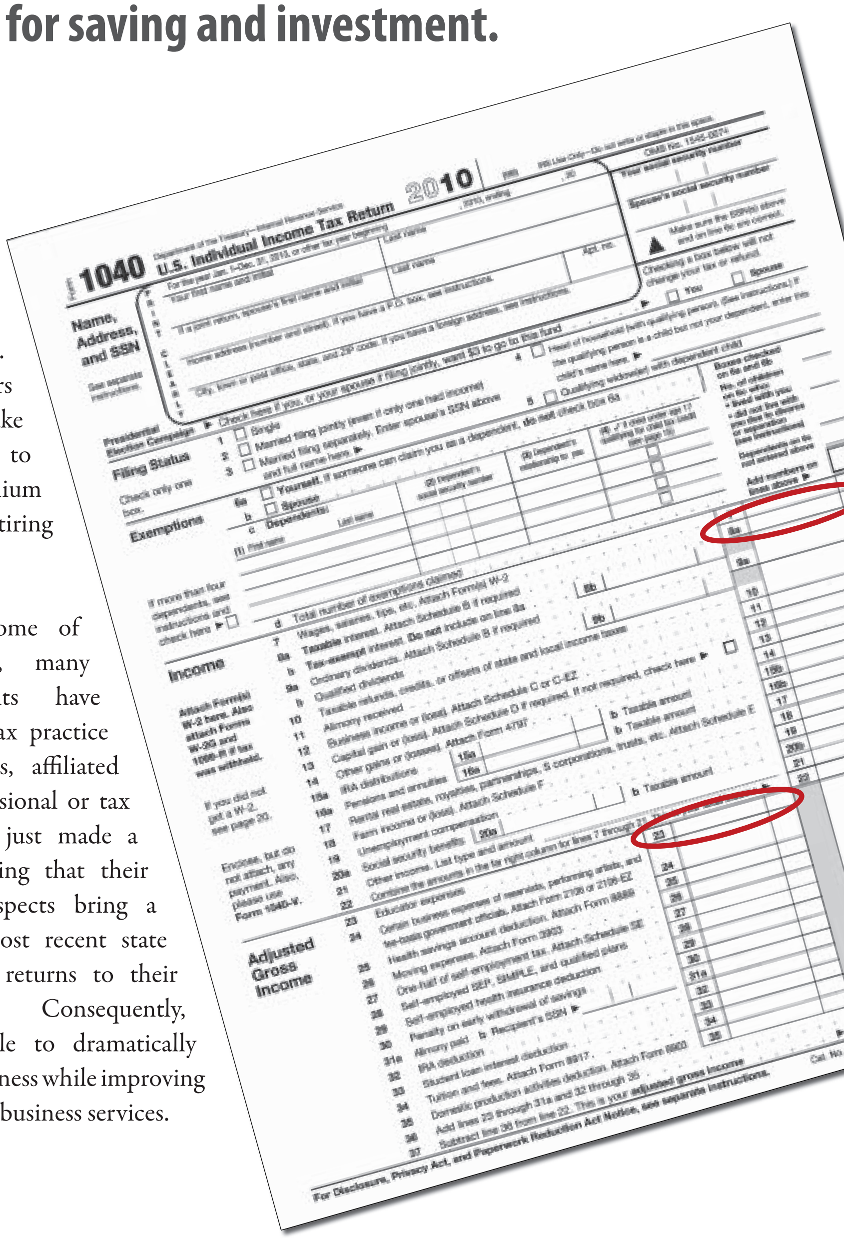
As an NTSAA member, you can interact with our newsroom by taking three simple steps—(1) subscribe, (2) submit content and (3) offer feedback. To subscribe, click on the "Connect with Us" link and choose "RSS" or "email" and you'll immediately begin receiving the latest news from ASPPA. Want to interact more? Send us suggestions for topics or potential stories; volunteer to write a GAC Issue Brief or forward a written summary of an ASPPA or NTSAA event you recently attended. We welcome articles from NTSAA and ASPPA members—like this recent contribution from Sarah Simoneaux: "Borzi Addresses Lifetime Income at Pension Conference." If you have a suggestion or comment about our online newsroom, please contact ASPPA's Director of Media Relations, Melinda Semadeni, at msemadeni@asppa.org.

Working together, our online newsroom will help tell our story to the media, the industry, members and prospective members—all of which contributes to ASPPA's continued success. www.asppanews.org.

USING THE 1040 FOR MORE THAN JUST PAYING TAXES

By Kathryn Cawley and Robert G. Torrie

Reviewing their most recent 1040 with your clients can reveal untapped opportunities for saving and investment.



Twenty years ago, the 403(b) arena was totally a different place. Schools published staff contact information, paperwork was only two or three pages, commissions were much higher, and access to school buildings was easy. Additionally, there was no such thing as caller ID, schools websites, or social networking. Computer usage and laptops were just beginning to appear. A 403(b) career person could cold call and people would actually answer their phones and make appointments. Advisors could readily stuff staff mailboxes with sales literature.

In today's world, none of the former environment exists.

Financial professionals who have been in the 403(b) business for many years have a maturing client base. Many clients have retired with large accounts that are out of the surrender phase and are ripe for the taking by competitors. Servicing existing clients takes up so much time that marketing for new clients becomes ever more difficult. To make matters worse, it might take 20 new clients to equal the premium flow of a retiring 403(b) "maxer."

To overcome some of these problems, many successful agents have either added a tax practice to their business, affiliated with a tax professional or tax organization, or just made a habit of requesting that their clients and prospects bring a copy of their most recent state and federal tax returns to their appointments. Consequently, they've been able to dramatically increase their business while improving their professional business services.

THE SHORT FORM

- Ask clients and prospects to bring a copy of their most recent state and federal tax returns to their appointments.
- The spouse's occupation at the bottom of page 2 of the 1040 opens conversations about investments.
- A large amount of taxable interest income on line 8a may indicate money currently positioned in low-yielding CDs or savings accounts that might be better placed.
- Check line 23 to be sure that client has been given credit for the first $250 spent on student expenses.
- The AGI on line 37 may be too high to take advantage of tax-saving strategies.
- A large refund on line 73 means you could help clients adjust their withholding and increase their pre-tax savings without lowering take- home pay.

By reviewing a tax return, the advisor will know the spouse's occupation (listed at the bottom of page 2 of the 1040), thereby opening up conversations regarding his or her investments (*i.e.,* 401(k), Roth IRA, etc.) that could be rolled over or transferred. This also presents the opportunity to stress the importance of creating a "family portfolio" in order to match the clients' risk tolerance with the appropriate blend of fixed and equity investments.

There are a number of the entries in the federal form 1040 that offer opportunities to help the client while uncovering investible assets or finding overlooked adjustments, deductions and/or credits. For example, a large amount of taxable interest income (line 8a) may indicate money currently positioned in low-yielding CDs or savings accounts that might be better placed in higher yielding tax deferred non-qualified annuities, stable value funds, or municipal bond funds, for example. Another example can sometimes be found by checking line 23 to be sure that each K-12 educator has been given credit for the first $250 spent on student expenses.

One of the most important and least understood line items in tax returns is the Adjusted Gross Income (AGI) found on line 37 of the 1040. The higher this number is, the greater the reduction in adjustments, deductions and credits the taxpayer will have. For example, dependent children under the age of 17 are each worth a $1,000 credit directly subtracted from the total tax liability; however, if the AGI on a joint tax return is $110,000 or greater, this valuable credit is reduced and often completely eliminated.

Other tax-saving opportunities include the ability to fund an IRA or Roth IRA, the ability to receive credit for student loan interest and/or tuition and fees paid. Also, the ability to take advantage of the American Opportunity and Hope Education credits is similarly reduced or eliminated entirely when the AGI is too high. The best financial professionals understand these facts and often use increased 403(b), 457(b) and 401(k) contributions to reduce clients' AGI and thereby allowing greater use of these tax saving strategies.

A large refund (line 73) indicates that the clients are having too much withheld, which is no different from putting the money under the mattress. By using paycheck analysis software readily available through many companies and broker dealers, the financial professional can help the clients adjust their withholding and increase their pre-tax savings without lowering their take- home pay.

By using these and other tax analysis strategies, many agents have enjoyed much stronger relationships with their clients. Additionally, a complete tax review has often provided the opportunity to expand into other business lines such as long-term care, life insurance, 529 plans, Roth IRAs and 401(k) rollovers.

With tax laws always changing, clients will constantly need help in finding the available strategies to lower taxes and save more. The agent who understands this principle and incorporates it into practice will have a distinct strategic advantage over the competition.

This material was created to provide accurate and reliable information on the subjects covered. The contents of this communication are not intended to be nor should it be treated as tax, legal or accounting advice.

Kathryn Cawley is president of The Voyager Group, Inc. in Joliet, Ill.

Robert G. Torrie is president and owner of the Rooney Financial Group and Teachers Tax Service, Inc. in Palm Desert, Calif.

Are Your Clients at the Head of Class?

Have you created some surefire techniques for educating participants about retirement and investments that have actually increased enrollment in a sponsor's 403(b) plan?

We'd like to hear about it.

Summarize your ideas in a brief email to stevensullivan08@comcast.net and you could be the bylined author of the next Lesson Plan in *403(b) Advisor.*

EMBRACE YOUR FIDUCIARY RESPONSIBILITY

An interview with Ronald E. Hagan, president and CEO of Roland|Criss Fiduciary Services

What is the definition of fiduciary responsibility? What is a fiduciary responsible for? In simple terms, fiduciary duty, wherever it occurs, is the responsibility to put the best interests of another person above your own when they trust you to manage their property.

There are several different sources of legal accountability for people who find themselves in the position of a trusted steward of someone else's property. In the retirement plan world, that would be the Employee Retirement Income Security Act (ERISA) as well as the Uniform Prudent Investor Act (UPIA). These two statutes, one federal the other state level respectively, form the basis of legal fiduciary responsibility for retirement plans. And in the non-profit foundation world, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) defines fiduciary responsibilities.

Not all advisors have fiduciary responsibility. How do you tell if you do? The Investment Advisors Act of 1940 requires advisors to put their clients' interest first, which makes them fiduciaries. For registered reps who work for securities broker/dealers licensed under the Securities Exchange Act of 1934, their only legal accountability is to determine that the investments they recommend to their clients are suitable for the resources and expertise of their clients. The loophole here is that registered reps are not required to put their clients' interests first. That opens the possibility that a financial advisor may recommend an investment that, while suitable to the client, the client may also pay the highest commission.

This has nothing do with whether a plan is an ERISA or non-ERISA plan? No, and that's a good point. Sometimes Registered Investments Advisors (RIAs) have a tendency to magnify their fiduciary duty imputed to them under the '40 Act when talking to retirement plan sponsors. Some investment advisors may say they are a fiduciary by law, but purposely fail to define which law they are referencing. In other words, RIAs can honestly represent themselves to possess a fiduciary duty and yet not be an ERISA fiduciary, which is the role that has the most relevance for a retirement plan sponsor.

Is it possible for an advisor to walk into a plan sponsor's office or to meet with a participant and not recognize the nature of his or her own fiduciary responsibility? Yes.

What do advisors need to do in order to understand their own responsibility? The best answer to that question is to embrace fiduciary responsibility. Some employers of advisors make strenuous attempt to characterize their advisors' role as non-fiduciary. Wall Street broker/dealers have for years — and continue to do so — forbidden their registered reps from signing any kind of fiduciary acknowledgement with an ERISA retirement plan.

At the same time, the very activities the advisor performs may well be fiduciary acts. Advisors should learn what activities constitute fiduciary functions under ERISA. Then they could become better informed about where they cross the line.

Would they get that information from their employer? Yes. The trick is to know what constitutes fiduciary functions. The courts have a consistent track record of deciding who is a fiduciary based more on the acts a defendant performs than their title or employment affiliation. ERISA acknowledges this scenario by the term "functional fiduciary." Many advisors who understand this principle avoid the use of language in their service agreements that touches fiduciary functions. The way it can work is most often in a broker/dealer setting, though it can also happen in the RIA world where an advisor to a retirement

THE SHORT FORM

- Understand your fiduciary duty to your client and embrace it.
- Fiduciary duty means you're responsible for putting your clients' best interests before your own.
- Misstating the nature of your fiduciary responsibility, even unintentionally, is an ethical violation.

plan has positioned himself in a non-fiduciary role through his contracting status. If actually implemented, it means that such an advisor would not be able to make recommendations and get paid for those recommendations.

The fact is that very few retirement plan sponsors hire a financial consultant without expecting him or her to make recommendations. That's just part of the deal. So imagine trying to be an investment advisor who introduces to a plan sponsor only the names and characteristics of investment options but refuses to recommend which ones should be selected. It doesn't work that way. No one would retain an advisor if all he or she did were to say "here is a list of thousands of mutual funds, and here are their characteristics."

An advisor who does so could conceivably avoid fiduciary status under ERISA because he or she has made no recommendation. But the act of recommending an investment option, and being compensated for that, nearly always makes one an ERISA fiduciary.

What are the consequences of not embracing your fiduciary responsibility? Are there ethical pitfalls as well as legal? It's a quirky accountability we have here. In the 403(b) world, the plan sponsor bears the full weight of fiduciary responsibility, period. If they've engaged another service provider, even if it's another fiduciary, and that fiduciary fouls up in their conduct or misleads the primary fiduciary, it's still the primary fiduciary's problem. This leaves the advisor in questionable territory because ERISA doesn't hold advisors to the same high level of legal duty born by the plan sponsor. This is evidence in law suits against 403(b) plan sponsors for breach of fiduciary duty. Rarely do you see legal counsel for plan participants filing against the advisors. Legal action against advisors typically comes from the plan sponsor who may decide that the advisor is wrapped up in the breach and they'll file a cross action. There's an awful lot of leeway in this space in terms of how investment advisors are able to sell their services attached to the fiduciary word.

The vast majority of investors, whether in a retirement plan or as private individuals, tend to make fairly quick decisions about who they can trust. If they develop a trusted relationship with an advisor, and the advisor overstates or misstates his or her fiduciary relationship with the intent to deceive, then clearly that is an ethical violation. Given the limited legal accountability with evidence against advisors, when compared to the pressure on ERISA plan sponsors, it is even more crucial for advisors to behave ethically in order to deserve and maintain that relationship of trust.

Is there any difference in fiduciary responsibility between a fee-only advisor and a commissioned advisor? No, none whatsoever.

How does the issue of compensation disclosure fit into this discussion? ERISA has just recently been modified by the Department of Labor's Section 408(b)(2). Now all service providers to ERISA plans must reveal their fees in a whole new arrangement of disclosures. The regulation was enacted by the DOL on July 11, 2010. By July 11, 2011, all service providers to ERISA plans must have implemented the 408(b)(2) regulation's requirements. This has set the service provider community on its ear, in part because it requires new technology to make the disclosures the way ERISA wants them delivered. And from a business standpoint, a very large number of bundled services, whose fees have all previously been concealed behind intricate affiliate relationships, now have to be unraveled. So 408(b)(2) is a coming cataclysm in the ERISA plan world.

But is an advisor vulnerable even if the there's no intent to deceive but he simply fails to fully understand his true fiduciary status? Yes. This is a pervasive situation in the insurance and annuity world where providers sell bundled 403(b) insurance programs. Typically the representative is an insurance agent who has only one or two clients of this type and has no training or experience on fiduciary issues. Many insurance agents don't know what their fiduciary responsibility is. We frequently find that they sometimes mislead people without intending to do so.

The institutional investor community is wising up. The trend would be for advisors to sharpen their own fiduciary preparedness. The business in the future is going to go to those advisors who are best in class when it comes to fiduciary competency.

Ronald E. Hagan is president and CEO of Roland|Criss Fiduciary Services in Arlington, Texas.

BEST PRACTICE? FOLLOW THE PLAN

By Kimberly Flett, CPA, QPA, QKA

Holding contract vendors accountable to the terms of the plan and scrutinizing the withdrawal terms will give practitioners greater control over funds that are dispersed from the plan.

The Internal Revenue Service designed the final 403(b) regulations to close the wide gap between prior unregulated 403(b) guidance and effective plan administration, giving employers and plan sponsors a clear path of accountability. The trick to the enhancements under the final regulation is applying the rules to the path, which currently is an evolving process for many sponsors of 403(b) plans.

The National Tax Sheltered Accounts Association (NTSAA), through a consolidated effort with many practitioners and professionals, has established "best practices" to provide sound guidance for third-party administrators, sponsors, and other administrators of both ERISA and non-ERISA 403(b) plans. These practices are intended to help bring practical administration to the 403(b) environment. This article will help you better understand withdrawals from 403(b) plans, including hardships and other withdrawals, so you may better explain them to your clients.

Before the final regulations, distributions were only lightly regulated and undefined at best. It was often a matter of the rules outlined by the contract provider — where the participant maintained the account and not the plan sponsor — that determined the participant's accessibility to funds. There was often little involvement by the plan sponsor, who ultimately bore the responsibility under the 403(b) plan yet often misunderstood the approval process.

Although unregulated in the past, the old methods and practices of permitting withdrawals, while still widely practiced, don't stand up under the scrutiny of the current guidance. What does an advisor currently need to know when discussing both in-service withdrawals, and withdrawals due to a distributable event such as termination of employment, with participants?

The Internal Revenue Code clearly sets the parameters for distributable events in a 403(b) plan. To ensure compliance, advisors should work with the plan sponsor to determine that there is, in fact, a distributable event. In other words, participants cannot dip into their accounts at random, unless they meet one of the withdrawal reasons allowed by the IRS.

SEVERANCE OF EMPLOYMENT

Advisors should get information from the plan sponsor to determine that an employee is truly terminated when generating a distribution for a participant who has been separated from service. The burden of proof ultimately is borne by the employer, but advisors can check with third-party administrators to verify that the information is correct. Corroborating information includes payroll reports, tax returns, or other termination agreements, even a letter of resignation.

Tax consequences should be clearly communicated to the participant. As with 401(k) and profit-sharing plans, the plan sponsor must give the participant a 402(f) notice. This will give the participant adequate information to make informed tax decisions about whether to roll over the distribution and will relieve the employer of the responsibility to provide the basics of the tax withdrawal. Participants who want to maintain their accounts under the plan may choose to do so if the balance is over $5,000. As a matter of practicality, however, the plan sponsor may require and institute an administration fee.

A withdrawal form for the particular contract vendor needs to be completed accurately and in good form. Vesting of employer contributions, if applicable, should be noted on any withdrawal forms, in addition to the correct participant information, including the Social Security number, address, and withdrawal options. The plan sponsor should be involved in signing the forms, although as a practical matter distributions have occurred without these signatures in the past. Sponsors can require that only contract vendors who will conform to the distribution terms within the plan be allowed to open accounts.

HARDSHIP DISTRIBUTIONS

There are six allowable "safe harbor" reasons for a hardship under IRS rules. These include:

- medical expenses for the participant and dependents
- purchase of a principal residence
- tuition for post-secondary education for the next 12 months for the participant, spouse or dependents
- payment to prevent eviction from a principal residence
- funeral expenses of immediate family or a beneficiary
- repair of a principal residence due to natural disaster in an event that would qualify for a casualty deduction

When discussing hardship distributions with a client, review the participant's reasons for the request. Generally the participant must have exhausted all additional sources of income, including loans and savings, and should provide written verification to the sponsor.

Upon receiving the hardship, the participant must stop deferring for six months. The plan may allow for various sources to be used for withdrawals, including profit sharing, deferrals and matching contributions. Withdrawals from deferral sources, however, must be from "pure" deferral contributions and cannot include earnings.

Hardships are not mandatory. It's the plan sponsor's option to provide this feature and it must be listed in the plan document. A good method of control is to require the plan sponsor's signature on all withdrawals and allow only vendors who will conform to the requirements under the plan to provide accounts under the plan, including sponsor approval. Non-ERISA plans, such as qualifying church plans, don't require an employer signature but it's always a good idea to get one anyway.

Other distributions such as a qualified domestic relations order (QDRO) under a divorce decree, required minimum distributions for employees age 70.5, and distributions from a Roth 403(b) follow the IRS guidance and mirror the 401(k) plan rules.

Contract providers issuing a distribution are generally required to withhold 20 percent in federal tax for employees taking a cash withdrawal. Additionally, Form 1099R is required for all withdrawals, including cash withdrawals and rollovers.

Understanding the terms of the plan and the rules for withdrawals will help advisors prevent frivolous and incorrect withdrawals, which can jeopardize the plan's status with the IRS resulting in fees and sanctions.

As the current regulations sought to bring 403(b) plans under control and into compliance with IRS guidance, 403(b) plan sponsors will have greater confidence that distributions under their plans are technically correct. This will result in better plan administration that will benefit all participants in the long run.

Kimberly Flett, CPA, QPA, QKA, is associate director and head of the Retirement Plan Design and Administration Department at SS&G Financial Services, Inc. in Akron, Ohio.

JOHNS HOPKINS' 403(b) IMPROVES COMPETITIVENESS AND PREDICTABILITY

By Charlene Moore Hayes

Johns Hopkins University in Baltimore is not only one of the nation's most prestigious universities, it's also, taken together with Johns Hopkins Hospital, Maryland's largest employer. Its extensive health care presence includes Johns Hopkins Hospital and the Bayview Medical Center in Baltimore, as well as hundreds of other medical facilities spread throughout Maryland.

Our retirement plans are divided by employee groups. Our support staff, which numbers about 6,000 administrative and service positions, is in a defined benefit pension plan. It's not a state plan; we're a private employer. And they also have access to a 403(b) with matching contributions. Our faculty and senior staff are in a 403(b) plan.

Our first motivation for creating a completely new 403(b) plan was not to cut costs but to be competitive in what is one of the most competitive sectors of our economy. Corporate America long ago started moving away from defined benefit plans to defined contribution plans and higher education is quickly following suit. Our board of directors was concerned that the increasing regulation of pension plans was making it more difficult for us to manage our risk and predict costs.

Finally, it's very visible that we've been offering the 403(b) to faculty and senior staff and there has always been a lot of interest on the part of support staff to be able to invest their own money and receive the university match. I had people coming to my office all the time asking why faculty and senior staff had access to those options and they didn't.

We didn't do a formal survey but we did talk to many of the administrative staff on an anecdotal basis. Some of us were a bit nervous about how this process would be received, but so far reaction has been very positive.

Tax-Exempt & Governmental Plan Consultant (TGPC)

“Because of the overwhelming changes in the 403(b) marketplace, having the TGPC credential is essential. It’s also a key part of our marketing strategy that has given our firm a significant competitive advantage.”

JOHN ADZEMA, QKA, TGPC
Summit Retirement
Plan Services, Inc.
Cleveland, OH

ASPPA’s TGPC credential covers the sales, marketing, administrative and consultative aspects of 403(b), 457 and other plans maintained by tax-exempt and governmental entities.

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- Eligibility and vesting
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- Reporting and disclosure
- Religious organizations plans
- Fiduciary standards and responsibilities
- Traditional IRAs and Roth IRAs
- Ethics and professional responsibility

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CRS & MCRS credential waivers available.

We're also thinking about narrowing our list of vendors from the current 403(b). Now we offer TIAA-CREF, Fidelity, American Century, Vanguard, and VALIC. And those five vendors provide financial counseling to our employees.

To communicate the change we sent emails directly to employees' email boxes. We sent a letter to their homes and ran an article in our campus newspaper. We held 25 town hall meetings across all of our campuses and conducted a webcast to which employees listen with the ability to email questions. That's now available on our website. Our goal was to reach them through every possible avenue and medium we could think of.

Our choice period was through March 18 to April 15, 2011. Support staff hired before July 1, 2009, can choose to stay where they are in the pension plan and continue to receive a match under the voluntary 403(b) or to move into the new 403(b) plan. Employees hired after July 1, 2011 won't have that choice; they're automatically covered under the new plan and will receive the employer contribution when they become eligible. The new plan goes into effect July 1, 2011.

For planning purposes, our participation projections were very conservative. We assumed that at least 38 percent of the population will elect to move from the DB to the DC plan. Anything higher than that is icing on the cake.

Under the new plan, the university will contribute up to 4 percent of base pay for employees under age 35, and up to 8 percent for employees over 35.

We've done a lot of work to make the transition as easy as possible for employees. We've done 140 educational seminars for about 3,500 employees across all our campuses to help them think through how they invest their money for retirement. Along with Mercer we've developed a comprehensive choice tool to help them make their decision. It surprised many of us how well received and well attended our educational seminars have been. We're putting a lot of work into it and we hope our employees will find the process of making the right decision an easy one for each of them.

Charlene Moore Hayes is vice president for human resources at The Johns Hopkins University in Baltimore, Md.

WELCOME TO 403(b) BOOT CAMP

By Sarah Simoneaux, CPC

"Because I am hard you will not like me. But the more you hate me the more you will learn. I am hard but I am fair."

Gunnery Sergeant Hartman (played by R. Lee Ermey in "Full Metal Jacket")

R. Lee Ermey was a retired Marine who was hired by Stanley Kubrick to be the technical advisor on Kubrick's film about a Vietnam-era boot camp. He was so good at ad-libbing lines like the one above that Kubrick hired him to play the movie's Marine drill instructor. Most recently, he can be seen as the unorthodox psychiatrist using the colorful phrase "jackwagon" in the GEICO commercial, but he will always be remembered as the quintessential Marine boot camp staff sergeant.

What can Gunny Ermey teach us about retirement plan education? Plenty. Welcome to the 403(b) boot camp!

Delivering education in a boot camp structure is ideal for 403(b) advisors who want focused education that can be used to generate sales as soon as they return to the office. Like the more traditional Marine version, the ideal 403(b) boot camp teaches the skills that 403(b) advisors need to differentiate themselves in a competitive and rapidly changing profession. The intensive learning environment that is the hallmark of the best boot camps can be modified to fit any advisor group – beginning, intermediate or advanced.

THE SHORT FORM

- The ideal 403(b) boot camp teaches the skills that 403(b) advisors need to differentiate themselves in a competitive and rapidly changing profession.
- A successful boot camp should have a short timeframe – one or two days.
- Instructors should use real-world examples and link technical learning objectives to marketing and sales.
- The boot camp experience enabled advisors to see the links between technical education and sales.

The first key to a successful boot camp is to create a short timeframe – one or two days – with an agenda that covers technical knowledge, how to use that technical knowledge to generate sales, and information on products and services to support 403(b) advisors and their clients.

The second key is to have instructors who can use real-world examples and link technical learning objectives to marketing and sales. Fortunately, many institutional 403(b) providers have the resources to organize the logistics and teaching involved in a good boot camp – especially when they work with industry educational partners such as ASPPA.

VALIC partnered with ASPPA to provide a 403(b) boot camp that set aside a half-day intensive class on 403(b) and 457 technical concepts and then a subsequent day-long session on sales, products and services. Greg Garvin, VALIC's executive vice president of independent distribution and his team worked with ASPPA to create the intensive review session agenda.

Fortunately, ASPPA's Tax Exempt & Governmental Plan Administrator Certificate exam (TGPC-1) covered the 403(b) and 457 learning objectives the advisors needed. Even better, the training would be structured to allow the advisors to take the TGPC-1 online exam after the review session, while they were still on the VALIC campus attending the boot camp.

The VALIC team next turned to John Malcolm, a Tax–Exempt & Governmental Plan Consultant (TGPC) with ASPPA, who worked with independent advisors on behalf of VALIC nationwide. John had extensive teaching and real-world experience with both ASPPA and VALIC, and he worked with ASPPA Education Advocates to create the intensive review session covering TGPC-1 concepts. VALIC IT and ASPPA collaborated to set up an on-site testing center where over 30 advisors could take the TGPC-1 online exam after attending John's course at the boot camp. Every advisor passed the exam, proving that the boot camp structure could teach complex concepts with the right instructor and a focused set of learning objectives.

The boot camp experience enabled advisors to see the links between technical education and sales. Taking a certificate exam immediately following the education session allowed for both a validation of the material learned and recognition of accomplishment by the participants. Having the sales, marketing, and product sessions immediately following the technical session gave the group tools to put their knowledge to work for them and their clients. Most important, the advisors' time was valued – two days of intense instruction instead of two weeks of classes meant they could go back to the office and get back to work "educating the educators."

But there's more to a good education than just boot camp. Learning takes a lifetime, and learning the 403(b) market can be a full-time job. But you already have a full-time job, so future columns in this series will show you how stay current and well educated while also serving your clients and paying your bills. Stay tuned.

Sarah Simoneaux, CPC, is president of Simoneaux Consulting Services in Mandeville, La. She is a former president of ASPPA and currently works with the Education and Examination Committee as a Technical Education Consultant. Ms. Simoneaux wrote the textbook, Retirement Plan Consulting for Financial Professionals, *which is used for the PFC-1 (Plan Financial Consulting - Part 1) course of ASPPA's Qualified Plan Financial Consultant (QPFC) credentialing program.*

403(b) FINANCIAL PROFESSIONALS NEED TO SPEAK EMPLOYER'S LANGUAGE

By Kevin Kidwell

As with any relationship, communication is enhanced when all parties understand and speak the same language.

The 403(b) regulations that took effect January 2009 have resulted in dramatic changes for some tax-exempt plan sponsors, as well as the financial professionals serving them.

Perhaps the most noticeable change is that the financial professional must first acquire the plan sponsor as a client as opposed to the past when the financial professional's client was the employee plan participant.

If a financial professional intends to work successfully with a tax-exempt employer, it's imperative that he or she understand the employer's objectives for the retirement plan and the issues that must be addressed in order to meet those objectives. Now more than ever, financial professionals must understand that the retirement plan is for the benefit of the employees.

Financial professionals should be aware that tax-exempt employers must deal with many issues that are potentially politically charged. Often in a political environment, decisions may hinge on how messages are phrased, packaged and delivered.

As with any relationship, communication is enhanced when all parties understand and speak the same language. Miscommunication can result in damage to employee morale, compliance issues, and loss of a prospect or client. Most often it's basic business practices, terminology, and language that need to be understood.

HYPOTHETICAL EXAMPLE 1

A hospital employer announces that it will provide full benefits to PRN nurses who work one weekend per month. However, a nurse working only one weekend per month, and at no other time, will likely not meet the plan's stated 1,000–hour requirement to receive an employer contribution to the retirement plan.

A financial professional who understands that PRN is a health care term for part time may help the employer avoid an employee relations, or even a compliance, issue by informing the employer that without amending the plan, it will not be able to provide the benefits it has promised.

Occasionally, a simple misunderstanding of basic terminology can lead to frustration and failure to address a prospect or client issue. As a result, the financial professional's efforts may be misdirected toward finding alternatives for nonissues. Do some research and learn the terminology unique to that employer's workplace.

HYPOTHETICAL EXAMPLE 2

In a meeting with a plan sponsor, a CFO states that "the plan costs are way out of line." In an attempt to address the sponsor's needs, the financial professional reaches out to vendors for comparative pricing, only to find out that there was a misunderstanding. The CFO was actually referring to the employer's cost to provide

THE SHORT FORM

- It's imperative that advisors understand the employer's objectives for the 403(b) plan and the issues that must be addressed in order to meet those objectives.
- Decisions may hinge on how messages are phrased, packaged and delivered.
- Research and learn the terminology unique to the employer's workplace.
- Advisors need to understand board requirements, document the process, and package information in a way that helps management expedite the approval process.

the employee benefit. The CFO was really looking for ways to reduce the employer contribution, not plan administrative costs.

Understanding the employer's language is ultimately critical in helping get decisions approved by the board of directors. The board almost always has final say as to what happens with the retirement plan. It's become less common for boards to simply "rubber stamp" management's recommendations. Most boards, however, will support management's decisions if they're comfortable with the process and documentation that was used to develop their recommendation.

Many boards already have governance procedures in place to minimize risk, limit liability, and ultimately protect the organization. A side benefit of these procedures is that they can often limit the impact of politics and personality on important decisions. It's much easier for management to comply with already established procedures than to develop new ones. The financial professional needs to understand board requirements, document the process, and package information accordingly to assist management in expediting the approval process.

HYPOTHETICAL EXAMPLE 3

A financial professional works with a management group of medium-size private schools to develop a solution for dealing with compliance challenges and improve retirement benefits for employees. After eight months of work, including a vendor search, a solution was presented to the subcommittee of the board responsible for approving any changes.

The committee declined to accept the recommendation due to inadequately documented processes and procedures. They liked the solution, but were concerned that the lack of a documented process and procedure could expose the organization and board members to unnecessary liability from current and former employees. As a result, management had to go back and start from scratch.

The regulatory changes have brought forth an abundance of opportunities for financial professionals willing to commit to learning and understanding the tax-exempt marketplace. Successful financial professionals will be a resource for employers building their relationship with ongoing clear communication.

Kevin Kidwell is vice president of national nonprofit sales at American United Life Insurance Company® (AUL), a OneAmerica company, in Indianapolis, Ind.

Advertisement Index

THE 2 PERCENT SOLUTION

By Kent Schutte

Advisors should take advantage of this year's government marketing opportunity.

Every once in a while a change in the law can create a huge incentive for employees who want to invest for retirement and also an opportunity for 403(b) advisors. Such a law change exists this year.

The 2 percent FICA reduction was implemented on Jan. 1, 2011 for the purpose of putting more dollars in the hands of Americans and, it was hoped, allowing them to consume more and stimulate the economy.

But immediate spending may not be the best way to use this gift. Educating clients and prospects about the wisdom of putting some or all of the FICA reduction aside for retirement is not only prudent but part of an advisor's obligation to provide sound advice.

Below is a compliance-approved article which is being distributed to all employers and union leadership for distribution to employees and members.

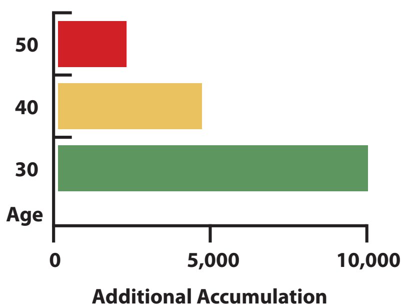
I hope this can enhance your payroll deduction business for clients and prospects.

TURN YOUR TAX REDUCTION TO GOLD! ENHANCE YOUR RETIREMENT SAVINGS

If you could increase your contribution into your 403(b) by 2 percent without affecting your take-home pay, would you do it?

Recent legislation could help you make this happen. For the year 2011, all taxpayers are having their FICA tax reduced by 2 percent, from 6.2 percent to 4.2 percent.

If a person were to invest the extra 2 percent for just one year, here are the possible accumulations by the time he or she reaches age 60:



ASSUMPTIONS

Annual salary is $50,000 and annual yield is 8%.

Even though the legislation is currently written for 2011 only, if you were to continue to invest the 2 percent every year, all the way to age 60, the accumulations could add up to $124,192, $49,083 and $15,245 respectively, assuming the same hypothetical 8 percent yield.

Although this legislation was intended to provide additional dollars for Americans to spend on enhancing their standard of living, which in turn would continue to stimulate the economy, spending that 2 percent now probably won't buy very much. I would advise members/employees to consider taking at least a portion of this gift to enhance their 403(b) contributions instead.

I have yet to meet a member who, when ready to retire, stated he or she "saved too much." I do, however, frequently hear, "I wish I'd have started saving earlier."

For those who have been procrastinating about starting a 403(b) or increasing their contributions, here is an opportunity that allows you to contribute more without changing your take-home pay.

Please consider taking the time to contact your financial advisor and complete your employer form(s) for contributing all or a portion of the 2 percent tax savings. I'm confident you will be glad you did.

Kent Schutte is CEO and president of Educators Financial Services, Inc. in Cambridge, Minn.

THANK YOU!

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WHEN LESS REALLY IS MORE

By E. Thomas Foster Jr.

As plan sponsors sort through available programs and weigh the relative merits of providers, they need the expertise and insight of a knowledgeable financial advisor.

We've all heard the saying that "less is more." But how many of us really believe that?

Do you really want less of a car? Less of a house? A smaller paycheck?

But there is at least one example where less really is more: the consolidation of the 403(b) retirement plan market.

School districts, educational institutions, hospitals and other tax-exempt organizations are coming to grips with regulations mandating greater oversight of 403(b) retirement plans. These plan sponsors are now responsible for maintaining a plan document and enforcing its provisions, tracking and supervising participant activities associated with the plan, and shouldering fiduciary responsibilities.

Consequently, plan sponsors are scrambling to get a better handle on the retirement benefits they offer employees. These employers are shedding the number of retirement providers and programs they work with, in some instances shrinking from the sponsorship of dozens of offerings to just a few.

This is where the "more" comes in. As plan sponsors sort through available programs and weigh the relative merits of providers, they need the expertise and insights of knowledgeable financial advisors. Making the right choice in selecting a retirement plan provider and program can help create a more effective retirement benefit for the plan sponsors and their participants. It can also put you in a better position to work with plan participants and ultimately increase the plan's assets under management.

As you size up providers and the 403(b) programs they offer, it will help to have a list of criteria to use as a measuring stick. There are several important attributes that you should look for in a quality provider:

- Experience with tax-exempt organizations and their unique retirement plan needs
- Track record of providing effective retirement literacy and planning education, including easy-to-understand materials; programs for pre-retirees, younger workers, and other groups with specific needs; and one-on-one sessions

as appropriate

- Pre-sale support from dedicated financial professionals who offer assistance with prospecting for tax-exempt plan sponsors and who can pinpoint plan-related problems and offer meaningful solutions
- Experience with group retirement products, including annuities and related administrative support
- Widely diversified line-up of investment choices to meet plan participants' individual investment needs and satisfy fiduciary requirements

There's no question that the bar of fiduciary responsibility is rising ever higher in the retirement plans marketplace, especially for 403(b) plan sponsors. So it's imperative that any provider you recommend is able to deliver quality fiduciary support services. Best-in-class plan providers make available true co-fiduciary services from an independent, acknowledged fiduciary that offers contractual investment selection and monitoring, often at no additional cost. Lesser services merely provide a certificate of promise to share fiduciary responsibilities.

Sponsors of 403(b) plans need a fiduciary assurance service that furnishes investment research, selection and monitoring to help both with the responsibility and liability associated with the selection of investment options offered through an employer's defined contribution retirement plan. The investment selection process should include guidance from an independent third party.

Some providers also offer specialty funds that have particular appeal to employees of tax-exempt organizations. Chief among those offerings are socially responsible investment funds that invest in companies or causes that promote the greater good, eschew investments in companies whose activities or business practices conflict with core beliefs, or both. As an example, faith-based funds are becoming increasingly popular with employees of religious organizations as well as schools and hospitals with religious affiliations.

The list of criteria for measuring the effectiveness of 403(b) providers is growing longer and is indicative of the new direction for the market. It's another reason for the growing importance of working with financial professionals with informed insights into the changing terrain and how the new landscape will ultimately look. Some providers have specialists who are dedicated to the 403(b) market and are uniquely familiar with its past, present and future.

"Although differences remain, the 403(b) or nonprofit market is looking more and more like the 401(k) or corporate market each day."

Although differences remain, the 403(b) or nonprofit market is looking more and more like the 401(k) or corporate market each day. That's a good thing, especially for plan participants.

Those who are familiar with 401(k) plans can vouch for their greater focus, cleaner administration, and relatively higher effectiveness. Their higher participation rates and assets under management as reported by the Profit Sharing /401(k) Council of America attest to this.

As the 403(b) market continues to reshape itself, it should become easier to convince employees of tax-exempt organizations to embrace retirement savings much like their corporate brethren. Anyone who sticks around for the ride will find the process rewarding. And ultimately, like the plan sponsors and participants that you serve, you'll discover how less can be more.

E. Thomas Foster Jr., Esq., is The Hartford's national spokesperson for qualified retirement plans. Foster works directly with broker-dealer firms and advisors to help them build their qualified retirement plan business and educate them about industry issues.