



WHY DO TRANSFERS, EXCHANGES AND DISTRIBUTIONS TAKE SO LONG? OR WHAT YOUR TPA SHOULD REALLY BE ASKING FOR.

TRANSACTION DESCRIPTIONS

Plan-to-plan transfer: This is a transfer from one employer's plan to a *different* employer's plan. Plan-to-plan transfers may only be made to a plan where the participant is a current or former employee. Both plans must allow for these types of transfers in the plan documents. Vendors do not report these transactions to the IRS on Form 1099-R. The vendor disbursing the monies must indicate what the assets consist of, otherwise the monies go into a "restricted" source and the most restrictive distributable events will apply to these monies.

Exchange between approved vendors: This is a movement of monies from one provider to another under the 403(b) plan. Both vendors must be on the approved vendor list that is the current vendor attachment to the plan. The plan must permit exchanges between approved vendors. Exchanges are not reported to the IRS on Form 1099-R. The vendor disbursing the monies must indicate what the assets consist of, otherwise the monies go into a "restricted" source and the most restrictive distributable events will apply to these monies.

Exchange from Deselected Vendor to Approved Vendor: This is a movement of money from a deselected vendor (one that holds assets but is not longer accepting on-going contributions) to an approved vendor under the plan. The plan must permit such exchanges. Exchanges are not reported to the IRS on Form 1099-R. The vendor disbursing the monies must indicate what the assets consist of, otherwise the monies go into a "restricted" source and the most restrictive distributable events will apply to these monies.

Exchange from a Grandfathered Orphan 403(b) Account to an Approved Vendor: A grandfathered Orphan account is one that did not accept contributions after 12/31/2004. At the present time until IRS provides more guidance such accounts may not be moved to another 403(b) only to an IRA when a distributable event occurs. These contracts are not a part of the employer's plan. Each vendor must do their own due diligence in proving a distribution. I.e. verify attainment of age 59 ½, verify separation from service, loan amounts, hardship etc.

Exchange from an Orphan 403(b) Account (non grandfathered) to an Approved Vendor: An Orphan account is one that is presently not associated with the employer's plan. For example it could have been a valid 90-24 transfer prior to 9/24/2007. The vendor disbursing the monies must indicate what the assets consist of, otherwise the monies go into a "restricted" source and the most restrictive distributable events will apply to these monies. If a transfer occurs after 9/24/07, the monies must be transferred to an approved vendor, otherwise the participant must correct by July 1, 2009 and re-transfer to an approved vendor under the employer's plan.

Rollovers from the 403(b): A distributable event must occur (the participant must be separated from service, attained 59 ½, qualify for hardship or disability payments, etc. All rollovers are reported on form 1099-R and the participant must report these amounts on their Form 1040. If a rollover is not made (there are exceptions) 20% mandatory withholding is applied to the taxable portion of the distribution. Rollovers may only be made from a 403(b) to a traditional IRA, to a Roth IRA ("qualified rollover contributions", if eligible), or to another employer plan that accepts rollovers where the participant is a current employee.

Tax Ramifications if above is not met: If the above rules are not met or the incorrect transaction is used, the plan is in jeopardy of being taxed to all participants. Proof of due diligence is required. Emails showing receipt, documented phone logs or written correspondence is acceptable. It is unclear how many times a vendor must be contacted

without communicating until the transaction is processed. IRS is currently looking at procedures that may be used for “uncooperative vendors”.

WHAT IS A “SOURCE” AND WHY DO WE CARE?

A “source” is a separate type of money to which different plan provisions or IRS regulations apply. There are 2 methods of determining what a source is: (1) maintain separate accounts (most vendors do not have this; or (2) maintain separate accounting for each type of money going into the plan with the attributable gains or losses for each one.

EXAMPLE #1 - In May of 2006, Jan rolled over \$10,000 from her IRA into her 403(b). Today if she wanted to request a distribution she should be told how much the \$10,000 is worth today with the gains and losses. If this amount is not available Jan could not receive her rollover amount until she turned 59 ½ or quit her job.

EXAMPLE #2 – John has requested a hardship distribution. The only amounts that are available for hardship are the elective deferrals he has made to the 403(b) (inception to the current date) minus all previous distributions from his 403(b). The current vendor has not tracked the amounts in John’s 403(b) therefore all of his assets are restricted and John may not received a hardship distribution.

EXAMPLE #3 – Mary wishes to move her 403(b) account from Vendor A to Vendor B. Vendor A has the following information from the inception of Mary’s account:

Elective Deferral (Principal amount)	\$25,000
Rollover amounts (Principal amount)	\$100,000
Employer contributions (Principal amount)	\$10,000
Total earnings on the account	\$12,000

Vendor A does not know how much of the earnings are attributable to any of the types of money. Choices – Either it all becomes restricted money (no loans or hardships) or someone needs to go back and determine the “sources” that Mary has in her plan today.

THE CURRENT VENDOR WON’T RESPOND, WHAT DO WE DO NOW?

Unfortunately, the loser is the Participant. Whether the Administrator of your plan is a TPA, the Employer, or the vendors are trying to work together, the Employer is responsible to make sure someone is asking the questions. Until the IRS audits begin the Administrator must make every effort to collect the information on the sources. IRS has indicated that they will look at due diligence in this process. Most TPAs are requesting this information three (3) times, whether that is a phone call, an email or a letter. This process alone can take weeks!

If the information is not received then the transferred assets or the exchange from one vendor to another goes into a restricted source, where the participant is now barred from receiving a hardship distribution and taking a loan based on that portion of the assets.

So the loser is once again the Participant. Vendors sometimes are only concerned with moving the money quickly and don’t realize the disservice that they are providing to their client.

REMEMBER YOU, THE EMPLOYER ARE RESPONSIBLE TO MAKE SURE THAT YOUR ADMINISTRATOR IS DOING THEIR JOB!

SAMPLE OF INFORMATION NEEDED FOR TRANSFERS AND EXCHANGES

Data Requested for the Account(s) to be Transferred

- A source is a separate type of money to which different plan provisions or IRS regulations apply. Details for each Source must be provided. ***If no detail can be provided, the appropriate checkbox should be selected above and a copy of the latest account statement attached to this form.***
- A copy of the transferee contract/custodial agreement must be attached to this form.

PLEASE COMPLETE ALL THAT APPLY FOR THE FUNDS BEING TRANSFERRED:

SOURCE OF FUNDS BEING TRANSFERRED	INCEPTION TO DATE CONTRIBUTIONS/ ROLLOVER OR TRANSFER	INCEPTION TO DATE CONTRIBUTIONS DISTRIBUTED	LISTING OF AGE-50 CATCH-UP DEFERRALS BY YEAR	LISTING OF 15-YEAR CATCH-UP DEFERRALS BY YEAR	OUTSTANDING LOAN BALANCE	CURRENT BALANCE
ELECTIVE DEFERRALS						
ROTH DEFERRALS						
EMPLOYEE AFTER-TAX CONTRIBUTIONS						
EMPLOYER NON-ELECTIVE CONTRIBUTIONS						
EMPLOYER MATCHING CONTRIBUTIONS						
ROLLOVERS						
TRANSFER						
OTHER SOURCE(S)						