

## **IRS adds oversight to teacher savings**

### **School districts will be responsible for enforcement on 403(b) accounts**

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As if retirement funds weren't already causing enough headaches, Texas school districts are facing new Internal Revenue Service rules that will force them to keep closer tabs on employees' supplemental accounts.

The federal government is cracking down on so-called 403(b) accounts — the nonprofit sector's equivalent to corporate 401(k)s. The IRS found several misuses of the accounts, which offer tax benefits to teachers, clergy and other nonprofit workers who save for retirement, said Clay Sanford, an IRS spokesman.

These changes are the first the IRS has made to the accounts in 43 years, Sanford said.

"For years, 403(b)s have been the least-regulated of all retirement plans," said Gordon Taylor, associate director for the Region 10 Education Service Center in Dallas. "There was some feeling that employees might be taking advantage of the tax deferred essence of it."

Effective Jan. 1, the new regulations put a stronger oversight burden on districts to ensure the accounts are properly administered — that employees don't make excessive contributions or borrow more than they're supposed to from the account.

To deal with the changes, school districts are hiring extra benefits specialists, buying computer software or paying to outsource the work. They're also launching campaigns to educate employees about the new regulations.

"Everybody is going to see some change, but the change is hopefully going to be for the better," said Brad Bailey, the Houston Independent School District's general manager of benefits and risk management.

HISD employees, for instance, will be able to enroll in plans online.

Previously, school districts' only role in 403(b) plans was arranging for deductions to be made from employees' paychecks. About 9,800 HISD employees currently have retirement accounts with 102 different companies.

Because of the stricter regulations, some investment companies have opted out of the market. In some cases, that means teachers may not be able to take loans or hardship withdrawals against their account balances. They may ultimately have to switch to new companies, possibly incurring surrender charges, officials said.

"I wish the timing of the implementation could have been better," Bailey said. "Right now, with the stock market, it's going to be very traumatic to make these types of changes."

It's also an administrative burden to the state's largest school district.

More than 45 districts statewide, including Dallas and Fort Bend, have decided to contract with a regional service center in the Dallas area to handle the accounts.

Joanna Pasternak, a Houston Federation of Teachers staff representative, said teachers might benefit from the extra oversight. As it is, they're bombarded by annuity vendors who haven't been vetted by the district.

"Career teachers don't pay into Social Security. If you lose their money, they have nothing," she said.

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Here are some examples of the practices the Internal Revenue Service hopes to rein in as it expands oversight of 403(b) plans:

- Workers contributing more than the maximum \$15,500 allowed in 2007.
- Eligible employees, especially part-timers, being unfairly excluded from plans.
- Loans violating rules by not requiring employees to make timely payments or by allowing loans from multiple vendors that exceeded limits.
- Inadequate documentation for distributions made during financial hardships.
- Plans sponsored by organizations that weren't eligible non-profits or government agencies.

Source: IRS