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403(b)s slim down

New regulations are spurring plan officials to trim number of service providers used

By **Jenna Gottlieb**

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AIG's Bruce Corcoran expects more funds to be looking at a single provider as the IRS deadline gets closer.

Executives overseeing 403(b) plans are switching to single bundled providers in anticipation of new IRS regulations set to go into effect on Jan. 1, 2009.

403(b) plans, defined contribution plans for school districts and hospitals, typically hire a slew of providers. Each offers a combination of investment, record-keeping, administration and education services.

But the Internal Revenue Service regulations issued last July make it much more difficult for plans to use multiple providers because they require plan sponsors to provide a written plan document for each provider, account for excess contributions and monitor the transfer of participants' assets among the service providers, among other rules.

Plans that adopt a single bundled provider can still use multiple asset managers because of open architecture.

The 403(b) programs of the Arizona Board of Regents, Phoenix and the County of Henrico Public Schools, Richmond, Va., are among many that are searching for or have hired single providers.

According to Cerulli Associates, Boston, there were roughly 30,000 403(b) plans holding \$650 billion in assets, as of June 30. A rapid consolidation of 403(b) providers will mean dramatic changes for that marketplace.

Search under way

The Arizona Board of Regents has a search under way for one bundled provider for its 403(b) plan, consolidating assets and record keeping from 40 firms, said Mary Adelman, assistant for business and finance.

"We have no idea, no way to calculate total assets," she said. The fund covers employees of the board and the state's three public universities.

In October, the County of Henrico Public Schools hired AIG Retirement Services Inc., Los Angeles, as the sole bundled provider of its \$50 million 403(b) plan. Officials reduced the number of providers from 10 to make the plan easier to manage and to lower fees, said Fred S. Morton, schools superintendent. AIG had been one of the previous providers. Mr. Morton wouldn't comment

further.

According to Spectrem Group, Chicago, 77% of 403(b) plans — mostly those sponsored by educational entities — are affected by the regulations because they are non-ERISA plans. Plan sponsors that fall under the Employee Retirement Income Security Act — those with employee and employer contributions — already must file plan documents.

Bruce Corcoran, senior vice president at AIG Retirement Services, said competition to become a single provider has increased dramatically since the IRS rule was issued. AIG Retirement oversaw \$46 billion in 403(b) plan assets as of Sept. 30.

"We've seen a narrowing of the field. We see plans want choice in the long term, but there is ... (a group of plan sponsors) going with a single provider," said Mr. Corcoran.

Richard Turner, vice president and deputy general counsel at AIG Retirement, agreed the market has changed significantly.

"In the public education market, some plans have 20 to 25 providers. Many realize they need to get a handle on (how much they have in assets)," said Mr. Turner.

Vendors expect 2008 to be a big year in plans changing providers.

"We see plan sponsors taking a variety of approaches. Right now, about 10% are actively looking for a single-provider model," said Mr. Corcoran, adding the number will increase as the effective date nears.

'Big opportunity'

"We see a big opportunity here," said John Begley, executive vice president at Fidelity Investments, Boston. Fidelity oversaw more than \$55 billion in 403(b) plan assets as of Sept. 30.

Added David Ray, vice president and national practice leader at Diversified Investment Advisors Inc., Purchase, N.Y., "All the RFPs we're getting are interested in consolidation of vendors. Most of them want one provider."

Historically, 403(b) plan executives had to hire a different provider every time they wanted to add an investment option not available from current providers. "That's not the case any more. With open architecture, you can have a single vendor and get all the fund flexibility you want," said Mr. Ray.

Reducing the number of providers helps plan participants, he said.

"There's always been a concern that in multivendor systems, vendors are competing at the participant level. Their education is more about why company X is better than company Y, instead of the level of service that's offered," he said.

Plan executives inundated providers with questions and concerns after the regulations came out.

"The level of activity picked up significantly (after July). We ... had over 1,000 phone calls into reps at our 403(b) call center. And we've had more than 1,500 written communications," said Mr. Corcoran.

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