

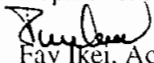


STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

OFFICE OF HUMAN RESOURCES.

September 14, 2007

PLEASE POST AND/OR CIRCULATE

MEMO TO: Department of Education (DOE) Employees  
FROM:   
Fay Ikei, Acting Assistant Superintendent  
SUBJECT: New Regulations and Changes to Tax Sheltered Annuity (TSA) 403(b) Plan

On July 26, 2007, the Internal Revenue Service (IRS) published final 403(b) regulations governing 403(b) or Tax Sheltered Annuity plans of public school employers. The new regulations reflect legislative and regulatory developments enacted over the past 40 years and will have the effect of diminishing the differences between 403(b) plans and other salary reduction arrangements, such as 401(k) and 457(b) plans.

The DOE and our third party administrator, National Benefit Services, LLC (NBS), will be required to become more involved than previously in the administration of the 403(b) program.

The regulations are not generally effective until January 1, 2009. However, some aspects of the regulations affecting the transfer of 403(b) assets from one investment provider to another investment provider are effective **September 24, 2007**. Please note that rollovers and distributions are unaffected by the new regulations and that you may continue until September 24, 2007 to transfer 403(b) assets from one provider to another as has always been permitted by the IRS.

**What to know about 403(b) transfers after September 24, 2007:**

- Under the new regulations, you may only transfer 403(b) assets from one investment provider to another investment provider if it is permitted by the employer's Plan Document and if appropriate information sharing agreements have been established between the investment providers and employer or third party administrator.
- The Plan Document and information sharing agreements will take some time to establish but will retroactively cover transfers after September 24, 2007.
- It is not yet known which investment providers will elect to enter into information sharing agreements.
- A transfer that takes place after September 24, 2007, to or from investment providers that do not have appropriate agreements in place by January 1, 2009, may be deemed by the IRS to be a distribution and may result in tax liability to you. If the appropriate agreements are in place by January 1, 2009, then there would be no adverse consequences.
- **To avoid the possibility of taxation to you, we recommend that you do not perform a 403(b) transfer after September 24, 2007 unless the investment providers are "transfer eligible" under the plan.**
- In the coming months, we anticipate the establishment of a process by which transfers will be approved through our third party administrator, NBS, to ensure compliance with the new IRS regulations. Additionally, a system will be created to enable you to be aware of which investment providers have the appropriate agreements in place and are transfer eligible.

Additional information will be provided by NBS as it becomes available. Should you have any questions or want to learn more about the new regulations and changes, you may contact:

1. Your financial advisor/agent.
2. Visit the Program's website at [www.hawaiidoe403b.com](http://www.hawaiidoe403b.com).
3. Email NBS at [hawaiidoe403b@nbsbenefits.com](mailto:hawaiidoe403b@nbsbenefits.com)
4. Call NBS toll free at 1 (866) 439-2289 ext. 165.

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c: Board of Education  
Office of the Superintendent  
Complex Area Superintendents  
National Benefit Services, LLC