

MEMO# 30944

November 9, 2017

Texas Teacher Retirement System Adopts Changes to 403(b) Vendor and Product Rules

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TO: ICI Members

Pension Committee

Pension Operations Advisory Committee SUBJECTS: Pension RE: Texas Teacher Retirement System Adopts Changes to 403(b) Vendor and Product Rules

We have learned that the Texas Teacher Retirement System (TRS) has adopted amendments to its administrative rules for 403(b) vendor certification and product registration.[\[1\]](#) The amendments as adopted include changes from the original proposal issued earlier in 2017.[\[2\]](#) The final amendments will, among other things:

- prohibit registration of a product with a front- or back-end sales load on or after October 1, 2019;
- adjust the allowable asset-based fee for products other than fixed annuities, as indicated in the following table, effective October 1, 2019:[\[3\]](#)

Asset Class	Maximum Annual Asset-Based Fee for Variable Annuity Products and Investment Options	Maximum Annual Asset-Based Fee for Non-Annuity Products and Investment Options
Money Market	1.90%	1.65%
Diversified Bond	2.25%	2.00%
Asset Allocation	2.25%	2.00%
Large Cap U.S. Equity	2.25%	2.00%
Small/Mid Cap U.S. Equity	2.45%	2.20%
International Equity	2.55%	2.30%
Global Equity	2.55%	2.30%
Real Estate	2.60%	2.35%
Other	2.70%	2.45%

- reduce the permissible loan initiation fee from \$50 to \$25, effective October 1, 2019;
- permit an annual fixed dollar maintenance fee or account fee of no more than \$60, effective October 1, 2019;
- require disclosure to TRS of certain enumerated customer service offerings by non-annuity companies seeking certification or re-certification (although certification would not be conditioned on offering the listed services); and
- increase the company certification fee from \$3,000 to \$5,000 (per 5-year certification period) and the product registration fee from \$3,000 to \$10,000 (per 5-year

registration period).

The final amendments are less restrictive than the original proposal, but—particularly in light of the prohibition on front- and back-end sales loads—still would appear to significantly limit the products qualifying for registration with the TRS. Unless otherwise noted above, the rule amendments will become effective soon after filing with the Texas Register.

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endnotes

[1] The final rule changes have not yet been published in the Texas Register. For a description of the rule amendments recommended by TRS staff, see https://www.trs.texas.gov/TRS%20Documents/403b_proposed_Ch53_amendments.pdf and https://www.trs.texas.gov/TRS%20Documents/board_book_oct2017.pdf.

[2] For a description of the proposal, see ICI Memorandum No. 30754, dated June 22, 2017. Available at https://www.ici.org/my_ici/memorandum/memo30754.

[3] The existing asset-based fee cap is 2.75% and does not depend on asset class or product. The final new asset-based fee caps for products other than fixed annuities are higher than the proposed caps and, unlike the proposal, are not broken out into two components (maximum product administration fee and maximum expense ratio).