

MEMO# 14823

June 25, 2002

FURTHER AMENDMENTS TO CALIFORNIA 403(B) LEGISLATION

[14823] June 25, 2002 TO: PENSION COMMITTEE No. 24-02 PENSION OPERATIONS ADVISORY COMMITTEE No. 41-02 RE: FURTHER AMENDMENTS TO CALIFORNIA 403(b) LEGISLATION Assembly Bill 2506, which is now under consideration in the California Senate, has been further amended to revise the information that vendors would have to provide about their products and to describe the registration process in more detail. A copy of the most recent version is attached.¹ The list of information that vendors would be required to provide about their products has been revised in several respects. First, the vendor must characterize its products as either section 403(b)(1) annuities or section 403(b)(7) custodial accounts. Second, the required disclosures concerning expenses now include information about management fees and annual fees. In addition, earlier language requiring vendors to describe their “willingness to provide compliance testing” does not appear in the new version; however, a description of the vendor’s “willingness to negotiate reasonable indemnification agreements” would still be required. The revised bill also contains more detailed information about the registration process and the associated fees. The legislation would require that registration be offered to vendors at least annually, and that renewal be required at least once every five years thereafter. Material changes to registered products would have to be reported within 60 days. Vendors would be required to pay a one-time establishment fee equal to a pro rata share of the establishment costs charged to vendors that register prior to the close of the initial registration period, and registrants that registered after that time would pay an establishment fee that would be credited back to those to registered prior to the close of the initial registration period. The legislation would also provide for renewal fees to pay for the maintenance of the information bank, and for administrative fees for each investment option, representing the costs associated with processing information about the option and presenting it on the information bank. ¹ For a copy of the prior version of the bill, see Institute Memorandum to Pension Committee No. 21-02 and Pension Operations Advisory Committee No. 38-02, dated June 18, 2002. ² As we previously advised, a conference call has been scheduled for Thursday, June 27, 2002 at 2:30 p.m. EDT to discuss this legislation. If you wish to participate in this call (and you have not already done so), please fax the attached response form to Brenda Turner at (202) 326-5841. Kathy D. Ireland Associate Counsel Attachment (in .pdf format)