

MEMO# 14735

May 21, 2002

PENDING CALIFORNIA LEGISLATION CONCERNING 403(B) ARRANGEMENTS UNDER THE STATE TEACHERS' RETIREMENT SYSTEM

[14735] May 21, 2002 TO: PENSION COMMITTEE No. 18-02 PENSION OPERATIONS
ADVISORY COMMITTEE No. 33-02 RE: PENDING CALIFORNIA LEGISLATION CONCERNING
403(b) ARRANGEMENTS UNDER THE STATE TEACHERS' RETIREMENT SYSTEM The California
Assembly is currently considering legislation, Assembly Bill 2506, which would require the
California Teachers' Retirement Board, the manager of the State Teachers' Retirement
System (STRS), to establish a registration process for vendors seeking to offer retirement
investment products to employees of all local school districts, community college districts,
and county offices of education ("local entities" for purposes of this memorandum). Each
local entity would be able to select and provide options to its employees from among the
registered vendors. The registration process would require prospective vendors to provide
information concerning: • Evidence of experience in California and other states in providing
custodial account mutual fund arrangements or other retirement products and related
financial services under public employer retirement plans; • Disclosure of expenses paid
directly or indirectly by retirement plan participants, including, but not limited to, penalties
for early withdrawals, declining or fixed withdrawal charges, and surrender or deposit
charges, supported by certain documentation; • Ability of the vendor to offer a wide array
of products to participants; • A discussion of the ability, experience, and commitment of the
vendor to provide retirement counseling and education services, including, but not limited
to, access to group meetings and individual counseling; • Evidence of the financial strength
and stability of the vendor, as may be applicable, pursuant to ratings assigned by nationally
recognized rating services that evaluate the financial strength of life insurance, mutual
fund, and other similar companies; 2 • Ability and willingness of the vendor to coordinate
its activities with the Board and to exchange and supply information and data as may be
required; • Location of offices and counselors of the vendor relative to serving the local
entities and their employees in California; • Ability to comply with all applicable provisions
of federal and state law governing retirement plans, including minimum distribution
requirements and contribution limits; • The demonstrated ability to offer an appropriate
array of accumulation funding options, including, but not limited to, a diversified mix of
value, growth, growth and income, hybrid and index funds or accounts across large, mid,
and small capitalization asset classes, both domestic and international; • A discussion of
the range of administrative and customer services provided, including asset allocation,
accounting and administration of benefits for individual participants, recordkeeping for
individual participants, asset purchase, control, and safekeeping, execution of a

participant's instructions as to asset and contribution allocation, calculation of daily net asset values, direct access for participants to their account information, periodic reporting to participants, not less than quarterly, on their account balances and transactions, and compliance with the standard of care applicable in the provision of investment services and consistent with federal law; and • Any other information required by the Board to establish an impartial information bank of vendors. The impartial information bank would allow local entities and other interested parties, including participants, to compare the registered vendors and the investment options being offered, and would be required to include information related to participant cost, participant education, vendor experience, and other vendor services offered, including how to access all performance and other prospectus disclosures required by the NASD and the SEC. The cost of establishing and maintaining the vendor registration system and the information bank and the costs associated with publicizing the availability of the information bank would be charged to each registered vendor. A copy of AB 4506, as last amended on April 11, 2002, is attached. The bill currently is scheduled for a hearing before the California Assembly's Appropriations Committee on May 22, 2002. Kathy D. Ireland Associate Counsel Attachment (in .pdf format)

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