

MEMO# 15098

October 1, 2002

CALIFORNIA GOVERNOR SIGNS LEGISLATION REQUIRING REGISTRATION OF 403(B) INVESTMENT PRODUCTS FOR STATE TEACHERS' RETIREMENT SYSTEM

[15098] October 1, 2002 TO: PENSION MEMBERS No. 45-02 PENSION OPERATIONS ADVISORY COMMITTEE No. 65-02 RE: CALIFORNIA GOVERNOR SIGNS LEGISLATION REQUIRING REGISTRATION OF 403(b) INVESTMENT PRODUCTS FOR STATE TEACHERS' RETIREMENT SYSTEM California Governor Davis has signed Assembly Bill 2506, which requires 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), and to maintain an impartial information bank containing the registration information. Each local entity would be able to select and provide options to its employees from among the registered vendors. The legislation directs the Board to complete the initial registration process on or before July 1, 2004; however, employees may continue to make contributions to unregistered products purchased or entered into prior to the date of the implementation of the information bank. The legislation also includes a list of the types of "vendor" entities that must register under the new system. Although this list includes a "registered investment company" as a vendor, this reference is ambiguous, because the legislation also lists a "mutual fund" as a type of investment product that a vendor must register. The registration process will require prospective vendors to provide the following information concerning the vendor and its products:

- A statement of experience in California and in other states in providing retirement annuities, custodial account mutual fund arrangements, or other retirement products and related financial services under public employer retirement plans;
- A characterization by the vendor of its offering as either an annuity or a custodial account;
- A disclosure of all expenses paid directly or indirectly by retirement plan participants, including, but not limited to, penalties for early withdrawals, declining or fixed withdrawal charges, surrender or deposit charges, management fees, and annual fees, 2 supported by documentation as required for prospectus disclosure by the NASD and the SEC;
- Information regarding the impact of product fees upon a hypothetical \$10,000 investment, assuming a rate of return of five percent for one, five, 10, 15, and 20 year time periods;
- Information regarding the types of products, product features, services offered to participants, and how to access product prospectuses or other relevant product information;
- 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 by various means, including telephone, TDD,

internet, and face-to-face consultations by registered representatives; • A statement of the financial strength and stability of the vendor, as may be applicable, by identifying its ratings assigned by nationally recognized rating services that evaluate the financial strength of life insurance, mutual funds, and other similar companies; • The location of offices and counselors, or method of distribution, of the vendor relative to serving local entities and their employees; • A description of the ability of the vendor to comply with all applicable provisions of federal and state law governing retirement plans, including minimum distribution requirements and contribution limits; • To the extent applicable, the demonstrated ability of the vendor 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, 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 active 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 • Certification by the vendor that the information provided to the Board accurately reflects the provisions of the products that it registers. Registration will be offered to vendors once annually, and renewal of registration will be required at least once every five years thereafter for vendors that wish to continue to participate. Material changes to products or services between registration or renewal periods 3 will be required to be submitted to the Board "within the time required" by the SEC, and additional products may be registered between registration or renewal periods. The actual cost of establishing the vendor registration system and the resulting investment information bank will be borne equally by registered vendors, based on the number of registered vendors, and each registered vendor will pay a one-time establishment fee equal to a pro rata share of the establishment costs charged to vendors that register with the Board prior to the close of the initial registration period. Each registered vendor will also pay a renewal fee equal to a pro rata share of the maintenance costs of the registration system and information bank, as determined by the Board, as well as an administrative fee for each investment product. The vendor's one-time establishment fee will be credited against these maintenance and administrative fees. Kathy D. Ireland Associate Counsel

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