POINTS OF VIEW
BENEFITS AND POLICY INSIGHTS

WHEN LESS IS MORE: 403(b)/401(a) PLAN CONSOLIDATION

Retirement plan laws and regulations have changed over the years, prompting many employers to rethink the structure of their retirement program. But there remains a plan design that hasn't kept up with the times—a retirement program that combines a 401(a) plan and a 403(b) plan. In this kind of program, the employee's salary reduction elective deferrals are typically contributed to the 403(b) plan, while the employer directs its contribution (matching or nonelective) to the 401(a) plan.

Sample Organization Retirement Program	
Employer Contributions	Employee Elective Deferrals
401(a) Plan	403(b)(1) Plan or 403(b)(7) Plan

This type of plan design creates common challenges for plan sponsors:

- **Risk of noncompliance**—because contribution, administration, and distribution rules vary greatly between these plan types
- **Increased plan costs**—to manage and communicate this type of complex program
- **Employee confusion**—may not understand overall retirement program, which could lead to lack of plan engagement

It's time for plan sponsors to ask themselves, "Is there a better way?"

Fidelity INVESTMENTS

THREE DIFFERENT APPROACHES TO A SINGLE PLAN TYPE

Transforming a 401(a)/403(b) program into a single plan that receives both employer and employee contributions can reduce complexity, operational risk, and administrative costs. Employers have three different approaches to consider:

	PLAN DESIGN OPTIONS		
	OPTION #1 403(b)	OPTION #2 401(k)	OPTION #3 Safe harbor 401(k)
How it works:	Redirect employer contributions from the existing 401(a) plan into the current 403(b) plan.	Redirect employer and employee contributions from the existing 401(a) and 403(b) plans into a 401(k) plan.	
Nondiscrimination (ADP) testing required?	Not required.	Required.	Not required when plan design meets Internal Revenue Code guidelines.
Consolidated plan available to:	Only employees considered part of a 501(c)(3) organization—a concern for institutions with non-501(c)(3) subsidiaries.	Any employee.	
Asset movement:	401(a) plan assets cannot be merged into a 403(b). The 401(a) must be **frozen** or **terminated.**	Frozen 401(a) plan assets can be merged into the new 401(k). Employees may roll over terminated 401(a) plan accounts to the new 401(k). Employees may roll over terminated 403(b) plan accounts to the new 401(k).	

OPTIONS FOR UNNEEDED PLANS: FREEZE VS. TERMINATE

Freezing a plan stops contributions. However, the plan continues indefinitely and pays benefits when employees become eligible for distribution. Although a plan freeze creates some administrative savings, costs such as plan document updates and employee communications remain unchanged.

Terminating a plan is a two-part process. On the termination date, all contributions stop and participants become fully vested. On the distribution date, the plan must exhaust its forfeiture account (if any), and distribute all assets to participants or their beneficiaries.

TERMINATION VARIABLES AFFECTING PLAN CONSOLIDATION

Plan termination is the preferred approach to consolidation when the plan sponsor's goal is to maximize administrative savings as quickly as possible. However, plan terminations present challenges that the plan sponsor and plan recordkeeper must handle carefully to minimize asset leakage. The following are some factors to consider:

- **Individual vs. group contracts.** 403(b) plans may have individual annuity contracts or custodial accounts that require distribution of individual contracts at plan termination. However, some individual contracts permit "rolling up" to a group contract, which might make other options available.
- **Mandatory annuity contract distributions.** 401(a) money purchase plans must distribute annuity contracts as a default form of benefit if participants do not elect otherwise (or if spousal consents are not obtained). Clear employee communications are critical to help encourage more lump-sum rollovers to the new ongoing plan.
- **Default fund mapping.** This can apply to accounts of participants who cannot be found or who fail to elect a distribution. IRS regulations describe examples of defaulting from one qualified plan to another, but not across plan types [e.g., 403(b) to 401(k) or 401(a) to 403(b)]. Plan sponsors need to evaluate their options with legal counsel.
- **New pricing leverage.** Consolidating a multi-plan program into a larger single plan could result in lower fees and expenses.

Each of these variables can be successfully applied with advance planning. In fact, up-front planning can be an important strategic advantage for plan sponsors because IRS rules generally require distribution of all plan assets no later than 12 months after the designated termination date.

SPECIAL RULES FOR CHURCH PLANS

The 2015 Budget Act includes a number of clarifications to the rules for church plans. The law now allows asset transfers from 403(b) plans to 401(k) plans, provided that both plans are maintained by the same church-related organization, and vice versa.

FIDELITY IS HERE TO HELP.

We understand each employer is unique and when it comes to plan consolidation, the specific features of your plan and the needs of your organization should drive the solution you ultimately select. As the nation's leading retirement plan provider, Fidelity is uniquely experienced to help plan sponsors—working independently, or with a consultant or advisor—take advantage of the benefits of plan consolidation. No matter where your plans are starting, where your plans are going, or how fast you want to get there, Fidelity can help. For a more in-depth discussion of issues, options, and suggestions concerning plan consolidation and plan termination, contact your Fidelity Representative.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917
16024 700137.2.0