



Vanguard®

How new IRS 403(b) rules affect employees

The IRS has issued comprehensive new regulations for 403(b) retirement plans, the first significant rule changes for 403(b) plans in more than 40 years. The IRS regulations, issued on July 23, 2007, require more oversight and documentation from employers sponsoring 403(b) plans. But employees also are affected, with the most significant change being new restrictions on transferring 403(b) assets from one investment provider to another.

In the past, there were few limitations on transfers, also known as contract exchanges. Under the new rules, you can still make asset transfers, but only to a provider who has, or will establish, a formal relationship with your employer. Transfers that don't comply with the new rules could be subject to unfavorable tax treatment and penalties.

A rule change affecting asset transfers went into effect on September 25, 2007. Most of the other new regulations, however, don't go into effect until January 1, 2009. Below you'll find answers to frequently asked questions about the new rules, including how they affect your asset transfers.

Will Vanguard continue to accept contributions to my existing 403(b) account?

Yes. You can continue to contribute to an existing 403(b) account with us, as you did before the IRS regulations were issued. Keep in mind that many employers are evaluating their selection of investment providers as they create their now-required list of approved vendors. If you are interested in keeping, or adding, Vanguard® funds as an investment option within your plan, you may want to let your employer know about your preference.

Will Vanguard still accept my 403(b) asset transfers?

Yes, as long as your employer has, or establishes, a formal relationship with us. This entails your employer entering an information-sharing agreement with us. Your employer can obtain our form, Information-Sharing Agreement for 403(b) Contract Exchanges, at Vanguard.com or by calling **800-662-2003** on business days from 8 a.m. to 7 p.m., Eastern time.

Will Vanguard accept an information-sharing agreement that has been developed by an employer or a third-party administrator?

No. We accept only our own Information-Sharing Agreement for 403(b) Contract Exchanges.

What are the alternatives to making an asset transfer?

If you are age 59½ or older or have left the employer that sponsors the plan to which you contributed, you can roll over the assets from your 403(b) plan to a traditional IRA or other eligible retirement plan at Vanguard. IRAs offer greater flexibility and control over investments and withdrawals; and IRA transactions don't require employer approval. You manage your IRA, and you can choose from a variety of high-quality, low-cost mutual funds to achieve the diversification you want for your retirement portfolio.

Can my employer open a new 403(b) plan or add new participant accounts to an existing plan with Vanguard?

Yes. Plans and accounts can be opened, and we will accept ongoing salary deferral contributions. The new asset-transfer regulations do not apply to establishing plans or accounts for the purpose of making continuing contributions.

Note: The IRS may provide further details and clarifications about the new rules and deadlines. We'll post updated information as it becomes available at www.vanguard.com/403b.

All investments are subject to risk.

For more information about Vanguard funds, visit www.vanguard.com, or call 800-662-2003, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

Connect with Vanguard® > www.vanguard.com