



September 19, 2007

To All University 403(b) Program Participants:

The Internal Revenue Service (IRS) recently published changes to Section 403(b) of the Internal Revenue Code, which governs the University's Tax Deferred Annuity program. This is the first comprehensive update of the 403(b) regulations in the past 43 years. Although there are many changes, we would like to highlight some areas that will have immediate or significant impact on both active and inactive contributors to the University's 403(b) program.

- **Changes effective September 25, 2007** – From this date forward, the IRS requires the University and your investment provider (insurance or mutual fund company) to sign an agreement that allows an exchange of information related to you, your account and transactions that may have taken or will take place. The IRS regulations mandate that investment providers sign the University's information exchange agreement before permitting the following transactions to be processed:
 - 1) **Plan-to-plan transfers** of 403(b) assets from an investment provider participating in the University's 403(b) program to an investment provider not participating in the University's 403(b) program. Both providers must sign the University's agreement.
 - 2) **Contract exchanges**, formerly known as 90-24 transfers, between investment providers currently participating in the University's 403(b) program. Both providers must sign the University's agreement.
 - 3) **Loans** against your 403(b) contract.
 - 4) **Hardship withdrawals** from your 403(b) account.

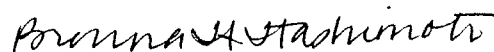
Unfortunately, the 403(b) regulations allow investment providers until January 1, 2009 to decide whether to sign an employer's information exchange agreement. This means that during the period between September 25, 2007 and December 31, 2008, a 403(b) participant may be exposed to risk if an investment provider processes a transfer/exchange, loan or hardship withdrawal without first signing the University's information exchange agreement. Should the investment provider, by January 1, 2009, decide not to sign the University's agreement, the 403(b) participant's transaction would be considered non-compliant with the tax law.

- **Penalty for non-compliance** - Failure to comply with the new regulations will result in the 403(b) participant's transaction (transfer/exchange, loan and/or hardship withdrawal) becoming immediately taxable and subject to possible penalties.
- **Administrative control** - The revised regulations mandate that the University make significant changes and exercise stringent administrative control over the 403(b) program. Some of the changes include becoming actively involved in processing transfers and exchanges of contributions, loans and hardship withdrawals. This will result in changes to the processing of certain transactions for your investment provider.
- **Contracts/accounts under the University's Plan** – The IRS now considers any contract or account that contains funds deferred while employed by the University, and which have not been distributed, as being a part of the University's plan. As such, these contracts/accounts will remain subject to the University's 403(b) plan provisions even if the 403(b) participant is no longer employed with the University.

The University will require that each of the current investment providers sign its information exchange agreement. As the agreement provides information to ensure IRS compliance, should an investment provider decline to sign the University's agreement, it will cease to be an authorized investment provider. The list of authorized 403(b) investment providers will be continually updated and posted to the University's 403(b) website.

Please understand that our primary interest is to protect you, our 403(b) participant. Your protection requires the University to make changes in the 403(b) program to ensure compliance with the revised 403(b) regulations. We believe that this may result in a reduction in the number of UH authorized investment providers as well as procedural changes with your investment provider. Additional information will be provided as it becomes available. Should you have questions or need clarification, you may contact Dean Isono at 956-8651.

Sincerely,



Brenna Hashimoto
System Director of Human Resources

c: Vice President for Administration
Vice President for Budget & Finance/Chief Financial Officer