

THE Advisor

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What CTA Is Doing to Help You with Your 403(b) or 457 Plan

Why You Need to Supplement Your Pension

The average CalSTRS benefit to new retirees is estimated to replace 63% of income* – and CalSTRS members are not eligible for Social Security benefits based on their earnings as educators. The average CalPERS member is estimated to receive 50% or less of preretirement pay in retirement** although most CalPERS members are covered by Social Security.

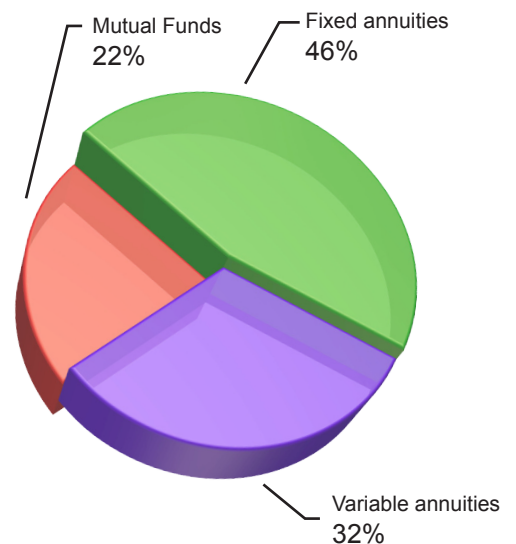
Given you may need 90% to 100% of preretirement income, particularly with ever-increasing health care costs and the likelihood of future inflation, your ability to maintain your standard of living is at risk unless you are saving for retirement.

One of the best ways educators can save for retirement is through a 403(b) or 457 plan. These are tax-advantaged savings plans offered via payroll deduction through your school employer (similar to a 401(k) plan in the private sector). Yet only 30% to 40% of educators are saving through these vehicles! Not only that, nearly half (46%) of 403(b) assets are held in fixed annuities, which may not earn enough over time to outpace inflation (see chart). ***

In many cases, it is simply a lack of information (or time to digest the information) that's keeping educators from taking advantage of this valuable opportunity to supplement their retirement savings.

* Source: CalSTRS, "Promises Made, Promises Kept," www.calstrs.com.
** Source: CalPERS, "Facts at a Glance," www.calpers.ca.gov.
*** Source: Spectrum Group, as reported at 403bwise.com.

Distribution of 403(b) Investments - 2010*

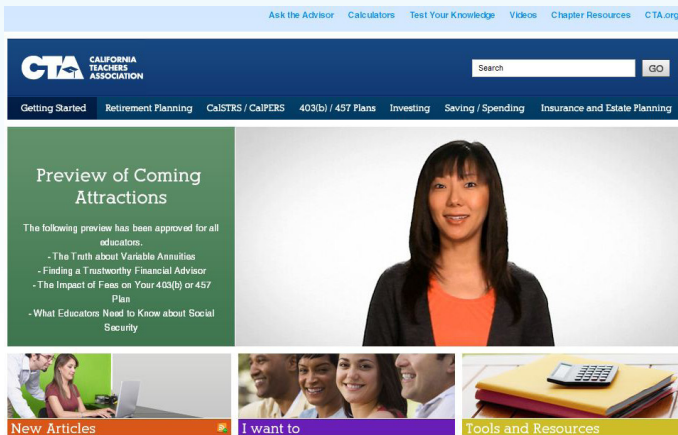


*** Source: Spectrum Group, as reported at 403bwise.com.

Learn more about 403(b) investment options and their fees, risk and reward potential at CTAinvest.org.

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What CTA Is Doing on Your Behalf



CTAinvest.org

INVESTING FOR **YOUR** FUTURE.

CTA recognized that educators need help with their 403(b) and 457 plans. In 2008, CTA began a strategic initiative to improve the 403(b) and 457 market for educators. Here is a list of some of the CTA objectives:

- ✓ Increase awareness of the need to supplement pensions through 403(b) and 457 plans.
- ✓ Provide investment education to encourage better 403(b) and 457 decisions.
- ✓ Promote union advocacy at the local chapter level to improve 403(b) and 457 programs.
- ✓ Develop best practices for 403(b) and 457 vendors, including transparency and fee disclosure.
- ✓ Create 403(b) and 457 plans that meet CTA due diligence standards.

CTA Resources for You

CTAinvest.org – CTA's education portal (no login required)

We've developed CTAinvest.org with resources for you, including videos, calculators, informative articles, Ask the Advisor and more. We continually seek ways to make the site more useful.

Videos – These videos are short, easy to understand and created specifically for educators.

- What Educators Need to Know about Social Security – **NEW!**
- The Truth About Variable Annuities – **NEW!**
- A Look at Target Date Funds
- The Impact of Fees on Your 403(b) or 457 Plan – **NEW!**
- Finding a Trustworthy Financial Advisor – **NEW!**
- Why Participate In a 403(b) or 457 Plan?
- A Look at Fixed Annuities
- Choosing a 403(b) or 457 Product
- Comparing 403(b) and 457 Plans

Calculators – These are simple and intuitive calculators to help you with your retirement planning.

- What Will It Cost to Borrow from My 403(b) or 457 Plan?
- How Long Will My Savings Last?
- How Much Can I Save by Consolidating My Debt?
- How Much More Do I Need to Save for Retirement?
- How Will Pretax Contributions to My 403(b) or 457 Plan Affect My Take-Home Pay?
- Projected Retirement Expense Calculator
- How Will Fees Affect My 403(b) or 457 Plan Savings?
- How Much Can I Save in My 403(b) or 457 Plan?

DO YOU HAVE A QUESTION? GO TO...
ASK THE ADVISOR AT CTAINVEST.ORG!

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Financial planning checklist – You can choose to be reminded of specific financial tasks by email on a schedule you select. For example, you can ask for these reminders in a certain number of days, weeks, months or a year:

- I have ordered my free annual credit report from www.annualcreditreport.com and reviewed it for errors (Once a year).
- I have estimated how much money I will need to live comfortably in retirement (Once a year).

Ask the Advisor – Here are two sample questions and answers you will find in this section:

Question: *I just discovered that my 403(b) annuity includes surrender charges. What should I do?*

Answer: Often surrender fees are not clearly disclosed to the participant. Now that you have identified these fees, you have some choices.

1. You can stop contributing to the annuity and wait out the surrender period until it reaches 0% before cancelling.
2. You can choose to cancel the contract and pay the surrender fees. Then you can transfer your balance to a new 403(b) provider subject to the rules or provisions in your district's plan.
3. You can keep contributing to the annuity and cancel when the surrender period is up, provided the surrender period is based on the date of the contract and not on the premium payment dates.

Question: *I have a TSA with a company that is not on my district's approved list. I have another TSA which is on the approved list. Can I transfer my "non-approved" TSA funds to my "approved" TSA?*

Answer: You will need to check with your district to find out whether contract exchanges are permitted under the plan. The district's written plan will state whether exchanges are permitted and, if so, which vendors are approved for a contract exchange. A contract exchange is the movement of all or some portion of your 403(b) account held with one vendor to another vendor that is part of your district's plan. If exchanges are permitted, then generally you may transfer only among approved vendors, and the vendors must have an information sharing agreement with your district. In addition, it is often permissible to transfer from a non-approved vendor to an approved vendor, even if there is not an information sharing agreement in place.

You should also consider any back-end sales charges (these are fees charged by mutual funds or variable annuities when you move or transfer your funds) or surrender fees (these are fees charged by fixed or variable annuities when you move or transfer your funds) that may be involved if you decide to transfer from one vendor to another.

For information on exchanges between vendors that is specific to your plan, please contact your district.

Comprehensive Consumer Guides

"Closing the Gap: Supplement Your Pension Benefits with a 403(b) or 457 Plan" – This booklet explains the basics of 403(b) and 457 plans, including the tax advantages, how they work, how much you may be able to save, and tips for choosing investment products from the choices within your plan.

"Selecting a Financial Advisor & Understanding Plan Fees" – This booklet is a comprehensive review of fees and expenses charged by financial advisors, vendors and investment products, and includes a checklist for you to take to your financial advisor to make sure you are getting the information you need in writing to make informed choices. See the resource section at the end of this article for sample questions to ask your financial advisor.

The Information You Need from CTAinvest.org

You can find these consumer guides at CTAinvest.org, where you can download a pdf or order a print copy online. If you are a chapter leader you can order copies for all of your members.

CTA's resources will help you ask the right questions and be familiar with ALL of the options available to you when you evaluate your current 403(b) or 457 plan elections and help give you guidance if you are a new investor.

The Nitty-Gritty about 403(b) Plans

There are legal and regulatory requirements for 403(b) plans. The following is some information about the plans available to you.

The District's List of Approved Vendors

You can invest in a 403(b) plan only through your school district employer (known as the Plan Sponsor) through payroll deduction. The IRS requires each district to have a written Plan Document for its 403(b) plan. This document includes information about options the district is including in its 403(b) plan or program, such as whether the plan will offer loans and/or permit age 50+ catch up contributions, as well as the list of "approved vendors" offered by your district. Some vendors are approved for ongoing contributions and some are approved for exchanges only (moving your assets from one of the vendors to another).

See the sidebar for a list of options that your district can include in your 403(b) program. If your district is not including options such as loans, you should know why and be prepared to challenge the decision.

YOU CAN INVEST IN A 403(b) PLAN ONLY THROUGH YOUR SCHOOL DISTRICT EMPLOYER (KNOWN AS THE PLAN SPONSOR) THROUGH PAYROLL DEDUCTION.

403(b) Plan Requirements and Optional Features

REQUIRED:

Written plan document – this must contain all the terms and conditions of the plan.

Universal availability – all employees who normally work 20 hours or more per week must be given the opportunity to participate.

Deferral limits – elective contributions must be limited to the IRS allowable amounts each year (\$16,500 in 2011).

Investment options – the plan should establish annuity contracts for those choosing annuities or custodial accounts (403(b)(7) for participants' mutual fund investments).

Timely deposits – the 403(b) plan sponsor must send elective deferrals to the vendor within a "feasible period" (generally, within 15 days following the month when the employee was paid).

OPTIONAL:

Age 50+ catch-up contributions – the plan may permit participants age 50+ to defer an additional amount (\$5,500 in 2011).

Loans – if the plan allows loans, they must be based on a detailed loan program that enforces loan repayments.

Hardship distributions – the plan may, but is not required to, allow hardship distributions.

Roth option – the plan may choose to allow Roth contributions, which are made on an after-tax rather than pre-tax basis.

Exchanges – the plan may allow participants to exchange accounts from one approved 403(b) vendor to another.

Transfers – the plan may allow participants to transfer accounts from one district's 403(b) plan to another provided both plans allow the transfer.

Open Vendor Law and 403bCompare.com

- California law requires your employer to offer an open vendor access model to employees for the 403(b) plan. This legislation was created because you can get a 403(b) plan only from your employer. These are your savings plans, so you have a right to choose your 403(b) plan and associated vendor. As a result, there are many vendors offering products to educators. To address the free choice and multi-vendor market, legislation was passed that developed a central database of all 403(b) vendors, including fees and performance information.
- You can go to 403bcompare.com and find information on the vendors approved by your district and compare product offerings and fees.

403b Compare
Your California School Employee Retirement Product Information Bank

System Administrator

Welcome to 403bCompare

The 403bCompare Web site is a bank of free objective information about 403(b) vendors and the products they offer.

This site was created to help employees of California's local school districts, community college districts or county offices of education make better-informed investment decisions by offering information about:

- 403(b) plans, available investment options, fees involved and product performance information.
- Registered 403(b) vendors' experience and services for the products supplied.
- General retirement planning information and educational materials.

The California State Teachers' Retirement System created and will be responsible for ongoing maintenance of this site, as per the requirements of [California Education Code 25100 et seq.](#)

News

- [Open Registration for Vendors on 403bCompare Web site](#)
- [Before You Stop Your Contributions, Read This!](#)
- [Teacher Pension System's Winning Web Program Gives Educators Sound Investment Tool](#)

Getting Started

My Employer >
Select your employer and view its approved 403(b) product vendors. If available online, you may also download your employer's salary reduction agreement.

My Compare >
Keep track of products that you are interested in by adding them to "My Compare." You can then perform a side by side comparison of products of the same type.

Product Search >
Look up a specific product by entering its full or partial name in the search box.

Browse Vendors >
Is there a specific 403(b) vendor that you are interested in? If so, browse vendors. You will be able to view vendor profiles which include information on vendor experience, services and a list of their 403(b) products offered in California.

Education >
Browse through a collection of general retirement planning information and educational materials developed by government and regulatory agencies.

Registered Vendors: 67 vendors to date

Registered Products: 251 products to date

Shortcuts:

- [Find my employer.](#)
- [Find a vendor.](#)
- [Search for a specific product by name.](#)

[Download the 403bCompare Brochure \(PDF, 830 KB\)](#)

Information for Vendors:
[Vendor Registration](#)

Information for Prospective Employers:
[Employer Registration](#)

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The District's Third Party Administrator

Many districts have hired a third party administrator (TPA) to help them with IRS regulations, including remitting contributions to various 403(b) vendors. Some 403(b) TPAs include TDS, Envoy Plan Services and CalSTRS 403(b)Comply. Typically, TPAs charge annual fees ranging from \$24 to \$36 a year per participant.

Some districts pay the fee on behalf of participants, some districts require 403(b) participants to pay the fee via payroll deduction and some districts or chapters want the fee to be paid out of the participants' accounts (note that, even if the fees are taken out of participants' accounts, they are not subject to pretax treatment). In the latter case, some 403(b) vendors, especially low-cost vendors, might not be able to accommodate this, which could result in losing access to competitive vendors. Be careful not to let the issue of how the TPA fees are paid influence the list of approved vendors. Participants should want to maintain access to a quality list of low-cost vendors offering a wide range of investment options, including 403(b)(7) mutual funds. Too often, the list of approved vendors is dominated by insurance companies that promote sales of annuities.

Sometimes the TPA is affiliated with a 403(b) vendor. This can create a conflict of interest if the third party administrator is influencing the list of approved vendors available to you. The good news is that upon request, a 403(b) TPA must disclose to participants any affiliation or relationship to a 403(b) vendor and disclose to the employer any fees, commissions, markups or promotional items received by a 403(b) vendor. See the box on page 8 for a sample disclosure request letter.

The disclosure requirements are found in Education Code Section 44041.5.

Education Code Section 44041.5

Under Ed Code Section 44041.5, the TPA should, when requested:

- Disclose affiliations with vendors as well as direct and indirect compensation.
- Provide proof of liability, fidelity bond.
- Provide proof of a safe chain of custody (fiduciary responsibilities and timely placement of investments).
- Demonstrate that there is a firewall to protect TPA data to be used by TPA affiliated vendors.

TYPICALLY, TPAs CHARGE ANNUAL FEES RANGING FROM \$24 TO \$36 A YEAR PER PARTICIPANT.

What Can You Do?

Here are some advocacy steps your local chapter and/or you can take now.

- 1) Request the district's written plan document. Are there options, such as loans, that the district has omitted from the plan? If so, why?
- 2) Screen the list of approved vendors. How did the district define the list? Does it include 403(b)(7) mutual fund vendors?
- 3) Request that the district or its TPA provide a simplified fee and disclosure form to the district employees. See "More Fee Transparency Needed for 403(b) Plans" below.
- 4) Did the district hire a third party administrator? If so, request disclosure under Education Code Section 44041.5.
- 5) If you have a chapter website, link it to CTAinvest.org and 403bcompare.com. Ask the district to link its website too.
- 6) Distribute the consumer guides: "Closing the Gap: Supplement Your Pension Benefits with a 403(b) or 457 Plan" and "Selecting a Financial Advisor & Understanding Plan Fees." You can order these online at CTAinvest.org.
- 7) Consider forming a 403(b) committee with the district to review the selection of the TPA, written plan document and list of approved vendors. Caution: Don't take on an advisory or fiduciary role in the committee. For example, do not recommend specific investment products to participants.

CTA's Work on a Best-in-Class Plan

CTA is working to develop best-in-class 403(b) and 457 plans. The plans would be offered through your school district via payroll deduction as required by law. Please be patient. CTA is working through its due diligence process to build a transparent and quality option for you. CTA is working with an investment consultant with expertise in defined contribution plans, including 403(b) and 457 options.

More Fee Transparency Needed for 403(b) Plans

New regulations for 401(k) fee disclosure are going into effect in 2012, so participants in 401(k) plans will start to receive detailed information in simplified language about the fees being charged in their plans in their statements next year.

Unfortunately, the same rules do not apply to 403(b) plans. That doesn't seem fair. But, you can request that your district or TPA provide a simplified fee disclosure form to district employees.

WE'RE HERE TO HELP

VISIT CTAINVEST.ORG TODAY OR CONTACT CTA RISK MANAGEMENT/BUSINESS INITIATIVES & DEVELOPMENT DEPARTMENT AT BUSINESS_INITIATIVES@CTA.ORG. DON'T BE SOLD, BE INFORMED!

IMPORTANT NOTE: CTA does not give tax, legal or investment advice. You should meet with your tax, legal, and/or investment advisor to determine the best fit for your situation.

Sample TPA Disclosure Letter

Dear _____,

Disclosure requirements were recently added to the California Education Code to reveal all fees associated with the third-party administration of retirement investments by a third-party administrator (TPA). The district has hired _____ TPA, and we are requesting that you submit to us data that meets the following section of the education code:

SEC. 7. Section 44041.5 (d) is added to the Education Code, to read:

A third-party administrator shall disclose to any employer seeking his or her services any fees, commissions, cost offsets, reimbursements, or marketing or promotional items received by the administrator, a related entity, or a representative or agent of the administrator or related entity from any plan provider selected as a vendor of a annuity contract, custodial account, or deferred compensation plan by the employer. A third-party administrator that is affiliated with or has a contractual relationship with a provider of annuity contracts, custodial accounts, or deferred compensation plans shall disclose the existence of the relationship to each employer and each individual participant in the annuity contract, custodial account or deferred compensation plan.

Additionally, please confirm in writing how the district has met compliance with California Education Code SEC. 7. Section 44041.5 (c)(1) in regards to safeguarding the contributions, changes, transfers and investment data of the assets, and maintaining timely transactions.

SEC. 7. Section 44041.5 (c)(1) of the Education Code reads:

(c) (1) If an employer elects to contract with a third-party administrator for the administrative or compliance services to employers described in subdivision (b), the employer shall do all of the following:

(A) Require the third-party administrator to provide proof of liability insurance and a fidelity bond in an amount determined by the employer to be sufficient to protect the assets of participants and beneficiaries in the annuity contract and custodial account or deferred compensation plan.

(B) Require the third-party administrator to provide evidence of a safe chain-of-custody of assets process for ensuring fulfillment of fiduciary responsibilities and timely placement of participant investments.

(C) Require evidence, if the third-party administrator is related to or affiliated with a provider of investment products pursuant to Section 403(b) or 457 of the Internal Revenue Code, that data generated from the services provided by the third-party administrator are maintained in a manner that prevents the provider of investment products from accessing that data unless access to the data is required to provide the services in accordance with the contract entered into with the employer pursuant to subdivision (b).

Thank you,
