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401(K)'S AND SIMILAR PLANS

When Teachers Face the Task of Fixing Their Retirement Accounts

Your Money

By RON LIEBER MARCH 3, 2017

When the Greenwich Alliance for Education held its annual trivia challenge last week, Carol Sutton worried a bit when the topic turned to finance. Ms. Sutton, the president of the teachers' union in Greenwich, Conn., and her table full of educators weren't quite equipped for the question about debentures.

Other tables were quick to answer. It was a reminder, as if she needed one, that for all of the money smarts in the community, which is packed with hedge fund executives, she and her colleagues were still mostly on their own when trying to fix their 403(b) retirement savings plan.

Accounts of this type, which are like 401(k)'s for nonprofit employees, educators and many hospital workers, often come with high fees and problematic investments, as Tara Siegel Bernard and I documented in our Public Sacrifice series last year. This week, Matthew Lesser, a Connecticut state representative who leads the House banking committee, held a hearing on a bill that he had written after reading the articles. He hopes to require more disclosures by retirement plan salespeople of conflicts of interest.

Time will tell if legislation can pass and then help. Meanwhile, educators like Ms. Sutton are left to fend for themselves or lobby their school districts for assistance. Which means the system, as it stands, looks like this: We have essentially forced some of the people who do the most good in the world to turn themselves into part-time plan administrators who do annuity and mutual fund prospectus-reading on the side. Or at least that's what they need to be if they want something better for themselves.

Let's say that you're a new teacher in Greenwich. Yes, you have a shot at a pension, as long as you stick with teaching. But it may not be enough to support you in your old age. Not everyone is sure about staying with education, and not everyone trusts that underfunded pension plans will persist. Moreover, not everyone pays into Social Security, including teachers in Connecticut. If you don't pay in, you don't get a check for your own work for those years.

Most people who take a step back and consider the above realize that they need another savings plan. That is where these 403(b)'s come in. When you start teaching in Greenwich, you receive instructions to visit the plan administrator's site. That administrator, Omni, presents a list of various investment vendors, with links to their home pages.

There is no explanation there on how the plan works. No explanation on how the companies differ. No menu of investments. And no contact information for people who can explain anything to you.

A befuddled (and annoyed) educator might then call the phone number for every one of the companies and ask for the investment menu, as I did this week through the companies' public relations representatives. Foresters Financial and Voya Financial would not provide the menu or answer any questions, and would not explain why they did not want to talk to me. (Foresters said it could not meet my deadline, which made me wonder: Does it take two days to respond to potential customers, too?)

The Oldham Resource Group said it could not speak without permission from its custodian, GWN Securities. I had a brief conversation with its representative, who then did not respond to additional questions or inquiries about the reason for its reticence.

USAA did not reply to my message before my deadline. A representative for Ameriprise said she would help and then went radio silent, while MassMutual and Security Benefit employees did not respond to my messages seeking comment. What are these people so afraid of?

A hat tip to Axa, a provider of often expensive annuities, which you can read more about in one of Tara's 403(b) articles from last year. At least Axa engaged, letting me know that the Equi-Vest 201 variable annuity that it offers via a prospectus that runs 132 pages would cost a minimum of 1.81 percent annually in one version and possibly a fair bit more. Other options are complex in different ways and may not offer as much market upside. Those fees help pay for Axa's adviser force, and the company thinks that people who work with an adviser tend to start sooner, save more and make fewer mistakes than people who go at retirement investing alone.

Want mutual funds? Only funds from Oppenheimer (and no index funds) are offered via Compass Capital Management, another company on the Omni list. It offers different classes of funds, and the best deal for investors tends to be those on which it pays half a percentage point a year to an adviser on top of whatever the underlying fund expenses are. Over all, these investments seemed best for most people in the Greenwich plan (keeping in mind that many of the companies on the list would not talk to me).

But better deals do exist out in the world, and more teachers ought to have the opportunity to snare them. For instance, it should be easier to buy simple target-date mutual funds, the all-in-one funds that let you set an intended retirement date and then allocate money to a collection of index mutual funds that track the market and adjust risk according to your age.

Ms. Sutton, the union president, said she was working on it. She has fired up her members to ask more questions of any adviser who is helping them with their 403(b)'s. Her finance committee is putting spreadsheets together and looking into other options, like a cheaper state plan that should be available to teachers but currently is not.

But it's all a bit wearying, and it's not lost on her that the human resources employees at many corporations serve up cheap Fidelity and Vanguard mutual funds to colleagues on a silver platter. "Some of us in the public sector are working our tails off; we hope for the good of humanity," she said. "But we're not educated in this area."

Joshua B. Gottfried, a financial planner in Connecticut, is one person who does know the turf. Of the 1,000 or so client families at his firm, 500 have an educator, including one who worked in Greenwich. He has tried to persuade districts to consolidate their 403(b) plans with one lower-cost provider but hasn't been successful.

"We get pushback from the teachers' union," he said of the local opposition that bubbles up. "They don't want to restrict choice for their members."

Quite often, his advice to educators around the state is this, given that many plans are as questionable as the one in Greenwich or worse: Skip the 403(b) plan altogether and just open up a Roth individual retirement account at a low-cost brokerage firm like Vanguard. Young people, especially, may not benefit much from the tax break they get by putting away pretax money in a 403(b) as opposed to after-tax money in a Roth.

It's a sad state of affairs when workplace retirement plans are so compromised that the best move is to avoid them. But it doesn't have to be this way. Our guide for intrepid employees who wish to fix their 403(b) is a good place to start if you are so inspired. Consult my list of 21 questions to ask about investment fees, too.

Finally, press the investment companies that serve your employer. They may stonewall me, but you should not stand for it. Demand answers to your questions. If you don't want to pay 2 percent or more annually for an annuity that you do not understand, lobby your union or district for index mutual funds. And to all of you finance executives in Greenwich who had no idea what sort of challenges your teachers were facing until now: How about raising your hands to help those teachers fix this problem?

You know where the world is going. Pensions, if you have them at all, aren't going to become more generous. Clearly, your health insurance isn't, either. So these supplemental savings plans can make all the difference between a comfortable retirement at the time when you want it and having to work far longer than you ever could have expected.

Now, it's time to make them better.

Tara Siegel Bernard contributed reporting.

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