

THE Advisor

IMPORTANT NEWS FOR YOUR FINANCIAL AND PERSONAL FUTURE

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CALIFORNIA TEACHERS ASSOCIATION

DAVID A. SANCHEZ
CTA President

DEAN E. VOGEL
CTA Vice President

GAIL M. MENDES
CTA Secretary-Treasurer

CAROLE ANNE LUCKENBACH
Manager
Risk Management/Business
Initiatives & Development

Don't Be Confused by District 403(b) Representatives!

New Notice Requirements Could Mean a New Sales Pitch

One of the new IRS rules for 403(b) plans is that your district is required to *provide meaningful notice of universal availability*. What does that mean? The 403(b) plan must be offered to everyone who is eligible, not just selected individuals (universal availability). And, the district must communicate: 1) that the plan is available to all, 2) when you can enter into a salary reduction agreement, and 3) how many times and when during the year you can alter your salary reduction agreement (meaningful notice).

Many districts attempt to satisfy the meaningful notice requirement by having their third-party administrator (TPA) meet with employees to talk about the 403(b) plan. These representatives may also discuss some of the specific vendors and products available in the plan. *This may seem like a good idea, but be wary.*

Sometimes the TPA is affiliated with a specific 403(b) vendor. This can lead to

confusion because some educators may assume that, if a representative has been sent by their district, the district has vetted and endorsed the vendor or vendors he or she is associated with. Some districts do not follow any due diligence process in reviewing or selecting the 403(b) vendors. As a result, the district's 403(b) plan might include vendors that charge high fees, including commissions to sales agents that affect the value of your funds over time.

Due to budget cuts, many districts are using TPAs that charge low or no fees to the district but are affiliated with one or more 403(b) vendors. Because the district uses these TPAs to provide the IRS notification requirements, their preferred access to educators gives them a unique sales advantage. They can use that advantage to push participation in affiliated vendor plans, which sometimes have high fees. And, who pays those fees? You do, if you participate in those plans.

As a participant, you need to take responsibility for evaluating the options in your district's 403(b) plan. CTAinvest.org can provide **resources** to help you.

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How Do I Know If the District's Third-Party Administrator (TPA) Is Informing or Selling?

Many districts have hired a TPA to meet IRS compliance responsibilities. Generally, there are three ways a TPA is compensated:

1. Explicit fees charged to the participants or employer to cover its cost of business.
2. Income from the sale of 403(b) products that may be affiliated

with the TPA. This cost can be passed on to participants directly or indirectly.

3. A combination of 1 and 2.

The best way to identify whether a TPA is informing or selling is simply to ask. In addition, the chapter should exercise the provision of Ed Code Section 44041.5 (C)2(d) and ask the district to disclose all forms of compensation to the TPA. Transparency is the best way to ensure that educators are aware of how the TPA is generating income or its affiliation with specific vendors or products.

All investment products include fees, but some are more egregious than others. California Education Code, section 25101 et seq., requires all companies selling 403(b) products to California public school employees to disclose all fees for each of their products on the 403bCompare.com website.

FIND OUT IF YOUR DISTRICT USES A TPA AND HOW THE TPA IS COMPENSATED.

Why Is a 403(b) Plan Important to Me?

Are you counting on your CalSTRS or CalPERS pension to provide all of your retirement income? Your CalSTRS or CalPERS pension is not enough. A career educator will receive less than 65% of pre-retirement income from CalSTRS and about 50% for CalPERS members. Financial experts recommend that you will need 90% – 100% of pre-retirement income. That's a significant gap.

You also need to take into account the number of years you will live in retirement, as well as anticipated higher health care costs.

Living longer is usually a good thing, but it can also mean that you run out of money if your savings are insufficient to cover decades without a paycheck. Even a very low rate of

inflation can erode your savings over a long period of time. The average age of retirement for CalPERS members is 60, and 61.3 for CalSTRS members.

That means you could easily spend 20 years or more without a paycheck. And don't forget health care. It's estimated that a married couple age 65 may need \$295,000 in retirement savings just to cover health insurance premiums and out-of-pocket medical expenses during retirement.

As an educator, you can save for your retirement on a pre-tax basis via payroll deduction in a defined contribution plan such as a 403(b) plan. Your earnings grow tax-deferred. A 403(b) plan is sometimes referred to as a tax-sheltered annuity (TSA) and it is similar to a 401(k) plan in the private sector. A 403(b) plan gives you an opportunity to supplement your CalSTRS or CalPERS defined benefit plan with your own savings.

FACTS:

- 30% to 40% of educators take advantage of a 403(b) or 457 plan.
- The average CalSTRS benefit replaces less than 65% of pre-retirement income.*
- A CalPERS school member retiring at age 55 with 25 years of service will receive about 50% of pre-retirement annual compensation.**
- Americans will need to accumulate an average of 15.7 times their preretirement pay in order to maintain their lifestyle during retirement.***

* Source: www.CalSTRS.com

** Source: Retirement Security in California – CalPERS Pension Benefit Primer, October 2009, www.CalPERS.gov

*** Source: Hewitt Associates, "Retirement Income Adequacy at Large Companies: The Real Deal," 2010, www.hewittassociates.com.

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What Is the Best Way to Get Started?

Participating in your district's 403(b) or 457 plan doesn't have to be overwhelming. Here are four simple steps to get started.

1. Contact your district:

- Request a copy of your district's 403(b) plan document and/or 457 plan information including a summary of the plan provisions such as loans, transfers, exchanges and any fees.
- Ask for enrollment forms and any associated paperwork.

2. Review the vendors and products:

- Determine what type of investor you are (conservative, moderate or aggressive), and think about the type of 403(b) or 457 product that makes sense for you.
- Determine whether you want to use a commissioned sales representative through an insurance company or invest directly through an investment custodial account.

- Review the three basic types of products to choose from: fixed annuity, variable annuity and mutual fund.
- Decide whether you are going to invest in a fixed or variable annuity, or directly in mutual funds through 403(b)(7) products.
- Be sure to compare performance, fees and expenses, as well as whether the investment suits your goals, timeline and risk tolerance at 403bCompare.com.

3. Decide how much to save:

- What is your time horizon? This is the amount of time you have to save before retiring.
- Figure out how much you can contribute from each paycheck and remember that compound interest earnings grow tax-free.

4. Sign up:

- Complete and submit a salary reduction form with the amount you want to contribute.
- Complete and submit enrollment forms indicating the investments you want in your plan.

CTAinvest.org Can Help!

Need help with your 403(b)? Have questions about investing and retirement planning? CTAinvest.org has answers. For help in understanding the different types of investments available in 403(b) plans and choosing those appropriate for you, visit CTAinvest.org, CTA's investment education website. The site offers a wealth of retirement planning and investment education information, and no log-in is required. You can also order printed copies or download PDF files of two helpful publications, "Closing the Gap: Supplementing Your Pension with a 403(b) or 457 Plan" and "Selecting a 403(b)/457 Advisor & Understanding Plan Fees." Both of these publications were developed by CTA to help educators make informed choices about their retirement investments.

1. Use **Getting Started** to help you get started with your 403(b) or 457 plan
2. Create an online **Personalized Checklist** to keep track of what you need to do to stay on course
3. Read the articles
4. View **Videos**:
 - *Why Participate in a 403(b) or 457 Plan?*
 - *A look at Fixed Annuities*
 - *Comparing 403(b) and 457 Plans*
5. If you have questions, you can post general questions about financial issues on **Ask the Advisor**

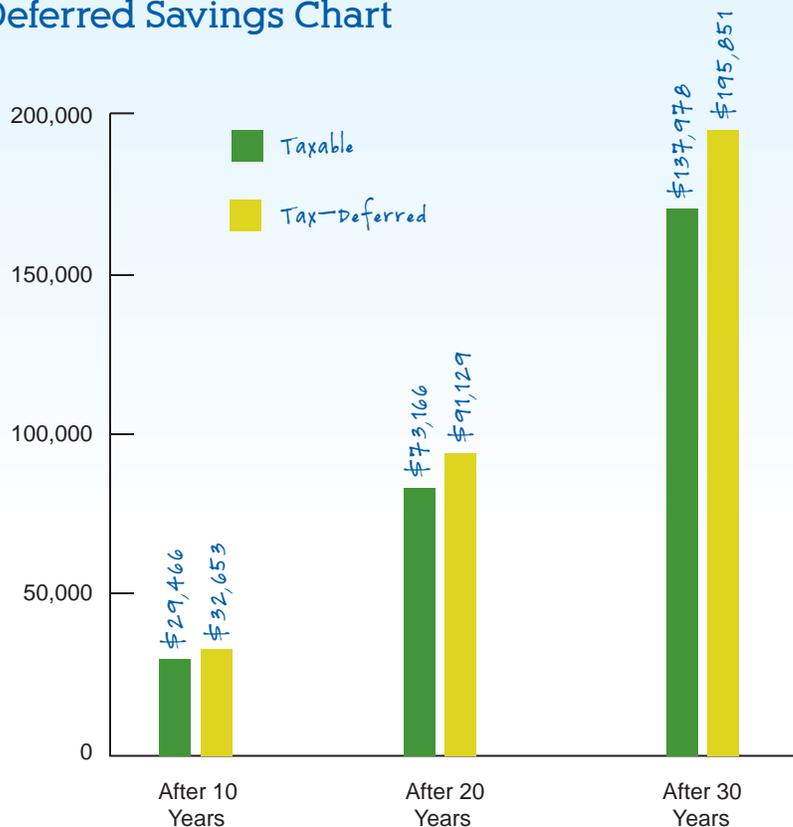
BE SURE TO TAKE ADVANTAGE OF
THE FINANCIAL EDUCATION RESOURCES
AVAILABLE AT [CTAINVEST.ORG](https://ctainvest.org).

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Go to CTAinvest.org

1. Under 403(b)/457 Plans, read about the ABCs of 403(b)s to get an overview and understand your investment choices.
2. View the webinar, "Investment Risk – Don't Avoid It, Manage It," to learn about the different types of investment risk and the steps you can take to manage them.
3. Watch the short videos, "A Look at Fixed Annuities" and "Choosing a 403(b) or 457 Product," to understand the pros and cons of fixed annuities and to understand the differences in investment products within different plans.
4. If you are working with an agent or financial advisor, download *Selecting a 403(b)/457 Advisor & Understanding Plan Fees* and use the worksheets provided.
5. Under Calculators, use the 403(b) Planner to estimate your retirement goals.
6. Watch the video, "Why Participate in a 403(b) or 457 Plan?" to understand the advantages of tax-deferred savings and growth.

Tax-Deferred Savings Chart



Assumes \$200 a month invested at an average annual rate of return of 6%. Assumes a combined federal and state income tax rate of 33% for the taxable account. Return shown is for illustration only and does not represent the return of any actual investment. Your results will vary. Taxes will be due upon withdrawal. Distributions before age 59½ (age 55 upon separation from service) may incur a 10% tax penalty (does not apply to 457 plans).

Source: *Priority Integrated Marketing*

Important Ed Code Disclosure

Section 44041.5 (C)2(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 an 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.