

Educators Challenge
Tax-sheltered Annuities
and Win!

Fighting
Powerful
Interests

Steve Schullo

Co-author of *Late Bloomer Millionaires*

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*Entering a soft white engulfed room, filled with a heavy,
yet radiant mist, I struggle to get out. Slow motion is all I can
muster. Awakened, feeling startled, but freed, what could this
dream represent? "It's the 403(b) world silly!" I reflected,
drinking my morning brew--the author's dream.*

Introduction

“Don’t get me started on the 403(b)!” responded octogenarian John C. Bogle, the Vanguard Group¹ founder, one of four investment “Giants of the 20th Century” by *Fortune Magazine* and selected as one of the “world’s 100 most powerful and influential people” by *Time Magazine*. He revealed his frustration with the 403(b)² mess with succinct eloquence and by the time we parted, I just knew I had to write this story.

After reading my book you will discover five retirement common sense basics and one model solution to the 403(b):

1. You will know how to protect your interests when you review or start your retirement plan with a broker, financial adviser, planner, union or benefits department.
2. You will discover that investing is actually *not* complicated. For starters, never pay commissions. Millions of people continue to pay way too much in investment and advisory costs, which include commission-based products.
3. You will learn about investment companies which offer fiduciary³ advice and low-cost products and with solid, long-term strategies for growing your retirement nest egg throughout your working career.
4. You will contribute, using your 403(b), to genuine investments⁴ which grow with the economy.
5. You will be able to evaluate any financial professional to determine if he or she is a genuine, competent fiduciary or you may manage your money without any assistance at all.

“Manage my own investments?” you question. “You must be joking.” Always remember: it’s your money. And when you find out how chronically abysmal many PreK-12 school districts’ 403(b) plans are, and that you can choose a fascinating way out of the mess, you will be encouraged to

pay even closer attention.

The model solution to the 403(b) is the 457(b). You will learn what this award winning plan looks like, how it works, and will encounter others who might join your advocacy efforts for a lower-cost employer plan.

This is a first person account by an elementary school teacher. I document my struggle to get free from two tax-sheltered annuities (TSAs) and replace them with genuine investments.

I lived with the consequences of overpaying for two dreadful employer-sponsored retirement savings plans *which were sold to me*, early in my career. My TSAs appeared fine until the interest rate plummeted from 12% to 3%, prompting me to look for options that would provide genuine investment growth. My search took several twists, turns and dead-ends. Instead of receiving help from my district's benefits staff, I was met with uncalled-for, evasive, and even insulting comments. I was treated like a barnyard-scented pariah just for asking questions. It made me wonder, "Just what are these people afraid of? I am contributing 100% of *my money*." Confronting organizations so big, complex and powerful as the Los Angeles Unified School District (LAUSD) and, my union, United Teachers Los Angeles (UTLA) initially generated plenty of petty conflicts.

My tale covers a twenty-one year period from 1993 to 2014 and it will open your eyes to the fact that financial professionals invariably take care of *their* interests. All I wanted in 1993 was to invest in a 403(b) with Vanguard Wellington, a balanced powerhouse low-cost mutual fund. Had the school district provided Wellington or accorded me a *modicum of respect*, this book would not exist. My frustration fueled a broader, long-term purpose of bringing the 403(b) into the new millennium by making it *our* plan for all of my colleagues.

Over thirty print media and online sources have

reported the same repulsive issues over and over (see References). The 403(b) structure is cleverly constructed and laden with inappropriate low-performing annuity and broker/dealer⁵ products. The 403(b) is a splendid “job creator” for the sales force, which generates lucrative commissions and charges excessive fees. Its self-serving sales agents employ a delivery system devoid of objective information. It’s appalling-- and an all-too-convenient money-maker for the industry and its minions, so-much-so that financial author, Bill Bernstein, joined the chorus of media reports by writing [that teachers] “find themselves in one of the darkest, foulest-smelling cellars of the financial world—the 403(b) plan” (<http://www.efficientfrontier.com/ef/104/lotm104.htm>), and author Dan Solin titled the 403(b) chapter in one of his *Smartest Book* series on personal finance: “403(b) Plans: A National Disgrace”.

Financial columnist Jane Bryant Quinn wrote: “These plans are typically offered to public school teachers, among others. I approach them with a heavy heart.” A former KPMG auditor who consulted on reforming the Chicago Public School System’s 403(b) said the investment management profession is “the most lucrative, highest paid profession in the world.” It’s little wonder that Vanguard Group founder and investment industry giant, John Bogle, remains frustrated.

While not paying commissions and staying away from TSA products have been relatively easy lessons for some, it is distressing that millions of my colleagues (and the investing public) have missed this news and continue to pay commissions and purchase annuities. The majority of educational institutions and their policy makers have not responded to these reports either. Why?

Educational stakeholders know about the 403(b), but each organization, (whether it’s districts, unions, financial consultants or annuity vendors) discusses policy privately. Consequently, educators are not included in these

discussions. The sales force has monopolized the market and is surely laughing all-the-way-to-the-bank for over our lack of communication, collaboration, and sharing policy and political resources.

Crystal Mendez speaks volumes in her short message:

Dear Mr. Schullo:

I am a second grade teacher with LAUSD. I have been investing in my 403(b) since February 2003. I realized I was invested in annuities and am currently trying to find other options. I am interested in learning more about your experience and the club that helps with retirement plans. Any help you can offer would be appreciated.

Thanks in advance, Crystal Mendez

Crystal had nowhere else to turn. She, like many thousands of our colleagues, may question if her loss-averse decisions actually serve her well. At age 22 Crystal was sold the identical poor performing fixed annuity with high surrender fees that was sold to me in 1985, when I was a young teacher. When she realized she needed to pursue other options, Crystal was not able to obtain the information she needed without a lot of time-consuming sleuthing. She had to rely on her boyfriend, my 403(b) reform-minded friends and myself to help her get on track.

By 2014, she had amassed \$160,000! Not bad for a 33-year-old single female elementary school teacher. Our employers, financial advisers, employee collective bargaining units (unions) and regulators do not get any credit for Crystal's success for the vast number of PreK-12 school districts and policy folks still have not heeded the news reports nor worked together to reform this horrific system so additional success stories happen (See Appendix A for this young teacher's amazing story).

This book provides a forum to begin a *public* 403(b) conversation with your employer, union or financial consultant. Here are some starter topics:

1. The industry's legal monopoly of biased financial

information, its high costs and how to reject the guaranteed products and their scary sales pitches.

2. 403(b)/TSAs are disasters in that “returns” are so puny that your retirement nest egg will not keep pace with inflation and regular income taxes will have to be paid in retirement.
3. Explore how some of us working in the second largest school district have successfully introduced a low-cost, genuine investment, and best-in-class 457(b) plan.

My hope is that you will learn enough from our experience to begin to challenge your employer, union or the financial consultant assigned to your district or employer to do a better job. Another generation of teachers and American workers enrolled in employer-sponsored retirement plans cannot wait. Americans will benefit now from understanding how these savings plans work.

It is clear that 403(b) reforms will not occur without our involvement. This book shows what a small group of educators did with a basic level of financial knowledge and one courageous district administrator by working together, shaking the status-quo and creating an award-winning plan.

Our efforts will hopefully inspire others to ask tough questions, get objective answers and learn how to invest savings wisely in low-cost genuine investments. Let’s begin our journey together to make this system work for us!

1 Vanguard Group is the largest and most respected low-cost mutual fund investment company in the world with millions of clients (and growing), enjoying over \$3 trillion in assets.

2 The 403(b) and the 457(b) are retirement savings plans offered to governmental employees, the private sector’s 401(k) equivalent.

3 A fiduciary carries the obligation to always put the client’s interests first. Annuity sales people and stock brokers are exempted.

4 My definition of a “genuine investment” (for the purposes of this book) is a stock, bond, exchanged traded fund (ETF), mutual fund or index fund. Owning any one of these options represents a genuine ownership of a company or companies. TSAs are just contracts written by, and for, insurance companies so that company can invest the annuitants’ money in genuine investments. Annuitants do not own anything when purchasing TSAs. In return, the insurance company pays a paltry interest rate while raking in stock and bond market gains.

5 See Definition of Terms for Broker/Dealer.

Preface

Two years ago, with my husband Dan Robertson, I co-wrote our personal finance book *Late Bloomer Millionaires*. We chronicled our journey as a couple of educators who started late, learned from our investing mistakes and achieved a financially comfortable retirement. In that book, I wrote about my encounters with appalling, petty bureaucratic system when I asked for 403(b) information from the Los Angeles Unified School District's (LAUSD) benefit department. This book is closer examination of the bureaucratic process presented as a case study of the politics, regulations and policies behind the 403(b).

403(b) has two primary problems: *First*, for comparison, Dan freely chose low-cost investments for his tiny nonprofit employer's plan. However, LAUSD required me to jump through one restrictive policy hoop after another, rejecting my low-cost investment request with no explanation. This almost impossible process began with a struggle just to locate the correct department. When it was finally found, I was met with so much resistance it made Russia's defense of Stalingrad during WWII pale by comparison. All I was asking for was a list of low-cost 403(b) vendors. *A LIST!*

Second the 403(b) system lacks easy-to-understand, objective information on these so-called retirement options: typically high-cost, high-commission products with punishing surrender charges. It is no wonder these terrible plans are aggressively sold by insurance agents or broker/dealers in many school district cafeterias and union halls.

When I had to pay \$6000 in surrender costs to get my money out of two annuities, I turned my anger into a story that offered a positive model of change to help my educational colleagues, our unions, and the retirement system. Since 1993, I have discussed and debated this topic, and have written many letters to financial professionals,

politicians and union officers. I also co-founded a self-help group, 403(b) *Aware*. Since 2006, I have been a voting member of LAUSD's Retirement Investment Advisory Committee, monitoring two billion dollars in plan assets.

The challenge lies in getting the attention of our nation's PreK-12 educators, rank and file union members and support staff, and the numerous educational newsletters/media, journals, trade magazines and teacher organizations who should be asking some hard questions. Asking questions about costs, self-conflicting advice, and whether annuities are appropriate retirement plans is what it took to begin my advocacy, leading me to meet like-minded colleagues and to finally write this book. Our 403(b) *Aware* group journey progressed from knowing very little about investing and employer-sponsored retirement plans to formulating an award winning 457(b) plan.

This book is for beginning and experienced investors alike. Its stories will illustrate how to talk with *and understand* financial professionals and benefits administrators to determine if they have your best interests in mind. If you are an inexperienced investor, the book's story format will add an appealing, real-world experiences to an oftentimes dry subject. The story is easy to read and its only about 158 pages. No prior experience in finances or the investment regulations is necessary.

The book's remaining pages consist of supplemental materials: an index, definition of terms, book recommendations, podcasts, financial websites and blogs and seventeen appendices consisting of correspondence, letters and articles I wrote to assist in comprehending the material. The reference section cites excellent investment books for additional self-education. *Nobody is better able or motivated to watch your money than you*, especially when you're educated in the basics of personal finance.

When you look into your employer's options, you might find the typical minefield of over-the-top regulations and

conflicts of interest. Even in 2015 there is a good chance that your 403(b) choices are *all* high cost. This book will help all skill levels of investors survive (and succeed) no matter what your district's regulatory system touts as a preferred option. As an informed investor you will have a jump-start advantage when you carry your investment acumen and begin petitioning for low-cost options. The Appendices contain sample letters I wrote over the years explaining how excessive costs diminish our nest egg and requesting reform.

This book is not a technical or a legal guide to defined contribution retirement plans. You will not become an expert on fiduciary and retirement plan issues. You will, however, have a good starting point for asking questions to determine if your employer's plan is high-cost or low-cost, involves annuities or genuine growth investments, and is one which hires genuine fiduciary consultant versus one who doesn't have your best interests at heart.

At first glance, these issues may seem too trivial to merit an entire book's discussion. However cost, growth investments and fiduciary responsibility are complex topics, especially when most people still think their retirement plans are free.

The book reads in chronological order from 1993 until the middle of 2014. It is divided into four themes:

- **Part I** - I discover why my employer would not provide my first investment choice. The original regulatory model was brilliant for the industry, but wrong for us educators.
- **Part II** - I exposed the 403(b) mess to the Los Angeles Times and subsequently meet with a dozen LAUSD colleagues to take matters into our own hands. Out of this publicity effort 403(b) *Aware* was born.
- **Part III** - These chapters highlight assorted actions taken by the feds, the defense of the status quo by my unions (American Federation of Teachers and

United Teachers-Los Angeles) and follows two losing legislative proposals to update California state law to reform the 403(b).

- **Part IV** - This section reveals how decisions are made based on my experience with LAUSD's Investment Advisory Committee and offers one solution to the 403(b) mess with an award-winning plan!

If you are new to financial matters it is recommended that you read the entire book. My story is two decades old, but the regulatory obstacles are still in place and there are still far too many in policy and decision making positions who want to maintain the status quo. Readers can jump to Part IV for a solution.

When you finish this book, you will have the knowledge and the passion to lower the costs of your own retirement plan. Your actions in getting your personal investment plan on track can spill over to your colleagues, your union or your employer. Let's begin this journey and find out what little actions we can do together to make the 403(b) *our plan* (or start a 457(b) plan) for a comfortable and secure retirement.

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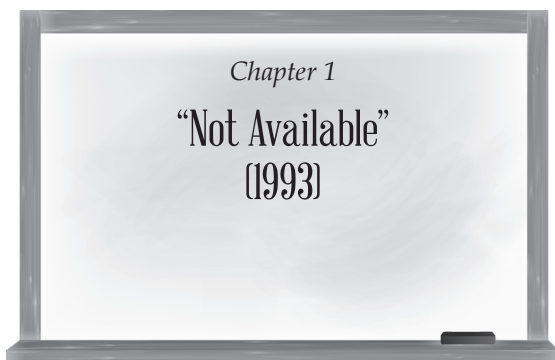
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Part I

The Roots of Exploitation

Problem: Chronic Silence, fee disclosure, paltry
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In our book, *Late Bloomer Millionaires*, Dan and I share our disillusionment with financial advisers' low performing and expensive Tax Shelter Annuities (TSAs). We said goodbye to the useless insurance, front and back-end loads (commissions) and chronic illiquidity (locked up for years). In the early 1990s we discovered investing in low-cost mutual funds providing diversification with increased returns and learned from big mistakes. Notwithstanding starting late, we now enjoy a comfortable retirement.¹

Dan had no problem changing from TSAs to investing in low-cost mutual funds with his employer. My attempts ran into petty obstacles due to employer intransigence and union indifference. In 1993 I applied to save future 403(b) money in Vanguard Wellington, a no-load mutual fund with solid performance over time. District staff returned my paperwork, wrinkled with a hastily scribbled "*not available*" over my application. No explanation, no letterhead, name nor office phone number accompanied the notice.

It wouldn't have been so bad if staff offered a contact number. After several tries to locate the department which handles 403(b)s, I found the "Deduction Unit." Huh? Was misanthropic intent the norm?

I called them for the district's list of available no-load, low-cost companies. The clerk did not know which companies were no-loads, but she provided all 25 mutual fund

companies. Not expecting to write 25 names and phone numbers, I volunteered to pick up this *list* at their office. The clerk confidently told me, “providing any written 403(b) information is against district policy.” What? I am calling to find out what is available to *cooperate* with their policy. I learned quickly that the cleverly titled unit was difficult to locate for a reason and staff was trained not to help.

What is wrong with these people? Why was the department hiding and then playing hardball when found? When I became a new teacher ten years previous, Los Angeles Unified School District (LAUSD) needed teachers and I was graciously welcomed. Now an about-faced attitude emerged. The benefit’s staff played a tedious hide and seeks game with an unexplained “*not available*” application, searching for the hidden deduction unit and finally requiring the list to be hand copied.

My exposure to district 403(b) psychosis was in remission upon discovering INVESCO from the 25 mutual funds available. Almost all of 25 mutual funds charged commissions. INVESCO was a no-load and the one alternative to nasty annuities. I began contributing to this genuine stock market investment in February, 1994. Unfortunately INVESCO charged a 12b(1) fee. This extra .25 percent is a legal add-on for marketing. But I wanted a no-load and a genuine investment with the potential of economic growth (not some insurance company’s profit margin) and compromised with this extra fee.

Not So Fast

My 403(b) advocacy was reactivated when Dan came home announcing a two-page agreement from Fidelity Investments with his employer, a small community-based drug and alcohol recovery house. Six of the twelve employees started contributing to this large no-load mutual fund company. Dan’s good fortune impressed me so much my desire for Vanguard was rekindled. I also wondered why the other low-cost giants, TIAA-CREF, Fidelity Investments

and T. Row Price were not available. My thinking always came back to this fact—this is *our money*. The vast majority of public school districts do not match (or contribute a percentage) to 403(b)s, so what is LAUSD's motivation to be cryptic and degrading to fulfill my choice?

I spoke to a deduction unit staffer, Roger, who was forthcoming. Roger said Vanguard and Fidelity would not sign the district's hold-harmless agreement.

"What's that?" I asked.

He said, "All businesses with LAUSD must sign this agreement so the district is not liable for unforeseen events affecting the vendor which could potentially tap into the district's general fund."

I asked, "But why does INVESCO sign on and not Vanguard?"

Reverting to his bureaucrat's role he dismissed my question, "You will have to ask Vanguard." Before we hung up, Roger surprised me with this out-of-left-field comment: "You know Steve, you're right, LAUSD should have a contract with Vanguard, TIAA CREF and Fidelity." His tone suggested a temporary acquiescence from his confident and effusive wonky role.

This admission was a conscious-raising statement. The retirement plan world was changing in the 1990s and the Internet craze was beginning. Roger's comment was monumental—this one 403(b) staffer demonstrated that large bureaucracies employ decent people who want to help—after all, we are educators. Combining Dan's experience with his employer and with the staffer's parting shot were crucial to continue my investigation—LAUSD *internal* obstacles set by forces and decisions beyond the deduction unit may explain why Fidelity and Vanguard were not available.

A Bigger Picture Emerges

The district obstacles became both clearer and stranger after talking with Fidelity, Vanguard and Invesco. Fidelity and Vanguard confirmed what the deduction unit staff

said. These companies will take responsibility for their own accounting, payroll and fiscal mistakes, *but not for the district's own mistakes*. Shaking my head, I thought, *The district's fiscal mistakes?* Those words I repeated in my head, as Roger never mentioned this.

Fidelity and Vanguard said there is one huge distinction which separates this agreement from common sense legal and practical application. In Five states—California, Ohio, Massachusetts, Texas, and Washington, the common sense indemnity clause, when each party takes responsibility for their own mistakes was not enough protection! These specialized 403(b) hold-harmless agreements require unrestrained liability. Districts demand, *and they get*, what the experts call, “gross negligence.” Gross negligence demands the 403(b) vendor must cover *all* school district payroll and accounting mistakes. In other words, the 403(b) vendor will obviously be responsible for their internal errors (common sense indemnity), but the vendor has to be responsible for the school district's mistakes too!

Why would any vendor agree with this demand? It's not just LAUSD, it's the vast majority of districts in California and many across the nation. Where else is this insane practice? Could “hold-harmless” and “gross negligence” be straw-dogs?

The insurance industry and loaded (commission based) mutual fund companies have no problem with signing such an agreement. Heck, they automatically sign them. LAUSD had 112 insurance companies and 25 loaded mutual fund companies vying for our investment dollars. A few no-load mutual funds signed on, but those charged 12b(1) fees. Unlike INVESCO, Vanguard and TIAA CREF never charged 12b(1) fees. Insurance companies' are in the liability business with their annuities as *the* lucrative money-making machine. They could take on the risk of the school district's hold-harmless agreement because the excessive fees will cover potential errors.

The IRS holds employers responsible for proper payroll contributions. LAUSD requires vendors to correct potential fiscal errors and protection from IRS audits. Okay I get that. If the district messed up my contribution my district would bill INVESCO, right?

Not One Error

The INVESCO 403(b) specialist told me they never had *one single problem* with LAUSD—no accounting, no lawsuits, nor an IRS out-of-compliance issue with my account or any other problem with 2000 LAUSD employees (I was shocked and pleased many of my colleagues choose INVESCO too). If each employee contributed an estimated \$3000 per year, \$6 million in transactions were filed *without a single error!*

The more I learn about the district's restrictive policies, the more questions surround the ridiculousness of the protections demanded by the hold-harmless agreement. Were liability fears illusionary? Somehow the insurance industry tapped into district fears of liability and coincidentally solved the made-up problem. I'm convinced that the industry fooled the districts to permanently keep lucrative contributions from its 30,000+ educators' wages flowing to TSAs, while only 2,000+ employees (6 percent) were contributing to no-loads.

Annuities outsell mutual funds by great margins. Since the district never advertised any of the 403(b) plan choices, the low-cost vendors were hidden behind an obfuscating (and demeaning) process to minimize assistance and discourage valid inquires. How many employees got the same run I got just to get the *list* and gave up?

The no-load funds charge lower fees which benefit the investors, but reduce their advertising budgets with no advisers on school sites. Thus, the no-loads cannot compete with the boots-on-the-ground insurance agents sitting in school-site cafeterias like lounge lizards or barging-in classrooms and union halls, at will, while enjoying the union's approval notices and providing free dinners and

pastry, soft drinks, door prizes, pens and letterhead notepads to anybody who has a healthy 98.6° body temperature.

Letter to LAUSD Board Members and UTLA President

I wrote a letter to my union President, Day Higuichi, the Board of Education, the Superintendent and Chief Financial Officer (CFO) questioning the over-restrictive hold-harmless requirement. I asked Mr. Higuichi about putting the 403(b) on the negotiating table. He wrote back stating: "UTLA [United Teachers-Los Angeles] does not have the authority to require different legal protections and guidelines so whoever is interested will need to comply with District regulations." Several board members, the Superintendent and the CFO replied: "The District's Hold-harmless Agreement has been modified and reads the same as the Los Angeles County Office of Education's agreement which is now in effect for all school districts' 403(b) programs in the county" (See Appendix B).

The union and district were so short sighted they did not consider the implications of the county agreement. Vanguard was available with the L. A. County! County school employees enjoyed low-cost mutual funds, unfettered by the stranglehold of the annuity industry on LAUSD. If LAUSD used the same agreement, why didn't Vanguard sign on to LAUSD too? Fidelity and Vanguard already declined LAUSD's new version.

Good News!

Neither the district nor the union were going to publicize the no-load mutual fund companies availability. Consequently, I wrote an investing article to publicize the few available low-cost funds to the union's newspaper editor, Steve Blazak. He wrote to me, "Our 32,000 teachers would be very interested in what you have to say." And thanked me for making "the newspaper a more interesting read for our members." Steve was my first ally and my first 403(b) article (Appendix C). He understood what I was trying to do and supported two basic principles:

1. LAUSD employees deserve to know all their 403(b) options.
2. They deserve to know the long-term impact of fees.

Summary

The first thing Dan and I did was to say no to TSAs, never pay commissions and avoid insurance agents. Neither district policy, nor illusory-based hold-harmless agreements would stop us from learning to invest and find the lowest cost retirement plan possible. Dan experienced no problems with his tiny community-based social service employer to get his chosen no-load funds. His employer did not require hold-harmless agreements so it had no impact on his choice. On the other hand, I got so angry at this huge charade I began this twenty-one year mission to understand how this rip-off of teachers came to be. And, more importantly, what could be done to improve educator's retirement options and the system itself.

Not one piece of district real estate was overlooked by the TSA sales force. Most teachers' cafeterias had a pile of cookies and brochures placed there to begin a process of trust—bilking billions of dollars from teachers with guarantees which were contractually modified at the industry's whim. No benefits administrator, union official or state politician took notice. To my knowledge, no one questioned any of the 1,000 California school district's indolent policy and their sacred cow, the hold-harmless agreement. The insurance products' high costs and low performance resulting in diminished nest eggs weaved *permanently* into the heart and soul of California's (and the nation's) PreK-12 education culture.

I attempted to take responsibility for my retirement plan and cooperate with LAUSD's policy. But to get what I needed I had to "tiptoe through the tulips" while trying to accommodate their minefield of outdated policies. If the district had sent the *list* of the available companies attached instead of the dismissive *not available* response, this book

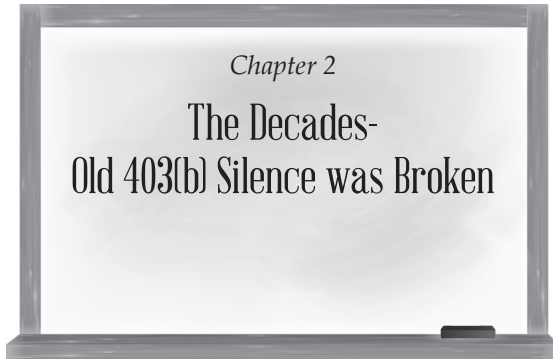
might not be. I would have returned my application with Invesco as my choice and went about my business. *But that's not what happened.* A demeaning culture of ignoring a teacher's reasonable request—their *not available* conduct, followed by my gumshoe effort just to find the 403(b) department, hiding under a ludicrous title. Upon finding them and asking for information, inquiring employees were treated like six-graders, getting an offensive lecture while demanding we hand-write information we needed to respect their phobia.

Anyone would know in an eye blink that this behavior implies something else is going on. This bizarre episode reflects how higher-ups may forego attention to exploitation by purveyors of high priced products limited by unread fine print. Educators are schmoozed into trusting these salespeople when TSAs are aggressively *pretensed* as the *only* 403(b) option.

It's difficult to imagine *no* effective challenge to the school district's restrictive policies or the preponderance of high cost 403(b) insurance-based retirement plans was undertaken for *three decades*.

How did this come about? Take heart. The decades-old 403(b) silence would be broken.

¹ Dan and I worked in the private sector before entering teaching. Dan does not have a pension, only Social Security. I receive 49% of my teaching salary from my teacher's pension plan (California State Teachers Retire System, CalSTRS). Thus, my Social Security benefit is offset by 50% under existing law. If we worked our entire careers in public service and both had pensions, there would be no need to write this book. We retired early because of our 403(b) contributions, which supplemented my pension and Dan's Social Security.



...the tragedy begins, not when there is misunderstanding about words, but when silence is not understood.

- Henry David Thoreau

Sunday, January 18, 1998 the Los Angeles Times syndicated financial columnist, Kathy Kristof, published *The Fourth "R."* She wrote: *"The Fourth R is retiring, and for many teachers, the arithmetic of narrow investment options in their 403(b) is unsatisfactory. But be persistent, you may be able to get your employer to broaden your plan choices."* Kristof featured my quest to include a low-cost mutual fund company, TIAA CREF or Vanguard, on my employer's approved list. Kristof continued, *"For teachers, many of whom complain about the sorry investment options their districts provide through 403(b) plans, Schullo's story may prove instructive."*

The professionals she interviewed supported what I found. David Ganz with the Los Angeles County Department of Labor said, "employers are not paying enough attention to fees." Cathy Cleveland a legal consultant to a national benefits consulting firm responded, "... [403(b)s] are little more than do-it-yourself retirement programs in which workers are given little direction [from employers] on how to participate and sometimes are not even informed about what their investment options are."

This chapter and the next would not be possible without

Kathy Kristof's article. She was a monumental opening of the secretive world surrounding LAUSD's policy.

One Informative Letter from Robert

Robert, a retired industry consultant, wrote an explanation of the hold harmless "gross negligence" language. He described the motive for employers to internalize the illusory liability. LAUSD kept low-cost 403(b) options out of the public eye by hiding the department responsible and then only spoon-feeding options when employees begged. With Robert's insights and professional experience I learned the history behind the bizarre conduct displayed by the deduction unit staff. This behavior was not about compliance, but something deeper.

Robert's wife taught in La Canada, a wealthy suburb west of Pasadena. She confronted the same 403(b) problems in the 1970s as I had 25 years later. Robert shared information he believed useful to reform 403(b). He knew why PreK-12 districts were hypersensitive to liability. One primary cause of this mess was the school district's interpretation of an obscure California state insurance code--770.3 and a coordinated coup on the psyche of school districts' legal counsel, the Boards of Education and superintendents. To grasp the depth of the district's 403(b) behavior, a little background about the regulatory system is in order. First 770.3.

California Insurance Code--Section 770.3

Every state has an elected insurance commissioner who regulates insurance products and services. The regulations passed by the state government guide the business of life, disability, home, auto and other insurance needs. The California Insurance Commissioner regulates 403(b) plans under the code 770.3.

1955-1974

The 403(b) began as an insurance product. Five insurance industry opportunities listed below lead to the predominance of insurance retirement contracts with PreK-12 educators:

1. In 1955 California teachers rejected inclusion into Social Security (SS) by a 4 to 1 margin (California teachers have had a defined benefit, pension plan managed by California State Teachers Retirement System, CalSTRS, since 1913).
2. The insurance industry lobbied Congress to pass the 403(b) in 1958 allowing the IRS to set up tax-sheltered accounts.
3. In 1961 the insurance industry introduced their brand-new product—the Tax-Sheltered Annuity (TSA).
4. **TSA** was much more than just an acronym for the **Tax-Sheltered Annuity**. Marketed into a hardened brand name replacing the original IRS code label, 403(b).
5. From 1961 until 1974 annuities were the only products available for the 403(b).

The “TSA” Success

The TSA evolved into *the* voluntary retirement complement to CalSTRS for the state’s hundreds of thousands of educators. TSAs became a huge sales success, attributed to the first 13 years when TSAs were the only choice.

The 403(b) Internal Revenue Service (IRS) label was as foreign as a Martian culture for 99 percent of educators. The TSA trademark was crucial if the insurance industry were to capture this huge market. Presentations by insurance agents might mention 403(b), but they had to sell the *idea their insurance company offered the tax advantage*. When mutual funds became available in 1974, the 13 year-old TSA brand name was paramount for keeping the new competition out of the 403(b) market. In 2014, 53 years later, most educators, school superintendents, and politicians failed to recognize the 403(b).

Securities and Exchange Commission’s (SEC)

Annuity Warning

In 2000 the SEC issued a public warning about variable annuities (which include some mutual funds): “If you

invest in a variable annuity through a tax-advantaged retirement plan (such as a 403(b) plan), be aware that you receive **no additional tax advantage** from the variable annuity” (Bold in the original). Associated Press and many newspapers reported, *“The SEC is warning, for example, that bonuses offered by some companies selling variable annuities to lure investors may be outweighed by higher expenses.”* The vast majority of Individual Retirement Accounts (IRA) 401(k), 403(b), and 457(b) workplace plans offer tax-deferment *without* insurance company plans. The PreK-12 TSA was the most notorious and expensive plan around. There you have it, straight from the SEC—nothing more will be said about the terrible price my colleagues and other investors are paying.

1969 Amendment to 770.3

During the 1960s, insurance companies sold TSAs to teachers throughout the nation. However, California’s insurance code 770.3 restricted competition by allowing only one vendor for each school district. LAUSD contracted with Zahoric, a well-know Pasadena based firm. Competing insurance companies were left out of LAUSD and other districts. The competition wanted access too. They wanted this “monopoly” ended by pushing California State legislators to require school districts to accept more than one company. Thus, the state legislature amended the insurance code to make it appear educators will benefit with additional choices.

The code was amended:

...employee shall have the right to designate the licensed agent, broker, or company through whom the employee’s employer shall arrange for the placement or purchase.... of the tax-sheltered annuity. ...which the employee has designated an agent, broker, or company, the employer shall comply with that designation....

In 1993, twenty-four years later my employer did not “comply with that designation,” which was my request for Vanguard. I persisted with letters and meetings to get

Vanguard on the list. The Chief Financial Officer (CFO) invited me to talk with him and his staff. When I arrived at LAUSD headquarters, he apologized for being unable to see me. I was escorted by his staff to a meeting room. The ensuing "conversation" with his staff went something like this:

I asked, "is my request to have Vanguard or Fidelity a good idea?"

They said, "yes *but* not without signing the hold harmless agreements. The hold harmless agreement makes vendors feel they are under the gun not to make mistakes."

I asked, "what hold harmless agreement is going to prevent anybody making mistakes even if people are 'under the gun?' People make mistakes. I talked with Invesco and they reported no mistakes with LAUSD's 2000 employees over many years?"

They admitted, "Very few mistakes have been made, but it's *because* of the hold harmless agreement. The companies are more alert in their calculations."

I said, "Invesco said that you, LAUSD, made no mistakes with millions of dollars in transactions. Vanguard and Fidelity object to LAUSD's hold harmless agreement which would make Vanguard and Fidelity responsible for your mistakes. How can any vendor be "more alert with their calculations" about your errors of which vendors have no control? By the way I think your department should be awarded with your error free work!"

They were not amused as they admitted *to my face*: "Vanguard is a fine company. We have nothing against Vanguard." The works repeated, ad nauseam and had the last word, "If we accepted these companies as an option without signing our hold harmless agreement the district's general fund would be at risk, leaving less money for instruction."

I was outta that Homer Simpson harangue. Wouldn't you split too rather than listen to a room of frightened little people, bullying one of their own obscure elementary teachers who simply wants Vanguard with *his money*?

Their condescending and barbarous remarks were meant to trivialize my legitimate request and give up.

The staff's unyielding justification was their interpretation and subsequent acquiescence to the insurance industry scare tactics. Allow me to repeat and emphasize the amended code:

"...employee shall have the right to designate... company through whom the employee's employer shall arrange...."

Obviously the code has been interpreted to the insurance industry's advantage and not to the participants' best interests.

The Employee Retirement Income Security Act's (ERISA) Threat to the Insurance Industry's 403(b) Market

Congress created an oversight board administered through the Department of Labor called The Employee Retirement Income Security Act of 1974 (ERISA). The new federal law sets standards to protect individuals for most voluntary established pension and health plans. ERISA allowed the establishment of 403(b) (7) "custodial" accounts with mutual fund companies (annuity contracts were identified as 403(b) (1)). The new federal legislation had no legal jurisdiction in the administration or protection of public sector workers. Still, it broke the insurance industry's dominance of the 403(b) market.

The insurance industry created a fail-safe plan which would keep the new threatening mutual fund companies out of their lucrative 403(b) market. Since the amended 770.3 directed districts to allow "all willing providers," how in the world are they going to keep "willing" mutual fund companies at bay? After the 770.3 amendment and about the time ERISA created 403(b) (7) (mutual funds), the insurance industry collaborated and a "rather clever tactic" resulted.

Robert explained (in the quote below) that the insurance carriers took unusual liberty with the hold harmless agreement legal language to make districts believe they are more liable than they actually are. In my opinion, it was a

coordinated coup and it worked.

"When legislation broke [name withheld] control of California's 403(b) market, [name withheld] resorted to a new and rather clever tactic. He called together his carriers (life insurance companies) and a contract was devised which exploited the unrealistic possibility that the IRS would hold a school district and their school board members liable for improper teacher payroll reductions and contributions for 403(b) investments. The old employees still laugh at the success of this very questionable, hold harmless agreement and what it has accomplished for the life insurance industry."

What do you think about Robert's explanation?

Sure sounds like a coup to me. According to Robert's allegation, hold harmless agreements with the "gross negligence" language were created by the insurance industry. In my opinion, the industry offered the "new hold harmless" to school districts, knowing mutual fund companies would not sign these outrageous agreements. Districts would eagerly accept the universal liability protection. This brilliant and massively effective relationship between districts and insurance companies was solidified four ways:

1. Low-cost mutual fund companies would not sign the agreement because of the additional cost and risk.
2. School district officials happily signed these agreements—no more liabilities from each vendor who signs the "gross negligence" protection!
3. Collective bargaining units, who represent the employees, never challenged district policy. Recall in Chapter 1 when I asked United Teachers Los Angeles (UTLA, my union) for help, "UTLA does not have the authority to require different legal protections and guidelines."
4. Finally the California Attorney General (1974 AG Opinion) confirmed that school districts' hold harmless agreements are justified when the AG wrote:

"So long as the imposition of such rules does not unreasonably discriminate against any insurer or interfere with the district

employees' freedom, pursuant to Insurance Code section 770.3, to designate qualified insurers, such rules would be permissible."

But it *did* interfere with my freedom to choose Vanguard. To my knowledge I was the only one complaining with my interpretation vs. the insurance industry's interpretation: so my request went nowhere. The 1969 amendment to 770.3 was intended to give more control and choices to California educators, but ended-up protecting the insurance monopoly.

The ERISA law only galvanized the insurance industry against the low-cost mutual fund companies. It was a dazzling tactical move because the insurance industry knew there was no genuine liability at the extreme they were claiming, otherwise they would have never signed such an absurd agreement either.

If the regulators had good intentions for educators, it backfired. Insurance companies manipulated the legal landscape whiplashing PreK-12 school districts to demand over-the-top hold harmless agreements, controlled the TSA market and product sales, from the Boards of Educations to individual school sites and right into classrooms and teachers. After all, insurance companies are in the liability, marketing and sales business and low-cost mutual fund companies are in the investment business. Guess which business prevailed?

I understood why my plea for Vanguard did not happen. It was a fantasy world, supported by powerful bureaucratic and cultural myopia all the way to our State Insurance Commissioner's office. The benefit staff probably never knew or questioned why these ancient policies existed. Consequently, these *delusions* of the fear about fiscal errors and excess liability were in place *permanently*. Much of 770.3 has been intact for 44 years and it's so outdated it qualifies to be on the national list of dumb and outright stupid laws (website: <http://www.dumblaws.com/>).

TSA Product Promotion, Sales and Delivery

What does the insurance industry get in return? PLENTY. Access and total control of 403(b) information in one-to-one conversations with a naïve and trusting clientele. Teachers have nowhere else to go for objective information. The agents are free to march right into the schools with no oversight or transparency about costs nor other options.

The insurance industry will take 100 percent liability and *100 percent control* over 403(b) information and delivery of TSAs directly to the classrooms, teacher cafeterias and union halls *at no charge to the district or the unions*. In the real world the situation of an agent who only represents TSAs talking to individuals about what was best for their retirement planning would surely fall under the category of conflict of interest. But the 403(b) world was *not* the real world.

The board of education and the unions want to offer these plans “free” and no risk. Most important, district legal counsel was happy to inform school administrators they were protected from (fictitious) liability—and unions never challenged this. Heck, every district administrator and union boss in California has been happy with the decades-old status quo. LAUSD had up to one hundred fifty 403(b) vendors with no liability. To have contracts with millions of dollars in transactions annually at stake and have zero responsibility must have put any PreK-12 school benefits administrator’s and their legal counsel smack-dab in liability protection super-paradise.

Legitimate financial advisors know people have different financial needs and goals. Yet in the TSA world, one-size-does-fit-all remains a permanent retirement planning rite, hiding under consumers’ “choice” (Yea right!). The conflicts of interest surrounding this tightly bound scenario involving insurance agents serving millions of educators who have wholly different financial needs have opposed best practices all along. It doesn’t matter whether the client was a 25 year-old married male teacher or a 55

year-old single female principal. All that matters was a sale to a warm body and a commission.

Historical Review Table

1955—California teachers opted out of Social Security (SS).

1958—Congress allowed the IRS to defer income taxes with the 403(b) plan.

1961—The insurance industry introduced and marketed the “TSA” to the state’s educators as the supplemental savings plan in place of SS.

1961-1968—California Insurance Code allowed school districts to contract with one 403(b) vendor.

1969—Insurance industry amended California Insurance Code 770.3 to allow more vendors to sign with the state’s PreK-12 districts. Districts must allow “all willing providers.”

1961-1974—only annuities were allowed in 403(b) (1) plans. Commonly known as the “TSA.”

1974—Congress passed ERISA allowing 403(b) (7), custodial accounts with mutual funds.

Early 1970s—The gross negligence agreement prevented mutual funds from competing for the PreK-12 market and it gave the district a huge back door to excuse themselves from any responsibility for oversight, publicity of choices, cost transparency and financial education. The illusory fear of liability for *“improper teacher payroll reductions and contributions to 403(b) investments”* (Robert) resulted in an inflexible and permanent district policy.

Summary and A Call to Action

Creating the gross-negligence language was a dazzling and shrewd calculated move by the insurance industry. Their primary purpose? Keep the competition out of their market and make profits from TSAs off the backs of teachers. The strategy worked flawlessly—the overselling of high-cost, low performing, “never-lose-money” annuities and loaded mutual funds over low-cost alternatives continued unabated.

I have never heard of a 403(b) vendor coughing up money for an employer to comply with a hold harmless agreement or to correct the employers' fiscal errors. INVESCO reported no problems with LAUSD. By demanding this agreement, school districts become unwitting co-conspirators who discriminate against quality, low-cost mutual fund companies which offer higher returns. 770.3, our state insurance code and the State Insurance Commissioner's office are to blame.

California has a reputation for bulldozing new ideas and encouraging social activism—but certainly *not* in 403(b) plans. For nearly one million PreK-12 California educators 403(b) has been a permanent fixture in the Flintstone's backyard since 1961. How could school districts and insurance companies have gotten away with this lunatic policy for decades with *nobody* in a leadership position coming forward to challenge this travesty? Think about the money involved: LAUSD educators alone contribute about a conservative \$100 million a year by 25,000 employees. With about 1,000 other California school districts combined we are talking about billions over time. With so much money at stake, how in the world did 403(b) oversight been given a pass at all levels of leadership?

The insurance agents selling expensive and inappropriate TSAs have a right to take care of themselves. We forget, as consumers, we *also* have a right to take care of our best interests. We owe it to our loved ones, our colleagues and the retirement planning system. Fortunately, with the addition of mutual funds the 403(b) improved dramatically and was now a powerful and effective retirement plan. We know how and why the potential of our powerful benefit has been hijacked.

The retirement planning system was and always been our benefit, not the insurance industry. Unfortunately, the state insurance commissioner was not going to allow districts, collective bargaining units and employees to decide what is best for themselves and their employees. We

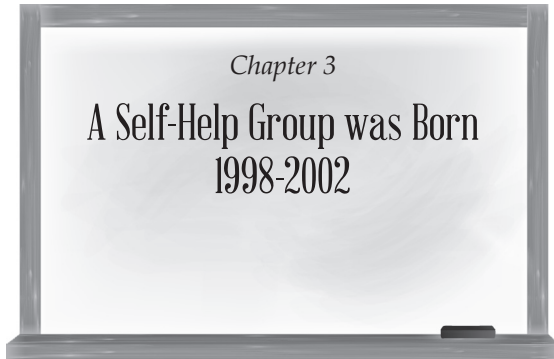
need to take back our rights.

Thanks to Kathy Kristof, Robert the industry consultant and subsequent articles from other newspapers and trade magazines, perhaps we can get enough grass root support from the rank-and-file educators, from their administrators, from more financial writers and from dedicated politicians who listen—then act, to make 403(b) viable. While there are rank and file complaints about the district run-around, they have not yet reached a critical mass. A colleague said she got the same petty dismissive attitude as I did, but her conversation with a benefit clerk escalated into a shouting match, slamming down the phone and giving up. She walked away frustrated because she didn't know if many others got the same treatment. Kathy Kristof received emails from teachers complaining their story was worse than mine. Educators were complaining—this was a widespread problem. Why wasn't anybody listening? (Appendix D is a letter complaining about the lack of 403(b) interest to a national education newspaper).

The good news was that you are not alone. There are educators, colleagues and fellow employees who did not just go away. A dozen wonderful LAUSD colleagues organized an informal self-help 403(b) group which took the message of hope straight to our colleagues.

Part II

Self-help Group was Born



To my surprise, twenty-five Los Angeles Unified School District (LAUSD) colleagues contacted me expressing support after reading Kathy Kristof's Los Angeles Time's article, *The Fourth R*. After five years of communicating with district and union personnel followed by 403(b) investment articles published in the union newspaper, a huge door opened. My colleagues' response showed they *did* notice the same corrupted 403(b) *policies* I experienced. Many mentioned their issues with the district's mystifying barriers requesting Vanguard. Take a look (edited for space):

Dear Stephen,

I was very interested in the article about you in Sunday's L.A. Times. I, too, have had the same experience with LAUSD regarding Vanguard Funds. The school district's position on this is extreme in that it won't even permit the use of California's State Teachers Retirement Systems (STRS) mutual funds. If there is any way I can be of assistance in helping you push the Board to change its policy, please feel free to contact me.

Dean Cohen, Teacher

Dear Stephen,

I really enjoyed Kathy Kristof's article about you and our 403(b) wars with the District. I have been investing in a no-load and am pleased with my results. It's good to see that you are persistent

in your pursuit. Here is my pitch: I have good relations with [he names board members and the union officers]. If you would like to turn your "one man war" into a "two man war," I would like to help you both expand the number of mutual funds available to us through payroll deduction. [Upon Ed's invitation, I attended my first teacher's union meeting].

Ed Kaz, Teacher and Chapter Chair at Reseda HS

Dear Stephen,

I was very pleased to read "The Fourth R." Thanks for getting media attention to a problem that has been of concern to me and my colleagues for many years. Like you I have been concerned about my 403(b) options. When I asked the District about expanding the options for better returns and lower fees, I was told about the "hold harmless" agreements. Unlike you, I became discouraged and gave up when I became aware of the ponderous process to execute a tax-free exchange. I am eager to learn more about your experience and how I can finally move into a better performing program for my 403(b) money. Would you write or call me?

Esther Ginsberg, Educational Audiologist

Dear Mr. Schullo,

This morning I read about your quest to have the district approved Vanguard as an option for 403(b) plans. Now that you are the de facto leader of this movement, please let me know what I can do to help you.

Joe MacDonald, teacher

Dear Steve,

You must have some clout if you were able to get Kathy Kristof to feature you in the TIMES! Congratulations. I was then pleased to see your informative article in the UTLA paper [United Teachers-Los Angeles union's newspaper].

I agree with you that more needs to be available to the teachers i.e. VANGUARD. If I can help you in any way, I would be more than happy. However, I have also found many teachers are oddly

apathetic when it comes to finances. Several, I discovered, didn't know what the 403(b) was! Anyway, keep up the good work. And yes – I believe I would be interested in an investment club.

Louise Delaney, Teacher

Our First Meeting

Spurred by these responses a meeting was a must. All twenty-five respondents were invited to Leo Politi Elementary on April 9th, 1998. Little did I realize Joe, Louise, Dean, Ed, Brad and Esther (and others) would become friends for many years. My only leadership role was Captain of the Cumberland High School football team. We lost all our games, so I had to learn fast. Slightly gun-shy I expected a better future for this interest group.

Twenty-eight people showed. It was a genesis for a group of like-minded colleagues leading to our newly formed self-help group. The only agenda for this first meeting was a presentation by the local Investment Club PR person to share how their organization works. My idea was to form a self-help group using their model. Investment Club members had to create a legal partnership with a pot of money to invest in individual stocks. I squelched the idea. An Investment Club was too complicated, didn't meet our purpose of educating colleagues, gaining low-cost 403(b) choices nor updating old district policies. This meeting was significant—I met Sandy Keaton and Esther Ginsberg and others who would become heroes and fighters for quality low-cost 403(b) plans.

Our Meetings Continue

Our next meeting was at Sandy's school. Despite the rain and little publicity, 20 educators showed up. A financial advisor from Prudential asked if he could attend to our meeting. We assented as we didn't have a workable agenda. We had no precedent.

This advisor spoke about investing and answered questions. He read my investment articles in the United Teachers-Los Angeles (UTLA) newspaper and was impressed.

"Someone was doing the right thing," he said, looking at me and smiling. He knew teachers were shafted by investment advisors. His fiancée' was an LAUSD teacher. So he had a personal interest in our quest to become knowledgeable investors.

This all sounds good, right?

Wrong.

"My Wife is a Teacher..."

This advisor taught Sandy and I a valuable lesson about evaluating financial professionals. Financial advisors are smart, friendly and interesting people and might make great friends, but in my opinion, don't mix the two. "My wife/husband/fiancée'/mother is a teacher," or "I used to be a teacher" are fortuitous trust-inducing sales pitches. This frequent leap of faith that you could then trust this friend or colleague with your money was a mistake. Yet these pitches are as frequent as the number of daily visitors to Machu Picchu. *This criterion for trusting goes out the window when selecting a financial advisor.* Once you realize the conflict of interest and multipage fine print contract was designed to use your money to benefit the salesperson and their company, you can say "no thank you" with confidence.

After the meeting Sandy and I realized our mistake. The speaker didn't say he sold insurance products, but his disclosure of an insurance license was enough—no more advisors without vetting. He said good stuff in *front of us* with a flattering comment about my articles and mentioned his fiancé was an LAUSD teacher, *but* this background information was beside the point. We couldn't know what he would sell to unsuspecting colleagues in classrooms, union halls or school cafeterias in the future. Even when asked, salespeople have a well-rehearsed evasive response such as: "I can't answer your question until I evaluate each person's situation. We offer choice and the company pays the fees, blah, blah, blah."

Most of us know very little about personal finance so we are vulnerable to our natural fear of the stock market,

we are happy to do something to plan for retirement and to find this nice person to ease our anxiety. *We trust people who share our important life values and social activities.* How nice when an advisor has a personal or professional relationship with you through work as a former teacher, place of worship, little league, the gym or other worthy organization. We are glad the sales person just happened to be available at our school site or union hall. Unfortunately, the sales people are way ahead of us and take full advantage of our inexperience by selling expensive plans and making us think that their plan is the only one available.

From then on we vetted speakers who shared *our* investment philosophy of low-cost 403(b)s with mutual funds. We learned when advisors make offensive comments about TIAA CREF or Vanguard, they have an opposing investment philosophy. It was nothing personal—it's their right to voice opinions. It was also unprofessional conduct verbally berating Vanguard and TIAA CREF to unsuspecting educators. Furthermore, *it's unethical behavior and a conflict of interest to sell commission laden products to clients who don't know low-cost options are also available.*

When I discovered mutual funds, I asked an "advisor" if she could invest my 403(b) in mutual funds. She shot back, "I'll never recommend mutual funds to teachers because they're too risky!" Her condescending, cheap-shot and unethical remark catapulted me to invest and do it myself. I *never* spoke to another insurance agent again. Unethical advisor behavior was *everywhere* where educators and staff were grateful this "nice" person took an interest in their retirement nest egg. They must be avoided.

403(b) Aware

We named our 403(b) support group *403(b) Aware*, signifying a warning to stop-and-think before blindly signing up for TSAs.

Mission Statement

Our mission is to educate UTLA members on the political and economic realities of retirement planning using the little known and mysterious tax-deferred 403(b). We are UTLA members, but most importantly, no one among us is a professional financial advisor.

Our mission was simple—tell members about *all* options and show colleagues how to avoid or get out of TSAs. This challenge was not tried before. But the core-group members Sandy Keaton, Brad Rumble, Joe MacDonald, Dean Cohen, Ed Kaz, Esther Ginsberg, Louise Delaney and Marc Becker were ready. We bonded for one primary reason: ***We were all screwed by TSA sales pitches, learned our lesson and wanted our colleagues to avoid our mistakes.***

Instead of complaining among ourselves and patting ourselves on the back for correcting our mistakes, we offered a genuine service to our colleagues. The Paradise Café in Universal City became our central meeting location. We had our own room, as long as we ordered a meal.

The early meetings focused on creating a safe environment. We helped people understand their annuities' excessive costs, which compound yearly until the day you die and eat away most of their final nest egg. We told them, the sooner you get out of that high-cost annuity or mutual fund, the better. For some the hardest step was transferring from annuities into mutual funds. Some colleagues followed up while others procrastinated. Appealing to the tens of thousands of LAUSD colleagues who blindly signed the TSA forms while ignoring their statement, remained a serious challenge. Most Americans have no idea of the costs of their personal plan, whether TSA or loaded mutual fund.

Our agenda was quickly established. The demand for genuine, frank and understandable objective information was loud and clear. Teachers/school psychologists/nurses/counselors/principals and Sandy's entire audiology department attended our meetings. They heard about our meetings from word of mouth or reading my columns in the

union newspaper. Every time a new person attended I asked for their email. It didn't take long to compile a list of over a hundred followers to keep them informed of meetings.

How can we get other educational professionals interested in supplemental retirement planning with bona fide safe long-term growth: stocks and bonds? Seventy-five percent of our colleagues don't save a dime because they mistakenly believe their pension plan will fund their retirement 100 percent. Pensions and Social Security were never created to fund our retirement entirely. With our CalSTRS Pension, one would have to work 38+ years to get 100 percent of a teacher's salary. How many of us can or want to work for 38 years at the same job under somebody's else's whim? Hello!

Trying to reach that 100 percent benefit from our pension formula, our physical and mental health are at-risk. Our students' academic progress is compromised when we are stressed or burned-out. Nobody wins. To make matters worse, a 100 percent pension benefit was based on the final year teacher's *base* salary and ordinary income taxes must be paid each year. Many teachers don't understand the implications of our pension benefit not indexed to the inflation rate. I met teachers at our meetings who were visibly exhausted and in their 60s, who couldn't retire. They didn't plan. It's tragic for themselves and their students.

United Teachers—Los Angeles

We worked our way through the union's infrastructure. There are many union committees to began the process of making a motion an actionable union policy. I starting with the union Finance committee (I found out later that the Retirement Issues Committee focused on the pension plan and never the 403(b)). The room was packed with the same people who read the L.A. Times article. We made our pitch to have the union work with LAUSD to expand the number of lower cost 403(b) vendors. The committee members listened, asked questions and passed our first

motion, "UTLA will work with the district to offer more low-cost mutual funds." The finance committee Chair was surprised at the turnout. He was not interested in 403(b) issues. But he carried our motion to the next level in our union's House of Reps meeting, the largest governing body of our union. I felt great when it passed.

The following day, Day Higuchi, my union's President called. He assigned his assistant Sam Kressner to work with me. I was pleased with his promptness and was eager to get started with Sam. The first topic Sam and I tackled was to find out if LAUSD was using an over restrictive hold harmless agreement. Sam asked the states largest teachers' union California Teachers Association (CTA)'s chief legal counsel to look at the district's document. It remained the major reason Vanguard would not sign.

Sam sent me the fax he received from the CTA attorney. She agreed with our opinion the agreement was too restrictive. Sam wrote up a letter to LAUSD citing CTA's opinion. He wrote (edited for brevity):

"United Teachers Los Angeles represents thousands of LAUSD employees eligible to participate in a Tax Shelter Annuity 403(b) Program. We are extremely concerned about the restrictions on investing funds with some of the largest and most reputable mutual fund companies in the United States.

I have been in contact with Beverly Tucker, Chief Counsel for the California Teachers Association. She has reviewed the LAUSD Custodial Accounts TSA Company Agreement and specifically analyzed the Indemnity and Defense clause....

It is her opinion that the LAUSD language which requires a TSA company to indemnify the District against its' own negligent actions, or that of its' employees is per se unreasonable and thus unlawful because it deprives employees of their choice of a provider."

LAUSD Board Member David Tokofsky

LAUSD Board Member David Tokofsky received a copy of Sam's letter and invited Sam, Sandy, Brad and I to his office. David referred Sam's letter to LAUSD's legal

counsel, O'Melveny and Myers, seeking a review. This was legal counsel's response:

"... contrary to Beverly Tucker's (CTA's Attorney) assertion in the memorandum you provided that such a hold harmless clause is per se unreasonable, its widespread use over the years by California school districts without any successful court challenge leads me to conclude that it is reasonable."

What a rationalization. The legal counsel's response was trivial and myopic but not surprising. Recall from Chapter 2 the insurance industry gained enormous power over the thought processes of districts' boards of education, benefits administration and *legal counsel* about liability. The attorney also said in his short report, *"Were the District to be more responsible for the TSA Program, it would require the District to obtain more and costly monitoring facilities and personnel."* Didn't he know our district payroll department was fiscally flawless, according to Invesco, and lower cost vendors would happily pay for their own mistakes? There was no need for additional expense nor more district responsibility for a common sense indemnity agreement.

We were mistaken when we appealed to their common sense. How could bright and capable professionals who consult large institutions not see what we see? Well, it's not about common sense. It's about a huge bureaucracy which cannot examine itself no matter how damaging its outdated policies and the pandering to "tradition" are to employees. Millions of dollars of educator wages are at stake and the leaders responsible are blind because of a well rehearsed liability story.

Legal counsel's final say was not challenged by either Tokofsky or UTLA. The mounting evidence and the print media publicizing educators' complaints supporting the CTA's attorney's opinion were dismissed by so swiftly it made the Indianapolis 500 look like a Soap Box Derby. The 403(b) has long been a trivial issue and a done deal for 30 years—why change?

Even though we lost the battle, our 403(b) *Aware* group meetings continued by sharing our genuine and forthright message direct to colleagues. We focused our precious efforts via our meetings at the Paradise Cafe. I wrote more investment columns in the union newspaper and we remained ready for additional media publicity.

We passed our second and last motion: "It will be UTLA policy to provide objective information about all 403(b) options to members." I created the following table 1 titled: *Your retirement: exploring the 403(b) option*. The Union Newspaper editor published this graph.

Table 1 (July 21, 2000)

Partial list of companies offering 403b services by LAUSD for all 61,000 eligible employees Financial Adviser's Options (TSA) <i>Fixed annuities are low performing, safe options paying 4-5%. Variable annuities are usually combined with load mutual fund companies. A load is a commission of 3-6% paid by you. Market risk is involved with higher yields than fixed annuities. (Commissions are charged when you buy shares in addition to the annual management fee of about 1.0 to 2.0%.)</i>	
Total number of TSA companies: 112	Total number of Load Mutual Fund Companies: 25
<i>Partial list below</i> Cal American Life Insurance Company Franklin Life Insurance Company Great American Life Insurance Co IDS Life Insurance Company Lincoln National Life Insurance Company Northern Life Pacific Life Insurance Pioneer Mutual Life Insurance Standard Insurance Company State Farm Life Insurance Co.	<i>Partial list below</i> AAL Mutual Funds G.T. Global Monitrend Invest Management Oppenheimer Fund Pacific Advisers Fund Sentinel funds Sun American Asset Management Templeton Funds Van Kampen American Capital Zweig Series
Self-Directed ("Do it yourself" option). <i>No commissions. Annual management fee ranges from .8-1.5%. Risk involved; performance is about the same as loaded funds, but without sales charge.</i>	
Total number of no-load mutual fund companies: 3*	
<i>Total list below</i> Invesco Funds Neuberger and Berman (Socially Responsive Fund available) USAA <i>*Two UTLA motions were passed to add Fidelity, Vanguard, and Janus no loads.</i> <i>UTLA Approved: FRE, PlanMember Services, Met Life, and Zaboric work with many of the above insurance and load mutual fund companies in setting up plan. (No-loads fund companies are not used in these plans.)</i>	

Please note: Educators 403(b) Aware members are not financial advisers nor are they endorsing, representing, have a financial interest in, or recommending these companies. They welcome corrections/omissions. Space prevents the listing of all 139 insurance and load mutual fund companies and details of all commissions. This list of companies can change at the District's discretion and is a starting point for your information. Morningstar.com provides detailed information on all companies.

This simple table shows how vendors can be categorized by fees and their investment philosophy. UTLA members could judge for themselves, which vendors are high-cost TSAs to low-cost mutual funds. It was not necessary to publish all 140, 403(b) vendors. The 112 TSA companies and the 25 load mutual fund companies are marketed and sold by the numerous agents and commissioned mutual fund advisors respectively and swarm the schools 24/7 like the famous bats at Carlsbad Caverns. 403(b) *Aware* wanted UTLA members to be informed of all choices. Only three no-loads *Invesco* (I used), *Neuberger & Berman* and *USAA* are available without marketing or sales people. That's why the information in this table was important. Let teachers know these options too. Those TSA lounge lizards will not inform their potential clients of all the choices.

We stopped talking with LAUSD and trying to pass additional motions through UTLA. It took too much time. Our request for the district to drop the gross-negligence, indemnity clause went nowhere and our union never followed-up by adding more no-loads. There was no political will from either for reform. Besides, those no-loads would not sign LAUSD's ludicrous hold harmless agreement anyhow. We were back to square one.

It would now take a broader groundswell of district employees, administrators, teachers, support staff, bus drivers and other union members to complain to their union leadership or Board of Education members. Since not enough people were complaining yet, the three-decade

status-quo appeared permanent. Sandy and I continued to meet with board member David Tokofsky and Sam Kressner because they kept their doors open. David was the one elected leader who remained interested.

Mainstream News Media Published 16 Articles on High-cost 403(b)s

After Kiplinger's and Kristof's catalyst articles about high fee and lousy 403(b)s choices, a flood of 403(b) articles appeared in big and small newspapers across the country. All hell broke loose. The dam finally broke in the decades old chronic silence of school districts' 403(b) across the country. By 2001, twelve articles appeared all reporting the same 403(b) problems (see references for all print media 403(b) publications).

The second largest teachers union in the country, American Federation of Teachers (AFT), also published a GREAT 403(b) article in 2000 in their trade magazine, *American Teacher*—called *Shark Attack!* This hard-hitting article was spot-on and is discussed in detail in Chapter 5.

And Not So Good News

Even with national print media support for our group's message, our colleagues were not getting it. TSA sales continued unscathed. Each year, like clockwork, LAUSD's insurance agents sell over \$100 million worth of TSAs (constant for at least three decades up to 2014!). So far this new onslaught of 403(b) exposure had little or no effect on the insurance industry's nonstop, runaway sales of TSAs. Why weren't our colleagues hearing or reading about these reports which were all over the mainstream media? The news makes it appear people outside the educational institutions know the 403(b) mess, but not teachers.

Workshops?

We had to do something. If we wanted to take our message to a larger audience face-to-face—the rank and file—we needed to offer workshops. But where? Would colleagues listen to their nonprofessional peers talk about

investments and personal finance?

A workshop at the annual UTLA Leadership Conference held each August in Palm Springs might break open union intransigence and help spread our message. UTLA was one of the largest locals in the country with about 45,000 members in 1999. The Conference organizers invited all UTLA leaders with 600-800 Chapter Chairs attending. Chapter Chairs are the equivalent of the “Union Stewards” in the private sector. They are substitutes, classroom teachers, audiologists, psychologists, elected by the school site members who represent them at union meetings. UTLA mandates Chapter Chairs to attend meetings at UTLA headquarters and report updates to members at their school site. Chapter Chairs could take our 403(b) message to their school sites.

The conference offered dozens of workshops from addressing the district’s new education initiatives, negotiation strategies, organizing members for protests and updates to our health and dental benefits. Not surprising, a 403(b) benefit seminar was never offered before by the membership. The 403(b) was hardly known and not identified as a regular benefit despite the AFT’s *Shark Attack* publication. The union’s Retirement Issues standing subcommittee discusses the pension plan, health and dental benefits, *not* the 403(b).

During the spring of 2000 we launched a broadside at our annual union leadership conference. Apparently our group’s message was trickling through the union’s leadership ranks. Our consistent presence at union meetings for the past two years paid off. Our 403(b) workshop application was accepted. We were scheduled for 1.5 hours Sunday morning, August 20th, 2000.

**Demystifying 403(b): Make this Little Known, but
Important Benefit Work for Your Retirement**

Agenda

Workshop Goal: Share our experiences for improving

the 403(b) plan

1. Why we stopped putting 403(b) money in annuities—more money coming our way instead of the agents and the insurance companies.
2. Defining mutual funds—why they are genuine investments and how they compare with an annuity contract.
3. Recognizing a risky investment and how to avoid them.
4. Explaining the difference between savings and investment.
5. How to think long term.
6. Buy and hold strategy.
7. Define and locate Socially responsible investing.
8. Define Dollar Cost Averaging, load and no-load and how the monthly deduction in your 403(b) adds up over the years.
9. You must develop a plan to supplement CalSTRS (Our Pension).
10. How we transferred from an annuity to a mutual fund.

Panelists:

Joe MacDonald

Teacher, House of Rep.

Sandy Keaton

Audiologist, Chapter Chair.

Brad Rumble

Coordinator, Rosemont Ave. Elementary.

Steve Schullo

Computer lab teacher, Leo Politi Elementary, House of Rep.

In the 403(b) application we wrote, we are NOT professional financial planners. We do not represent any company and have no economic connection with the financial information provided. The panel wants members to know they have alternatives. We have led the fight to pass motions through UTLA to begin to educate members of this benefit.

Unfortunately, I did not attend my own presentation because of an unexpected health problem. Nevertheless, Sandy, Joe and Brad did a fine job. The room was packed. One influential member was angry at one of the union approved 403(b) vendors. This member was on the UTLA Board of Directors—he could have caused serious problems. But nothing came of it. Once a vendor was “union approved” it was for life, notwithstanding one or two dissatisfied members.

Sandy was amused at the union’s approved vendors who were listening at the door. Similar to most professional conferences it’s standard practice for vendors to set up tables and advertise their products and services. Members get free pens, coffee cups, door prizes and *dinners at expensive restaurants to drum-up sales*.

There was little doubt the 403(b) vendors were threatened by our *no-nonsense* workshop. We took matters into our hands by providing objective financial information about all choices, especially the no-load mutual funds.

The union approval system was similar to the district’s hands-off policy to insure no dollar cost to LAUSD or UTLA. Once “Union Approved” both permit the vendors 100 percent control over 403(b) information and distribution with no oversight—our educator-led workshop exposed the unspoken institutional arrangement between the district, UTLA and vendors. The vendors had *no control* over the 403(b) information provided in our workshop.

One Regular Employee Changed the Payroll Stub

Sandy thought the district’s payroll stub should read “403(b)” instead of “TSA” (the part of the payroll stub for participating employees in tax-deferred programs which shows the amount deducted from wages). She urged Sam Kressner to write a letter to LAUSD’s payroll director to fix it. Our ragtag 403(b) *Aware* educators replaced the “TSA” label with the accurate IRS code “403(b).” How did we do it? Easy—we knew the district would respond to liability

and inserted the following in each employee's payroll stub:

Dear Employee:

Please note that, effective April 14, 2000, the designation on the payroll stub for participating employees in Tax Shelter programs was changed from "TSA" to "403(b)." The acronym TSA implies annuity plans only, although the District has allowed deduction for both custodial and annuity plans as authorized by the Internal Revenue Section 403(b).

---Payroll Services Branch Staff

This single time LAUSD unintentionally benefited their employees. This seemingly insignificant and innocuous label was a perfect illustration of the successful insurance industry marketing of the acronym "TSA." Thus, the paystub provided a "free institutional advertisement" on every payroll stub once a month for years, subliminally reinforcing the already powerful brand-name TSA as the only retirement plan—the annuity.

Change Came From One Regular Employee

The payroll stub was a perfect example of reform coming from the employee ranks—*not* from the district's high-paid attorneys, consultants, union officers or benefits administration. This change originated from *one* LAUSD employee. We were thrilled and proud we did something good for the district's employees and the union members. Changing the district's payroll stub label was an important step towards wrestling our beleaguered 403(b) away from the powerful TSA lobby.

Transfers

We helped our colleagues transfer from TSAs/loaded mutual funds into no-loads. We heard many (and now familiar) horror stories. Educator after educator replicated our shared stories:

1. They were unaware of lower-cost alternatives.
2. Agents lied about not getting out of the annuity and then intimidating us not to transfer (One agent told a teacher that a transfer might be some type of "money

laundering and may be illegal”).

3. Insurance agent’s services were “free.”

4. Paying over-the-top fees for either annuity products or loaded mutual funds with quarterly advisory fees.

A few colleagues were livid at everybody involved: TSA industry, LAUSD and UTLA’s Union Approved stamp on expensive products. They were angry their naiveté was exploited by the union’s endorsement and district’s blind eye. Most educators were content with our genuine, no-nonsense help, corrected their 403(b) and moved on.

By 2002 our meeting agenda expanded into many topics, planning for workshops and including three topics that developed into chapters 5, 6 and 7.

Attracting Ethical Professionals

We were honored to have our first dignitary. Carolyn Widener, Executive Vice President of Los Angeles Community College Faculty Guild and California State Teachers Retirement System (CalSTRS) Board Member visited our meetings and liked what she heard. CalSTRS has always encouraged educators to supplement the pension plan with a 403(b).

After a few years, our meetings began *attracting* ethical advisors who shared our revolutionary and transparent 403(b) philosophy.

1. Scotty Dauenhauer, a fee-only financial advisor who subsequently became a consultant who helped create CalSTRS’ Pension2.

2. TIAA-CREF’s Southern California Director Brian Cressey. Mr. Cressey’s gallant efforts will be detailed in Chapters 4, 6 and 7.

Who would of guessed any existed? Carolyn, Scott and Brian were already attracted to the ethical high road and it was our pleasure to learn from them.

Our Regular Meetings Continued Unabated

Our 403(b) *Aware* group continued to meet about 5-6 times per year at the Paradise Cafe. Over the years we

served a couple of hundred colleagues. By now we talked to so many colleagues we became experts on getting out of a TSA. Unfortunately, there was never a shortage of colleagues who needed a new direction.

We kept in contact with the reporters who courageously took our stories. Kathy Kristof and Paul Lim of U.S. News and World Report were among them (See all articles in the reference section). Our group helped Kathy Kristof kick-off her comprehensive follow-up report on 403(b)s in 2006 by featuring our most famous teacher who came to our self-help group, Crystal Mendez.

TSA Agents Fight Back

Our upstart articles and meetings did not go on unnoticed by the TSA sales force, especially the UTLA “union approved” vendors. One of my union articles was delayed. When I saw Steve, the editor, at the next union meeting, I asked him what’s going on. He said the union’s TSA “approved vendors” objected to my articles. He said they thought it was unfair and one-sided.

Well, yea. I responded, I am on the side of the members. I have been a loyal and supportive member of this union and they aren’t members.

Steve thought for a second, smiled and walked away. Nothing more was said. He was satisfied with the explanation and he knew our 403(b) *Aware* group was looking after the members’ best interests. I continued to write articles and he published them. The union members were well-served by Steve and his successor, Kim Turner. They knew these articles provided genuine information to union members.

Summary

These last two chapters would not have been written without Kathy Kristof’s prescience. From the moment I called, she had a pen in hand and began documenting this cause. Her published article in the Los Angeles Times brought together like-minded colleagues to form an incredible self-help group.

403(b) *Aware* was organized by trial and error and then we jumped into presenting workshops, changing the district payroll stub 403(b) label and providing opportunities for frustrated colleagues to vent anger, while helping the transfer of their TSAs into no-load funds.

We were convinced ethical advisors did not exist in the 403(b) world because of our collective negative TSA histories. A few professionals supported our belief about getting out of expensive and low performing TSAs into low-cost mutual funds.

The self-help group's unique bond was magical and a positive force for good. We were united in providing solid objective information to our beleaguered colleagues—*it was the right thing to do*. None of us became discouraged in the face of the stark reality—*few educational leaders, besides Ms. Widerner, supported us*. Not only was *nobody else was doing this*, we were up against the district's steadfast rule to the status quo, thousands of ill-informed colleagues who remained uninterested in the missed opportunity to grow their retirement nest egg more efficiently, and our union's growing resistance to our cause. We never stopped trying—as long as colleagues attended our meetings.

403(b) *Aware* made progress in five areas, 1998-2002

1. Planned and led 403(b) investment workshops.
2. Changed the payroll stub label from "TSA" to "403(b)."
3. Met genuine ethical advisors.
4. Passed motions through the union.
5. Increased press awareness.
6. Most gratifying was helping the droves of colleagues with our workshops.

403(b) Aware Group
sample email responses from our colleagues

Steve, Thanks again to you and the 403(b) Aware Group for your priceless services to the LAUSD community.

Hi,

I thought you'd like to know the latest wrinkle from I called today to see if the mess was resolved with my account since we are going into week 3 of this ordeal. All the guy keeps telling me is it will be finished shortly. He then proceeds to tell me that his manager mentioned to him that by me putting money in the reserve account and then transferring it over to Vanguard, it may be a type of money laundering and may be illegal.

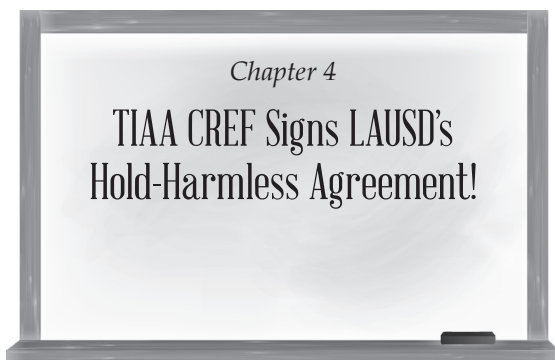
***You can stop laughing now.** I proceeded to inform him it's called a 90-24 transfer and it's perfectly legal. Nothing but silence. Who do these people think they are? Unbelievable!*

Dear Steve,

Thank God for people like you!! My wife and I are new teachers with LAUSD, and are getting ready to establish our 403(b). We are both complete novices, and will be relying heavily on your website!! Thanks,

Part III

The Feds, unions, state
reform efforts and the
IRS addressed the 403(b)



2001

Congress and the President simplified our 403(b) to make choices easier and cost-effective, a nice surprise for us. This new federal law deserves its own chapter, showing how common sense can prevail over provincial practice which treat educators like children. This new law reduced the liability so two low-cost companies could sign on to the Los Angeles Unified School District's (LAUSD) 403(b) list. Having two more low-cost companies is great news, one of those companies, TIAA CREF, was my investment 403(b) choice for the rest of my career (TIAA CREF will be explained).

When the Economic Growth and Tax Relief Reconciliation Act (EGTRRA, 2001) was passed the complicated Maximum Exclusion Allowance (MEA) formula was eliminated. The MEA was a major barrier for Vanguard, Fidelity, TIAA CREF (T/C) and other companies who were on the hook to insure the district that their teachers didn't save over the maximum allowed by law, reflecting their individual annual income. This was a laborious calculation for each participant! The 403(b) vendors had to agree to calculate each employee's MEA. To no surprise the calculation demand was part of the phony hold harmless agreements.

The new rule made calculations simple. Employees could defer taxes to the extent they could afford without exceeding annual maximums, which were the same for

everybody, regardless of income level. The new measure added a provision for employees 50 and older—called a “catch-up” allowing \$3000 over the standard maximums—to make up for paltry or no contributions in previous years.

Some industry minions shrieked, “This will be just as complicated.” *Oh Please!* How many use catch-up features? Few of us could afford to save more than the now-simplified annual maximum anyway. If some did, it wasn’t complicated.

Low-cost quality 403(b) choices increased at once—both T/C and Fidelity Investments signed with the district without delay. EGTRRA allowed all plans (401(k), 403(b)s and 457(b)) more flexibility with transfers and contributing, thanks to the federal government. The complicated Maximum Exclusion Allowance (MEA) was gone, a *wonderful* development for increasing the number of quality, low-cost 403(b) options.

Invesco’s 12b(1) Fees Came Back to Haunt

In 2001 my 403(b) with Invesco no-load merged with AIM Advisors Inc. and the fees increased. I wanted out. It was impeccable timing as T/C became available when I wanted to transfer anyway.

Invesco’s sudden increase in fees turned out to be a harbinger. Three years later, according to a Los Angeles Times report (September 8, 2004), AIM and Invesco were fined for alleged improper and perhaps illegal trading. Trading generates commissions. As a result AIM and INVESCO agreed to reduce fees. It was the largest lawsuit for market timing scandals at the time. I received several hundred dollars from the settlement.

It is important for all consumers to *always* pay strict attention to costs, trading, expense ratios and the seemingly small 12b(1) fee. I had to compromise by paying the .25 percent fee to invest into a 403(b) no-load. Surcharges are not normally levied when buying a house or car. Why should no-load mutual fund companies impose this marketing fee? In my situation INVESCO’s 12(b)1 led to a

slippery slope of increased costs and a hefty penalty—it didn't matter that INVESCO was a no-load.

When additional fees increase on top of an existing 12b(1) fee, it's a warning. Transfer your money and seek a no-load without a 12b(1) fee. Why pay more than you would for Vanguard or T/C? Invest in them and be done with it. They do not charge 12b(1) fees. My decision to contribute to T/C saved me thousands of dollars in fees while earning stock market returns¹ through my final working years.

Two of the Most Ethical Investment Companies Around

The next two sections illustrate healthy corporate ethics—Low-cost financial service companies and their investing philosophies are as commingled as my green-thumbed mother working in her vegetable garden.

1. TIAA CREF (T/C)

Teachers Insurance Annuity Association - College Retirement Equities Fund (T/C). For a decade I wanted Vanguard as my 403(b)—it never materialized. Upon discovering T/C comprised the same ethics, low-cost and infrequent trading strategy as Vanguard and was available, I was grateful. T/C remains *the* retirement institution for higher education and many nonprofit organizations since industrialist Andrew Carnegie created it in 1918.

T/C's mission statement says it all. From the tiaa-cref.org website:

Serving the Greater Good

For 96 years, TIAA-CREF has been helping those in the academic, medical, cultural and research fields plan for and live in retirement...In keeping with our strong nonprofit heritage, we offer low fees, a long-term approach to investing...products and services provided by consultants who never receive commissions. Instead, they are compensated primarily on how well they serve you, not what they sell you (Edited for space and underlined for emphasis).

Look at the key words I underlined:

- "Greater Good"

- “Not-for-profit heritage”
- “Low fees”
- “Long-term”
- “Consultants never receive commissions”
- “How well they serve you, not what they sell you”

Isn't this the type of corporate culture you want for your investment dollars? You may find this investment philosophy and strategy right for you as I have. According to T/C's website, "profits are distributed to policyholders [that's you and me] in the form of dividends over the lifetime of their association with TIAA...." Now we had a company matching Vanguard's high standards of conduct with its low-cost structure, broad diversification where profits are credited back with no 12b(1) fees. Isn't that cool?

In 2002 six years away from retirement, Dan and I lost \$1.1 million from the tech bubble crash. We revamped our portfolio, diversifying into a less risky allocation. We sought balance with less risk. Our knowledge of the low-cost, indexing strategies of Vanguard and T/C led us to shun actively-managed funds and invest in the indexed (passive) strategy. The active and passive strategies are discussed in many books, articles and investment discussion forums online (See the reference section for further reading). We invested in index mutual funds and bonds in these two great companies. I transferred my old 403(b) money from INVESCO to Vanguard (No transfer or surrender fees were charged). I began contributing new money to T/C starting in 2002 until 2008, when I retired.

Instead of the risky and narrow technology sector funds which Dan and I loved (and lost) I steered all new contributions into T/C's Equity Index (Total Stock Market Index equivalent), Global Equity and a Bond Market Fund. These funds are broadly diversified across the entire domestic and international stock markets. Bonds are a required allocation for investors to reduce the risk of stock market volatility as we get closer to retirement.

2. Vanguard's Investing Philosophies and Corporate Culture

John Bogle created and introduced the first index fund to the public, Vanguard S&P 500 Index fund (VFINX) in 1976. He is eminently known as the father of the index fund and the passive strategy. Since then the number of index funds and their sister, exchanged traded funds (ETFs), have grown a thousandfold.

Bogle's investment strategy isn't beholden to Wall Street's and insurance companies' values and of charging enormous costs, encouraging reckless trading or selling "riskless" chronically low performing and expensive insurance products or TSAs. Mr. Bogle's reasonable passive strategy fits our values, with infrequent trading while earning stock and bond market returns over the long-term.

Vanguard's corporate culture differs from other investment companies in three significant ways:

1. Vanguard has no shareholders. It is not publicly traded nor privately owned, unlike most of the other Wall Street investment firms and insurance companies.
2. Instead the investors own Vanguard--people who buy its index fund shares.
3. Vanguard has one master--the clients, not shareholders.

The Vanguard executives embrace genuine fiduciary responsibility as shown by the following three basic Vanguard principles (<http://www.vanguard.com>):

1. *"We're owned by the funds that are owned by clients like you, so we have no competing loyalties. We don't pay profits to a private owner or stockholders. We always keep your long-term interests in mind—even closing funds when necessary to keep away short-term performance chasers."*
2. *Your funds are at-cost. You pay what it costs us to run the funds. By investing at cost, you keep more of your returns working for you, giving you a great start on reaching your financial goals."*

3. *We help you focus on the long-term. We don't get caught up in the emotion of Wall Street's mood swings—and we tell you why you shouldn't either. We follow a disciplined long-term approach through good markets and bad. That's just another way we keep your interests first."*

Low-cost and surrender free 403(b) Annuities

Since the early 1990s Dan and I avoided 403(b) annuities. Of the seven annuities sold to us, *none* were low-cost, *all* charged *high* surrender fees and our so-called "advisers" received hefty commissions. The sour taste of annuities was as deep-rooted as a rancher's brand on her longhorns. Thus we mistakenly thought all annuities were expensive and inappropriate in retirement plans.

Learning about T/C changed our misperception in two fundamental ways:

- T/C's annuities have a place in retirement plans.
- Second, low-cost annuities do exist!

I was surprised when I discovered the low-cost companies who offered them: T/C and Vanguard. T/C's annuities act more like no-load mutual funds which grow with the economy than TSAs' fixed growth from the major insurance carriers. T/C 403(b) offers variable annuities, which have subaccounts with mutual funds.

The huge differences with T/C are low-costs and no surrender fees. Investors can transfer at will in all options except for two products (details at <https://www.tiaa-cref.org/public>). Offering most of their annuity contracts with no surrender fees was unheard of with other insurance companies. I paid a horrific 18 percent surrender fee to get out of two for-profit insurance company TSAs...ugh. Now you know why I appreciate and value T/C.

Both Vanguard and T/C sell annuities to retirees who want guaranteed income. There is nothing wrong with purchasing an annuity *in retirement*. It's similar to buying a private pension plan. Annuities may be useful for retired people *after amassing their nest egg*.² If I were to purchase an

annuity I would choose T/C or Vanguard. Their annuities guarantee an income stream for life at a lower cost than the for-profit insurance carriers. One useful concept is to annuitize enough money to receive a monthly supplement to Social Security or a pension for the purpose of stable monthly income for basic needs.

EGTRRA did not require LAUSD to publicize their offerings, thus, many members remain unaware T/C or Fidelity Investments were available in 2002. I wanted my union and colleagues to know.

Summary

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA, 2001) changed PreK-12 school district's 403(b) savings plan in one swoop. How fortunate for the investing public to have two great companies with identical organizational values we respect: long-term, low-costs, mutual fund/indexing strategy, looking out for the greater good, broad diversification and not-for-profit status while avoiding Wall Street. T/C became available for my 403(b) as a direct result of EGTRRA. In my opinion, no other company on the LAUSD 403(b) list of available companies could match their high standards of ethics, transparency and low costs.

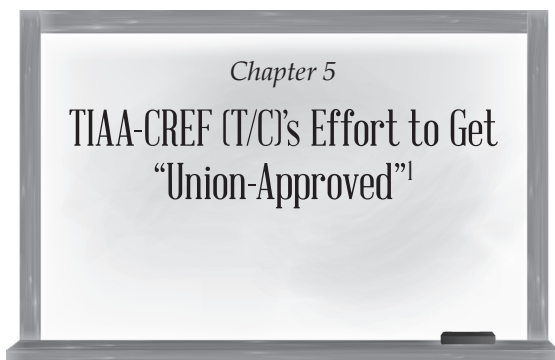
T/C's low-cost annuities are near perfect in retirement plans. I invested in T/C for my 403(b). At retirement I rolled over my 403(b) into a "rollover IRA" at Vanguard. These great companies existed *for the greater good* and provided *the small investor a fair shot at stock market gains*.

Our colleagues in higher education benefited with a fine 403(b) retirement plan for almost a century. T/C decided PreK-12 teachers should be treated likewise.

1 The investment books recommended in the reference section of this book discuss how the stock market works and how the returns are calculated. For purposes in this book the entire stock market has returned about 9.5 percent annually since 1926 while the bond market has returned about 5 percent. These returns are superior to tax sheltered annuities, but

it requires some understanding of stock market risk and the returns are based on annual averages.

2 Read *Annuities: Good, Bad Or Ugly*, a six-part series by one of John Bogle's author followers, Mel Lindauer, and cofounder of the successful Bogleheads.org investment forum (See reference section).



*The highest form of ignorance is to reject something
you know nothing about.*

– Dr. Wayne Dyer

2001

A Maryland native landed in our state, a man so determined the elegant palms rustled along Sunset Boulevard and the TSA agents' flawless tresses shook in his wake. Brian Cressey was the new director of TIAA-CREF's (T/C) Southern California office. He was blindsided by the pitiful 403(b)s options available for California educators. With the energy of Captain Ahab and the demeanor of a Zen Master, he went to work.

After registering his company with the Los Angeles Unified School District (LAUSD) 403(b) list his next step was to apply for the coveted United Teachers-Los Angeles (UTLA) "Union-Approved" stamp.

Under Cressey's leadership T/C immersed itself with UTLA and went further, a lot further, than submitting the union approval application:

- T/C purchased 24 full-page advertisements costing \$22,000 for the twice a month UTLA newspaper.
- Set up two satellite offices to assist LAUSD teachers with 1 to 1 consulting to answer questions by appointment and fill out applications.

- Signed an agreement with the best 403(b) website in the country, *403bwise.com*, to offer online information specific to UTLA members.
- Los Angeles Community College District chose T/C as the preferred vendor for their 457(b) plan due to Carolyn Widerner's unconditional support. Carolyn Widerner was the Executive VP of the Community College Faculty Guild (union) and the CalSTRS board member mentioned in Chapter 3.

More TIAA-CREF (T/C) Outreach

Mr. Cressey reached out in earnest offering three full days each month to provide individual financial advice and group seminars in Los Angeles and Orange Counties. His team invited Southern California PreK-12 districts and community college faculty to many seminars, including these:

- "Staying on Track in a Market Downturn"
- "A Woman's Money, A Woman's Future"
- "Taking a Realistic Look at Equity Returns"
- "Foundations of Estate Planning"
- "Planning Retirement Income"
- "The 2001 Tax Law-Change Means Opportunity"

Mr. Cressey and his staff were regular contributors at our 403(b) *Aware* group meetings, workshops and the Community College Faculty Guild Annual Benefits Conference. Not bad for a new Californian (more about this fearless man in Chapter 7).

UTLA accepted T/C's \$22,000 ad money without question, but had reservations about everything else. This chapter explained why T/C never got union-approved and can be instructive for employees who want to initiate changes with their employer or union.

The previous year our 403(b) *Aware* group conducted the first-ever 403(b) workshop. We continued to make friends with influential people in the union. We thought things were progressing. However, our "honeymoon" with the union leadership went from benign indifference to

outright contempt.

I didn't understand UTLA's abject unresponsiveness to T/C request for presentation from some union officers. UTLA routinely selects not-for-profit vendors to contract for many different professional services such as holding conferences at hotels that have unions. Since T/C is a not-for-profit company, I thought T/C was a shoe-in, after the acknowledgement of T/C as an available vendor at the UTLA annual conference and its 95-year history with higher education institutions. Our Los Angeles neighbor, the Community College District, *without question*, selected T/C as their preferred 457(b) vendor. T/C and UTLA were a perfect match, I thought. I was *wrong*, not fully comprehending union politics. The secretive and highly-established culture of UTLA and its approved TSA vendors were as tight as Herbert and Zelmyra Fisher, the world's longest-married couple with 86 years, according to Guinness.

Smear Letter?

The UTLA Treasurer who chaired the Member Services Committee forbade a hearing of T/C. This committee hears presentations from outside companies (computers, disability insurance companies, etc) seeking "Union-approved" status. In return for the stamp vendors agree to provide discounts to members for their products or services, door prizes at meetings and conferences, etc., nothing complicated (A 2006 Los Angeles Times investigative report found no backroom deals). When I asked the treasurer if he got T/C's application, he complained they never showed when invited to present, even though T/C confirmed to me they never got an invitation.

The indifference turned ugly. One of the members of the Member Services Committee (the committee in charge of selecting vendors for "union-approved" status) informed me the Treasurer claimed T/C "smeared" him. She said the treasurer wrote on his own letterhead to all the Committee members about T/C's alleged smear. She never found the

Treasurer's letter she received.

What a rude awakening. What prompted the Treasurer to go down this route? Was he getting pressure from union members to approve T/C while getting opposition from the approved vendors? LAUSD played strange games with their 403(b) policy and vendors. But this perverted reaction made LAUSD look like the grown-up in the room with its own trite 403(b) policies.

The differences between UTLA and the Los Angeles Community College Guild (Union) seemed unreal! The Guild *and* the County Office of Education accepted T/C as the exclusive 457(b) retirement plan provider while my union wanted *nothing to do with them*.

In My Opinion...

How could this discrepancy between two unions with overlapping members exist and the Los Angeles County Office of Education? The UTLA approved vendors have a relationship with the union for decades. LAUSD's educators contributed \$100+ million dollars each year, most to these entrenched UTLA approved vendors. TSA presentations and exhibits at the union hall, school cafeterias and after school union meetings with the complimentary doughnuts, sandwiches and beverages are as familiar and locked into the educational culture as books, pencils and paper are to students. Many of 700 LAUSD school principals, UTLA chapter chairs and office managers knew the salespeople by first name, many were friends. Many agents claimed to be either former teachers, working teachers moonlighting as agents or claimed their mom, spouse or friend is a teacher.

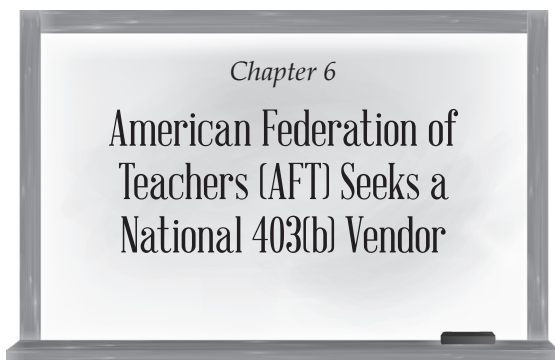
With the union's 45,000 members as potential clients, the approved vendors aren't going to chill while a low-cost, not-for-profit competitor might get union-approved. TSA agents post on 403bwise.com with ad hominem lies about T/C. Given this picture of so much money at stake, can you imagine the approved vendors having no conversation

with UTLA? T/C never had a chance.

Summary

Ignoring T/C without a hearing is one thing, but claiming one of the biggest and most respected pension plans in America smeared an obscure union officer is an appalling small-minded scheme. Los Angeles County Office of Education and the Community College Guild knew TC had a great plan for their members and employees. In my opinion UTLA's handling of the prestigious TIAA-CREF and their legitimate request for a simple presentation was cursory and unprofessional. In 2002 new UTLA officers were elected.

1 For the record, UTLA terminated the 403(b) "Union Approved" policy in 2008.



Not knowing a missed opportunity is more tragic than knowing.
– Anonymous

2001

The AFT is the second largest national teachers' union with 1.5 million members. Unions protect workers' rights, providing a shared voice, resembling my assembly-line worker mom and her co-workers at Minnesota Mining & Manufacturing Company. I chose AFT because of its colorful history. AFT improved the classroom teacher's work environment, created tenure and increased benefits for a century. Beyond these union fundamentals, AFT fought against minority oppression two decades before the 1964 Civil Rights Act. I valued the proactive activism under the leadership of its famous and distinguished President—Albert Shanker.

In 1999 AFT was in the process of writing a Request for Proposal (RFP) for a competitive bidding process to select a new "AFT Approved" 403(b) vendor. Their benefits staff formed a specialized task force committee—with a mission to provide input to the RFP's Statement of Work and to select a firm.

The task-force Chair asked local unions around the country to send representatives to meet for a day of training at AFT's Washington D. C. Headquarters. Usually these

committees are filled with high-level union staff, elected board of director members or union bosses. Sam Kressner, the United Teachers-Los Angeles (UTLA) assistant to the president, was unable to attend and asked me to take his place.

I was thrilled Sam trusted me. Honored and humbled to represent 45,000 members of UTLA, I appreciated this extraordinary opportunity to highlight the need for low-cost plans. After sending my financial advocacy bio to the Chair my participation was accepted.

Our training focused on qualified tax-deferred retirement plans (jargon for 403(b), 401(k), 457(b), Federal Employees' Thrift Savings Plan, and IRAs) and IRS regulations. Each plan is slightly different, but all provide a mechanism for tax deferring income. AFT filled the day with the big guns: its own research center personnel and legal counsel, American Association of Retired Persons (AARP), Segal Finance (committee consultants) and *the* esteemed Robert Architect, Tax Law Specialist who wrote the IRS 403(b) regulations. The United Federation of Teachers NYC and New York State United Teachers presented their 403(b) plans. I was impressed with the knowledge and skill of these AFT New York locals who proactively monitor their 403(b)s. None of the California unions have the willingness or trained staff to begin a discussion, let alone create a similar monitoring infrastructure. The New York AFT was a century ahead of California.

At the end of the day the Chair asked each of us what we wanted in the final plan. I said, "No matter what type of plan is created, there should be a low-cost mutual fund option." One committee member glared like an imperious dowager and shouted, "We're *not* going to encourage day-traders!" Day-traders? I was floored—I never expected a dim-witted comment from a member of this committee. Apparently forgetting one of the simple facts about investing: low-cost options have nothing to do with day-trading.

This first meeting concluded. AFT and Segal

consultants would send questionnaires to ten potential firms to respond to queries. Segal would rate their responses and select the top two vendors. Both would be invited to present before our committee two years hence and we would choose the winning bid (Appendix E for my report about this first meeting).

Shark Attack

A few months later AFT's trade magazine, *American Teacher*, asked a repeated and financially useless question: *Should students be paid?* Oh pleeeeeease..., here they go again, picking a jaded topic which has been discussed in education circles ad nauseam for years with the usual hackneyed pros and cons. "How about an article on 403(b) voluntary retirement plans?" I asked. A 403(b) article would be published in the next edition. The editor assured me I would like the article.

The editor was right. It was (and still is) the greatest critique of the 403(b), how it remained hijacked and was attached like a Siamese twin to TSAs. From the beginning to end this seminal piece said everything. The following excerpts show why it's a classic for 403(b) reform.

American Federation of Teachers Publishes:

Special Report: Shark Attack!

By Don Kuehn

American Teacher—June, 2000

Investors in 403(b) Plans, beware: You are especially vulnerable to predators!

Teachers, college professors and other education workers are being threatened by sharks--but not the kind swimming in the sea. These equally dangerous predators are "land sharks" who prey on unsuspecting or uneducated investors and devour their hard-earned retirement money. It's time we put a stop to them...

*More than \$422 billion is invested through 403(b) arrangements and, **sadly**, most of it sits in low-performing fixed annuity contracts, reports Spectrem Group/Access Research, a San Francisco-based consulting and research firm. Some 2 million*

public school teachers have more than \$116 billion invested in 403(b) programs (**bolds** are mine. Data from the year 2000. Citation for article in References).

So Far, So Good....

AFT matched its reputation—identifying and looking for solutions to problems years ahead of everybody else. The chair and his staff invested an extraordinary amount of preparatory thought and action:

- Accepted rank and file members to vote on a major decision
- Organized and trained a special committee
- Conducted a *transparent process* from the RFP to the final decision
- Published *Shark Attack*

Will talk become AFT's policy?

The AFT 403(b) Task-Force Meets Again

As scheduled the task-force reconvened in December, 2001. Segal consultants were ready for our decision between two finalists. Our task was to pick a firm to administer the plan for 1.5 million members.

I was disappointed. The only low-cost vendor which applied, TIAA-CREF (T/C), was not a finalist (Fidelity Investments, T. Row Price and Vanguard Group did not apply). Segal said T/C demonstrated competence, but lacked PreK-12 experience. Hmm...serving higher education faculty with their retirement since 1918 was not counted as experience? This was the beginning. As the surreal world of the mystifying 403(b) get mixed with union decision-making, read how the rationales worsened and the ironies escalated.

From the beginning to the end of this meeting, it was apparent the committee never read *Shark Attack*. This omission was pervasive. Referring to *Shark Attack* slipped my mind too, a huge blunder. The article was never referred to and for good reason—the consultant selected only insurance companies. AFT reneged on its own good assessment and offered the bid to another insurance company—either

ING or CitiStreet. My initial suggestion for a low-cost mutual fund vendor dissolved faster than a pinch of salt tossed into the Mariana Trench.

T/C came in third. This is the second time I observed a PreK-12 union bias against T/C within a few months. Identical to districts' "mental" state, the unions' partiality to insurance companies remained strong and connected. How could AFT forget what they wrote so precisely: "*It's time we put a stop to them*" (stopping high-cost "predator" insurance companies, carried out so eloquently in *Shark Attack*).

Secrecy Backfires

One reason I overlooked *Shark Attack* was this bombshell. CitiStreet's reps confidently announced they received "union approval" by United Teachers-Los Angeles (UTLA) four months previous. What? I sat stunned for a few moments trying to comprehend, much less speak about this disclosure. Finally, I said as calmly as possible, "UTLA is my local union... *I didn't know this.*" Both CitiStreet presenters stopped and stared at me. They didn't know what to say. The silent standoff lasted a few moments while everybody tried to grasp what was disclosed.

I shook my head and covered my face in disgust, thinking about my union. The contrast was glaring: AFT demonstrated an open 403(b) selection process, while UTLA used a covert process *with the same vendor*. It was important for UTLA to fly their representative (me) across the country and be part of a national decision affecting hundreds of thousands of AFT members. Meanwhile, our 403(b) *Aware* group and I had no idea what our local was doing right under our noses. It's incredible. If unions wonder why they are losing members, this is one major reason.

After CitiStreet's presentation one of the reps apologized. Of the 20 people present some may have wondered how was it possible one of the committee participants did not know what his own local union was doing. Through no-fault of their own CitiStreet probably felt responsible

for embarrassing one of the committee members. I was not embarrassed and informed the rep he had no reason to apologize. However, this was an unfortunate distraction.

I was angry at UTLA. They deliberated without asking a single member of 403(b) *Aware* self help group what we thought. No, they were hell-bent on selecting another expensive vendor *in secret*. Now I understood why they never invited T/C to present. UTLA had already preselected *in secret*.

This incident demonstrates when secret processes are uncovered, they reveal duplicity as bright as the recent exploding Russian meteor. Private decisions disgrace organizations when they are accidentally exposed—and aren't disclosures almost always unintended? Unions are vulnerable to negative distractions which take energy away from the important work they do. A simple, transparent process would eliminate the universal and negative image of back-room deals.

The AFT consultants admitted T/C's fee structure was "by far the lowest" in their written report (fees ranged from .31 percent to .59 percent at the time. AKA 31 and 59 basis points) but they made no mention of this in their verbal presentation. A potential bias surfaced as one of the consultants admitted he formerly worked for a large insurance company. Neither T/C's corporate ethics nor mission statement was mentioned. The consultants inaccurately reported:

1. *T/C products have surrender fees. Not true:* Only two of their products have surrender fees (These products generate a slightly higher return than their other nonsurrender fixed products).
2. *T/C is conservative and only offered a few options. Not true:* Their style mimics index investing: low turnover, broad diversification and low-costs. T/C has enough choices to offer diversification across all major stock and bond asset classes which are ideal

for 403(b) plans. Historically, 403(b) plans have had too *many* cookie-cutter insurance products with too few stock and bond mutual fund options: "...in Los Angeles, for example, more than 100 vendors create a bewildering array of investments and options to sift through," *Shark Attack*.

3. *T/C's support services are sparse. They only have two main offices. Not true:* They have three main and twenty-two regional offices around the country.

I think T/C was dead-on arrival. Many Community College faculty members use T/C and are AFT members, but that had no material impact on the selection process. How did CitiStreet earn second place in the rating? They admitted in their presentation they were not ready for a national plan. In this important decision AFT should have had the two best vendors present. How could CitiStreet's lack of readiness have been overlooked by the AFT's screening? Why CitiStreet accepted AFT's invitation to present?

Reducing Costs?

Share Attack mentioned three AFT locals had already reduced costs:

"The New York State United Teachers, Education Minnesota and the United Federation of Teachers (New York City) have also used their significant clout to force positive changes in the 403(b) options offered to their members and to reduce administrative expenses" (*Shark Attack*).

Apparently AFT also "forgot" the presentation about monitoring from the New York delegation at the first committee meeting. AFT would have much more clout to hammer out a lower cost plan than their locals. Why hadn't AFT made similar requirements to advance those same ideas which New York City and NY State Teachers had already implemented?

Low-costs are eschewed by the consultants because in their opinion, "hand-holding" is crucial for PreK-12 teachers. Why do low-costs have to be compromised

with hand-holding? Or is this another tedious excuse for recommending high-priced 403(b) options from large insurance carriers?

“Hand-holding”

AFT and their consultant were adamant—PreK-12 teachers need hand-holding. They felt T/C wasn’t ready. *Shark Attack* addressed the cause of the hand-holding problem. But it did not offer a viable solution:

Vanguard and Fidelity won’t send someone to sit across the kitchen table and hold hands like insurance companies do. That makes public school and college employees easy prey for the sharks who feed on these plans (Shark Attack).

Where was the evidence educators want “...someone to sit across the kitchen table and hold hands...?” Who has experienced hand holding? During tough times people are simply told “times are tough.” Or the adviser as another expensive product to sell? Should someone be paid for those types of dismissive comments or an opportunity to sell yet another expensive insurance product? What a broad and cynical generalization about highly-educated 1.5 million AFT members.

Some of us do not need hand-holding at our “kitchen table.” Not all educators are ignorant or as stupid as the industry portrays — many want to learn how to increase their personal responsibility for their retirement planning. Contrary to this “popular opinion” thousands of educators are savvy 403(b) investors. We knew this from the continuous attendance at our 403(b) *Aware* self-help meetings. And the fact that Invesco reported 2000 LAUSD employees used Invesco no-load.

AFT and the consultants recommended hand-holding, biased in favor of insurance agents and their companies. Why?

- Is hand-holding an excuse to allow an army of sales-people in the schools to remind teachers they need to save and *then* sell them a costly product which might not be in their best interests?

- Do you know what the members will be paying for hand-holding? Just about everybody knows hand-holding is *not* free: “These include high front-end costs, massive surrender charges, redemption fees, inappropriate investment choices, sub-account fees, two-tier plans, big commissions and hidden charges for unneeded life insurance” (Shark Attack).
- Did it occur to AFT and their consultants that many teachers/support staff and educators do not need expensive hand-holding? What would be their option?

My Blunders

- Not pointing out the disconnect between what AFT wrote in “Shark Attack” while selecting another large insurance company.
- Not asking for an explanation of CitiStreet’s top rating when they were not ready by their own admission.
- Not being prepared for the hand-holding issue.

Theory versus Practice: Did AFT Choke?

Why did AFT’s 100-year colorful history of teacher-focused activism with all of their excellent 403(b) preparations surrender without hesitation to the consultant’s recommendations? AFT’s brilliant initial assessment in *Shark Attack* was spot on. In practice, however, their vision of reforming the 403(b) collapsed faster than a hastily prepared multi-layer wedding cake by an amateur baker.

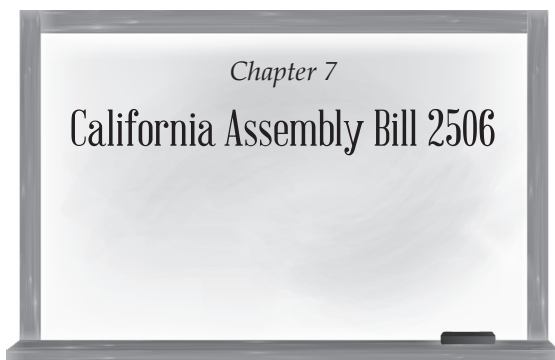
No positive changes from AFT’s preparation came to fruition. This was a once-in-a-generation opportunity to take ownership of the hijacked 403(b) by selecting T/C. Alternately AFT could have also used the two-year lag between our meetings to be more determined to attract a low-cost mutual fund vendor. But T/C did apply and its corporate culture and mission statement addressed almost all of 403(b) “predatory” problems so vigilantly explained in *Shark Attack*.

What is AFT’s infamy? Simple. They did not follow their own excellent advice. What a pity.

Summary

Despite the colossal blunder, AFT is *still* a good union—their RFP process started transparency and included ordinary members. *This chapter would not be possible* otherwise. Unions are superb at protecting members on many issues, helping them maintain middle class status, improving conditions and preserving high-quality medical, dental and pension plans. I am a grateful member of both UTLA and AFT during my 24-year teaching career.

Still, the 403(b) remains an enigma for much of the PreK-12 community. When confronted with offering a decent 403(b) plan both AFT and UTLA failed. Both collapsed in deference to insurance companies whose friendly and entrenched industry skills, expensive products and their conflict-of-interest “hand-holding” were too challenging to resist, even in the wake of AFT’s brilliant *Shark Attack* (See Appendix F for my comments and suggestions about this meeting).



2002

The setbacks TIAA CREF (T/C) endured with United Teachers Los Angeles (UTLA) and American Federation of Teachers (AFT) were meager turbulences on the flight plan to helping California educators. Brian Cressey now focused on the primary obstacle for low-cost 403(b) vendors—the outdated Insurance Code 770.3 (California’s 403(b) regulations discussed in Chapter 1). This was huge—fortunately for California educators he was tenacious.

Personally, he remains a hero. Why? No other California leader had challenged the status quo of this mysterious retirement savings plan. Mr. Cressey was *the* exception. He and his supervisor, Regional T/C Vice President, Richard Shafer, proposed updating the code by introducing legislation. To obtain the need and a rationale for the new bill, they spearheaded focus groups with California public educators, administrators and community college faculty.

Their specific concerns were discussed in Chapter 1. All relate to:

- School districts’ and unions’ interpretation of 770.3 to insurance industry’s advantage
- Over-the-top hold-harmless agreements
- Delivery of hundreds of similar costly insurance products to California educators.

Sound familiar? The results of the focus groups’ data were

no surprise either:

- *Teachers, etc. are interested in supplemental retirement savings programs;*
- *There are so many providers that credible, unbiased information is difficult to obtain, thus employees are forced into important investment decisions with little or no genuine guidance;*
- *There is a growing discomfort with the lack of an objective approval process for providers;*
- *The use of onerous hold harmless agreements to control the number of providers often precludes the inclusion of low-cost providers;*
- *Insurance code 770.3, as it currently stands, does not reflect the changes in federal pension law, such as the inclusion of mutual funds under Code 403(b) and tax-free transfers (TIAA CREF, 2001).*

California Assembly Bill 2506 was proposed to address these issues by clearing up the legal landscape to clarify interpretation, provide objective information, disclose costs and create a “reasonable choice” of companies. This reform effort was spot-on and unprecedented.

The momentum for 403(b) reform from the print media encouraged our side. This was no longer a one person experience. Many articles included interviews with educators around the country were published, including the best, American Federation of Teacher’s *Shark Attack*. Recall in the Introduction of a fabulous quote from financial author Bill Bernstein when he wrote, *“The 403(b) system traps teachers in one of the dankest, foulest-smelling cellars of the financial world.”*

Bernstein’s eloquent quote came in the wake of sixteen 403(b) mainstream news articles, stories and a Securities and Exchange Commission’s (SEC) warning about the high fees of annuities (2000, *Variable Annuities: What You Should Know*). From 1997-2002 these articles repeated—403(b) was riddled with high fees, illiquid and poor performing TSAs. “Employees need to act if their 403(b) options are turning them into shark bait” (American Federation of Teachers’

Shark Attack). The New York Times chimed in, “As more teachers learn more about investing, many have become fed up with their tax-deferred retirement plans” (Richard Oppel, *For Teachers, Object Lessons from the 401k*, 1999). AFT’s John Abraham said, “The problem with 403(b)s is that no one—not the employer or the unions—has taken any responsibility for them (Paul Lim, *U.S. News & World Report*, 2000). AFT failed to follow through in a manner explained so clearly in *Shark Attack*. After the AFT’s vendor selection debacle this new bill would be a giant leap forward and help gain a positive finish.

Competitive Bidding—Reasonable Choice

Instead of hundreds of insurance products a reasonable choice might consist of five or six vendors. A reasonable choice was possible by allowing school districts to put a 403(b) Request for Proposal (RFP) out to competitive bid. The RFP could require full disclosure of fees and which types of retirement products were going to be provided. Districts and collective bargaining units would organically decide what was best for their employees rather than the mechanical and heavy-handed Insurance Commissioner’s Office and 770.3.

School districts use RFPs to buy everything else: computers, books, contractors to build new schools and educational consultants. Can you imagine districts hiring 100 contractors to build new schools or 25 book publishers selling twenty-five different reading programs because the districts were mandated by law and the state education department to allow “any willing book publisher?” Pandemonium would result. Yet districts must retain hundreds of insurance companies with thousands of choices of TSA products demanded by *one* outdated law. This insurance code, 770.3, was the de facto 403(b) plan for all educators in the state. This was nuts. Our side wanted local control.

The support team consisted of:

- United Teachers of Los Angeles (UTLA)
- California Teachers Association (CTA)
- California School Employees Association
- Faculty Association of California Community Colleges (FACCC)
- College Faculty Guild, AFT Local 1521 (Los Angeles Community Colleges)
- Small School Districts' Association
- TIAA-CREF
- Association of California School Administrator
- California School Boards Association
- Meridian Wealth Management
- 403bwise.com

Assembly member Darrell Steinberg (D. Sacramento) sponsored the bill. He was young, smart and thought this bill was a shoe-in. What could go wrong with helping teachers? AB2506 began to move through the California legislative process.

Mr. Steinberg introduced the measure at the first subcommittee hearing. I testified in support of the bill with my prepared one minute pitch as a teacher advocate representing UTLA's 45,000 members. With an introduction as a "doctor," to bolster an authoritarian image, the impeccably dressed dark-suited individual seated next to me argued against the bill. Clearly this self-serving parasite spoke for the industry. The tension was high. The opposition's lucrative careers were threatened.

Meeting at Steinberg's Office

Mr. Steinberg sought to compromise and brought all the stakeholders into his office. Both proponents and opponents filled the room. I handed out Table 2.

Table 2**An Illustration of a Reasonable List*****A partial list using LAUSD's 403b Vendors from 2002**

Annuities: 125 Insurance Companies**		25 Loaded Mutual Funds***	No-load Mutual Funds
1. Americo Financial Life and Annuity		1. Oppenheimer	1. Invesco ((charges 12b(1) fees))
2. Ameriprise Financial Services		2. Plan Member Services(additional fees)	2. TIAA CREF (No 12b(1) fees)
3. Great American Financial Resources		3. AXA Equitable Life Insurance	3. USAA Investment****
4. Horace Mann Life Insurance		4. Legend Group	4. Fidelity Investments****
5. Industrial Alliance Pacific		5. Van Kampen	5. CalSTRS 403b (Before Pension2)

*Reasonable list would include about 5 vendors in each category as illustrated and selected by RFP competitive bidding

** In 2002, LAUSD had a massive number of insurance vendors.

***Loaded means commissions are charged.

****Some USAA and Fidelity Investments have high expenses and loads as well as lower cost no loads.

Mr. Steinberg said, "I like this, I understand this." He saw that the listed insurance companies offered the same product, annuities. He also understood mutual funds and what loaded and no-load meant. In less than a minute Mr. Steinberg understood how the bill's principles would be revealed, without confusion, using the state's largest school district as an example. Imagine the positive effect on California educators if a similar table were replicated by each of the state's 700 districts. AB 2506 embodied an idea and a mission with masterful simplicity. Mr. Steinberg was the first test pilot.

The four dark-suited insurance lobbyists were stone-cold-quiet listening to his comments. Mind you, most lobbyists represent powerful vested interests. They articulate with a calm demeanor and can manipulate proposed bills at will. That's their job. Nowhere in the history of this state had any leader questioned their annuity products, considered disclosing costs or the legitimacy of insurance products.

The lobbyists tried to explain, "It's more complicated than that." The differences between loads and no-loads would be "too confusing" for people to understand, they pleaded. They were like squawking parrots, replicating the same insulting talking points of the insurance industry rhetoric which we'd heard before and again. I said: "It's worse. Teachers believe your products are FREE and the only option. And that's a lie. You know it and we know it, but they don't."

The lobbyists appeared to be blindsided by the simple illustration—they knew it was accurate. This bill would expose the fee schedule and delineate the different products so simply a 12-year old could understand. How? By unmasking "complications" with a table. A simple basic table, created by an obscure elementary teacher, stopped their rap.

The Vitriol Begins

Meanwhile the insurance companies ratcheted up their

rhetoric and lies. Their campaign against AB2506 turned nasty. After experiencing my union's opposition to T/C (Chapter 4), this was not surprising.

The opponents created a website dubbed ROPE, Retirement Options for Professional Educators. They wrote scary letters to their clients, California teachers, and passed out flyers. One was created for LAUSD employees because UTLA supported the bill. The anonymous flyers contained misstatements directed to teachers. Quote: "YOUR FREEDOM OF CHOICE IS ABOUT TO BE GONE FOREVER."

Actually, it's the insurance agents' *freedom* to raid teachers' wages would "be gone forever." The agent's company would have to wind its way through the school districts' RFP procurement process, if the bill passed. Agents can sell products, but under the new proposal their one-size-fits-all TSA would require vetting and competitive bidding just like all other district contractors and educational products.

The vile hatred by the opponents could not be overstated. The San Diego Union reported in *Teachers' 403(b) plan nonvirtues 'extolled,' "Because the legislation would have crimped insurers' free rein at the schools, the insurance industry blew a gasket. At one point, the bill's opponents were circulating anonymous fliers at schools which compared the [proposed] legislation to Hitler and the Holocaust. Not surprisingly, the teachers lost the battle"* (Lynn O'Shaughnessy, September 4, 2004).

They threatened to put a stop to the bill and Mr. Steinberg blinked. He had to compromise with the insurance industry. I don't blame him. Mr. Steinberg told reporter David Washburn of San Diego Union-Tribune after the bill passed, "I took it because it was a worthy cause. I had no idea it would be this controversial...It was one of the most difficult bills to negotiate during his six years in the legislature" (01/30, 2005).

AB2506 passed in a significant denuded form and was signed by Governor Davis. The original bill requiring,

(a) a reasonable vendor list for districts,

- (b) competitive bidding,
- (c) reforming hold-harmless agreements and
- (d) transparency of costs.

All the above were deleted faster than Chuck Yeager's plane breaking the sound barrier. It was astonishing. It was a step in the right direction, but it failed to improve teachers' 403(b) plan to the degree we had hoped.

The only feature was the ability to compare different products. Sounds good, but the information given would be from the industry. It's not as objective as we wanted. California State Teachers Retirement System (CalSTRS) would maintain a website of vendors for each school district with basic investing information: <http://www.403bcompare.com>. Everybody has access. It's worth your time to compare companies which might be in your plan, whether 403(b) or 401(k).

Celebration

Despite the disappointments, T/C celebrated this landmark legislation by purchasing two half-page ads in the Los Angeles Times and the Sacramento Bee, announcing 403(b) reform. They asked two teachers and their respective unions to be featured in the ad. One teacher came from the Faculty Association of California Community Colleges (FACCC) and the other was this author who represented PreK-12 teachers. The ad acknowledged and thanked supporters for their hard work.

403(b) *Aware* was looking forward to working with a new slate of UTLA officers recently elected. When the ad was published a disheartening and unnecessary response came from my union. It was sad—showing how unions sometimes shoot themselves in the foot and lose loyal members in the process.

My Union's Over Reaction—Again ☹

The day the Los Angeles Times published the half-page announcement (back of the book), one of my union's vice presidents called. He said the UTLA treasurer was "livid and was seeking legal advice about suing T/C."

“Why?” I asked.

He said, “T/C did not ask permission to use UTLA’s name in the ad.”

I said, “What are you talking about? It’s a celebration ad for a bill UTLA supported.”

He also asked me how much I was paid. Taken aback by his accusations of impropriety, I said, “\$1.00 and it was donated to Politi Elementary.”

I said the Treasurer needed to talk to the union’s lobbyist who was in Sacramento supporting this bill on UTLA’s behalf. I reminded him the California Teachers Association and the Los Angeles Community College Guild also supported this bill.

He complained the treasurer’s secretary was “flooded with 50 calls today.”

Okay, so his secretary got fifty calls. I thought it was great the ad spurred interest.

Horse’s Behind

Instead of a small-minded legal threat and an unsubstantiated accusation, the Faculty Association of California Community Colleges, their local Los Angeles Guild, and 403bwise.com and everybody else in the state were *celebrating*. In my opinion, UTLA’s reaction, in direct comparison to the Los Angeles Community College Guild, made UTLA look like a horse’s ass. This was the second time I observed the massive cultural differences between UTLA and the Community College Union.

UTLA never sued T/C. None of this recently elected leadership wanted to know about the bill. Instead, they indulged in a twisted intrigue about my motivation. What a tragic and a predicable ploy to discredit change and a mission—make it personal to distract from the bill’s purpose.

For the rest of their term, the accusations intensified into a feud. Apparently, several of the union officers were *not* convinced my multiyear 403(b) advocacy was in the best interests of union members. These officers forgot

they witnessed my acceptance of UTLA's "Unsung Hero" award the previous year for my "dedicated and unheralded service" to union colleagues (Award presented during the annual 2001 UTLA Leadership Conference).

Another UTLA Election

Power changes people for better or for worse. In my opinion, this leadership's transformation from teachers to union leaders sometimes makes them arrogant and incompetent, seeing threats instead of opportunities to serve members. At the next election cycle three years later, the 403(b) *Aware* group supported a new treasurer. Let the election results speak for themselves—thousands of members were unhappy over numerous issues. These incumbents lost their reelection bids for the first time in the 40-year history of UTLA.

Desperate Challenge to the Election Results

The defeated officers challenged the election results. In one desperate effort they now were *convinced* I had a financial connection for supporting the incoming treasurer-elect. They now accused me of being a *paid* TIAA CREF representative, claiming I would personally benefit from getting my "client" T/C "union-approved" by the new treasurer. *I kid you not!* When the final arbitration report was released, their inflammatory and delusional allegations about my so-called impropriety were thrown out. The newly-elected officers were officially seated including the new Treasurer 403(b) *Aware* supported.

I was gratified by the publicity. Not the manner that I would have planned to begin a union-led discussion of the 403(b), but at least this drama might have motivated members to look at their statements and take notice of their 403(b) adviser.

403(b) Investment Articles in UTLA's Newsletter

For three years my articles had been censored. When I visited the newsletter's editor, Kim Turner, she gave me a hug. She said "welcome back." I knew exactly what she

meant. My 403(b) investment articles began reappearing in our union's newsletter.

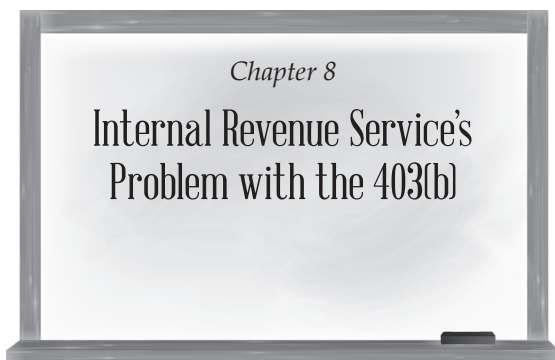
UTLA's gloomy and sinister 403(b) period was over. The election corrected a negative environment. We had a new treasurer 403(b) Aware supported. *What a difference.* After seven years and two treasurers the 403(b) Aware self-help group finally found a treasurer who understood our cause.

Summary

One-way of extending fiduciary responsibility throughout California was to modify 770.3 so companies offering high standards of fiduciary responsibility such as Vanguard and TIAA CREF would be available to *all* California educators.

AB 2506 had excellent intentions: Objective information, transparency of fees and reducing the number of vendors to a reasonable choice through competitive bidding. The industry ripped out the bill's spirit. Not all was lost, however. The law required CalSTRS to maintain a database of financial information about each vendor's product sold to California educators. Participants and the public could now compare products and funds.

While the state's community college union celebrated the bill's passage, my union committed two blunders. The union bosses neglected to understand the bill and accused a loyal member of improper behavior. Someday the 403(b) will be discussed on the same table as the medical, dental and pension benefits with the highest professional standards of behavior we expect from our union leaders.



2004-2010

The print media, American Federation of Teachers's *Shark Attack* and our legislative effort highlighted 403(b) troubles across America. In 2004 the IRS entered the fray by proposing new 403(b) regulations! Why? Was their update going to fix the 403(b) as the 2001 Economic Growth and Tax Relief Reconciliation Act did (See EGTRRA, Chapter 4)? This fix aimed at a problem few could have predicted—auditing. This chapter examines the rationale and the effects of the new regs with one positive outcome.

The insurance industry in concert with our state's Insurance Commissioner's Office maintained total control of TSA products and delivery systems PreK-12 school districts from day one. In my opinion, districts interpreted the state's insurance code for the insurance industry's benefit. By doing *nothing*, districts allowed one economic opportunity after another for the industry. Something unexpected happened—as the 403(b) became more popular the IRS had two problems:

1. The 90-24 transfer rule allowed employees to invest in multiple 403(b) accounts with many vendors on a district's list and vendors not on the list (Vanguard, for example).
2. Many districts had more than 100 vendors, an insane number.

When the IRS audited LAUSD in the year 2000 they took a sample of 900 employees' records. They found an insignificant \$2000 worth of "over-contribution" mistakes, according to the Chief Financial Officer (CFO). If serious noncompliance issues were discovered, the IRS would have audited additional employees. But it was impossible to audit each of the 25,000 LAUSD active participants and one hundred fifty different 403(b) vendors without extensive time and commitment. With a multiple accounting environment more complicated than a Rubik's Cube solution, how could the IRS find additional noncompliant employees among the thousands not audited?

Result of Zero Oversight

District staff had to respond to the IRS demands during audits. But apparently the IRS could not do a thorough job—the 403(b) was in complete systemic dysfunction well-beyond what any district with hundreds of vendors could do to provide data to the auditors. The IRS inherited a mishmash of accounts from thousands of employees, district administrators and hundreds of vendors—none with genuine responsibility to provide data the IRS needed. Something had to be done to clear-up this unresponsive system-wide mess.

New Regs

July, 2007 the IRS finalized new 403(b) regulations. After gradual implementation over a three-year window the new regs went into full effect January 1, 2010. The following four points summarized the new law:

1. 403(b) programs must have a written plan document.
2. Districts must provide annual notification of eligibility (universal availability).
3. Information-sharing agreement was required between employers and vendors.
4. End to traditional 90-24 outside-of-plan transfers.

Written Plan Document

Districts had to do the inconceivable: own their side

of the 403(b) street by doing what 401(k) employers in the private sector had been doing for decades—*writing a plan document*. This document contains all of the plan’s terms and conditions for eligibility, benefits, distributions and hardship withdrawals etc, and the basics listed above. Districts were now on the hook to acknowledge and be responsible for their 403(b) plan.

Public documents are available to anybody. When I asked for the list of no-loads, LAUSD would have been required to provide a copy. I learned when researching your employer’s 403(b) plan, *never* rely on a salesperson. Always obtain what you need directly from your district or employer.

Annual Meaningful Notice

Employers offering 403(b) plans must inform employees each year their 403(b) exists, eligibility rules, the *list of vendors* and:

1. The maximum allowed to contribute in the next calendar year.
2. Employees can increase or decrease the amount contributed.
3. Ability to change companies *within the plan* (90-24 transfer rule is detailed below).
4. Ability to transfer money *within the plan* (90-24 transfer rule is detailed below).
5. All employees who work 20 or more hours a week are eligible.

Relinquishing those duties to the Tax Shelter Annuity (TSA) salespeople was prohibited.

Information Sharing Agreement

The information sharing requirement reduced the number of vendors! All vendors must share with the employer information about the number of employees, their accounts and product sold (anonymously of course). About 125 vendors decided to stop doing business with LAUSD as a result. Even the insurance code with “all

willing providers” could not stop the capitulation of most of the original 155 LAUSD vendors, reducing the number to 27.

This new law also puts a new demand on districts. The transition from zero responsibility to taking responsibility must have been stressful. District staff had little idea how to write up a plan document, for example. Thus, the IRS allowed district staff to farm out administrative tasks to independent third-party administrators (TPA). In 2006 LAUSD hired Variable Annuity Life Insurance Company, VALIC (Details about this company will be discussed in the next Chapter).

End of 90-24 Transfers

Bad news outweighs the good news. While the Wild West of no accountability by district administrators was over, the one new restriction prevented 90-24 transfers. The new rules rescinded out-of-the-plan transfers which many teachers depended on to escape from an unwanted TSAs into sensible low-cost investments. In the 1990s, I was fortunate to transfer my two annuities to the lower cost Vanguard and Fidelity. It didn't matter that Vanguard and Fidelity were not in the plan. Now the new regs forbid this out-of-the-plan transfer in order to reduce the auditing complexity.

Annuity Sales Have Not Been Slowed

The new regs did nothing to improve the 403(b). The effect was the *opposite* of the 2001 EGTRRA law--recall Fidelity signed on with LAUSD right after the EGTRRA law passed. Now they decided to terminate their relationship with LAUSD. It's a familiar story—low-cost companies refused to sign the information sharing agreement because of the additional cost. The usual suspects remained: annuities, TSAs, loaded or high cost mutual fund companies. Even with 125 companies now gone the steadfast options *still* included the largest sharks. The 27 remaining is a lower number than before the new regs, but the 27 companies had the most 403(b) assets and number of LAUSD employees

contributing to TSAs or loaded mutual funds.

These following two reg restrictions angered many educators:

1. Educators are now unable to transfer from horrific TSAs to vendors outside the district's list, namely Vanguard or Fidelity.
2. Fidelity and Vanguard were not longer available.

Scores of participants had little choice but to abandon the 403(b) and invest with the lower annual maximum of the Roth IRA instead (maximum was \$4,000 in 2007).

The Department of Labor (DOL) monitors the 401(k) plan, but public school 403(b)s have always been exempted from the DOL's Employment Retirement Income Security Act requirements (ERISA, 1974 discussed in Chapter 2). ERISA requirements are the last thing the TSA companies and their reps want enforced in 403(b) plans—cost transparency and fiduciary responsibility. Regretfully, we continue to exist in the “wild west” and the insurance companies were gleeful.

The insurance industry's one-on-one strategy with product information and delivery to individual educators was *their* core successful sales platform. That technique has worked in their favor for years and years. Districts were forbidden by our industry-friendly insurance code to vet the types of products made available. If a vendor signed all requirements under the new regs, districts must allow them to conduct business with their employees. Thus, insurance product 403(b) sales were never in jeopardy.

Not all was lost, however. The most positive unintended consequence of this 403(b) debacle was noteworthy—I devote the largest chapter of this book to it. The LAUSD benefits administration knew back in 2004 the new IRS regs were looming. As long as they had to hire a TPA to help, one futuristic administrator introduced a new lower-cost plan. In the next two chapters, I will discuss the new 457(b) plan as a member of a newly formed oversight

committee for the next eight years.

Summary

This was the first time the IRS updated the 403(b). The IRS ended up doing the impossible, requiring school districts to take some responsibility for the 403(b). Some objective information was now available. Unfortunately, the objective information never made it to each employee without the meddling of the sales force. Employees still get much of their information from the biased agents who roam our district turf. Sadly, other than reducing the number of vendors the economic dynamics of TSAs sold to educators was not slowed nor questioned.

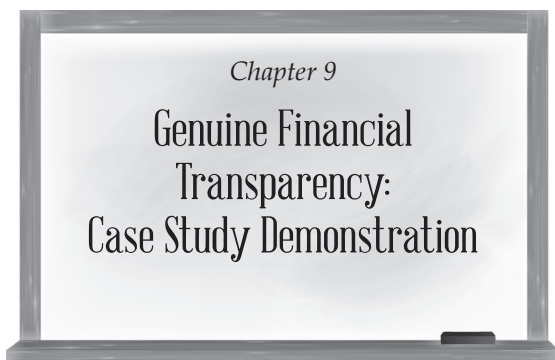
How did the insurance industry escape the potential wrath of the new regs? California's insurance code rescued the insurance industry by demanding districts continue to allow all providers who comply with the new regs to sell 403(b) products. The industry strategy to end-run the new regs was so successful it made the "Miracle of Dunkirk" looks like a trivial WWII skirmish. Because of the transfer rules, low-cost vendors opted out—they could not keep costs low enough due to the information sharing agreements.¹ The insurance companies with the majority of LAUSD employees as 403(b) participating clients signed the agreements. The TSA sales label and one-on-one relationship of agents with helpless educators is once again protected. Now you know why \$100 plus million dollars of annuities are still being sold annually to 25,000 LAUSD educators with no end in sight.

¹ Hold Harmless Agreements were no longer the major obstacle for low-cost 403(b) mutual fund companies. The new regs required all 403(b) vendors to share information with the school district office so that the IRS could audit the program more effectively. This sharing required personnel and time from vendors to comply. Insurance companies had no problem because the clients paid for the additional costs by their annuity agreements.

Part IV

A Reason to be PROUD!

After 20 years, Vanguard Wellington is Now Available. And while we were at it, we exposed hidden costs, selected lower cost options and a fiduciary financial consultant and a TPA and won an award for plan design!



2006-2011

Alexander the Great untied the Gordian Knot with his sword. Previous attempts to solve the impossible entanglement by conventional approaches were unsuccessful. Whoever unraveled the maze would become King of ancient Phrygia. Zeus was so pleased with Alexander's shrewdness he granted royal status and a lifetime of great victories.

The 403(b) was our "Knot." The previous eight chapters offered commendable attempts to solve the monopolized 403(b), lost to the ethers, rife with vast complications and conflicts of interests. The relentless cartel of TSA sales to PreK-12 school districts could be attributed to the minuscule political will by school boards and unions, liability-phobic benefits staff and powerful insurance interests. "Conventional approaches" to those in power—unions, districts and state legislators—*did not work*. In some cases, our attempts backfired. I was left wondering if the TSA sales forces laughed all the way to their bank, amused at the spectacle. Even numerous press reports failed to make a dent in the TSA sales to PreK-12 educators. Where was our Alexander?

George Tischler cut through the entrenched inertia, following Alexander's example. This witty and genteel Los Angeles Unified School District (LAUSD) benefits administrator challenged the status quo with raw guile. Rather than a sword, he wielded a new plan, sidestepping decades-old

obstacles, complete with transparency so deep it scared the elephants from the room.

What? A School District Benefits Official Cares?

Mr. Tischler had federal help. The Economic Growth and Tax Relief Reconciliation Act allowed school districts to offer 457(b) plans. The new IRS regulations required districts to assume increased 403(b) responsibility and allowed them to hire a Third-Party Administrator (TPA). Hence, Mr. Tischler pulled a coup-fourré around the corrupted 403(b) by taking advantage of these two laws. Brilliant. With George's leadership, LAUSD hired a TPA for 403(b) administrative assistance while offering a low-cost 457(b) plan. A perfect fit, right?

A great experiment with the country's second largest school district was born. The 403(b) Aware group and I had questions:

- Who was Mr. Tischler? What was the 457(b) plan?
- Which vendor will be the TPA?
- Will the Board of Education approve this new program?
- What kind of investments will be included and what are the costs?
- Will the 457(b) succeed in leading colleagues away from TSAs into genuine low-cost investments?

Board of Education Approval

George presented the new plan to a subcommittee of the LAUSD's Board of Education on April 23, 2006. He detailed the differences and advantages of the 457(b) over the 403(b). Quoting from the minutes (edited):

The 457(b) Plan, upon approval by the Board, will be offered to District employees later in the year. He stated that the 403(b) Plan offers many products, including mutual funds; 80% of the sales are annuities offered by insurance companies. Insurance companies that offer lower growth with annuities and may charge higher fees and may have early withdrawal penalties. He noted that high fees over time result in a significant decrease in savings for employees.... The [457(b)] money is held in trust by LAUSD,

which allows institutional pricing at lower fees. Finally, employees get oversight of services from the District, a financial consultant and an investment committee....

His assessment of the 403(b) mess was spot-on. He understood insurance companies charge excessive fees and explained why the district needed a lower cost plan. Lower costs and increased performance with mutual funds render more money into educators' nest egg. Previous benefit staff, unions and the Board of Education never understood that simple concept. George got it.

LAUSD Hired a TPA

Sandy Keaton, David Goldberg (United Teachers Los Angeles' Treasurer) and I were at the board meeting. We were shocked and disappointed when George announced that American Insurance Group-Variable Annuity Life Insurance Company (AIG-VALIC) won the bid. George introduced the company's Senior Vice President to address the board.

The VP pulled no punches, "We can do this for .15% because of the institutional pricing and the size of LAUSD alone demands a low rate!" (Also known as fifteen basis points, bsp, each basis point is one hundredth of one percent). He kept repeating the infamous word in the annuity world: "Guarantees!"

How can an insurance company charge a price which competes with Vanguard's index funds? George just said that he wanted a new lower cost plan for the district (lower cost than the 403(b)). But another insurance company? The plan was suspect right out of the gate.

In my opinion LAUSD's Request for Proposal (RFP) worked right into AIG-VALIC's sales pitch. Districts want to know the plan costs nothing—no hit on the general fund. The fifteen bps handily beat the competition and the TPA cost was a major factor. TIAA CREF applied, but the higher fifty-five bps gave them little chance. Was it possible AIG-VALIC's fifteen bps was just a shill figure for gullible

board members to be followed by higher costs? It didn't take long to find out. Mercer Consultants showed us the next step in this familiar dance.

Mercer's rep marched to the podium with a briefcase and stacks of reports, wearing a neatly dressed dark suit. I got a heads-up about Mercer from my professional friend, Brian Cressey. Without hesitation, he said "Mercer is the *crème de la crème* of retirement plan consulting firms." Their website showed they're a huge international firm with a broad presence in the investment consulting business.

The Mercer consultant, a Midwestern middle-aged woman reported the 15 bps was not the total cost, "there is additional 27 bps from revenue sharing." Within minutes the cost had increased to 42 bps ($15 + 27 = 42$). Isn't that almost three times the cost of what the VALIC VP said?

My Head was Spinning

AIG-VALIC has a right to charge fees. In my opinion, however, it's misleading to announce 15 bps, following up with an additional 27 bps, rationalizing that it's "the industry standard." If the cost reflects the industry standard, why the binary presentation about fees? All agree 42 bps was reasonable. Shouldn't the VALIC VP be proud of announcing 42 in the first place and be done with it?

Games People Play with YOUR Money

AIG-VALIC and the Mercer consultant were colluding in my opinion, an example of how the industry made financial information confusing and complicated. This time the audience and Board members recognized the tactic. More fees would come. The unknown cost of the investments—this omission was a huge concern.

But there were two other issues I brought up in my public speaker opportunity (edited for brevity):

What Mr. Tischler and the benefits administration now propose a low fee 457(b) by strangely offering a contract to one of the biggest insurance companies in the country. Think about this: V.A.L.I.C. That spells out Variable Annuity Life Insurance

Company. Is this the company that's going to fix the problem of selling high priced products? AIG-VALIC is not the answer to the problem of high fees and low performance because that's what it's done for decades. I have concerns that AIG-VALIC will use their position to sell more 403(b)s to offset the low 457(b) fees.

Because other speakers were also concerned about AIG-VALIC selling 403(b)s, benefits administration convened a special meeting two weeks later.

Twenty people showed. Two teachers, the author and UTLA Treasurer were present. The rest included George and his staff, Mercer rep and the AIG-VALIC Senior V.P. LAUSD's procurement and contract staff sat on the periphery of the room away from the table and never said a word.

After the introductions, there was silence for a few seconds. It was a strange meeting with nobody in charge. Defined contribution plans have seldom been discussed publicly. The tension was obvious. The staff and financial consultants may have been unfamiliar with answering direct questions about fees or concerned with the UTLA's treasurer present—but this was the beginning of genuine transparency.

The allegation about AIG-VALIC selling 403(b)s was discussed first. They would be the TPA record-keeper for both plans, known as the "common remitter." Would AIG-VALIC take advantage of their common remitter position to sell their expensive 403(b) insurance products? VALIC's VP sidestepped the conflict of interest question by agreeing on-the-spot they would not sell new 403(b)s and would focus on the 457(b) plan.

Next we discussed the 27 bps. Mercer rep repeated what she said to the Board. She was unwavering and explained revenue sharing as though this is how vendors make money. Revenue sharing refers to a portion of the investment expenses which are kicked-back to AIG-VALIC. Details will be shown later in this chapter. But the VP did not say anything about this kick back at the Board of Education presentation, since his company will be actually receiving

42 bps, not 15 bps. He practically shouted “15 bps.” Mercer rep admitted that the fee was 42 bps.

We should have challenged this dual presentation on principle by keeping AIG-VALIC’s feet-to-the-fire with 15 bps. We were not familiar with revenue sharing, 42 bps was still a low cost TPA, so we dropped it. The UTLA treasurer, two teachers and I lacked enough knowledge or backing from the teacher’s union to apply pressure. In retrospect, the UTLA Treasurer and the three teachers should have had a huddle talk out in the hallway about strategies for holding AIG-VALIC’s fees to 15 bps. The great news is that we prevented AIG-VALIC from selling new 403(b)s which turned out to be a positive move to protect the hardworking employees of our district.

School District’s Love Affair with Insurance Companies

PreK-12 school districts are rampant with insurance companies’ 403(b) products. So, choosing an insurance company should not be a surprise. We experienced this dance before—this decision to select AIG-VALIC was *contradictory* to Mr. Tischler’s vision. The American Federation of Teachers’ (AFT) also produced an empty promise after their brilliant *Shark Attack* article and then stabbed everybody in the back by choosing another insurance company. Was this a new form of bait and switch? —Singing on-key at the audition, but choking at the Met. The full Board of Education approved the 457(b) plan in June, 2006.

The History of 457(b)

Our 403(b) Aware group learned much about the 457(b) plan in a few weeks. Inaugurated in 1978, the 457(b) was another tax-deferred compensation retirement plan. All three 457(b), 403(b) and 401(k) offer identical tax-deferred benefits. There were two administrative differences with the 457(b): (1) assets are held by the employer, and (2) the participant can transfer funds to an IRA without federal penalty *only* upon separation from service. For instance, if you are 55 and retired, you can transfer 457(b) money

to an IRA. This allowed police and fire fighters access to these plans because they normally retired before 59.5 (with a 403(b) and a 401(k) you have to wait until 59.5). Likewise, you cannot transfer a 457(b) to an IRA *at any age* if you are still working.

Each plan had pros and cons. Simultaneous contributions to both the 403(b) and the 457(b) plans are allowed. Depending on employees' eligibility older workers can save \$40,000 or more using the catch-up features. The best part of the 457(b) plan was next.

Insurance Regulations are MOOT

Mr. Tischler's plan included mutual funds (the funds selected will be discussed). The hideous insurance code which regulates the 403(b) would not affect the 457(b)—LAUSD was *free* to do what was right. While we thought LAUSD picked the wrong TPA, the selection process was by competitive bid. George and his colleague David (another benefits administrator) and the committee consultant said the committee will select the investments.

An independent financial consultant would be hired to provide training and recommend mutual funds for inclusion and interface between the district and employee groups. "Employee groups?" When George spoke about "oversight of services," he meant it—*employees*. To everybody's surprise, benefits invited all of the district's unions to send representatives to this new committee: teachers, administrators, school site support personnel, buildings and trade, school police and the rest. The reps would meet monthly with benefit's administrators, the Chief Financial Officer's (CFO) and a Board of Education rep. I was invited by David Holmquist to be a Member-at-Large and Sandy was asked to represent UTLA.

How often does a large school district include this range of employees on the same team with the mission to plan and implement a new low-cost, best-in-class retirement plan? Behind-the-scene decisions might be history.

First it was AFT and now the 2nd largest school district in the country offering full transparency and asking for employee buy-in. What a novel idea and great opportunity to improve the quality while reducing liability with employee buy-in of all voluntary retirement plans. Finally, the 403(b)/TSA faced competition for the first time.

The 457(b)'s Potential for Greatness—Transparency

Our oversight committee began meeting in July, 2006 at LAUSD headquarters--the "Beaudry." This 29-story building contains about 3,000 employees who meander through the halls. The 928,000-square-foot triangular shaped leviathan is located on Beaudry Street, downtown Los Angeles, due west of the famous multisilo hotel, the Bonaventure. The Beaudry is infamous for its warped floors.

Our meeting room occupied the northeast corner on the 28th floor offering a spectacular view. To the east was downtown Los Angeles above the busy Pasadena/Harbor Freeway and north beyond the hills was Dodger stadium. The most expensive school built in the country, the former Belmont High School was below. The meeting room includes the obligatory long and spacious mahogany corporate table surrounded by cushy, slightly worn, oversized swivel chairs. The business and power symbolism is a long way from my farm-boy, small-town Wisconsin roots.

Mercer's contractual duty was to advise our committee to launch the 457(b) by January 1st, 2007.

The following administrative tasks were completed first.

- Committee mission statement
- Committee bylaws
- Investment Policy Statement (IPS)

This involved legal staff and union perusal to ensure we followed the Employment Retirement Income Security Act (ERISA) requirements for a diversified portfolio. ERISA requires an IPS for 401(k)s, but not 457(b) nor 403(b) plans. Our committee followed the ERISA guidelines so the 457(b) investments' financial data such as past performance,

industry ratings and risk are systematically monitored. Investment changes had to be verified by similar procedures used by many retirement plan consultants and TPAs. These procedures were detailed in the Investment Policy Statement.

UTLA's Treasurer, David Goldberg, was terrific (See Appendix G). He attended meetings, sent the unions' legal counsel and hired a financial consultant. The union's attorney ensured the volunteer collective bargaining members were not liable for recommendations. The union's financial adviser oversaw the proceedings and answered investment related questions.

In September our committee administrative foundations were completed. We were an official LAUSD chartered committee. The legal fiduciary was the district's CFO as directed by the Board of Education. The CFO signed the IPS. Now the committee was allowed to make specific mutual fund recommendations.

Total Costs to Participants *Finally* Exposed

Investment costs are the most protected pieces of information in the financial industry, hermetically sealed from easy public view for good reason. If people realized how much they paid long-term, they would revolt. Thus, the industry takes extreme precautions in how costs are revealed. In my opinion, the dance between Mercer and VALIC before the school board about costs reflected decades of orchestrated marketing.

Investment costs must be revealed somewhere in *the fine print* of the multipage, complicated prospectus. But it's up to consumers or committee members to add the scattered pieces together, similar to locating and reassembling the Titanic. You already got the first lesson when the AIG-VALIC VP reported the initial 15 bps and the Mercer rep tacked on a second layer of costs. There are more to come.

Professionals love to throw numbers around as a clever maneuver to distract us. Complicated investment statistics have one inherent purpose—encourage confusion and

discourage transparency—ever so subtly. You don't need to take a statistics class. Discover how to recognize the distracting noise from the information you need.

The committee financial consultant handed out a glossy, colorful, spiral-bound 23-page folder entitled "LAUSD Deferred Compensation Plan." The professional looking handout provided an overview of 1 quarter, 1-year, 3 years and 5-year past performance of the mutual funds recommended. It was important to select low-cost funds that reflect the core asset classes: large, mid and small-cap and international stocks (equities) and bonds (fixed accounts). Our IPS states:

To comply with ERISA section 404(c), a plan must:

- *Offer at least three diversified "core funds" representing a broad range of investment alternatives; each core fund must itself be a diversified portfolio of investments.*

In my opinion the investment statistics all over Mercer's handout were mostly noise. Past performance should never be the determining factor for selecting investments. Noise may be interesting, but adds little value to our committee's job. We kept with the ERISA 404© requirement (See Definition of Terms for a detailed 404© explanation).

Where were the revenue sharing costs?

Next was the information we had been wanting for months. The committee could see the extent to which the financial profession disguised their fee structures. Before we search for the revenue sharing costs, we need to know what we are looking for.

According to Gnasik's thoughtful definition, "Revenue Sharing is the universally accepted form of paying for the cost of defined contribution record keeping expenses" (*Introduction to Excess Revenue: A New Paradigm for Lowering Plan Costs*, 2006, p. 6). He says few people know about them. Committee members had never heard of revenue sharing before the 457(b) plan was announced. Over the summer, however, we became knowledgeable

about revenue sharing and recognized our responsibility to expose, reduce or eliminate them. The committee knew our employees, whom we represent, would be paying the costs.

Know Thy Share Class System

Share class is a classification system given to stocks and mutual funds. They are designated by letters of the alphabet: "A Shares," "B Shares," "C Shares," "D Shares," "E Shares" and "Z Shares" and combinations of letters and numbers, "R4." Mutual fund A Shares, for example, have front-end loads (commission paid to the adviser on buying) while B Shares or C Shares have back-end loads (commissions paid on selling). Share classes pay the brokers, advisers, managers and the TPA (AIG-VALIC) compensation. Be aware not all mutual fund companies use the same share class definitions provided here. Easier still commit to your memory that Vanguard and TIAA CREF do not share revenue.

It doesn't matter if you are helping your brother-in-law, your sister, your folks with their retirement plan or discovering your broker/adviser's shenanigans with your portfolio, always, *ALWAYS* follow the costs. From their initial presentation to the Board, I wanted to know the total cost to LAUSD employees. The mutual fund costs were published on page 9 called "Fund Expense Analysis." "At last," I thought. Table 3 illustrates each fund, asset class, fund expense ratio, revenue sharing and the peer group average expense ratio.

Table 3Note: Revenue sharing is *literally* hidden.

	Asset Class	Fund Expense Ratio	Revenue Sharing	Average Institutional Fund Expense Ratio
American Growth Fund R4	US Large Cap Equity	0.68%	0.35%	0.88%
Vanguard Growth & Income	US Large Cap Equity	0.40%	0%	0.70%
Vanguard Extended Market	US Equity (Index)	0.25%	0%	na
Vanguard Dev Market Index	Int Equity (Index)	0.29%	0%	na
American Europacific R4	International Equity	0.83%	0.35%	0.98%
PIMCO Total Return Admin	US Fixed	0.68%	0.25%	0.62%
Dreyfus Bond Market Index Inv	US Fixed (Index)	0.40%	0.35%	na
Dreyfus Cash Management	Money Market	0.30%	0.10%	
Dreyfus S & P 500 Index	US Equity (Index)	0.50%	0.40%	na
VALIC - Fixed Int.	Stable Value			na
TR Price Income (ADV)	Lifestyle	0.89%	0.35%	na
TR Price 2010 (ADV)	Lifestyle	0.93%	0.35%	na
TR Price 2020 (ADV)	Lifestyle	1.01%	0.35%	na
TR Price 2030 (ADV)	Lifestyle	1.05%	0.35%	na
TR Price 2040 (ADV)	Lifestyle	1.05%	0.35%	na
Davis NY Venture A	US Large Cap Equity	0.89%	0.25%	0.74%
Turner Mid Cap Growth	US Midcap Equity	1.20%	0.40%	0.93%
Janus Mid Cap Value	US Midcap Equity	0.92%	0.25%	0.74%

Hide the Costs at all Costs

Do you see the *total* cost to the buyer? These data do not include the AIG-VALIC's 15 bsp. Table 3 was incomplete, this time they *omitted* what the VP proudly announced to the Board. After all of the noise and enthusiasm about the tiny TPA 15 bps fee at the Board of Education Meeting, it was hilarious when our consultant *excluded the 15 bsp in Table 3*. "Average Institutional Expense Ratio" is an example of distracting noise. We wanted the total cost. Exposing the total cost was in *the employees' best interest*.

Table 4, presented below, is a completed profile of the investments' total costs. Revenue sharing costs were colored gray to show they are *hidden*. For example, the "American Growth Fund R4" the revenue sharing .35 percent was *embedded* in the Expense Ratio column, .68%.

The right column showed the total costs with the 15 bsp added. Nothing complicated or omitted. Thus, the total cost was calculated by adding the mutual fund expense ratio and the TPA cost (.68% + .15%) for a total of .83%. Clever, isn't it? Now a middle-school student can understand the scheme.

A Demonstration of Genuine Transparency

Let's face it folks, the industry is not going to present an uncomplicated table, chart or picture of the total costs. The lack of regulations for transparency speaks to their ethics. If genuine transparency were required by regulations, we would *still* have to do our homework. The practice of hiding costs and finding perfectly legal loopholes is widespread in the financial world. But the buck-stopped-here—our committee demanded transparency on total costs. Considerable sleuthing and calculations were prepared to obtain the data to create a more accurate and completed Table 4 below. Regardless of George's new program and the "crème de la crème" consulting firm *it was the committee who calculated the total costs*.

Table 4

Note: Completed Table with TPA Costs added.

Fund Name	Expenses	Revenue Sharing embedded in the Expenses	TPA Cost	<i>Total Cost to Participants</i>
American Growth Fund R4	0.68%	0.35%	0.15%	$.68 + .15 = 0.83\%$
Vanguard Growth & Income	0.40%	0%	0.15%	<i>0.55%</i>
Vanguard Extended Market	0.25%	0%	0.15%	<i>0.40%</i>
Vanguard Dev Market Index	0.29%	0%	0.15%	<i>0.44%</i>
American Europacific R4	0.83%	0.35%	0.15%	<i>0.98%</i>
PIMCO Total Return Admin	0.68%	0.25%	0.15%	<i>0.83%</i>
Dreyfus Bond Market Index	0.40%	0.35%	0.15%	<i>0.55%</i>
Dreyfus Cash Management	0.30%	0.10%	0.15%	<i>0.45%</i>
Dreyfus S & P 500 Index	0.50%	0.40%	0.15%	<i>0.65%</i>
Davis NY Venture A	0.89%	0.25%	0.15%	<i>1.04%</i>
Turner Mid Cap Growth	1.20%	0.40%	0.15%	<i>1.35%</i>
Janus Mid Cap Value (inv)	0.92%	0.25%	0.15%	<i>1.07%</i>
TRP Income (ADV)	0.89%	0.35%	0.15%	<i>1.04%</i>
TRP 2010 (ADV)	0.93%	0.35%	0.15%	<i>1.08%</i>
TRP 2020 (ADV)	1.01%	0.35%	0.15%	<i>1.16%</i>
TRP 2030 (ADV)	1.05%	0.35%	0.15%	<i>1.20%</i>

(Note: Revenue Sharing is **embedded** in the Expense Ratio. The amount, in gray, showed how much of the expense ratio is shared with AIG VALIC)

As previously mentioned, Vanguard (and TIAA CREF) does not enter into revenue sharing agreements. The 40 bsp for the Vanguard Extended Market Index was an outstanding low-cost. The ten funds recommended by Mercer costing less than 1% were satisfactory.

Why wasn't a completed Table 4 presented to the board of education? A .83% cost for American Growth R4 was not expensive for an employer-sponsored retirement plan. While I personally prefer to invest in Vanguard or TIAA CREF, I have no problem with the American Fund's investment philosophy of low turnover, low-cost expense ratios. Only use this fund in your employer-sponsored retirement plan as their gruesome front-end commissions of 5.75% were waived.

Most Expensive Funds

The remaining eight funds were too expensive. All five Lifecycle T. Row Price funds (aka, Target Date Funds), Turner Mid-Cap Growth, Janus Mid-Cap Value and Davis NY Venture A cost over 1.0% total cost. At 1.35% Turner Mid-Cap Growth, the highest costing fund, would grow in somebody else's pocket other than our employees.

Turner was numero uno on the list for replacement. If you invest in Turner at 1.35% fee, you will diminish your nest egg by 18.85% over 30 years. Eighteen percent less money is too much for hand-holding and filling out enrollment forms. More important, it was not fair for some colleagues to pay three times more for Turner Mid-Cap than for Vanguard Extended Market Index. Will the participants know these cost differences?

The Mercer Rep Did One Thing Right

—Include Index Funds

Using index funds for passive investing is not discussed in detail in this book. Resources examining the advantages of the passive over actively managed strategies are in the reference section. For brevity, index funds are an ideal fit for retirement plans because they are broadly diversified in

the major asset classes, are low-costs, easy to monitor and often outperform most managed funds over the long term.

Mercer was commended for offering two genuine index funds (Vanguard Extended Market Index and the Vanguard Developed Market Index). Unfortunately, they also recommended two “copycat” index funds, Dreyfus S&P 500 and Dreyfus Bond Market Indexes. Stay away from copycat index funds—revenue sharing was an added cost dragging down index-like performance.

This Dreyfus S&P 500 Index was used as evidence in the Daniel Hall and David Hamblen vs. National Education Association class action suit of excessive 403(b) costs:

“...one option offered to Plan participants is a Dreyfus fund designed to track the Standard and Poor’s 500 stock index. The total operating expense for the Valuebuilder [NEA’s plan] Dreyfus stock index fund in 2006 was 0.30%. That is over three times the 0.09% operating expense on Admiral Shares in Vanguard’s 500 Index fund. Prudent fiduciaries do not select investment options costing three times more than a comparative product” (p. 29).

Our 2006 Investment Policy Statement (IPO) with Mercer’s name on the cover and on each page states on page 18 about the Board of Education role in the plan, “The safeguards to which a prudent investor would adhere must be observed.” Prudent refers to the decision making of selecting funds as if they were his/her own. On page 19, “The investment consultant acknowledges that it is a fiduciary to the CFO and shall at all times act in a fiduciary capacity....” Was Mercer a prudent and fiduciary consultant as written in our IPO? You might get a clearer answer when you read the next section.

What Happened to the Committee’s Recommendations?

Armed with the total cost information in our Table 4 above, we proposed three fund changes illustrated in Table 5 on the next page.

Table 5

Asked to be Removed	Replaced by
1. Turner Mid-Cap Growth (1.35%)	1a. Dreyfus Mid-Cap Index PESPX (.65%)*
2. Janus Mid-Cap Value (1.07%)	2a. Pioneer Mid-Cap PYCGX (.84%)*
3. Davis New York Venture A (1.04%)	3a. Davis NY Venture Y DNVYX (.79%)

*From *AIG-VALIC Initial Recommendations*, page 2 of *Investment Structure and Fund Line-up Recommendation Report for LAUSD Deferred Compensation Plan (July 2006)*.

The three funds selected for removal were the most expensive. Our purpose was to drive down the cost of the expense ratio by choosing another share class within the same asset class, Mid-Cap and Davis NY Venture. Reducing costs puts more money in our employees' accounts. It was the committee's job to select the investments.

Suggested replacement funds were in the same asset class to accommodate the diversification requirement of our Investment Policy Statement. These alternatives cost less than 1%. It did not make sense to offer investments charging more than 1%, when both VALIC and Mercer said the TPA will need only .42%. We are merely following-up on what the AIG-VALIC's VP said to the Board of Education: "... because of the institutional pricing and the size of LAUSD alone demands a low rate."

I thought the financial consultant's slate of fund choices was a starting point because it was everybody's understanding the committee selects the investments. The consultant ignored our suggested three funds. Instead, suggested funds which had been just as expensive as the funds we wanted replaced. Then the committee discovered the infamous 27 bsp was in the contract, quoting:

"The target amount of such income is 0.27% and was taken into account in determining the administrative charges...."

In my opinion, our consultant had an agenda, supported by the contract. The committee was not a partner in selecting the funds as was presented to the Board because the 27 bps was in the contract. LAUSD participants had to pay this with revenue sharing and Mercer never backed down on any of their original selection of funds. Thus, revenue sharing developed into a contentious issue. The committee was so divided the Chair warned us with an email edict not to go against the consultant's recommendations. We underestimated Mercer's influence on the benefits administration, some members and the committee Chair. He wrote, "Mercer is not willing to recommend the three funds you want to select because in their expert opinion they do not achieve our stated goal."

Really? In my "expert" opinion, Mr. Holmquist overlooked two procedural facts about the committee process:

1. He answered a question from one of the Board of Education members about the selection process, "... *in terms of selecting the program, this will be handled by the investment committee.*" The Mercer rep confirmed what Mr. Holmquist said.
2. Two of our recommended funds were AIG-VALIC's initial recommendations which had revenue sharing.

The committee members tried to lower the highest costing funds and still share lower cost revenue with AIG-VALIC. The three funds we recommended were in the identical asset class. Our recommendations were legitimate and in agreement with our IPS. It's *only three* of the eighteen funds to lower costs and still pay what AIG-VALIC needed—not a threat to Western Civilization.

The committee members' three fund replacements were overruled due to the Chair recommendation and urging to get this plan into action. In spite of absences at the next meeting, a quorum was reached and the committee

approved committee consultant's hard-line recommendations. Disgusted and angry, I realized the duplicitous cabal was steam rolling us (See Appendix H for my article about this distressing episode published in the UTLA newspaper).

Victory for the Participants

At the next meeting, one of our bright and savvy committee members shared a 401(k) lawsuit clipping from the mainstream news. The lack of transparency of revenue sharing had precipitated a lawsuit against the sponsoring company. He warned about a similar fiduciary breach might incur with our district over the hidden revenue sharing costs.

He proposed a motion in which AIG-VALIC would reveal all costs at all group and individual presentations. If AIG-VALIC was going to charge higher fees than the 42 bps, then by golly the committee demanded full transparency of those costs.

The AIG-VALIC reps balked. They fought the transparency proposal all the way to the exit. They warned us as they were walking out the door, like a gunslinger backing out of the saloon with both guns firing, "We'll have to check our legal department about this!" I thought, "How pathetic."

LAUSD administration supported the committee's demand for transparency. How could they not? The publicized 401(k) lawsuit case was a perfect example, which legitimized our motion. It passed unanimously. Nothing scares a school district more than legal responsibility.

Excerpts from Kathy Kristof's L.A. Times article

Financial columnist, Kathy Kristof, attended the meeting and published her Los Angeles Times column of the fee disclosure debate on October 23, 2006. Here are excerpts of this great article:

Under pressure from teachers, an insurance company that sells individual retirement plans to Los Angeles school district employees has agreed to disclose the fees it collects from the mutual funds it offers as investment options.

Industry experts say the push by Los Angeles teachers and others for better disclosure will help build public awareness of how revenue-sharing fees take a hidden toll on retirement nest eggs.

"This level of disclosure is unusual today, but I think it will be common in two to three years, if not before," said Fred Barstein, president and chief executive of 401(k) Exchange, a retirement-plan consulting firm based in West Palm Beach, Fla.

The 457 plan provider, AIG VALIC (which stands for Variable Annuity Life Insurance Co.), had no intention of disclosing this fee to teachers, said Steve Schullo, who served on the advisory committee.

Schullo and others objected, contending that revenue-sharing fees are often inflated. Full disclosure, they said, would allow teachers to choose funds in the 457 plan with lower revenue-sharing fees or opt out.

"The committee wants full disclosure," Holmquist told AIG VALIC Vice President Ron Gatti at a meeting in the district offices last week.

Holmquist notes that 457 plans have a big advantage over 403(b)s, because the district can screen investment options and offer a 457 plan with just one provider -- which allows the district to negotiate fees and costs and act in the best interest of its employees, just like companies in the private sector.

"There is no way that UTLA could have anything to do with any plan that doesn't have complete disclosure of fees," union Treasurer David Goldberg said at the meeting. "Our members trust us to look out for their best interests."

"I'm afraid the revenue sharing would just confuse people," Gatti said.

Are you "confused?" Confusion and fear are primary tools to scare investors into thinking they must hand investments over to the high priests of finance.

Finally, a decision we made came to fruition during those dark days when the Mercer rep, AIG-VALIC and the Chair bullying the revenue sharing debate. We failed to replace the three costliest funds, but won the transparency battle and earned media coverage. Our committee's

ruthless attention to fees paid off big time by looking out for the employees' best interests.

Time to Move On

The 457(b) was in place. The AIG-VALIC reps were sent to the field to enroll and accept employee contributions. The committee began its routine of viewing progress reports. By January, 2007 we commenced the process of selecting our next financial consultant. Thankfully, the Mercer Consultants contract had expired. Our Bylaws required committee members for the "...selection and evaluation of the investment adviser and other consultants to the Committee...." Two committee members volunteered to participate in the ad hoc selection committee.

Selecting an Independent Consultant with Fiduciary Standards

Plan consultants are as good as their investment philosophy and knowledge of laws and regulations. Our ad hoc committee read the returned bids, ranked them on the specifications, discussed and debated our ratings. The five who scored the highest were invited for interviews.

With a bitter pill swallowed about Brian Cressey's accolade of Mercer Consultants, the candidates would have to demonstrate they are right for our employees and our committee:

- Ethical and independent, looked after the best interests of LAUSD employees
- Willingness to listen
- Respect for the committee process
- Training of committee members on defined contribution plans
- Shared a goal of reforming the 403(b)

As a selection committee member I could see first hand how each candidate interacted with us.

SST Benefit Consulting (SST) was selected. With their excellent "people skills," they recognized the California 403(b) was rampant with conflicts of interest. They held a broad and detailed knowledge of IRS, pension and

California laws and a long history with 403(b)s, 457(b)s, and *large* non-profit employer plans. I had a small concern about SST's philosophical bias towards active-management.

What sealed the deal for our ad-hoc selection committee was that SST, especially their lead consultant, Barbara Healy, were endorsed by Bob Architect, a respected Senior Tax Law Specialist and 403(b) guidance author. And we received 403(b) reform-minded industry friends who wrote additional support letters on SST's behalf.

Despite their investment philosophy, they were on the right side in all other areas:

- Get educators away from high-priced TSAs
- Invest in stocks that grow with the economy
- Keep costs low
- Support full transparency
- Agreed the insurance industry domination of the 403(b)s was inappropriate, stagnate and illiquid products which don't grow with the economy and thus, not in the best interests of PreK-12 educators.

SST Benefits Consulting started working with us in July, 2007. On day one they smiled from ear-to-ear. LAUSD was a huge opportunity and a challenge for any consulting firm. They earned their place with us. Committee members were looking forward to a better working experience.

Our bylaws mandate that one of SST's responsibilities was to train the committee. They wasted no time. By September they scheduled an all day educational workshop on defined contribution plans. SST updated the Investment Policy Statement (IPS) and began researching replacements of the funds which Mercer strong-armed. On the list to eliminate first, you guessed it—*Turner Mid-Cap Growth*—one of the three funds which *we picked for elimination a year earlier*.¹

Not so fast. First the New Chair

Not everyone accepted SST. LAUSD appointed a new Chair. According to the Bylaws our committee Chair was

the LAUSD Benefits Administrator. The Chair chastised Barbara before the committee chairs were warm. It was a petty issue about exchanging emails among committee members, which was not a problem before. Barbara sent out the agenda to the committee members before the Chair had a chance to approve it first. Additionally, two meetings were cancelled with one day's notice enraging members. Problems shifted from former financial consultant to this new Chair. The good news was this new Chair retired.

Benefits appointed a temporary Chair. What a difference. She demonstrated respect for the members' time and commitment. To keep our meetings on schedule, she appointed the author as the alternate chair.

We could not make those fund changes mentioned above without the updated IPS approved by the CFO. The IPS is an important legal document which guides and focuses the committee on monitoring the plan with the assistance of the financial consultant. The IPS accomplishes four things:

1. Provides the objectives and purposes
2. Assesses the needs of the plan's participants
3. Creates guidelines for how investment options are selected or eliminated
4. Establishes procedures for monitoring the investment policy on a continuing basis

While we were waiting for approval, we had plenty of other work to do. Our committee was active, creative and idealistic. The committee had good ideas about an education plan for employees. For example, we proposed to use the district's TV station to broadcast small video clips to show how costs eat into a retirement nest egg and letting employees know that a new 457(b) plan exists. Unfortunately, these ideas have remained in the discussion phase. The decades-old fear of confusing publicity with endorsement caused the district staff to resist.

VALIC's \$500,000

SST informed the committee that VALIC provided \$125,000 each year for five years (\$500,000) for administration. This is a common agreement between vendors with large school districts to assist in growing the plan and to assure the district doesn't tap into the general fund. After pressing for an audit, we got an accounting from the CFO's rep. Some of the money was used to pay benefits staff time spent at our committee meetings and other administrative expenditures. Benefits subtly resisted when we discussed using it for education purposes. Our mistake was that we didn't pass a motion to let the CFO decide. We were waiting for previous motions. The CFO is the committee's supervisor who has the final say on *all* committee recommendations and ideas.

UTLA rep Sandy Keaton, UTLA's Retirement Issues Committee Chair, coordinated and implemented investment workshops at union headquarters. She asked the 457(b) reps, SST and outside professionals to provide presentations. Sandy and I learned early on to vet financial professionals before allowing them to present. She offered two all-day Saturday investment workshops a year, which continue attracting 50-80 grateful educators to each workshop.

ACCESS

AIG-VALIC reported problems accessing campuses. Two issues: First, most of the 700 school site principals and the union's Chapter Chairs did not realize LAUSD had a new plan. The policy was to only allow the "Union Approved" 403(b) vendors to present. Consequently the AIG-VALIC reps were shown the exit, preventing the reps from making presentations to staff. We discussed several ideas for publicizing the 457(b), passed a motion and sent it to the CFO as well.

These healthy discussions disintegrated into a frustrating buzz after a year had passed. Without approval from the CFO we couldn't change any of the funds. The IPS

was in the land of administrivia, ignored and unsigned. Meanwhile, benefits administration appointed a new permanent Chair—Mr. George Tischler. George was welcomed. His honeymoon didn't last, however. He was soon engulfed with angst and frustration because the CFO was ignoring us. Two of our most coveted members threatened to quit, convinced their time was not valued and they figured that the CFO had dropped the ball to let Benefits take control.

In a desperate attempt to get things moving, our lead consultant talked to the CFO. The consultant must have scared the bejesus out of the CFO by threatening she could be personally liable as the fiduciary. *Finally* the CFO approved and signed the IPS. We had more motions. We went to work replacing the funds which we had discussed two years previously. Once again, those motions were on "hold." This time George talked to her. Ghastly isn't it? But it's how major decisions are often handled in the lofty towers of power.

Like a dysfunctional family, one member takes on the role of the "identified patient." In the morass of our committee business, there was supposed to be this order: the committee passes a motion which sent to the CFO for either approval, rejection or a request for more information. First, it was Mercer, then the Chair, and now it was the CFO who was the obstacle.

Here are dates to show how slowly this system was working. The Investment Policy Statement (IPS) was sent in the fall of 2007 and it sat on her desk for a year before she signed it. SST recommended the following fund changes, passed by the committee and sent to the CFO in December 2008 were not approved and signed by the CFO until the spring of 2010. Noticed we removed that dreaded and most expensive Turner Mid-Cap Growth.

Table 6

Removed	Replaced by
Turner Mid-Cap Growth TMGFX (1.35%)*	1a. American Century Heritage TWHIX (1.16%)*
Vanguard Grth & Income VQNPX (.52%)*	2a. American Funds Fund. R4 RGAEX (.81%)*
Dreyfus S&P 500 PEOPX (.65%)*	3a. Fidelity Spartan 500 Index FUSEX (.25%)*

*Total costs including the .42% TPA fee.

The above problems with our district-bloated-bureaucracy paled in comparison to the next incidents which shocked all.

Our Former Mercer Lead Consultant

Business Wire Press Release June 6, 2007 reported that our former Mercer lead consultant now worked for AIG-VALIC! During those heated revenue sharing debates, Sandy and I accused our former lead consultant of “taking care of AIG-VALIC’s interests over the participants.” Of course, she denied it vehemently. But doesn’t it make sense now? It didn’t matter that there might be implications of impropriety involving both AIG-VALIC and Mercer as hired contractors by LAUSD. Of course, I am not talking about anything illegal—these companies have legends of attorneys. In my opinion, this spectacle was a blatant and perfect example of an “in-our-face” ethical issue and a conflict of interest.

If the Mercer lead consultant had considered our recommendations, worked with the committee by accepting one, two or all of our recommendations, we would have no problem whomever she subsequently worked with. *But she didn’t. She categorically dismissed our recommendations* and offered funds just as expensive. She wanted no part of our choices of reducing revenue sharing, in spite of both her and our Chair telling the Board of Education the committee selects the investments.

An independent financial consultant supported our view about the Mercer’s selection process:

"I think we all agree that the fund selection process was tainted and I think everyone will feel better once SST has done their analysis, and taken the "stench" of Mercer off the funds. If the funds offer any revenue sharing benefit, so be it; as long as that factor is not taken into account in the selection process, and it is disclosed to the participants, it will only reduce the overall cost of the plan for each participant. I think at this point, everyone feels that Mercer (in concert with AIG, probably) selected many of the funds based on their willingness to share revenue, and not whether or not the funds themselves were best in class. This doesn't pass the smell test, as rightly pointed out by the committee."

The AIG-VALIC/LAUSD contract included this clause: "Contractor will also take all necessary steps to avoid the appearance of conflict of interest...."

Did AIG-VALIC's decision to hire our former consultant have *no impact* on our employees paying higher costs *when she defended* high-fee revenue sharing which would benefit AIG-VALIC? In my opinion, our committee and the visitors witnessed firsthand how she stood up for AIG-VALIC's interests and looked out for AIG-VALIC's best interests was the perfect "job interview."

Russell Olsen, author of the *Handbook for Investment Committee Members*, wrote about the responsive relationship of consultants/advisors with committee members:

*"The adviser and his people must be the source of expertise and the ones who do the work, but they should always remember that the investment committee is the one deciding on the objectives and policies, making the actual investment decisions, and shouldering the final responsibility. **The adviser cannot be moving in one direction and the committee in another.**" (Bold is mine)*

Ary Rosenbaum, Esq. wrote in his newsletter speaking to both financial consultants and TPAs: "If you betray the trust of your clients and those you work with, it can take a lifetime to rebuild that trust and that reputation. ...and just a lapse in judgement to destroy it. ... Never lose sight of your way."

I doubt if this transfer of employment heralded the national mischief AIG-VALIC found itself in soon after.

AIG Declared Bankruptcy

In the wee hours of Monday morning, September 15, 2008, Lehman Brothers, the fourth largest investment bank, declared bankruptcy. Lehman's event was reported to have triggered the 2008-2009 massive financial meltdown. In the ensuing weeks the entire country and the world experienced the greatest economic collapse since the Great Depression as a series of financial institutions declared bankruptcy. AIG caught our committee's attention for good reason.

AIG, the parent company of VALIC, also declared bankruptcy and was in the mainstream news often. For the record VALIC was not in financial trouble. However, many LAUSD participants did not know this. The UTLA Treasurer reported several anxious teachers called him about AIG. He was relieved that VALIC was only the administrator. Still, VALIC's relationship with AIG posed significant and damaging image problems in the minds of their enrolled LAUSD's employees.

VALIC apparently decided the relationship to AIG threatened their reputation. VALIC changed their name again. At the beginning our contract, VALIC renamed itself "AIG-Retirement." They may have done this to polish their tarnished veneer by disavowing the word "annuity" from their name. But the marriage to AIG had to end and their original name "VALIC" was back. Someday they may get it right.

AIG-VALIC's Breach of Contract

The final incident pushed the committee into a nuclear reaction. AIG-VALIC admitted to the committee they breached the contract with only 5 reps out in the field. The contract states:

"The service provider [AIG-VALIC] shall provide fifteen (15) representatives dedicated solely to provide group meetings, educational sessions, and one-on-one retirement and asset

allocation counseling for LAUSD employees...."

Putting all of the above allegations together resulted in contractual and public image implications which were too transparent to ignore. The committee recommended VALIC's contract be terminated. Our motion was sent to the CFO for a response and to the general counsel, contracts and ethics departments. Our motion was ignored and we didn't press for a district response. Our committee's attorney was unsure of a stance. The termination matter was addressed and closed. AIG-VALIC contract was in its final two years anyway.

Other Measures Passed

After an extensive study by UTLA's legal staff and in anticipation of the new IRS 403(b) regs, on April 20, 2008 the teacher's union terminated the "union approved" 403(b) vendor policy. In a memo UTLA's David Goldberg wrote to members:

"UTLA has in the past endorsed various companies that provide 403(b) accounts for members. With these dramatic new changes affecting teacher retirement investment options, the UTLA Board of Directors has decided to cease the endorsement of any 403(b) vendors. Effective immediately, no TSA or 403(b) vendor is endorsed or supported by UTLA."

Our committee took up this issue by revising and updating the district bulletin, BUL-6178.0. We inserted that the only reps allowed on campuses were from the 457(b) plan. Quoting the Bulletin:

"No agent may solicit employees, advertise or distribute promotional materials for the purpose of insurance policies, solicitation of contracts for tax-sheltered annuities, 403(b) voluntary retirement savings...Presentations on retirement, personal finance, or insurance are not permitted on LAUSD property other than by official representatives of the LAUSD 457(b) plan...."

Lessons Learned and Looking Forward

We are a seasoned committee with five years of service (2006-2011) meeting about ten times per year. LAUSD asked

committee members to participate in the next RFP process. We're never in control of what happens outside our district, but *we will recommend* to the CFO to hire the next TPAs. Our five potent principles:

1. Our Committee Chair, George Tischler, created the vision, the plan and the policy of employee oversight.
2. An independent financial consultant in SST. SST recommended the replacing some of the active managed funds with index funds and understands and respects the committee process as outlined by author Russell Olsen's quote. (Page 115)
3. Committee members who know about fees and low-cost indexing, eliminated Revenue Sharing and will continue to press for transparency and best-in-class investments.
4. Benefits administration, SST Consultants and committee members were united in one vision to reform school districts' 403(b) by the "open architecture" platform with the TPA selected by competitive bidding.
5. Due to UTLA's leadership terminating their "union approved" policy, campus access landed back in LAUSD's control and limited the district sponsored 457(b) reps.

The 457(b) plan discussed throughout this chapter is an open architecture plan. We did not need numerous, out-of-control insurance companies selling who-knows-what with no accountability. The committee and SST wanted the 403(b) to mirror our 457(b) platform, so committee recommendations rested with LAUSD's committee, not an obscure, iron-clad insurance code which demanded districts to allow "all willing providers."

Next

1. Stable Value fees were one area in which the committee needs additional training. Because of the 2008 Stock Market crash this fund had huge inflows. Employees were afraid to invest in the equities (stocks)

offered. The committee knew about the “spread” but never knew how much the TPA was earning from the spread (Spread is the difference between the interest credited to the investor and what the TPA is earning from the market).

2. The committee needs effective follow-up on its motions.
3. Using the \$500,000 for financial literacy programs and to grow the plan.

New RFPs

The next Chapter will chronicle the next phase when the committee recommended and the CFO accepted two new TPAs.

Summary

Employee Oversight: The Best Initiative

LAUSD Implemented

Mr. Tischler got everything he wanted and then some when he masterminded and delivered his “approach” to undo the “Knot.” His reward was a committee, which put into practice his vision *and more* by demanding full and unrelenting transparency. The Los Angeles Unified School District must be commended for their exceptional demonstration of 457(b) transparency. George Tischler and his staff circumnavigated the tyrannical 403(b) regulations with the 457(b) plan.

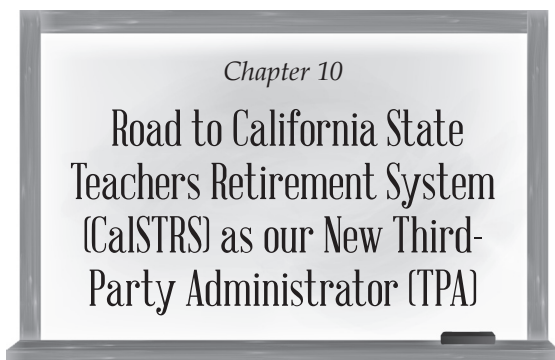
What a visionary. It takes guts and intuitiveness to invite nonprofessionals in the decision-making process. The employees are the best transparency advocates, the people who ultimately pay. The open process led directly to fiduciary responsibility which *should reduce liability*, which is good for everyone.

Many financial consultants and TPAs are lurking for jobs. They are like the mass producers of American automobiles, who whip out employer-sponsored retirement plans off-the-shelf and recommend them to employers. In spite of our employer selecting an insurance company

and a financial consultant who ignored the value of the committee process, we forced VALIC to shut down expensive 403(b) sales and required disclosure of 457(b) revenue sharing costs. Furthermore, our committee recommended an ethical and independent financial consultant which led to supporting our original decision to swap out the three most expensive funds with lower cost options.

If you are a benefits plan administrator, the employees deserve to know the full extent of the costs. If you are a member of your employers' oversight committee, I hope this chapter provided the necessary information and encouragement to implement significant improvements at reduced costs to what your TPA and financial consultant may have recommended for your employer-sponsored plan.

1 The president of SST Benefit Consulting, Bill, wasn't aware that we tried to get the Turner Mid-Cap Growth fund replaced with a low-cost Mid-Cap a year earlier. This is how genuine fiduciaries think and I was not surprised Bill thought as we did about that high priced fund. That's precisely why we picked SST Benefit Consultants.



2011-2013

2011 began as a busy and exciting year for our committee. VALIC's five-year contract was soon to expire. Our committee's successful achievements required VALIC to disclose all fees and removed three of Mercer's most expensive funds. We had not finished the job of reducing costs, publicizing the 457(b) or developing an employee financial education plan.

This chapter reports what the committee did to correct the missteps of the first five years so we could continue to bring down long-term costs. When these problems were addressed with a restructuring of the fees with a new TPA, unexpected obstacles materialized, bringing back nightmares of the secretive 403(b) world. Though Mr. Tischler skirted the insurance code strangulation by implementing a 457(b), old bureaucratic habits hung around like unwelcome in-laws.

Los Angeles Unified School District's (LAUSD) procurement department sent two Request For Proposals (RFP), one each for the 457(b) and 403(b). Our committee recommended the 457(b) contain a fixed-fee structure (no more revenue sharing), and an independent TPA for the 403(b) (no more "common remitter").

Competitive Bid for 403(b) Vendors

Next, we discussed the possibility of a single TPA open

architectural platform with mutual funds for the 403(b). Our committee philosophy existed to drive down costs and offer best-in-class investments, no matter what. The legal counsel of the district discussed strategies to avoid a court case. The usual suspects would claim that selecting high quality investments would violate the infamous “any willing provider” malevolence engraved in the state insurance code. Our committee’s attorney needed evidence how other PreK-12 districts got around 770.3.

The committee knew the district was not going to risk a lawsuit. Neither was there political will to change 770.3 when 99% of California educators remain clueless. The Internal Revenue Service’s (IRS) new regs required districts to take responsibility for 403(b) plans. Those regs did not offer legal protection, preventing us to disregard our state’s insurance code. LAUSD was neither ready nor willing to take on the fight alone.

A Plot Unmasked

The insurance industry took no chances. Our committee discovered a lobbyist firm dubbed *LA Unified Task Force* on the LAUSD website. Individuals or groups who oppose potential district decisions must register. LAUSD invites discussions on all district issues. But first, groups must file with the district’s Ethics department.

The following revelations brought the *LA Unified Task Force* lobbyist presence down *immediately*.

- AXA Equitable’s Letter Denounced *LA Unified Task Force* Motives!
- Our Financial Consultant, Barbara Healy, resigned from the boards of *both* professional organizations who were behind the lobbyist plot!

First, AXA Equitable. On March 21st, 2011, the industry’s scheme to interfere with LAUSD backfired. One of the district’s 403(b) vendors, AXA Equitable, sent a letter to Barbara Healy. She passed the letter to “interested parties,” as requested by AXA. They wanted no part of this lobbying

to disrupt LAUSD's internal "discussions or actions." Quoting from the letter:

1. AXA is not directly or indirectly involved in any effort aimed at influencing the policies of LAUSD through the "LA Unified Task Force."
2. We also did not participate in any funding of Mayer Brown, or any other lobbying or legal firm, intending to thwart any LAUSD policy discussions or actions regarding the Districts 403(b) or 457 programs.

LA United Task Force was created by several high profile TSA insurance companies which have sold the most annuities and acquired the most assets from 25,000 LAUSD 403(b) participants and have the most to lose in any action to support our educators. This lobbyist firm did what all lobbyists do, "communicate" with the Board of Education and its policy heads about competitive bidding for the 403(b) TPA. Keeping 25,000 educators naive and frightened about options has been the industry's power strategy for decades. AXA's letter and Barbara Healy's announcement blew this covert effort wide open.

Ten days later Barbara resigned from the boards of the American Society of Pension Professionals and Actuaries (ASPPA) and National Tax Shelter Accounts Association (NTSAA) who were behind LA United Task Force. Emboldened by AXA's denouncement, Barbara wrote her own scathing resignation letter. It was so well-written and compelling, I include it in entirety:

To: President of the National Tax Shelter Accounts Association

This letter should be considered as my resignation from the NTSAA Leadership Council and as Vice Chair of the TGPC Credential [Tax-Exempt & Governmental Plan Consultant]. Please accept that this is not intended as a reflection of your NTSAA/ASPPA leadership; nor of the Council as a whole and certainly not of the broader goals of ASPPA. I will retain membership in both organizations.

I have been privileged in my 30 years in the Financial Services

Industry, and as a Consultant, to be associated with many Public Sector employers, their Unions, Associations and many individual employees. I know you share my feeling as to the value our Industry can provide the consumer with much needed advice plus appropriate insurance and retirement protection. It should also be stated our Industry provider companies are also entitled to Shareholder profits and financial advisors to fair compensation. My guiding principle is the value we bring as an organization must reflect the interests of the actual employers and employees that put their trust in us.

Employers of other Public Sector (Government, Healthcare, Higher Education, Non Profits and Private K-12) are empowered to create maximum retirement value and education for the employees and participants. That is how it should be for employees of K-12 Districts ... but is unfortunately often it is not the rule.

While we can be grateful there is a growing list of School Districts treating their District 403(b) plans in a responsible manner, the K-12 educator has been historically subjected to 403(b) plans that often are poorly constructed and monitored with significantly reduced value for the participant. Often the major real beneficiary of these poor plans is the local annuity agent and the companies that provide product. Many K-12 403(b) plans have become a refuge for some companies and agents who are able to foist products on educators that no other Public Sector organizations would sanction.

Certain firms and agents avoid the scrutiny of an RFP and consumer disclosure while plaintively wailing about protecting of "consumer choice." The "choice" shibboleth is really a mask that permits pillaging of the educator finances and protecting of commissions or profit streams. They are able to expend significant dollars to protect their self-interest.

Everyone concurs that lobbying is an appropriate method to communicate ones message and educate various publics. However, as a Consultant to School Districts in their 403(b) process, I have personally observed what can only be described as disgraceful conduct by some in our industry ... even to the extent of legal or

other threats by companies and agents if a District attempted to improve the quality of their 403(b) plans. My specific concern, and catalyst for my resignation, is that NTSAA seems to have become enmeshed in accepting the rhetoric of companies and agents. The last few conference calls on 403(b) seemed totally bereft of interest in the consumer and totally focused on creating mechanisms to protect vested interests of companies and agents (OF COURSE).

It is heartening that in one recent instance, a client District just received a letter from a major company that had been touted as a supporter of past NTSAA LAUSD Task Force. This company was unequivocal in stating they did not support nor did they fund an action designed to negate the ability of a District to improve the consumer value of their 403(b) plan. I believe this is a precursor to similar actions by others. With sadness, it is impossible for me to continue to serve on NTSAA Leadership Council and as Vice Chair of the TGCP Credential. [My] Continuation would be inconsistent with my values and what I believe to be the best interest of the educator community and consumer.

I have great memories of many of the individuals I have met through the years in various Associations. I am hopeful that we can retain positive personal contact and, with the evolution of time, we may find ways to bond again over common consumer interests.

Our committee Chair George Tischler, followed up with his letter to the state's Insurance Commissioner. He asked for a review of the insurance code. He cited these same threats by the insurance companies mentioned by Ms. Healy. Excerpts from his outstanding letter:

- Recently, our committee considered consolidating the number of 403(b) vendors in our plan to a more manageable number, but was warned by some insurance companies that such actions would be in violation of 770.3 and litigation would likely ensue. As such, we need your guidance and leadership to provide school districts some viable options moving forward.*
- Our Committee and LAUSD have developed a very high level of concern that the 770.3 statute, and more specifically*

the “any willing provider” provision, has tremendous negative implications to LAUSD and our employees, and our efforts to provide effective oversight, management and governance under both state and federal laws.

- *LAUSD was trying to conform to the new IRS regulations, which make it nearly impossible to comply with both 770.3 and the [new] IRS guidelines in an efficient and prudent manner.”*

The state insurance commissioner’s office never responded. Neglected for decades the 403(b) has been rife with conflicts of interest. Asking our state’s policy makers for “guidance and leadership” for its educators without legislation was identical to a beaten gladiator begging thumbs-down spectators for clemency.

Brian Graff’s Visit

These events turned against the insurance industry—they had to do something. Brian Graff asked George, our committee chair, to make a presentation about a pet venture titled “Project Transparency.” Mr. Graff was the Executive Director and Chief Executive Officer of ASPPA and the leading lobbyist for both ASPPA and its affiliate organization NTSAA. NTSAA’s entire history supports insurance agents selling TSAs to educators and was the nemesis of 403(b) reform.

Never had our obscure committee caused so much interest. A prominent D.C. lobbyist, who represents thousands of insurance agents, demonstrates the degree to which financial professionals and columnists outside educational institutions are more knowledgeable about the 403(b) mess than our colleagues. If educator’s unions, who represent thousands of educational employees took similar notice, we could secure the best-in-class plan in the country.

NTSAA was fighting all over the country to uphold insurance industry power over the 403(b). They do *not want anybody*—districts, collective bargaining units, oversight committees, state pension plans—selecting low-cost investment options under any other criteria than maintaining “choice,” *the* industry-sacred mantra. They twisted

the positive “consumer choice” discussion into a negative self-serving rhetoric, which Barbara denounced as a “shibboleth... permits pillaging of educators....” Study after study reported too many choices paralyzes people. (See Schwartz’s book in reference section).

Three primary points of Mr. Graff’s presentation (Entire presentation and discussion is on YouTube):

1. The new transparency rules passed by congress didn’t apply to 403(b)s or 457(b)s. Though he claimed his organizations supported transparency in these plans.
2. Transparency should not come from the “industry” but from committees such as ours in concert with his professional organizations.
3. Graff repeated, “Clearly and without difficulty, (educators should) understand what they are paying for and how much they are paying.”

Let’s reflect and respond to Mr. Graff’s three primary points:

Point #1: Graff knows Wall Street, in cahoots with politicians and their never-ending hunger for campaign contributions, will never pass a genuine fiduciary transparency regulation. Wall Street, big banks and insurance companies oppose transparency proposals. Investor-friendly former Chairman of the Securities and Exchange Commission, Arthur Levitt, devoted his entire book on this subject: *Take on the Street*. He tried to “take on the street” and lost each time. The push back from Wall Street was immediate and massive. Democrats and Republicans fought *hard* against Levitt’s transparency proposals—congress needs Wall Street’s money.

Point #2: Our committee does not care where transparency originates. But Mr. Graff does. When he said “industry” he obviously was not referring to the industry he represents, so he is likely referring to an “industry” which oppose his interests.

TIAA CREF (T/C) would be the likely candidate. T/C is on record publishing studies that Graff and his

people oppose and our committee supports 100% (See *"California teachers' supplemental pension plan is flawed,"* study finds. By Walter Hamilton in reference section). T/C supported two efforts to reform our state's 770.3 (ab2506 discussed in Chapter 7 and a second attempt reported in Appendix I). T/C's research institute conducted and published studies in the mainstream press showing the multi-vendor system was costly to educators. T/C has been gaining market share in the PreK-12 marketplace in many states and has partnered with CalSTRS to offer one of the best 403(b)/457(b) plans in the country, Pension2. T/C is not-for-profit and has never charged commissions. Our committee supports CalSTRS and T/C's genuine transparency with fiduciary responsibility as modeled in Pension2. Our committee was considering TIAA CREF's Advisor Services which has a comprehensive Independent Fiduciary Advice Model. Nobody should care where genuine transparency originates as long as our committee can monitor 100% oversight and support a positive process all the way to each educator.

Point # 3:

a. Does anybody believe each of the 497 insurance agents assigned to LAUSD's 403(b) will disclose all costs to teachers? Okay, Mr. Graff, do you mean each insurance agent would have to say something like this? *"Before you sign this contract, I (insurance agent) have to disclose the 6% commission, 1.25% insurance coverage, 2.0% operating costs and a .25% trailing commission, which pays me every year after that. You cannot withdraw this money for 15 years without a surrender charge. These costs will take about a third to half of your nest egg over the next 30 years or about 50% if you continue to invest with me over 40 years. The good news is that you never lose money when the stock market goes down. The bad news is the your money will never keep pace with inflation because you have a contract,*

not a genuine stock market investment that grows with the economy. My insurance company reserves the right to reduce that one-year-only inflated introductory interest rate and "adjust" it every year at the sole discretion of the company." ("Adjusting" is a euphemistic expression to misinform the client the interest rate will go down).

b. How will Graff's transparency project get delivered to educators? How will the committee know each agent would be complying with the project goals? We won't. In my opinion, the project was a ruse. Unlike the 457(b), when we demanded the VALIC reps disclose costs, our committee has *no advisory power* to require the hundreds of 403(b) agents to disclose costs, nor does LAUSD possess the expensive and expansive infrastructure to enforce and monitor any such directive.

After his presentation a discussion ensued where Mr. Graff answered questions about the lobbying effort. He admitted his constituents were alarmed LAUSD was moving to a competitive bidding RFP. He remained adamant that the status-quo 403(b) with multiple vendors with teachers knowing what they are paying was a better plan than the architectural platform of our 457(b) with low-cost mutual funds. It was a civil but firm polarization. In my opinion, our committee remained adamant about Graff's task force's real purpose of insulting one of the most *competent advisory committees in the country* by lecturing us about *transparency*! You have got to be kidding. Kathy Kristof reported this about our committee competence on transparency way back in a 2006 LA Times article mentioned in Chapter 9:

"This level of disclosure is unusual today, but I think it will be common in two to three years, if not before," said Fred Barstein, president and chief executive of 401(k) Exchange, a retirement-plan consulting firm based in West Palm Beach, Fla. (L.A. Times, October 23, 2006. See references for the entire article).

Yea, we created and demanded *genuine* transparency five years ago. Our committee membership was comprised

of retired, classroom teachers and support staff representing the collective bargaining units with decision-making power. We represent those who deserve genuine and verifiable transparency and *who will pay the costs*. Our five-year record of reducing costs and demanding transparency speaks for itself.

While the Chair was introducing the next agenda item, Mr. Graff and a colleague displayed their exasperation by abruptly leaving.

LAUSD Releases 403(b) RFP

When LAUSD released the RFP in 2011 the hideous “any willing provider” garbage was kept in place. Graff boasted to his constituents that LAUSD backed down “for now.” His “success” might be short-lived—will American Society of Pension Professionals and Actuaries (ASPPA) and National Tax Shelter Accounts Association (NTSAA¹) be on the wrong side of history? Phil Chiricotti thinks so. He is the President of the Center for Due Diligence. He wrote about ASPPA:

“Ironically, ASPPA is championing the status-quo by continuing to support the use of high-cost individual annuity products when more-competitive investment options are widely available. Given their industry stature and fiduciary support for 401(k) plans, it is contradictory to support the sale of these products to 403(b) participants by advisors who are not licensed to provide participant-level investment advice. In short, ASPPA is on the wrong side of history and the fiduciary debate.”

When some professionals threatened legal action to protect their sales commissions and expensive retirement products which keep educators from growing their retirement plans with the economy, keeping pace with inflation and knowing all options, something was wrong.

Winning Bids—the “Envelope Please”

Two ad hoc committees were formed to select the winning bids for each plan. The competition for the lowest bid was wonderful. CalSTRS won the bid with .37% fixed

cost via a bidding war with VALIC (TSA Consulting Group (TSACG) won the 403(b). It was the lowest cost too). Our committee voted unanimously to recommend CalSTRS because of the overall low-cost and their education program. Our employees have a familiar face in CalSTRS with its scheduled pension workshops. It was also a not-for-profit and shared the same philosophy as our committee: no revenue sharing while offering high quality, low-cost investments. It was CalSTRS's best interest to encourage educators to save in 403(b)/457(b) plans with their high-quality Pension2. This will increase the number of potential retirees to save and thus reduce the pressure on pension systems.

On August 18, 2011, LAUSD Procurement announced the winners of the TPA contracts to the full committee. We were silent for a moment. It was reminiscent of the scene in the splendid HBO series about our 2nd President "John Adams." Minutes after the colonial congress delegates approved the Declaration of Independence, they sat eerily silent and motionless for several minutes. While our brave forefathers contemplated being hanged for treason by the powerful British, we were thrilled CalSTRS won the bid.

George Retires

On October 11, 2011, George Tischler retired. He was a fearless policy maker and will be missed. We need professionals like George and Barbara Healy to stand up for the educators' best interests. George's creation of the 457(b) plan and our committee and Barbara going the extra mile with her resignation letter are examples of purifying a system infected by self-interest. We were lucky George was in the right place at the right time for the 403(b) reform community. Both knew LAUSD educators were paying too much for annuities—does anything else matter? But why do so few financial consultants understand? Upton Sinclair provides an explanation when he wrote: *"It is difficult to get a man [or woman] to understand something, when his salary depends on his not understanding it."*

New Beginning for 457(b)

During the transition from VALIC to CalSTRS our ad hoc committee made additional fund changes. T/C, the record keeper for CalSTRS, suggested that the transition would be an ideal time to remove the rest of Mercer's recommended high cost funds. The following Tables illustrate what we did:

Table 7

Removed	Replaced by
Davis NY Venture: NYVTX	American Washington Mutual R6: RWMGX
Janus Perkins: JMCVX	Vanguard Mid-Cap Value Index: VMVIX
American Growth Fund: RGAEX	Vanguard Growth Index Signal: VIGSX
Dreyfus Bond Index: DBMIX	Vanguard Total Bond Index Signal: VBTSX
Fidelity Spartan 500 Index: FUSEX	Vanguard 500 Index: VIFSX
VALIC Guaranteed Interest	TIAA-CREF Traditional Annuity RCP (Retirement Choice Plus)

2012

By February 1, 2012 the transition to our new TPAs was completed, but not without an issue. The T/C's RCP interest rate (aka stable value) decreased from a negotiated 2.6% down to a 2.2% rate creating valid grumbling from committee members (VALIC paid 3.0%). T/C explained their interest rate decreased because the bond market had been hit hard. VALIC was paying 3% and it dropped as soon as T/C took over. Stable Value rates do fluctuate, but a drop of 3.0 to 2.2 was too significant to ignore. T/C took the heat from the committee trying to explain what happened and resorted to defending the product's long-term performance, stability and competitiveness at low-cost. A majority of 457(b) participants were in this fund (interest rate recovered

to 3.2% by the end of 2013). Nevertheless, this first impression was tarnished.

2013

Final Fund Changes

The committee got rid of the last of Mercer's recommended expensive funds. As shown in Table 6, we removed the T. Rowe Price target retirement funds and replaced them with the Blackrock low-cost, indexed slate of target funds and two Vanguard balanced funds.

Table 8

Removed	Replaced by
T. Rowe Price Ret 2010	Vanguard Wellesley Income Admiral
T. Rowe Price Ret 2020	Blackrock Lifepath Index 2020
T. Rowe Price Ret 2030	Blackrock Lifepath Index 2030
T. Rowe Price Ret 2040	Blackrock Lifepath Index 2040
American Fds (AF) EuroPacific Growth Fund R4	AF Europacific Growth Fund R6
AF Fundamental Investors R4	AF Fundamental Investors R6

(Note: Retained the AF funds but with no revenue sharing (R4 to R6, see Share Class designations in Chapter 9).

Additional Balanced Funds

1. Blackrock Lifepath Index 2050
2. Vanguard Wellington Admiral*

*Vanguard Wellington was now available, the fund I requested in 1993.

When the CFO approved the changes listed in Tables 7 and 8 and the additional balanced funds, we had a slate of excellent options we dreamed for twenty years.

Controlling 403(b) Solicitation on District Property

The committee's primary 403(b) achievement was updating the district's official policy to control and restrict agents' physical access to school campuses. Since UTLA ended the "union-approved" vendor in 2008, the district would have to take responsibility.

The Insurance Code allowed districts to *impose reasonable rules and regulations upon the use of school buildings or grounds by solicitors of contracts for tax-sheltered annuities*. Furthermore, *districts may also restrict employees' rights to entertain such solicitation during duty hours*. This was great news—the committee took this on *immediately*. We updated the policy to make it clear the district was back in charge of its campuses. No 403(b) solicitation of any kind (no flyers/notices in mailboxes, no posters, no presentations) was allowed on school sites or district offices.

The reason was simple—teachers need to use their free time, before and after school, preparing for lessons and conferring with their peers for the benefit their students. The public education system has been under a lot of pressure for years now to improve student achievement. Teachers will not be interrupted by a volley of annuity agents barging into classrooms during recess break or extending after school staff meetings into TSA presentations. Let's not forget—students will have a safe environment from strangers too.

While we were having success with this new policy, some agents ignored it. One of our committee members was a literature teacher and was interrupted during recess when an agent walked into his classroom. The teacher asked for the agent's card, escorted him to the front office and called school police for violating district policy. Chapter Chairs are reporting incidents to their unions and the committee. With each violation, the principal and the chapter chair were notified about the new policy. We have been successful in getting most of the principals, office

managers and chapter chairs on board.

The 457(b) reps are allowed on campuses because it's the district's plan under the watchful oversight of our committee and our standards. Our TPA and the committee consultant were vetted by competitive bidding and were low-cost, providing genuine investments—stocks and bonds. Out of the 27 403(b) options, only three vendors meet these standards: CalSTRS Pension2, TIAA CREF and USAA mutual funds (USAA has no-load mutual funds for investors without an adviser).

After eight years, the assets of the 457(b) plan have grown to a 3rd Quarter (2014) report of \$71,681,810 with almost 4,000 contributing LAUSD employees. For a huge district with hundreds of millions of potential assets, it's been slow growth for five reasons:

1. The plan started with zero assets.
2. The district has done little over the past 8 years to publicize the 457(b).
3. Both TPAs, VALIC and CalSTRS, have not allocated sufficient number of reps.
4. The 497 registered annuity sales personnel assigned to LAUSD will not inform educators about the 457(b). Thus, by the sheer overwhelming numbers of agents alone with the Insurance Code protecting their self-interests will out-sell the 457(b) hands down.
5. Much of the \$500,000 allocated for administration by VALIC for the 457(b) plan was not spent.

The 457(b) assets have grown about \$12 million per year, increasing too slowly, in my opinion. At this writing, CalSTRS has not yet demonstrated a commitment that they are doing everything they can to grow our 457(b) plan. In order for the 457(b) plan to compete more reps need to be deployed and districts and unions need to take up the slack to help publicize and deliver to employees and union members. Yes, it takes money to deliver a low-cost plan face-to-face to educators.

LAUSD 403(b) Total Assets

The 403(b) assets and the employee numbers were staggering—\$2,099,135,804.89 (over \$2 B) with 54,160 current, retired and former LAUSD employees. These numbers were from thousands and thousands of educator-agent relationships over decades. New annuity sales and ongoing contributions total about \$100 to \$115 million annually.

TSAs have always been aggressively foisted on our teachers 24/7. Much of this money pays for useless insurance, commissions and high annual operating costs. The asset differences between these two plans highlights one significant factor—high cost 403(b)s are successfully sold while low-cost plans cannot compete with the “boots-on-the-ground” aggressive face-to-face sales tactics.

Summary

Matthew Gnabasik, financial author and consultant to workplace retirement plans, wrote: *A plan sponsor who demands full-fee transparency and understands the implications of revenue sharing is in a powerful position to ratchet down the long-term costs of their company's retirement plan on behalf of plan participants.* Our committee lowered costs by requiring a fixed TPA fee in the new RFPs, getting rid of Mercer's recommended funds, protecting teachers' valuable planning time from interrupting TSA agents and discussing the competitive bidding for the 403(b).

The last effort was poignant. Financial professionals all across the country listened in on our committee discussions which were so keen they made whales' listening skills deaf by comparison. We were targeted as a direct threat to the 403(b) status-quo by a D.C. based powerful lobbyist. But their hope to interfere with our competitive bid discussions was literally brought to its knees by two brave forces, AXA and our committee's financial consultant. The insurance industry had to present something, so they conjured up a counterfeit “transparency” project. What an insulting joke.

LAUSD released their 403(b) RFP with the “any

willing provider” enforced language left intact. In spite of attempts to stop the intrusion to our local control efforts, the industry beat the consumers once again by forcing our state Insurance Commissioner’s plan down our throats. Where else in our free market, supply and demand, system does a product, its sales force and the company *must be offered* backed by harsh, compulsory laws? And be sued if not offered?

On the 457(b) side there was good news. Our CFO agreed with our recommendation of CalSTRS as our new TPA replacing VALIC. As CalSTRS’s partner and record keeper, TIAA CREF, our committee collaborated with a team which would grow our 457(b) plan and perhaps slowly starve the 403(b) into extinction. This slow extinction was working. The number of active 403(b) participants has declined while the number 457(b) participants have increased.

SST, Barbara Healy and George Tischler have been in the reform front for years. They did not have to train our committee to seek 403(b) reform—some members experienced firsthand the 403(b) rip-offs. Barbara Healey and Scotty Dauenhauer are genuine fiduciary consultants for SST and CalSTRS respectively. We have been on the same page all along. Our committee fought for fee transparency and got rid of revenue sharing way back in the Dark Ages of 2006 when Dodd/Frank were still in proposal diapers.

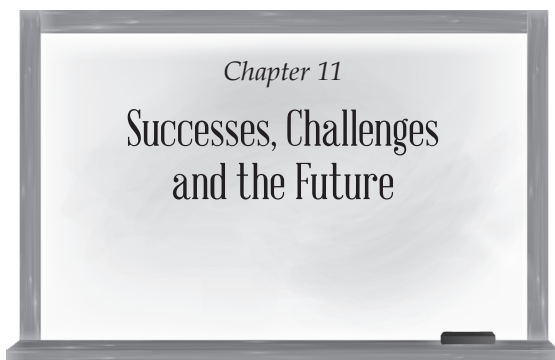
Finally, I am vindicated after getting the “*Not Available*” notice from LAUSD when I asked for low-cost Vanguard Wellington in 1993. Our committee recommended several Vanguard funds, including Wellington, all accepted by our CFO. Now our 457(b) was one of the lowest cost plans in the country because of our persistence and ruthless goal of demanding transparency and looking out for our participants’ best’s interests.

1 National Association of Tax-Sheltered Accounts changed their name twice in the last 20 years. A brief history: this professional organization

was originally the National Tax Sheltered Annuity Association. They took out the word “Annuities” in the 1990s and replaced it with “Accounts,” becoming the National Tax-sheltered Accounts Association. Just this year, 2014, the organization announced another title change! Apparently, the word “sheltered” had become the latest no-no public relations word in the retirement planning industry. The most recent title is the National Tax-deferred Savings Association (NTSA). Any suggestions for their next go around?

Successes, Challenges and the Future

PreK-12 school district educators still struggle in California and across the nation for the future of the voluntary retirement savings plans. Full-fee disclosure, paltry returns and conflicts of interest can be addressed with financial education.



The road to success is always under construction.
– Lily Tomlin

After 21 years my 403(b) reformed-minded friends and I learned four strategies:

1. Learn Investment Basics—Start with costs:
 - a. commissions (aka trading costs)
 - b. revenue sharing
 - c. advisory fees
 - d. transfer fees
 - e. Mortality & Expense (M&E)
 - f. 12b(1)
 - g. mutual fund annual expense ratios
 - h. mutual fund share classes
2. Employ Competitive Bidding
3. Use the 457(b)
4. Demand Transparency!

Low-cost, best-of-class genuine investments are now available to employees of the 2nd largest PreK-12 school district in the country. One of those investments is my original choice, Vanguard Wellington at .56% annual expense—a momentous achievement. Our committee was proud when the Los Angeles Unified School District's (LAUSD) Chief Financial Officer signed our motion to include Wellington and other low-cost funds.

We had not predicted that the 457(b) would lead to success. The 457(b) achievement was initiated by one bold LAUSD benefit's administrator, George Tischler. We did not know the 457(b) and Mr. Tischler until he introduced his brilliant strategy. He led our district around the ghastly 403(b) and into a glasnost era in which our district looks after employees' best interests. Our 457(b) plan evolved so successfully by working together, it won a "Plan Design" award by the National Association of Government Defined Contribution Administrators (NAGDCA) professional organization this year, 2014. What a visionary.

Tables 9, 10, and 11 illustrate the differences in the number and quality of investments between what LAUSD offered in 2002 and 2014. Table 9 shows a partial list of 155 vendors available in 2002 (space limitations prevent a listing of all vendors). The 150 insurance companies listed in the left and the expensive mutual fund companies in middle columns were annuities and loaded mutual funds respectively. Only five no-load mutual fund companies were available. Even then the no-load label can be misleading. TIAA CREF is the lowest cost vendor of all three categories.

Table 9		
This table is only an illustration of how far the IRS new regs did to reduce the number of 403b vendors from 155 in 2002 to twenty-six by 2014 (See table 10 for 2014 information).		
A Partial 2002 list LAUSD's 155 403b Vendors		
125 Insurance Companies	25 Loaded Mutual Funds	5 No-load Mutual Funds
1. Americo Financial Life and Annuity	1. Oppenheimer	1. Invesco
2. Ameriprise Financial Services	2. Plan Member Services	2. TIAA CREF
3. Great American Financial Resources	3. AXA Equitable Life Insurance	3. USAA Investment
4. Horace Mann Life Insurance	4. Legend Group	4. Fidelity Investments
5. Industrial Alliance Pacific	5. Van Kampen	5. CalSTRS 403b (Before Pension2)

Loaded means commissions or advisory fees are charged.

Table 10 and 11 show the 2014 completed list of all vendors. The two left columns in Table 10 list the annuities and loaded mutual funds, which decreased from 150 to 23 vendors. On the right column, the three low-cost, no-load funds are available in the 403(b) too.

Table 10: 2014 LAUSD's 403(b) Defined Contribution Options*		
Third Party Administrator TSA (TSA Consulting Group)		
Commissions, broker/dealer, loads, 12b(1), management & front or deferred surrender charges may apply		No Commissions, Broker Dealer, 12b(1), or front or deferred surrender charges
Companies	Funds/Annuities	No-Load Mutual Funds
1. Americo Financial Life and Annuity	1. Oppenheimer Funds	1. CalSTRS Pension2
2. Ameriprise Financial Services	2. Plan Member Services	2. TIAA CREF (Variable Annuities)
3. AXA Equitable Life Ins.	3. Legend Group	3. USAA Investment Mgmt
4. Great American Ins Grp	*California State Insurance Regulations mandates school districts to offer all 403b Vendors if they sign the IRS and information sharing agreements.	
5. Horace Mann Life Ins		
6. Industrial Alliance Pacific		
7. ING Reliastar/Northern Life Ins		
8. John Alden Life Ins		
9. LSW Life Ins. South West	Waiver: This information is for educational use only and not a recommendation for a particular product or investment. DO NOT change or start your plan based solely on the information provided--see your financial or tax professional. This table shows what is available to LAUSD employees in the 403b plan as of November, 2014. Additional costs of hiring an independent fee-only, fiduciary responsible financial adviser, paid hourly, are not included. This information is subject to change at any time and not warranted to be 100% accurate, complete or timely.	
10. Lincoln Financial Grp		
11. Massachusetts Mutual Life--MassMutual		
12. MetLife		
13. Midland National Life		
14. North American Co for Life/Health		
15. Paul Revere Ins		
16. Security Benefit		
17. USAA Ins. Co.	This table was constructed from California State Teachers Retirement System (CalSTRS) 403bcompare.com website. For additional information about the above companies, log on to 403bcompare.com.	
18. VALIC		
19. VOYA Financial		
20. Western National Life		

Table 11 shows the award winning 457(b) in 2014.

Table 11	
2014--457(b) Award Winning Plan*	
457(b) Mutual Funds: Los Angeles Unified School District Investment Advisory Committee**	
Third Party Administrator is TIAA-CREF	
No commissions/loads nor front or back-end surrender charges apply (Exception- Brokerage Acct.)	
Stable Value	Cost: 0.37%, but subject to changes. (Note: all costs include the .37% TPA fees)
Equities (stocks)	Vanguard Growth Index (LargeCap Growth) Cost: 0.47%
	Vanguard Index 500 (LargeCap Blend) Cost: 0.42%
	American Funds Fundamental (LargeCap Blend) Cost: 0.68%
	American Funds: Wash. Mutual (LargeCap Value) Cost: 0.67%
	American Century Heritage (Midcap Growth) Cost: 1.18%
	Vanguard Midcap Value Cost: 0.47%
	Vanguard Extended Market Index (Small & Midcaps) Cost: 0.51%
	Vanguard Developed Market Index (International) Cost: 0.57%
	American Funds Europe-Pacific Growth (International) Cost: 0.87%
Bonds	Pimco Total Return Cost: 0.83%
	Vanguard Total Bond Market Index Cost: 0.47%
Balanced Funds	Vanguard Wellesley (65% Bonds & 35% LargeCap Value) Cost: 0.55%
	Vanguard Wellington (65% Large Cap Value & 35% Bonds) Cost: 0.54%
Target Date Funds	BlackRock Lifepath 2020 Cost: 0.56%
	BlackRock Lifepath 2030 Cost: 0.58%
	BlackRock Lifepath 2040 Cost: 0.59%
	BlackRock Lifepath 2050 Cost: 0.60%
Brokerage Acct.	TIAA-CREF Brokerage Services Account***
*National Association of Government Defined Contribution Administrators (NAGDCA) presented to LAUSD the "Plan Design" Award in 2014.	
**LAUSD Investment Retirement Advisory Committee monitors the plan and recommended the 457b funds to the Chief Financial Officer. Committee Meetings are open and are held on the third Thursday of the month.	
Waiver: This information is for educational use only and not a recommendation for a particular product or investment. DO NOT change or start your plan based solely on the information provided--see your financial or tax professional. This table shows what is available to LAUSD employees in the 457b plan as of November, 2014. Additional costs of hiring an independent fee-only, fiduciary responsible financial adviser, paid hourly, are not included. This information is subject to change at any time and not warranted to be 100% accurate, complete or timely.	

For your district or employer to launch a 457(b) and only have it available may not enough to ensure that your educators are getting the best in class, low-cost investments. As

we have learned, a 457(b) solution requires four primary support systems, each different and challenging:

1. Oversight/Advisory committee
2. Public Relations
3. Enrollment Presentations
4. Financial Education

Your district (or employer) must have a committee to keep pressing for transparency, PR and oversight. If you don't have a committee all bets are off. Your 457(b) plan will just sit there or worst yet, it might be exploited no differently than the 403(b) by non fiduciary consultants and TPAs.

Our oversight/advisory committee is made up of representatives of employees, management and retired. Our working dynamics are a prime example of LAUSD's employee collective bargaining units working collaboratively with management. We took full advantage of the most powerful and unpredictable weapon imaginable—transparency of the industry's most coveted fee—revenue sharing. Benefits administration is credited for supporting our move to disclose all fees and reduce those costs as shown on the 457(b) in Table 11. I doubt if Mr. Tischler imagined the depth of transparency demonstrated in Chapter 9 and the drilling down of investment costs by eliminating revenue sharing agreements as explained in Chapter 10.

In the final analyses, the success of our advisory committee was a result of good old-fashioned between employee groups and management. Since launching the 457(b) plan in 2006, LAUSD has been uncooperative in letting the employees know the new plan exists. No major announcement or press release has been circulated and to my knowledge the Board of Education never announced it either. Upper management and the Board may not know our committee or the 457(b) plan exists either, in my opinion. Occasionally, an email with a PDF file of all the health, dental and life insurance benefits are sent to employees. There are two links, one for the 403(b) and the other for the

457(b), to more information on the district's website—that's it.

It should be no surprise when far too many of our 75,000 employees are clueless about our terrific plan or don't know how the 457(b) plan works. LAUSD benefits' web presence is difficult to find. This foot-dragging is not about money as LAUSD had VALIC's \$500,000 available for "Plan administration expenses" (quoted from the contract), much of that money went to our committee financial consultant's new five-year contract.

Upper management's old liability fear linger over our best committee intentions like excessive CO2 intensifying smog. Just lately LAUSD's superintendent denied our marketing plan to send out a 457(b) flyer in an email blast to all employees because to do so would burden them unnecessarily (this is a regular excuse). What? My response to the narrow-minded Superintendent's foolishness is that it is not spam. This is about an important LAUSD benefit which the Board and Superintendent should be proud of and support a public relations plan. Employees would welcome the news of a benefit plan. In my opinion, we fell short in the public relations front because educational management's liability hang-up (See Appendix J for an ironic story about LAUSD freely offering public relations marketing with no liability concerns whatsoever to a new pet insurance benefit plan!)

Deploying enough reps for face-to-face presentations and enrolling employees is the next major challenge. Both VALIC and CalSTRS failed to hire and send enough reps to meet our educators face-to-face and increase the assets in the plan. Instead, both TPAs relied heavily on a web presence and regular presentations at LAUSD headquarters for enrollment procedures.

- a. How can 2.5 reps compete with the hundreds of registered annuity sales people and financial advisers, some of which are still roaming our campuses at will (Yes, they blatantly ignore the district and union's

restricted access policy).

- b. For the last 2.5 years CalSTRS did not budge one iota to increase the number of reps from the current 2.5.
- c. If the .37 percent Third Party Administrator (TPA) fee only supports 2.5 reps, what would be a prudent fee to hire more reps?

Major challenge for any public or private sector employer, union or TPA is offering financial education.

Suggested topics:

- Set a goal to fund retirement
- Learn stocks and bonds, genuine investments. Why pension plans, endowments and foundations invest in the stock and bond markets and not annuities?
- Mutual funds vs. individual stocks
- How the stock market works
- History of Stock market returns
- Stock market risk
- Diversification. The single most important skill you must learn
- Index vs. managed investment strategies (performance and risk)
- Rebalancing the portfolio
- Insurance vs. investments
- Women's investing issues
- 403(b) vs. 457(b), Roth IRA, 403(b) Roth, 457(b) Roth
- How to find and begin a conversation with a genuine fiduciary financial adviser paid by the hour.

This partial list of topics cannot be discussed in-depth at lunchtime or an after school enrollment presentation. With 2.5 reps even CalSTRS enrollment effort was disappointing. In my opinion, VALIC and CalSTRS were naive about the number of enrollment presentations and educational workshops they could realistically carry out with their low RFP bid.

Why Reform Efforts Must Continue

Keith and Margaret Reed teach in a small district in rural

San Bernardino County in California and their school district offers a 403(b) and 457(b) too. After watching PBS Frontline's *The Retirement Gamble*, about hidden investment fees, they got suspicious of their longtime financial adviser. Their curiosity peaked when their adviser (and friend) evaded direct questions about his fees and the investment costs.

Keith and Margaret attended a California Teachers Association's 403(b)/457(b) workshop. They learned how to find the costs in their investments using CTA's investing website (CTA's presenter showed them how to locate a fee-only, genuine fiduciary financial adviser from the National Association of Personal Financial Advisers (NAPFA). After looking at the 403bcompare.com website, Keith and Margaret were shocked at the high fees they were paying.

Keith serves as his local union's Vice President. He asked the district's Third Party Administrator (TPA) for more information about his district plan and was ignored. He asked his district superintendent about forming an oversight committee.

"Too much liability," shot back this spineless fool.

Keith was relentless. He wrote his story in the union's newsletter (see references) to appeal to a wider audience. He asked the California Teachers Association (CTA) to conduct an analysis of his district's plan. The TPA refused to cooperate! The CTA's benefits specialist could not get the information necessary to conduct a thorough review. The hide-and-seek shenanigans are still with us. Keith got the same round-around I got twenty years ago. Why are these professionals so afraid to answer our questions? And they wonder why we don't trust them.

Withholding information and selling inappropriate, high-cost plans by non fiduciary agents are quintessential topics of our friends and colleagues' 403(b) horror stories, chronicled in over thirty news reports and Morningstar articles (See references). Without oversight, there's no transparency of costs, no objective information about

options and no fiduciary responsibility. I shudder to think what the 400 teachers in Keith and Margaret's tiny district are paying.¹ Multiply their superintendent's primitive thinking by 1,000 school districts, county offices of education and community college districts in California and you can see the great opportunity for gouging teachers by non fiduciary financial consultants. Reform must continue to reach small/medium size school districts such as Keith and Margaret's.

Let the 403(b) Go

Another option, albeit drastic, is to terminate the 403(b).² In my opinion, our advisory committee would be happy to let the 403(b) slowly wither and rot so it does not disrupt people's current plan. We prefer the 457(b) 100%--it's our plan, it's low-cost, offers genuine growing investments and it won an award. Ethical financial experts don't sell a fixed annuity to twenty-something teachers (some committee members, myself included, gasp when we read the 403(b) reports showing ten million a month of our teachers' hard working dollars contributed to annuities, month after month, year after year).

Positive Reform Developments

There is good news. In addition to the news reports on 403(b)s beginning in the late 1990s, the following shows a broad-based change within educational institutions:

1. In 2000, Dan Otter, a former elementary teacher, launched his popular 403(b) website: For 14 years Dan has gathered an incredible amount of information for 403(b) and 457(b) plans and offers a discussion forum full of friendly and helpful people ready to answer your questions.
2. In 2003, CalSTRS launched *403(b)compare.com*
3. In 2007, CalSTRS created their excellent, low-cost Pension2. This plan is available to most school districts in California.
4. In 2010, National Association of Governmental Defined

Contribution Administrators (NAGDCA) began offering workshops and a separate committee focusing on 403(b) plans for the first time in its history. Many NAGDCA's professional members are genuine fiduciaries.

5. In 2014, NAGDCA honored our 457(b) plan for one of the best "Plan Designs."

If our National Unions Finished the Job they started...

WOW!

The nation's largest teachers' unions have moved in the right direction:

1. In 2014, the American Federation of Teachers (AFT) has not yet followed up on its powerful suggestions from their seminal article, *Shark Attack*, published in 2000.
2. The AFT New York City local union has an excellent plan with a 73% participation rate. This plan should be replicated with other AFT locals.
3. The National Education Association (NEA) our country's largest teacher's union launched a 401(k) plan for their 700 employees. Brightscope.com, a national 401(k) rating firm, scored the NEA's plan a high 81 (out of 100) points for "lowest costs," "great" for "company generosity," "participation rate" is above average (no surprise here) with "great" account balances.

NEA put together a top-notch, low-cost plan with the Vanguard Group as an adviser and recorder keeper. Not surprisingly, three Vanguard funds have the largest holdings. One of those popular funds, Vanguard Wellesley, is the identical Vanguard fund that we chose for LAUSD employees in the 457(b) plan (refer to Table 11). NEA and our committee appear to think alike! Congratulations to NEA for looking out for their 700 participating employees' best interests. NEA provides a best-in-class model for all unions and employers across the country. Congratulations to the NEA employees. Consider yourselves lucky to have a thoughtful employer. NEA is a genuine fiduciary to its employees!

Unfortunately, NEA's three million members have a higher-cost 403(b). To my knowledge after looking at their plan online, The despicable fees prompted an unsuccessful lawsuit by two teacher members. The case was dismissed faster than Houdini's escapes. The fiduciary standard argued by the plaintiff's attorneys was thoughtfully written, but they neglected one crucial detail—the fiduciary standard has never been applied to 403(b) plans.³ Annuities are not regulated by securities laws. The NEA's plan is providing expensive annuities and loaded mutual funds to their members while NEA's employees enjoy a low-cost Vanguard plan! To all NEA members, this should be an outrage: demand that NEA launch a similar Vanguard 401(k) plan and terminate their horrific, high-cost sponsored 403(b).

State of California and Local Union Positive Developments

1. In 2000, United Teachers Los Angeles (UTLA), accepted our 403(b) Aware panel to present the first ever member-led 403(b) workshop at the UTLA leadership conference. The significance was that our workshop was presented by union members, a member-to-member workshop. In the last four years Sandy Keaton has coordinated two investment workshops each year.
2. In 2000, with the help of UTLA's assistant to the President, Sam Kressner, our 403(b) Aware group convinced the district to change the label on our pay stubs from "TSA" to the IRS formal label "403(b)." Los Angeles Unified School District agreed with the rationale that the labeling on the paystub could have been interpreted as favoring insurance company TSAs over custodial accounts with mutual fund companies.
3. In 2002, California Teachers Association (CTA)

stopped endorsing 403(b) vendors.

4. In 2007 CTA launched an excellent 403(b)/457(b) informational website, and occasionally refers members with flyers and mailers. For example, their guidance on evaluating and selecting a fiduciary adviser is well thought out and thorough.
5. In 2008 United Teachers-Los Angeles followed CTA leadership and terminated their decade's old and useless 403(b) "Union Approved" policy. UTLA went further by collaborating with LAUSD by forbidding on-site 403(b) sales presentations throughout the district. This effort reduced the 25,000 403(b) participants to 20,000 while the 457(b) plan has increased from zero in 2006 to 4,000 participants in 2014.

A few low-cost plans are in place with unions and districts, but the word has seldom reached educators face-to-face. The unions' leadership remains tight-lipped publicly. The secrecy speaks volumes—don't trust them until the details about costs are transparent. One union didn't even inform their excellent retirement committee they were launching a 403(b) product until the "details" were worked out by the bosses and high-level policy wonks (similar to my experience with my local union as described in Chapter 6). The retirement committee should have been involved from the start. Why is the 403(b) so secretive?

When financial reporters ask the unions about their 403(b) policy, the unions defend the expensive "hand-holding" policy, for good reason—unions cannot admit mistakes, lest careers and elections are at stake. Thus, like the districts, unions are comfortable turning to insurance companies, insurance agents or broker/dealers to handle the presentations and enrollments to teachers. The unions appear not to know what fiduciary responsibility means when picking consultants. As mentioned, 403(b) and 457(b) plans are not bound by fiduciary standards (401(k) plans are regulated by ERISA). As members, our power for

transforming the current 403(b) policy discussion from secretive to an honest and open discussion is transparency.

Our advisory committee follows the ERISA guidelines and never works in secret with the exception of the RFP bidding process with ad hoc committees. We strongly feel it's the right thing to have our meetings and decisions public and on record. We are bound by the Brown Act.⁴ I hope some unions understand we live in the world of transparency since the 2008 stock market crash, know the members are getting annuity screwed and making money off members by offering high cost plans are over.

I remain hopeful that our unions will enthusiastically publicize and be proud of their informational websites, implement their ideas, hire genuine fiduciary consultants to offer financial workshops, help pay plan expenses and release a similar NEA 401(k) type Vanguard 403(b) plan to their members. The members deserve it.

Your Local Union

Unions are complex organizations with hundreds of issues on their plate. They are an important voice for working people. Get to know them and have them get to know you by attending meetings. Find other members who share your concern and begin a discussion of this potentially powerful retirement plan. Start with their retirement committee. Be prepared to initiate a discussion with your 403(b) or 457(b) ideas. Once they know you, your ideas will be supported at the committee level.

Tell them we need to take control of how this plan is delivered to members. Leaving it up to the salespeople is unacceptable and wrong. If your union has the union-approved policy, ask them to terminate it and offer financial workshops led by fiduciaries instead.⁵ You can start a subcommittee dedicated specifically to 403(b)/457(b) plans. Ask the district to create an oversight committee and be prepared to volunteer (In the private sector, many companies have retirement plan committees). Most

oversight committees meet four times a year, so it's not an onerous time commitment away from your busy schedule and no prior financial experience is necessary. And don't forget to ask your union's newsletter editor. I got lucky when Steve and his successor, Kim Turner, published my investment articles.

Your Plan

You read our successes and the challenges that remain. You have more knowledge now from this or related personal finance books and articles. We can't wait for school districts and employee groups to get up-to-speed. We cannot depend on others. The current system works fairly well when you know what you are looking for. It requires a commitment to learning about your plan and investment basics.

Chances are your employer or school district offer one or two low-cost, genuine investment choices. The sales people and your employer are not going to tell you about those choices for obvious reasons. Sales people will not get a commission and your employer fears liability about providing information.

Here are suggestions:

- Log on to your employer's website and search for the list of funds or visit your employer's benefits office.
- Look for low-cost vendors such as Vanguard, TIAA CREF, USAA mutual funds, or Fidelity Investments.
- If none of these low-cost vendors are available, call each of the above low-cost vendors and ask each to sign up with your employer.
- If the second and third bullet points above don't work out, start a letter writing campaign and tell your story to your company owner, school Board, union and don't forget your local newspaper's financial reporter.
- Use the Roth IRA. You are free to select any low-cost mutual fund. While you are using the Roth IRA, continue to petition your employer, union or district

to offer a low-cost vendor. TIAA CREF might be your best chance.

- Set up a diversified portfolio (Large Cap, Mid-Cap, Small Cap, International and a bond fund. There are several good books about asset allocation and rebalancing in the reference section).
- If you need professional assistance, interview a financial adviser you pay by the hour and who will sign fiduciary oaths from these two organizations: National Association of Personal Financial Advisers (NAPFA) or Garrett Planning Network (Garrett). Both organizations require their adviser members to sign oaths with their clients (See Appendix K for NAPFA's oath).

The seven bullet points above provide so much information, books and articles have been written about each. But you can identify in a minute whether your employer's plan is high (over 1.0% total cost) or low-cost (under 1.0%), an annuity or mutual fund. Setting up a diversified portfolio can be straightforward. All you need to know is a little about investment basics. The hard part is sticking with your well thought out diversified plan.

Educational and Financial Consumer Cultures are Evolving

The glacial movement in the last 21 years leads me to think the educational culture is changing. Investment theory and practice with low-cost index funds are gaining tremendous popularity among investors. As previously mentioned, the National Education Association (NEA) knows about the tremendous advantage of offering the low-cost Vanguard to their 700 employees. Vanguard has over three trillion dollars in assets from millions of investors. These positive developments will eventually connect with the rank and file members and educators (and many more employees nationwide). As one Buddhist teaching says, nothing is permanent. A sizable number of educators are savvy investors and the number is growing.

Purposeful Drama

My story involved drama between the stakeholders. The “theater” was jammed packed with reflections and commentary of conflicts over investment costs and transparency in many different organizations, regular participants and policy. The knowledge of the imminent conflict will help you. Most teachers who ask the tough questions might get immediate push back from their annuity sales person, district personnel, employer, boss or union. Don’t be intimidated by their legal jargon, scare tactics and foot-dragging. Understanding this stage show as illustrated throughout this book should help you understand the financial industry’s interest and outdated policies. Nothing exists more importantly than knowledge and transparency of costs.

A Huge Precedent to Move Forward

My friends and I came on this massive problem with no precedents and no knowledge for 403(b) advocacy. The petty conflicts, successes, defeats, mistakes and miscommunication between regular employees, benefits administration, superintendents, legal counsel, union officers, politicians, industry lobbyists and financial consultants ended with a wonderful and award winning 457(b) plan.

It all started with our 403(b) Aware camaraderie. It felt intoxicating as we planned and conducted informational meetings for our colleagues’ benefit for six long years helping about two hundred educators. And later when we became members of the oversight committee, we demanded transparency, recommended to our CFO fiduciary consultants, a low-cost third party administrator and low-cost 457(b) investments. These are the highlights of our success story, currently helping thousands of teachers.

Employers and collective bargaining units probably think we are satisfied because we are busy with taking care of our students and don’t have time or the know-how to tell our story. The world has changed—reporters and

fiduciary financial professionals want to hear from you. Hopefully this book will help you formulate your 403(b) story and voice your concerns directly to those personnel who make decisions on your behalf. Begin a discussion by sharing examples of great and award winning 457(b) plan to all employers and employees, private or public sectors.

It's a gigantic challenge. The good news is we have a solid precedent from the "troops" and our story with the 2nd largest school district in the country. Over the long run, you will find the knowledge and the courage to start anew with a low-cost plan and meet your retirement goals without needless suffering. Tell your story, take control, ask tough questions, say no to high-cost plans and above anything else, demand transparency, no matter what.

Best of fortunes.

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1. Keith and Margaret Reed found a genuine fiduciary financial adviser, which they pay by the hour through the National Association of Personal Financial Advisers (NAPFA). This adviser helped the Reeds get out of those high-costs funds and into long-term genuine investments.
 2. In 2013, St. Vrain Valley Schools, a large district in Colorado, froze its 403(b) and 457(b) plans. The employees opted for their state's 457(b) and 401(k) plans because of the "improved plan design, better education and communication, and lower fees" according to the results of a survey.
 3. Daniels-Hall vs. NEA (<http://cdn.ca9.uscourts.gov/datastore/opinions/2010/12/20/08-35531.pdf>). It's highly recommended reading. When the fiduciary standard is absent in 403(b)/457(b) plans, non fiduciary consultants will invariably choose investments that charge revenue sharing costs. It's all perfectly legal in 403(b) plans and the principal reason why the plaintiffs lost their case against the NEA.
 4. To my knowledge our advisory committee is the only place in California, where our voices are heard in an official, ongoing and public forum.
 5. The California Teachers Association has been offering financial workshops. One of those workshops the Reeds attended and got excellent help. I hope their workshops are led by legally bound fiduciaries, presented more frequently, and objective (no selling specific products) and transparent.

Apendices

Appendix A

PBS Frontline Comes to Town

On a warm and sunny desert winter afternoon I got a call from Nesa, an associate producer from RAINmedia and PBS Frontline. They were in the process of producing a one-hour retirement plan documentary to be broadcast in the spring, 2013. The producers were searching for people to interview about their retirement planning experiences. To my knowledge this was the first time television was interested in the 403(b). After we had talked for a couple of hours about the sorry plight of 403(b) plans, previous news article reports and my own story, she asked for additional people to interview. I suggested Sandy Keaton, other members of our Oversight Committee and Crystal Mendez's, a young teacher who might be able to reach millennium viewers with her extraordinary 403(b) story.

The New York film producers and crew flew to California, interviewed many people and our advisory committee proceedings. When *"The Retirement Gamble"* aired on April 23, 2013, it was praised by one genuine fiduciary professional organization the *National Association of Personal Financial Advisers*. Their press release loved the "spotlight on how commissions, hidden fees and expenses can devastate the average consumer's retirement savings" and called for a fiduciary standard to protect investors. Mr. Graff and his annuity organizations condemned the documentary. He said predictably: "What is more troubling, however, is Frontline's take that fees are by far the most important factor to be considered when choosing an investment, and the retirement industry offers participants little value." Why was he critical? The PBS Frontline producers focused on *retirement planning costs*. The TSA sales force will never like their costs exposed even though costs *are* the most important factor, according to many books and academic studies.

Frontline featured investment author and Vanguard Founder, John Bogle and LAUSD's own financial savings

rock star, Crystal Mendez (details below). However, the producers believed the 403(b) material over-focused on the California problem and would turn-off a national audience. Instead, they emphasized the excessive fees of the widespread 401(k) plans.

Crystal Mendez: A Financial Savings Rock Star!

Allow me to discuss a little background about Crystal before we return to the Frontline show. Crystal Mendez walked into our 403(b) Aware support group in 2005. Similar to many other teachers who came for help, this 22 year-old suspected she had been sold a pig-in-a-poke. Recall in the Introduction when I wrote that *Crystal was sold a fixed annuity at age 22*. Her experience was egregious—a deliberate in-her-face exploitation.

Kathy Kristof was looking for teachers for a big project in 2006. Sandy and I recommended Crystal for a Los Angeles Times write-up. Crystal was pictured with *front-page* coverage (See *Union Advice Failing Teachers* 2006 by Kathy Kristof in Reference Section). In my opinion selling a fixed annuity to a 22 year-old is calculated theft of a third to half of a young professional's career savings. As I have said repeatedly, this appalling product will never earn stock market returns nor keep pace with inflation. What profession would take malicious advantage of a young elementary teacher, weeks away from college with her freshly printed teaching credential?

Roman, her boyfriend, showed her what he was doing as a Los Angeles County sheriff with his 457(b) mutual fund plan. Kristof quoting Crystal: "He [Roman] was earning 15% a year and I was earning 3%," Crystal recalled. "I thought, 'There's something wrong here.'"

Yes, Crystal, something is terribly wrong!

Kristof continued, "Mendez's money was languishing in a fixed-rate annuity, an investment ill-suited to someone in her early 20s." Because Roman's returns were in mutual funds, his plan reflected the major stock market returns. According to Callan.com the returns for 2004:

- The S&P 500 returned 10.88%,
- Emerging markets returned 25.95%
- Europe, Asia, Far East (EAFE) returned 20.25%
- NASDAQ returned 8.59%

Crystal's fixed annuity company gave her 3%, that's it. That's how insurance companies make massive profits every year, and the vast majority of educators don't know they are getting shafted. With support from Roman and our 403(b) Aware group she paid the repugnant surrender charge and transferred her 403(b) into mutual funds. The Frontline broadcast showed the nation what happened to Crystal's retirement savings over eight years of investing in mutual funds (see below). Crystal is now building a solid financial future.

A Decade Later

The introductory images of *The Retirement Gamble* and the personal stories were prophetic. Riding the train to work in New York City, a young economist, Robert Holdersmith, commented on his retirement planning situation. Next, Crystal Mendez, now aged 32, was filmed walking into her LAUSD classroom. As Robert and Crystal talked about retirement savings, the captions revealed their retirement accounts. What a SHOCK!

	Robert Holdersmith	Crystal Mendez
Age:	31	32
Profession:	Economist	LAUSD Elementary Teacher
Salary:	\$61,000	\$70,000
Retirement Savings:	\$8,000	<i>\$115,000</i> (Unbelievable, isn't it?)

Let's put Crystal's plan into perspective. Dan and I didn't have \$115,000 until our 40s *as a couple*. The stupefying thing is that Crystal is single and has more than double the amount saved than most American *couples* twice her age. She invested steadily with so much time before retirement, if she were just planning for herself she could stop contributing. By allowing the \$115,000 to grow for the next 23 years, at 55 she would end-up with a bundle of money to supplement her teachers' pension benefit. She could retire comfortably at age 55 with 33 years of service credit for her pension. Since her future might include a spouse and children, she has a great head start. Her retirement future will be secure and plentiful because she started saving with *equity-based mutual funds* which *grow with the economy*—not TSAs.

Not Just About Money

Planning for the financial long-term brings tremendous and positive lifestyle and career opportunities beyond Crystal's account value. She expanded options that were inaccessible before:

- She can *comfortably* help her future children's college aspirations
- Take university classes to increase job skills--specialized credentials--reading specialist, administrative credential, etc.
- Take multiple summer trips to Mexico to learn Spanish
- Buy classroom supplies and gifts for her students
- She can address unexpected health problems
- Take care of an aging parent or a sick child
- Or retire at her discretion to pursue another career

Most Americans struggle to achieve this level of choice, now *comfortably* available to her. Retirement planning is less about hoarding every dime and penny to save for life many years into the future, and more about preparing for life's positive opportunities *that occur now* and those less-than-pleasant unpredictable challenges (health issue, natural disaster, accident, layoff, etc). Who does not want any of the above for ourselves, loved ones, friends and colleagues?

Frontline's *The Retirement Gamble* featured people who lost jobs, had minimal or no savings and showed how fees eat into retirement savings. Ironically, Crystal was the exception and the broadcast noted that she will be fine. It was unfortunate that PBS Frontline left the 403(b) footage on the editing room floor. It was still a great documentary focusing on excessive fees. Retirement Gamble won an Emmy. We are proud of Crystal Mendez as an example of what can be done with self-education in investing.

National Save for Retirement Week

Our committee supported a novel idea for making the otherwise dry *National Save for Retirement Week* proclamations more personal. We recommended Crystal to be featured as our next *National Save for Retirement Week* employee of the year when the Board of Education makes its proclamation in October 2014. This noteworthy event needs a human face to encourage and inspire to save. Her story speaks for itself. The LAUSD Investment Advisory

Committee agreed to proceed and hopefully Crystal Mendez will be acknowledged publicly by the LAUSD Board of Education.

Appendix B

August 28, 1997
Los Angeles Unified School District
Board of Education
450 N. Grand Avenue
Los Angeles, CA 90012

Dear Mr./Ms. Board Member:

Thank you for your prompt attention and response to my letter requesting expanded 403(b) retirement plan access to fund families. I received several responses, including the CFO and applaud your follow-up.

The issue is an expansion of the retirement options available to teachers and administrators, beyond the funds that are offered only through the army of brokers and financial advisers marauding our district. They increase the cost of saving while holding those monies back from earning a good return.

I want the district to have a 403(b) retirement contract with Vanguard and or Fidelity. Specifically the Vanguard Fund is a non-profit low cost ("no-load") collection of stock funds, bond funds, international funds with a top-notch reputation for the lowest costs and responsible investment options among the many fund families. These funds offer much higher performance than the 120 life insurance, annuities that our district currently has contracts.

In your letter, you did not clarify why does L.A. County Office of Education has an agreement with Vanguard and LAUSD does not, especially what you, other board members and the Superintendent all quote: *"The District's Hold Harmless Agreement has been modified and reads the same as the Los Angeles County Office of Education's Hold Harmless Agreement..."* Surely, L.A. County knows the responsibility

for IRS compliance rests with the employer, not the fund. So why have we passed the buck to the funds with our request for a “hold harmless” when the Deduction Unit is legally bound to monitor the program? The bottom line is that the County Schools have a contract with Vanguard and we do not! Why?

One rationale (excuse?) might be pending lawsuits by employees elsewhere in the country who salted away too much money (over \$9,500) and then sued their employer for letting them get away with it. If this a valid rationale for not having Vanguard discussed? Why does the district have agreements at all? What if an employee saves through two agents and shelters an excess amount of money? Is the Deduction Unit in trouble? Could the District be sued any day now? I doubt it. You would have such an uproar from the agents and teachers they represent. Besides, any hold harmless agreement is a veiled attempt at security for LAUSD because any yahoo can sue at any time.

I do not understand the rational for some funds deemed acceptable, but not the funds where teachers can take responsibility for their own mutual fund investments. This request is that the Deduction Unit add fund families that are no-load to the available offerings, knowledgeable LAUSD employees would be very happy with Vanguard, but extremely happy with Fidelity, T. Rowe Price, and Oakmark, etc. too. The 403(b) option is a great way for teachers to compliment their CalSTRS pension. Thank you for your help.

Sincerely,
Stephen A. Schullo, Ph.D.
Leo Politi School, Belmont Cluster

Appendix C

Retirement Planning?

How one teacher took control of his investments.

Published in December 5, 1996 issue of the UTLA newspaper

Note: This is my first article approved for publication in my union's newspaper. It's reprinted here for your education, not as a recommendation for a particular 403(b) vendor. Some of the material and data presented is out of date.

Thank you for the recent columns about an important subject not talked about enough in teacher circles--financial retirement planning and investing. In the age of social security cutbacks and the fact that CalSTRS or any pension plan alone will not provide enough financial support in retirement years, LAUSD employees need to be informed about retirement investment options. The purpose of my article is to share with you my experience about an option that is not generally shared with you by the army of financial advisors who visit schools to talk to you about retirement planning--no-load mutual funds.

If these terms are foreign to you, do not be intimidated. While mutual fund financial planning is not trivial, you need not be a mathematician or a rocket scientist to understand some basic investment information. There are over 9,000 mutual funds available for investing. Mutual fund companies invest in the stock market under the regulation of the federal government's SEC (Securities and Exchange Commission) and a professional manager. "No-load" mutual funds are companies who charge the least management fees of all investment options. That is why financial advisors, if they discuss with you mutual funds at all, will not give you the no-load option. One financial adviser appalled me, when asked about mutual funds by me, she replied, "I would never talk about mutual funds to

teachers." I asked why? She simply said that mutual funds are too risky for teachers.

Apparently many investors would strongly disagree with her terse and erroneous analysis of mutual funds. There are over 9 trillion investment dollars in the entire stock market with 3 trillion in the mutual fund industry. Much of this money includes investments made by the very same insurance companies that financial agents and advisers represent. Even CalSTRS invests in mutual funds and the stock market. Ask them about risk. If it is good enough for millions of individual investors, CalSTRS, and life insurance annuity companies, why is it too risky for individual teachers? Financial agents talk to teachers to make money by steering you to very safe investments, which have hidden charges, sales commissions, and overly restrictive two-tiered options. That is the principle reason why the District has contracts with 120 insurance companies and only 5 no-load mutual fund companies. What I am proposing is a viable investment alternative to help you eliminate the "middle person" and decide for yourself.

Any employee with LAUSD can create his or her investment portfolio. Fortunately for LAUSD employees, the district has a contract with the following no-load companies: 1. Heartland Group 2. INVESCO Funds 3. Neuberger and Berman Management, 4. Rydex Series, and 5. USAA Investment. There is one catch: if you want more control over your investment money, you need to educate yourself about above mentioned funds and the mutual fund industry in general. The easiest way to learn about these funds and their performance history is to subscribe to one of the several magazines available at newsstands: Worth, Mutual Funds, Smart Money, Kiplinger, Morningstar newsletter, or simply watch the financial news network on cable TV or cruise the Internet. The Sunday Los Angeles Times Business section publishes information on each fund's performance by year to date, 1 year, 2 year, 3 year and 5 year rate of return. By the way, the Los Angeles Times will sponsor its second annual Investment Strategies conference at the Los Angeles Convention Center on the weekend

of February 7-8. You cannot afford to miss this opportunity to learn from the cornucopia of the major players from the mutual fund industry covering all areas of retirement and estate planning (800-350-3211; \$55 to register for both days).

By law, each mutual fund company has to send you a prospectus before investing. A prospectus explains the fund's goal, lists the companies it is invested in, and performance history. To create your 403(b) retirement plan--which is your tax sheltered plan and in accordance with IRS laws--send for the prospectus, fill out the simple paperwork from both the district's deduction unit and the mutual fund company, decide how much you can afford to deduct from each paycheck, and mail it in (\$10,000 per year maximum can be tax sheltered). It is that simple.

You may ask two legitimate questions: Why mutual funds? And are they safe? I started investing in the same way most of us started, by selecting the safest investment option available that was suggested by a financial adviser--A large life insurance company TSA 403(b) plan. After several years I was dissatisfied with its performance, my companion and I decided to invest in mutual funds. My belief is that life insurance annuities are too safe, have chronic low performance, and are very restrictive, and that the individual stocks were too risky because busy teachers do not have the time to constantly monitor stocks.

While never losing money outright, there are two insidious risks of overly secure and safe investments:

- a. TSA investments with life insurance companies will not beat inflation in the long term, consequently the low performance will eventually hurt your retirement standard of living.
- b. Ignorance and perplexing, irrational fear about investments with mutual funds will cost you.

What can busy teachers do? Mutual funds are a good alternative for five reasons:

- a. Your money is being handled by a professional manager,
- b. Investments are well diversified over hundreds of

- company stocks,
- c. Mutual funds performance are best in the long term 10-15 years with minimal risk,
- d. The entire mutual fund industry is insured against fraud and bankruptcy by the Security Investors Protection Corporation, and
- e. Most important, you have control over your money with the freedom to transfer it to another investment without penalties or excess fees (within the IRS 403(b) trustee to trustee transfer rule).

I chose Invesco mutual fund company because of it is a no-load, availability within the district, its good performance and its existence since 1932. Within the Invesco Fund Company, you have several choices of funds. You can choose a fund that invests in technology, health, Latin America, or bond funds, etc. After three years, I have had a rate of return in excess of 15% per year in the technology fund. This past year, I enjoyed a 38% return in financial services fund. You can judge for yourself if the effort in educating myself, filling out the paperwork was worth it and taking minimal risk. I think it was. The choice is yours. If you are not happy with your low rate per year in your investments, you have the five no-load mutual funds available. If you are still unsure, start with a small amount, and learn while you are investing. You will gain confidence, as I did, by understanding the performance of the mutual fund industry over several years. You will learn to ride the ups and downs of the market, to not panic when the market goes down suddenly in one day only to realize that it goes up the next, and you will learn to think in the *long term*. After all, it is retirement that I am talking about and retirement for most of us is years away. (If you are near retirement, there is still an argument for mutual fund investing in bond funds, but this is beyond the purpose of this article). Since mutual funds are not an overnight get rich quick scheme, it is excellent for retirement planning and the younger you are when you start investing, the more you will profit. However, do not take my word or someone else's, I am not a professional financial adviser, I am a teacher like you. Look up the rate of return in Sunday's paper. It is your money

and you deserve a higher rate of return. Many other investors like myself, who knew nothing about mutual funds or investing a few years ago, are now enjoying higher rates of return, with minimal risks in the long term, and with more control over our money and you can too.

Steve Schullo, Ph.D.,

3rd grade teacher, Leo Politi Elementary

Appendix D

July 30th, 2000
Editor
Education Week

Dear Editor:

I am returning your request that I become a subscriber to Education Week. I am using this opportunity to inform you of my efforts to enlighten educators about a rarely talked about benefit, 403(b). I have enclosed a US News and World Report article which featured my quest to improve 403(b) plans for educators. The status quo manner in which the districts and many teachers' unions administer 403(b) is not for the individual educator's benefit, but to fill the pockets of annuity sales people and the benefit of unions. (For the record, I am a strong union member and support all of my union's other benefit efforts, but the leadership's silence on this issue is criminal).

I am resubmitting my previously rejected article, *"Don't Ask, Don't Tell"* that I wrote in hopes of illuminating this problem so that changes can be made and for your consideration. I was only seeking more publicity for this problem, not for myself, as I am not a financial adviser, nor do I plan on becoming one. I have benefited from my own personal 403(b) planning and wish to share my experiences so that other educators can benefit also.

My article was rejected from your paper because of usual hackneyed "lack of space and submissions of many articles" for your Op Ed. I find it alarming that nobody on your editorial staff find my article worthy for all educators (district board members, teachers, administrators and support personnel), and apparently wishes not to learn more about it either. Perhaps the US News and World Report article will provide enough evidence to show that

this is a national problem and a disgrace that districts and unions continue to allow.

I find it puzzling that nobody in management, union officers or any other policy staff inside education realize how powerful 403(b) retirement planning can be when quality options and unbiased information are provided. It can be used as an attraction of good people into the teaching profession and help educators get a solid retirement plan, provide one good image for districts and finally, the administration cost is nothing. This benefit is a win-win for ALL district personnel. Yet few *inside education* want to discuss it.

Thus, how can I subscribe to your newspaper that refuses to at least learn about this benefit?

Sincerely,

Stephen A. Schullo, Ph.D., Teacher LAUSD

For the record: Education Week got the message and published *Savings Shock* in 2001. See reference section.

Appendix E

January 29, 2000

To: AFT UTLA Vice President
From: Steve Schullo, Teacher, AFT member
Re: 403(b) Seminar at AFT Headquarters,
December 14, 1999
Purpose: AFT is considering a national 403(b) plan

The seminar was initiated by the Senior Research Director, AFT. There were two presenters that covered the basic law of 403(b) and two that presented the New York 403(b) plan now in place. About 30 people from East, South East and Midwest attended. I was the only member from the West. Here is the breakdown of presenters and a brief synopsis.

United Federation of Teachers, NY City and New York State United Teachers: Presented the 403(b) plan that has a participation rate of around 60-65% (70% for the entire state of NY). The NY City plan uses Aetna insurance company as the custodian of their plan. However, AFT oversees and provides the information in many forms, financial workshops, and complaint centers. Although, I personally do not like an insurance company because of their fees, this plan is a step in the right direction because of the union's close monitoring. Be comparison, UTLA has an approved list of vendors. But no monitoring is in effect so that vendors only sell what has been previously approved and no organized infrastructure for complaints and information.

Tax Law Specialist (IRS): No matter what LAUSD says, the biggest problem is the maximum exclusion allowance (MEA) calculation. Some teachers are exceeding their allowable amount. However, the problem is that teachers are left in the lurch because the district will not calculate it and many financial advisers give the wrong calculation. Pending laws will do away with this complicated formula that determines how much a teacher can legally tax shelter

wages from their paychecks. The IRS says that school districts are being audited at this time. The IRS will help school districts become compliant, as they need to address the problem of teacher taking too much money from their paychecks for tax sheltering purposes. The hold harmless agreement that all districts require does little or nothing to address this problem.

Attorney for AFT: Presentation was on the history of the 403(b) law and the developments since it passed Congress in 1958. Unlike 401(k)s, 403(b) was left out of the ERISA federal regulatory agency of retirement plans (Created by congress in 1974). Thus, 403(b) law has no federal oversight. While 403(b) plans can be started and administrated with relative ease, not so with school districts. Since districts are not monitored by ERISA regulators, restrictive hold harmless agreements limit options to “protect” districts from unfounded liability have been required and absolutely no information about 403(b) plans are given to teachers. Since no information or help is provided and options are poor because of restrictions on companies, 70% of teachers do not participate. That is a tragedy.

Legislation in process: Repeal of the MEA current complicated formula and the SS offset, limit goes up to \$15,000, use 403(b) to purchase pension credit, and rollover to a qualified plan such as an IRA. (You can roll it over only after leaving present employer.)

Conclusion: AFT is currently studying the possibility of having a national 403(b) plan. We all agreed given the current policies of administration of 403(b) plans by school districts. New York City and State are on the right path with close and knowledgeable teacher's union oversight and monitoring. Nowhere in California, that I know of, exists the kind of vigilant watchdog of 403(b) and nobody at the leadership level discuss 403(b). Unions approve vendors, but that is where the monitoring appears to stop. Outside of New York State, 403(b) is haphazardly administered and teachers are paying dearly with high cost insurance annuities. No information + high cost= 70% of teachers do not

participate nationally.

My suggestion is that no matter what plan AFT comes up with, be sure to have a “do it yourself” option. A couple of people balked at such freedom because of the temptation to become “day traders,” but the Chair understood that at this time all options will be considered because of the unique problems of 403(b) administration and school districts.

***Note:** This is my synopsis of the first AFT meeting to my local union-UTLA Vice President. This report also reflects my opinion of the AFT process as a 403(b) teacher consumer, not the opinion of each presenter, UTLA or of the American Federation of Teachers.*

Appendix F

December 28, 2001

American Federation of Teachers
Research Department
555 New Jersey Ave, NW
Washington, DC 20001

Dear Mr. Chair:

Thank you very much for the extraordinary opportunity to participate in two 403(b) Taskforce meetings that you organized, the first one two years ago and once again this past week. As you know, this issue is very important to me; when 403(b) is used wisely it can make a significant difference in our members' retirement nest egg and if educators start early enough, they could actually become wealthy. Thus, I happily and enthusiastically offer my knowledge and experience to the benefit of our members. Furthermore, as a 403(b) "activist" for the past five years, I am using this opportunity to report what I think can be done to change the mindset of school districts and unions alike to begin to see this wonderful program as it should be seen—a true benefit. This benefit can be used to attract and keep good professionals in education.

Your efforts to enlighten and provide a quality low cost, national 403(b) plan in an open forum is commendable and exemplary. I would not have taken the time to write this report if for any reason you would not read it. I am confident that you and the other AFT staff will read my report with an open mind. You may not agree with everything I say here, but I know that our collective mission is to move forward and not repeat the mistakes and misuses of 403(b) in the past. It is a new era; times are changing. Great opportunities are here for the taking. Now is the time for AFT to look at this program under a new paradigm. Our members do not know how lucky they are to have you and your staff's

diligence for a benefit that has been forever under appreciated, misunderstood, ignored, feared and often misused.

For better or for worse, I offer you two reports. First are my observations of the task force meeting last week and secondly, I will elaborate in detail my experiences and frustrations when trying to provide quality 403(b) information and enlighten my colleagues about this potentially powerful benefit. Lastly, I will argue with some passion, personal experience working with Mr. Brian Cressey, the southern California Director of TIAA CREF and some additional data as evidence that TIAA CREF should be the approved vendor for AFT's national 403(b) plan.

My main concerns are that the two chosen companies that presented failed to answer questions about cost and quality services to members. But most important, they also failed to address the causes of why districts and local unions hardly ever discuss the importance of retirement planning via 403(b). I would like to see AFT take a leadership role to revolutionize the entire process so that fairness, integrity, honesty and human dignity prevail. When these principles succeed, the wisdom and power guided by members, not by vendors, will take 403(b) into the 21st century.

Your consultants did an excellent job explaining how they ranked the various vendors, what they looked for and their rationale. While I was disappointed in the results because I thought TIAA CREF should have been in the top two, the reasoning and methodology to back up what they said about the companies was valid, based on the data on hand. However, I am questioning some of the interpretations of the results of the Request for Information (RFI) survey. For example, TIAA CREF has three main offices, not the two that was in the survey and they also have 22 regional offices sprinkled throughout the country, which was not reported at all. Furthermore, the facts presented were not reflective of TIAA CREF that I know from experience and what I have read.

First, a little history. Last spring, after a year of negotiations, I was instrumental in getting TIAA CREF to sign on to the Los Angeles Unified School District (LAUSD). I was thrilled that this low cost company with a long tradition with higher education was now available to our local members.

This was a major improvement to LAUSD's 403(b) current program. However, I was wondering why Robert and Rod primarily reported the negatives. They said that their performance was low because they were too conservative and that existing accounts can only be transferred 10% at a time to another custodial account. While this may be true, what was not considered was the fact that there are no surrender fees in these transfers and the M & E fee is a minuscule .005%; these facts make TIAA CREF clearly different from annuities from the large insurance companies.

Another important fact ignored is the extremely low annual operating costs. TIAA CREF is less than half the cost of most no-load mutual fund companies and one quarter the cost of most variable annuities. It was puzzling why these important distinctions were not presented. I know that their performance data was better than articulated at the meeting. Their funds are basically index funds, which have been argued by John Bogle, the former Vanguard manager who invented the index funds back in the 1970s, which have better performance over long periods of time because the money that would have gone to management fees instead goes to the investors' pockets. Additionally, managed funds, while appearing to beat the standard in the short term, actually lag over long periods of time. Additionally, I have read various investment websites over the years and the overwhelming consensus is that TIAA CREF is highly regarded and respected Investment Company throughout the financial industry from both investment professionals and investors. For example, in the latest Morningstar FundInvestor publication (December 2001, p. 25), an independent evaluator of investment companies, reported of TIAA CREF's Equity Index as: "One of the soundest and most diverse index plays available to investors." Because of their unique style of passive investing, costs are kept low and are ideal for 403(b). Finally, with their solid reputation with higher education for decades and including all of the other advantages, TIAA CREF should have scored higher and been allowed to present their case to the AFT task force participants.

Your strategic organization of the two presentations by Citigroup and ING/Aetna was excellent. I was very appreciative that you allowed us to interview them. As I

indicated at the meeting, United Teachers Los Angeles' (UTLA) approval process committee meets behind closed doors with six UTLA board of directors and the Treasurer. However, your strategic planning was inclusive and open, after all, it is our plan. Each presenter was under pressure because of our direct and nonstop questioning about service, reaching members, costs, what is provided that is not already done and quality 403(b) investment products. That is the way it should be done. I was very impressed with the knowledge of the task force members and pleased with their concern regarding the direct costs to members. Costs should never be underestimated.

As I indicated at the end of my participation of the meeting, I could not decide until I thought about all of this information that was presented. I suspect that Citigroup was not selected, as we seemed to agree to throw them out especially when they honestly admitted that they were not ready for a national campaign. Thus, it appears that Citigroup should not have earned second place. In such an important decision, AFT should have had the two best vendors present. But for now, ING/Aetna current presence in New York State will be an advantage and we were strongly encouraged by the consultants to support ING/Aetna. I am told that half of all AFT members nationwide are from NY State. Naturally, ING/Aetna would like to expand to the entire country.

Regretfully, I cannot support ING/Aetna. I would have liked to see them compared with TIAA CREF, which as it turned out, was a superior applicant than Citigroup in my opinion. Besides the cost issue, your consultants are not fully aware of the unique problems of 403(b) in California in general and the Los Angeles area in particular. While NY State will be a strong point for ING/Aetna, they will undoubtedly have access problems in Los Angeles for a couple of reasons. ING/Aetna will be in direct competition with Citigroup because Citigroup had announced in their presentation that they had just recently been an approved vendor for UTLA. If that is not bad enough, ING/Aetna will be competing with other UTLA approved vendors as well, Zahoric, Met Life and Plan Member services and other vendors, each with a long and established history of

403(b) services with UTLA. In my opinion, my concern is that members are charged multiple fees for their services that are not fully explicit and clear.

As a member of UTLA, I was surprised that UTLA added yet another TSA company to the approved list because Citigroup provides no additional benefits or services. With the exception of TIAA CREF (explanation below), new vendors will have chronic access problems to educators because of the competition with established vendors previously approved. I suspect that this problem generalizes to most of California teachers' unions. Additionally, the number of affiliate NEA members in the west dwarfs the number of AFT affiliate members. These realities do not forecast a positive and smooth launch of AFT's 403(b) national plan. Furthermore, when the local union as powerful as UTLA secretly approves a company with no rank and file input and the Los Angeles Unified School District does absolutely nothing to publicize and educate employees about 403(b), you have an unfair, disingenuous and dishonest system. In the five years that I have been active trying to educate my colleagues, reform LAUSD and get UTLA to address this problem with press coverage in Los Angeles Times, New York Times, US World and News Report, it appears that people outside of education know more about 403(b) problems than people inside education. It is little wonder that teachers have such a poor rate of participation as they have nowhere to turn for objective information that will benefit them. One teacher was so desperate for objective information that she turned to the LA Times for help and she was subsequently featured in their weekly financial advice column. I think somebody has to say the obvious and we in the 403(b) Aware group fully agree that districts and local unions are looking out for themselves and many teachers know it. AFT's endorsement of ING/Aetna maybe walking into a Los Angeles land mine of 403(b) indifference, competition and utter silence.

While this situation appears grim and hopeless, this is a perfect time for General Douglas MacArthur's quote, "Life offers opportunities, not guarantees." I believe AFT has two opportunities. First is the opportunity for AFT to assist members to actively plan their own 403(b), which was

unheard of just a few years ago. Self-planning is so much more available now because nowhere have things changed the most than when financial information became readily available via the Internet. At the same time, the mass media has been drilling us over and over to plan for retirement because Social Security and our pension plans will not be enough to maintain our standard of living in retirement. The cohort of educators who know this more than any other group are the young educators. In the middle of all of this publicity and the unfairness and secrecy of the locals and districts current administration of 403(b), this presents a terrific second opportunity. This opportunity is for AFT to assist members to plan for retirement, especially the younger educators. AFT could revolutionize the way 403(b) currently operates in virtually all school districts and local unions throughout the country. This would require a major paradigm shift in the 403(b) world that will grab member's attention. I am requesting that TIAA CREF will be given a chance to present, given the poor presentation and non-committal position of Citigroup.

I believe you will be impressed with what they have to offer and how they will more than make up for any perceived and real deficiencies. For example, TIAA CREF would have been not only just be willing to commit to AFT for a national program but would have loved the challenge and the opportunity to collaborate with AFT to reach educators. While I agree with Rod and Robert that they are new to K12 market, my experience working with the TIAA CREF, the Southern California Area Director, Brian Cressey, indicates that they have learned much in this past year and want to continue to learn about this very tough market. While this effort is lauded, it will not be enough, as Rod and Robert have already professed. But what Rod and Robert did not have access to nor did I have enough time to explain is how TIAA CREF has taken Southern California by storm. I think it is worth your time to hear me out as I explain how TIAA CREF will be successful in Los Angeles and at the same time change the way districts and unions do business with 403(b) for the benefit of educators.

Mr. Cressey wants the K12 market. Here is the evidence as actions, not words, speak volumes that I present for your

consideration. In the ten months that he has been here, he immediately signed on with LAUSD, spent \$22,000 for a 24 full-page ads in the UTLA newspaper for a year, set up two satellite offices to assist LAUSD teachers with a “high touch,” 1 to 1 consulting to answer questions by appointment and fill out applications, signed an agreement with the best 403(b) website in the country, *403(b)wise.com*, to offer “high tech” information specifically to UTLA members in addition to TIAA CREF’s own web services, he has spoken to the LAUSD board of education asking that the board look into their policy that prevents LAUSD from publicizing their current 403(b) plan, and submitted an application for the formal UTLA approval status rating.

These actions alone should be solid enough for AFT consideration. However, Mr. Cressey wants more change as he went well beyond both ING/Aetna and Citigroup’s vision. He is leading the charge to fundamentally change the age-old mindset of California school district thinking by going to the root cause of the 403(b) problems—the archaic California Insurance code 770.3. This outdated code permits school district administrators to demand outrageous and restrictive hold harmless agreements, which prevent low cost investments companies to sign on and, in part, prevent districts from advertising their current plan—any vendor trying to reach educators needs district support. Three years ago, Sam Kressner, assistant to the UTLA president, and I attempted to have the state attorney general look into this code, but failed miserably. When I told Mr. Cressey about this attempt, he was not swayed, but at this disappointment or all of the other major obstacles that sit before us. He is not afraid and is the ONLY significant person in an influential position that wants to change the system and the mindset that districts and unions have long been accustomed to—saying little and leaving the entire matter to individual sales people to inform teachers.

Mr. Cressey has asked for assistance from our 403(b) Aware group, *403(b)wise.com*, some insurance companies, and UTLA’s lobbyist. He wants support when he introduces legislation in California next month to try, once again, to modify the Insurance Code. This legislation will most likely face an uphill battle, as the insurance industry

may fight tooth and nail to keep the status quo. We believe that this legislation will, at least, hopefully provide some publicity on this long neglected issue in California. I am confident that if this information were presented at the task force meeting, TIAA CREF would have been approved on the spot. I felt that the task force participants at your meeting went and demanded honest, objective and clear 403(b) information that benefits members. TIAA CREF is that type of company.

In the debriefing session, participants talked at great length about the complexities and understanding the fees charged by these companies. Agreeing with the participants, I was not comfortable nor convinced that either vendor adequately addressed the costs. On the other hand, TIAA CREF's fees are between .31 and .59, that's it. We need to know the exact cost; this issue is so very important, especially in this murky world of 403(b) in K12 school districts. Without knowing the exact cost, how can honesty, integrity and fairness prevail? Remember, it is the members and only the members that pay the fees.

AFT will get the best deal for its members by leading the change of the entire 403(b) landscape. Join forces with TIAA CREF to begin this new era. The resulting collaboration with TIAA CREF could truly change the dire mess that 403(b) has lived with since its inception in 1958. I want AFT to succeed; AFT must consider seriously that a major paradigm shift is what is needed to cure this sick system. Management decisions have been and are still the standard protocol used by local unions. Because of this new era, these management decisions are outdated because they are no longer meeting the needs of members and they do not address the root causes of the 403(b) problems. I suspect that if we looked closely at the reasons why NEA's plan failed, this might have been it. TIAA CREF is the best current example to date that would represent this revolutionary shift and be THE cost standard to which all other 403(b) companies would have to adhere.

In summary, I will support TIAA CREF if for some reason ING/Aetna deal does not work out. I know TIAA CREF will eventually succeed here in Los Angeles because TIAA CREF understands the root causes of the 403(b)

problems that ING/Aetna and Citigroup failed to address. You have done a great deal of work in the last two and half years getting to this level. Grab this opportunity, lead educators, districts and local unions out of this 403(b) abyss and treat it like it should be—a powerful benefit for supplementing the teachers pension plan that is available for all school district employees. Our 403(b) Aware Group, which is an ancillary group of UTLA members who want quality 403(b) choices for our members, and I would enthusiastically support TIAA CREF.

In the final analysis, all vendors and members will benefit from AFT leadership. The vendors will have to work a little harder to provide the best possible deal to educators. Educators will respond when a reputation of fairness, honesty and integrity slowly spreads and the word gets out that, finally, a quality low cost alternative retirement plan is offered. Over time, I envision that the participation rate will slowly rise to the levels of the 401(k) plans (80%). The increase in participants alone would benefit vendors of all types and sizes. There is no reason why this cannot be accomplished and we should aim for the 80% rate.

Thank you again AFT for creating these meetings. I respect your determination to do the right thing, not to make the same mistakes as NEA, that you are looking out for members' benefits and for the most important aspect of your organization of the meetings, it was open and inclusive. You asked for input from me and I gave it to you in this admittedly lengthy report. As I have said at the beginning, this issue is a passion with many others and I as we try to straighten out this mess known as the 403(b). It really is not that difficult, so lets go for it. Our members deserve better.

If I can be of further assistance, do not hesitate to ask. I am still interested in presenting a workshop in 403(b) basics at the National Convention next July at Las Vegas. I will send you a proposal of what our panel of 403(b) Aware experts did here in Los Angeles for UTLA members.

Sincerely,

Stephen A. Schullo, PhD

United Teachers Los Angeles

Technology Coordinator and Computer Teacher

Leo Politi Elementary

Appendix G

Please Reelect David Goldberg for UTLA Treasurer!

(Written in 2007)
Steve Schullo, Ph.D
IMaST2 Coach
Cochran Middle School

Dear UTLA Chapter Chair:

Because so many members had issues with the TSA sales people that show up at the school faculty lunch rooms and area meetings to sell their expensive products, I helped start a 403(b) Aware group in 1998. Our mission was to do what UTLA and LAUSD were not doing, assisting members with objective 403(b) information. We have conducted workshops and held informational meetings around the district. None of us are sales people, nor became financial advisers and we are not a conduit to any one vendor. I am an IMaST (Integrating Math and Science through Technology) coach assigned to Cochran Middle School and alternate chair of the UTLA Retirement Issues Committee. I have written articles in the UT newspaper for the last ten years to assist members with objective information about the 403(b). Because information is not provided to members from the usual sales people, we offer objective information to our colleagues about low cost 403(b) plans and the disastrous effect of excessive and unnecessary fees that look out for the agents' pocket book and not members. I had a story to tell about my own bad experiences of using a TSA. I want members to "be Aware" so that they would not make my mistakes.

Because of David's bold leadership, UTLA has started a major change with regard to these tax deferred retirement plans. For example, none of David's predecessors have had the courage to rethink how UTLA handles the current 403(b) vendor approval process. This coming week, he will

be meeting with the member services committee to look over the current 403(b) "UTLA Approved" vendors to see if UTLA could provide more oversight. He is a member of LAUSD's newly formed 457(b) Oversight Committee. His presence on this committee was absolutely essential to protect members from costly options. (See my articles in the UT online at www.UTLA.org in the November 18, 2006 and May 18th, 2007 issues for detailed information about David's efforts).

These plans are not glamorous, but there are more and more lawsuits about high cost plans that UTLA needs to be aware of. So if you know little about the 403(b), just remember this important staggering bit of information: approximately 32,000 district employees are contributing \$115,000,000 EACH YEAR to various TSA accounts and nobody at the leadership level was willing to address this, until David.

I support David because the UTLA treasurer has enormous power in helping UTLA members learn ALL 403(b) and the new 457(b) option. He needs to be reelected to finish the job.

You can reproduce this letter and give it to UTLA members at your school site. If you have any questions, my email is sschullo@adelphia.net.

Reelect David Goldberg for UTLA Treasurer!

In unity,
Steve Schullo

NOTE: The information given here does not reflect or represent in any way the opinions of UTLA.

Paid for by Steve Schullo.

Appendix H

LAUSD's New "High Quality" Tax Deferred Retirement Savings Plan, the 457(b)

By

Stephen A. Schullo, PhD

Written in 2007

Technology Adviser ITD

The 457(b) is a tax deferred retirement saving plan that allows employees to voluntarily deduct wages into an investment before taxes are levied. Its similar to the current 403(b) plan (and 401(k) plan in the private sector) in that employees can tax defer \$15,000 annually which you will supplement your CalSTRS retirement benefit. For example, in a hypothetical 28% tax bracket, for every \$100 contributed into the plan, you actually pay approximately \$72. The remaining \$28 dollars are working for you, instead of Uncle Sam, in your 403(b)/457(b) investment. Combined with what Einstein quipped that compound interest should be the "8th wonder of the world," compound interest and tax deferment features catapult the 403(b) and the 457(b) into potentially powerful benefit plans. Supplemental savings are essential as retirement experts state emphatically that pension benefits (i.e., CalSTRS) will not be enough to sustain your retirement lifestyle. According to the LAUSD open enrollment handbook, employees can now tax defer up to \$53,000 annually using both plans.

The bargaining unit members, led by UTLA Treasurer, David Goldberg, got involved on the 457(b) oversight committee. The oversight committee requirement is a huge advantage over the 403(b); the committee comprised of employees, reps from the eight bargaining units, benefits staff and a financial consultant hired by LAUSD. The committee's role is to advise and make recommendations to the CFO on the funds selected and continues an ongoing monitoring of the plan. The oversight committee invites

you to any meeting to get your questions answered. By comparison, in the 403(b) world, nothing so transparent and impartial has ever existed.

LAUSD benefit administrators admitted to the board that there were many problems with the 403(b) mess. Members were unaware of the commissions to sales people and hidden ongoing costs in TSAs. Last spring, the LA Times reporter, Kathy Kristof, published a front page article that featured one of our young teachers who was sold one of these terrible investments—TSA fixed annuity. These are not isolated incidents. Research from the Spectrum Group reports that 80% of educators across the country have their hard-earned money invested in costly and poor performing TSAs. Adding insult to injury, huge rip-off surrender fees are charged when funds are transferred to mutual funds. TSAs are a terrible retirement savings investment.

LAUSD fully acknowledged and addressed the 403(b) problems by contracted with AIG-VALIC to be the third party administrator (TPA) for this new plan—457(b) with an unbelievable low cost of .15% (by comparison a typical TSA costs 2.25% and more per year). VALIC claimed that it could offer the new plan for a fraction of the cost of traditional 403(b) plans because of LAUSD size. The LAUSD decision to select VALIC was directly related to the extremely low cost bid, VALIC's capability to speed up the remittance of contributions (including the 403(b)s), to provide financial education and publicity that will include low cost, no load mutual funds. This plan was poised to be the best in the country that could have addressed the systemic problems of the expensive and mysterious 403(b) plan.

Because of their sordid history of selling expensive 403(b)s, AIG-VALIC agreed with UTLA's demand that they will not sell new 403(b)s. The oversight committee wanted the 457(b) plan to eventually replace the 403(b) IF the plan looked out for employees' best interests with full transparency of information and costs, contained a low fee structure and options as originally promised. Regrettably, we greatly underestimated the power of the financial consultant's

influence over LAUSD staff. We quickly learned that our noble idea of actually forcing the “High Quality” low cost plan into fruition as articulated by LAUSD administrators, turned into our worst nightmare.

All of the above promises were met EXCEPT the low costs. The .15% was the grand deception. Mercer Consultants, the financial adviser to the committee, consistently claimed with no budget presented that added costs are “required” for VALIC’s educational seminars and to jump start the plan with no assets. Mercer, with LAUSD’s blessing, systemically and deliberately chose higher share class of mutual funds, which charged “revenue sharing” fees. Revenue sharing is hidden—read “kickbacks”—within the annual costs of mutual funds. Adding revenue sharing, expense ratios and finally the original .15% makes most of the 457(b) fund selection costing over 1%. UTLA reps vociferously objected and offered the same funds without revenue sharing costs. Our objections were not heard. The 457(b) plan will not replace the 403(b), in fact, much, but not all, of this plan is so costly, it might as well have been a 403(b).

The bottom line is that when it comes to your money and your self interest, always, I repeat, ALWAYS take the district and the 457(b)/403(b) sales force information with a grain of salt. Money draws the interests of financial professionals and their institutions that do not have your retirement interests in mind. Truthfully speaking, why would LAUSD, AIG VALIC and the financial consultant look out for your best interests. In the long run, it might be a good thing because it forces us to extend our self determined boundaries; to learn something different and new. The last I heard, those are noble goals and personal characteristics that we encourage our students to strive.

AIG-VALIC has every basic right to charge fees as payment for the educational services rendered and administrative costs. But you have a right to know what exactly you are paying and compounded over long periods of time and to get answers to your tough questions about the

quality and cost of their services. We tried very hard to cut the costs for you, but we failed. We believe that the costs, which go as high as 1.35%, are not worth the services AIG VALIC will provide but only you can decide this.

In spite of the frustration, we are not throwing the baby out with the bath. There are good options in both plans but you have to watch those fees. For the first time, three low cost Vanguard funds are available in the new 457(b): Growth and Income, Developing Market Index and Extended Market costing 55 basis points or below. Vanguard is an amazing investment company with one trillion dollars in assets, about nine times bigger than CalSTRS. Lastly, the above three funds are the only funds that have the lowest fees of the 457(b) selection of funds. Meanwhile the 403(b) side, three low cost companies are still available: TIAA CREF, USAA and Fidelity Investments with many funds to choose from. Most of their fees are below the 457(b)'s fund fees.

The cost and time required to read up on this is next to nothing and has never been easier. First off, read Kathy Kristof's *Unions' Advice Is Failing Teachers* in April 25, 2006 LA Times edition. Also, read John Bogle's book *Common Sense on Mutual Funds*. There are free podcasts available for download at www.Vanguard.com website called "Plain Talk on Investing." Topics include "Why Investment Costs Matter, How Index Investing Works for You," etc. (www.Vanguard.com). This writer has drawn much knowledge from Vanguard's low cost investment philosophy. [www.403\(b\)wise.com](http://www.403(b)wise.com) is a great website that has many articles and a discussion forum for your questions. This information is just a few mouse clicks away.

The results of self education are unexpectedly simple and straight forward. Amazingly, the investment world is relatively simple to understand. I have never heard of a colleague who regretted learning the basics of personal finance and went back to their original high cost TSA/403(b). It just does not happen. You could eventually have tens of thousands of dollars or more in your final nest egg than

if you let that friendly and knowledgeable agent in your school cafeteria take care of all of your “paperwork” for your entire career.

Whether it’s Vanguard in the 457(b) or TIAA CREF, Fidelity Investments and USAA in the 403(b), get informed and stay informed. LAUSD’s 457(b) plan may eventually turn out to be high quality plan. Your UTLA representatives on the oversight committee will work hard to make it evolve that way. But as it currently stands, the plan unfortunately does not guarantee low costs across the board. You have to look carefully for the low cost funds by educating yourself and putting that knowledge to work in any investment, whether the 457(b), 430b, Roth IRA or all three, you will greatly improve the likelihood that you will retire comfortably at a younger age with a high quality nest egg.

Appendix I

Return to Sacramento for Second attempt at Reforming 770.3

Remember ab2506 in Chapter 7? During the spring of 2012, our committee was ecstatic when we heard our partners, California State Teachers Retirement System (CalSTRS) and TIAA CREF (T/C), introduced legislation to make another attempt to reform 770.3. We quickly passed a motion to support AB1949. Unlike AB2506 (Chapter 7) our state's major teachers' unions, United Teachers Los Angeles (UTLA) and California Teachers Association (CTA) opposed this bill. Since CTA runs this state politically, the legislative committee members dared not go against the powerful union or lest reelection bids be jeopardized. When 99% of California educators don't know anything about 770.3, pure politics dominate. The bill was soundly defeated at the first committee hearing within seconds after the gate was opened.

Despite the massive setback for California teachers, the proponents were heartened by collaborating with one another across the state. The speaker line supporting the bill extended all the way to the back door. We were heartened that the other teacher's union, California Federation of Teachers supported. Our featured speakers were Los Angeles Unified School District's (LAUSD) legislative rep, LAUSD teacher Crystal Mendez and CalSTRS board member Carolyn Widener (Both longtime supporters of 403(b) reform). Many statewide policy people from school districts and county offices of education spoke in support.

Politics makes for strange bedfellows

Only a handful of people spoke against the bill. But it didn't matter—power and money rule—like it or not, that's our political system. It is disgraceful and revolting to see my unions, UTLA and CTA, on the same side as the powerful insurance lobbyists with hearing the identical rhetoric about "choice." Suddenly these unions were interested in the 403(b)! California teacher unions rarely talk about the 403(b), rarely, if ever, have a public position (Two exceptions. In

the early and middle 2000s, both CTA and UTLA informed members they terminated the “union approved” 403(b) vendor program). That said, why join forces with the insurance industry? In my opinion, it was despicable sight.

The unions apparently listened to nonfiduciary consultants and TPAs, such as broker/dealers. The bosses are not interested in financially savvy members’ ideas! CTA *ignored their own excellent retirement committee* recommendation to endorse CalSTRS Pension2 for their members (Read my letter to CTA President and Board of Directors in agreement with CTA’s retirement committee’s motion Appendix N). At the hearing debating AB1949 the CTA rep made an outrageous comment that 403(b) reform should “*come from the teachers, not the industry*” The 2.5 hour testimony can be heard here: http://calchannel.granicus.com/MediaPlayer.php?view_id=7&clip_id=298 (After *clicking here* AB1949 testimony starts at 1 hour, 35 minutes into the stream).

I know two genuine fiduciary consultants to PreK-12 districts: Our own SST Benefits, and Scott Dauenhauer, CFP®, AIF, MSFP, fee-only financial adviser, who is also one of CalSTRS’s consultants and one of the brains behind Pension2. I find it compelling and fascinating that CTA policy heads know Scott and Barbara professionally, but will have *nothing to do with seeking their professional advice*. Apparently, fiduciary standards don’t have a chance against power politics. ERISA Section 3 (38) Fiduciary guidelines mean nothing in our political system.

If the current 770.3 is so great for our state’s teachers according to CTA and UTLA, why don’t the 403(b) plans of California State University System, University of California System, State of California, Los Angeles County, City of Los Angeles and all the major California healthcare systems adopt the tenants of 770.3? Are all of these huge employers unfair to their employees and faculty-educators by not allowing them “free choice” or their advisory committees incompetent or anti-educator? As you have read throughout this book, the “free choice” is a total fabrication and has taken permanent refuge in PreK-12 districts. In my opinion, supporters of AB1949 believe California PreK-12 districts are badly misinformed and CTA has clandestine motives for keeping 770.3 intact.

Summary

While the bill lost badly in the first round, many educators from around the state collaborated to support ab1949 and witnessed first hand the two biggest teachers unions on the hearing room's side with the insurance industry. The speculation runs deep as to what was behind the union opposition to this wonderful bill. Both union's tight-lipped policy doesn't bode well in this already murky 403(b) world. If UTLA and CTA have great policies, why don't they announce to the world that they have a superior low-cost plan, that they help pay the investment expenses for their members with all the bells and whistles that would beat the dickens out of the well-known CalSTRS Pension2?

Instead, what does CTA do? CTA allowed email rumors to leak that they will have a superior 403(b) product bashing Pension 2 (Of the rumors that I have heard, not one bashed any of the insurance companies TSA products, NOT ONE!). Genuine fiduciaries are concerned about their client's best interests, and do not engage in bashing another fiduciary. In my opinion, CTA was on the wrong side of that Sacramento hearing room in the spring of 2012 and will be on the wrong side of history again by bashing the legendary low-cost and fiduciary responsible CalSTRS Pension 2.

Appendix J

August 4, 2003

Director, Benefits Administration

Business Services Division

Los Angeles Unified School District (LAUSD)

Dear Benefits Administrator (*Name withdrawn*)

I received your announcement and the promotion by the Benefits Administration Division of LAUSD's new "Voluntary Benefits Program" that thousands of LAUSD employees got by mail. This was a surprise. LAUSD had a policy that it would not promote individual companies. Apparently, this policy has been changed. I welcome any new development that helps employees with their financial needs. The brochure was very glossy and beautiful with plenty of colored pictures. I was impressed, but not necessarily the reasons that you may think resulting in this admittedly lengthy letter.

LAUSD's 403(b) Benefit Plan

Your endorsement of these companies in the brochure prompted me to write yet another letter to ask LAUSD again to publicize your stepchild benefit plan—403(b). For years now our 403(b)Aware group, an unofficial group of Los Angeles educators, who support 403(b) reform, conduct workshops on financial education and urge our colleagues to supplement their CalSTRS via the 403(b), have been petitioning LAUSD to publicize the 403(b). Yes, I am very pleased to report to you, the Superintendent, UTLA, the Board, the new CFO, Ken Gotshch and entire Benefits Administration staff that LAUSD has two low cost 403(b) tax-deferred retirement savings vendors. This letter will also be sent to the LA Times, Daily News, WSJ and Scott Burns of Dallas Morning News who writes frequently about educators' benefit plans.

Pets Are Great, But....

So, what is the problem you are surely asking? Unfortunately, few of my colleagues know about the 403(b)

program. We do not need another “new benefit program” especially when 403(b) program is deliberately ignored, simultaneously you actively and purposely promote an optional *pet insurance plan*. **ARE YOU SERIOUS!?** **With the threats of significant cutbacks or increased premiums of our current medical/dental/vision benefits and employees not knowing that low-cost 403(b) plans are available, you tell us with a straight face that we have until August 22 deadline to enroll in the pet insurance program! Please tell us you are joking.**

But, thank you for the information anyway. Perhaps our case for 403(b) reform from the collateral connection will gain some publicity. Perhaps you may have to do the right thing for employees by publishing what we already have—a decent 403(b) retirement plan. The good news is that you do not need to hire an expensive consultant, it’s already done. 403(b) information is needed more than pet insurance (sorry pet lovers). I have even included a table to help you at no additional cost. All you have to do is create a 403(b) brochure and send it to all employees. To assist you with a brochure, I have also included a 403(b) informational brochure that our 403(b)Aware group created.

History of 403(b) Aware Support Group

I am very happy about this development. Your brochure and cover letter was a blessing-in-hiding for you and the others who set policy in our district. First, a little history, our 403(b)Aware group was created in 1998 to fill a serious void. We assist colleagues with objective information for their 403(b) planning and seek 403(b) reform either through district changes or through state law (We got to know each other through local and national press and through the Internet). For the record, all of us are employees and we will never become professional financial advisers, our services are free. We are K-12 teachers, audiologists, psychologists and one administrator. Because of our unique rock solid credibility that is beyond reproach, we were successful on two areas. First, we managed to change the pay stub label “TSA” to the correct “403(b)” because TSA (Tax Shelter Annuity) implies that employees can only invest tax deferred 403(b) money in annuities, while the correct IRS label “403(b)” states that either annuities and custodial

accounts with mutual fund companies and TIAA CREF are also available. With the help of Sam Kressner of UTLA, our group of ragtag 403(b) Aware educators got the district to see the light. It was not the district's high paid attorneys or the bureaucrats who initiated this change--we will take full responsibility and are proud that we think we are doing something good for this district and its employees. It is all LAUSD employees, not just teachers. Second, last year, Governor Davis signed the first ever 403(b) reform law AB2506 that was also sponsored by UTLA, CTA and the Community College Guild.

The Annuity Connection Versus 403(b) Reform

These reform measures will help district employees weave through the thicket of the mysterious, little know and unappreciated 403(b). We had to learn the hard way. Change originates from persistent employees, from politicians or from opportunists. In the 403(b) case, it is from the people most affected and perhaps, just perhaps, you will take this letter seriously and take the "bull by the horns" by initiating (as opposed to reacting) something good for all the hard-working employees in this district.

The traditional problem with educators and their 403(b) money is what I dubbed "the annuity connection." Reporter Scott Burns said it best: "For reasons they should be called upon to explain, the state legislatures [and school districts] in Texas and California appear to believe that teachers are bright enough to teach children but too slow to make investment decisions for themselves. As a consequence, teachers are "protected" into high-commission retirement plan "reservations." Simply stated, high priced annuities are not the place to invest 403(b) money period. Two reasons. 1. Many of us were ripped off by investing our money in "safe" annuities from large insurance companies. 2. The Securities and Exchange Commission released a report (2000) warning investors that investing 403(b)/401(k) (private sector equivalent) doesn't increase the tax deferred benefit and significantly incurs unnecessary and expensive insurance coverage and the atrocious surrender fees. Please be aware that I am not just another teacher complaining, but the Federal Governments SEC is also on record against using expensive annuities in

403(b) plans. Thus, our 403(b)Aware group mission statement is to educate our colleagues to the murky world of 403(b) because in California in particular, very few policy officials talk about this benefit. Never mind that 25,000 district employees are actively contributing \$115,000,000 each year in this district alone. I do not know about you, but that is a lot of money. Now you may understand why I am “surprised” by a new benefit plan that includes pet insurance coverage and an introduction to another expensive financial planning insurance company while LAUSD continues to ignore that \$115,000,000, much of it already going into expensive and inappropriate annuities.

I have written letters before, talked to the board of education about 403(b) and published articles in the UTLA newspaper, one of them chastising the district about your policy of not publicizing the 403(b) program. But the times are a changing as AB2506 is now law that will instruct CalSTRS to launch a new website in June, 2004 that will further explain 403(b). Hopefully, employees will begin to question your role (or lack thereof) in the 403(b) tax deferred plan and ask why are you doing nothing about the terrific 403(b) program while actively promoting Pet Insurance.

How Employees Currently Get 403(b) Information:

It ain't Pretty—19th Century Ideas

The process of getting information about 403(b) products is the same as when 403(b) law was launched in 1958. Since it was insurance companies who first started selling TSAs to educators, the TSA sales people from large insurance companies still hold a monopoly in providing information resulting in about 85% of all 403(b) money in these companies. The acronym “TSA” is very familiar to most educators because that is all they hear from the bias financial advisers. Consequently, educators are under the erroneous assumption that TSAs were the only plans available (Main reason we successfully argued for the pay stub label change). Referring to my attachment, on the left column includes 112 insurance companies signed on to do business with LAUSD. This long list is in part due to an arcane California insurance code 770.3 that states that if a company is willing to sign the district's hold harmless agreement, the district must add them to the list. By

comparison, there are only six low fee companies on the right column and the only non-profit pension institution—TIAA CREF. The hold harmless agreement was initiated by the insurance lobby way back in the early 1970s because congress added custodial accounts, meaning 403(b) can now be invested in mutual funds.

**The Infamous Hold Harmless Agreement—
a 20th-Century 403(b) Problem**

When congress added mutual fund companies to the 403(b) in 1974, a backlash from the insurance industry against this development ensued with a vengeance. The insurance lobby does not want any competition, especially here in California. They got the state legislature to modify 770.3 and the state attorney general to support the use of highly restrictive hold harmless agreements. This agreement was suppose to protect the district and the employees from “bad investment companies.” It ended up protecting the monopoly over 403(b) by the insurance industry. Consequently, low fee, no load mutual fund companies refused to sign these agreements because the vendor would be liable even for district own fiscal mistakes! This is nuts! This explains the short list on the right side of the attachment. Thus, this was quite understandably too risky for low fee companies. Furthermore, insurance companies informed school districts that we would take all liability. In fact, the insurance industry created the hold harmless agreement. Obviously, district bureaucrats were very relieved that these companies would take all liability. It was a brilliant tactical move by the insurance industry because they knew there was never any liability, otherwise the insurance companies would have never signed such a ludicrous agreement. This policy has remained unchanged for thirty years. Amazing how school districts and the low fee mutual fund companies were duped to the boy crying wolf syndrome for three decades.

There is only one legitimate liability. The biggest liability to the district was over contribution of tax-deferred money by employees, therefore, violating the IRS compliance law. Fortunately, in retrospect, this liability turned out to also be a ruse. Teachers do not make enough money to over contribute to 403(b) plans, even when the Maximum

Exclusion Allowance (MEA) was in effect before the 2001 tax law illuminated it (MEA was the complicated formula that calculates the amount that employees can defer based to their salary level). Therefore, the risk factor for policy is gone. In fact, the IRS auditors found a mere \$2000 in mistakes in over contributions in a sample of 900 LAUSD employees, according to our CFO. No employee can make the district liable now and the LAUSD bureaucrats cannot make that claim any longer thanks to the Federal law that illuminated it. Nevertheless, I am willing to bet that many sales people who sell TSAs are still using the MEA because nobody is monitoring these people and this district has not informed employees of this development.

The 21-Century 403(b) Problem

The problem with 403(b) has now evolved to the lack of publicity issue (I am only talking about LAUSD, but there are many districts in California who do not have a good 403(b) plan because the employees have no low fee companies available). Because of the elimination of the MEA, two low fee vendors signed on with LAUSD. However, the present problem, as I have previously written, is that few employees know about all the options available to them. Why would one of the largest employers in LA County, who relentlessly claimed they needed more teachers, deliberately withhold information with their own and prospective employees, the low cost 403(b) benefit plan? I know what you and the LAUSD bureaucracy will say, despite all the developments in federal law that eliminates the risk factor that I have elaborated above. You will still say: "We cannot put the district at risk for recommending particular companies because that may take money away from instruction." This mantra is tedious, which is solely based on ignorance, not from an informed 21-century policy maker. If I am wrong, what is stopping you now from publicizing the 403(b) benefit? Furthermore, nobody is asking you to recommend a particular 403(b) company as you did in this new benefit program so that policy may have changed and if it has, I welcome it.

How To Correctly and Safely Publicize the 403(b) Plan

To reduce the liability of publicizing the 403(b) plan is to release the names, phone numbers and costs of these

plans (not past performance of investments) of all the companies available. This request is not out of the blue. AB2506 requires CalSTRS to create a 403(b) vendor database that will include this information. It is state law. We are asking that LAUSD should be more responsible to its own employees and duplicate the spirit of AB2506. Retirement planning is big business and our employees need to know how these sales people make money. The current system in which employees get information, as I previously stated, was through the very people who represent for-profit company plans, this is hardly objective. Seventy percent of LAUSD employees do not have a 403(b) plan. My hunch is the some of these folks do not like talking to high-pressured sales people and the rest erroneously believe that CalSTRS will take care of all their retirement needs. However, you can perform an exemplary service for all employees by informing the employees that hand holding is expensive. CalSTRS may not be enough, and that there are no free lunches with any 403(b) plan. Having said that, if an employee says that they need hand holding and will pay for it, then it is none of our business.

My attachment is an example that could be published on the LAUSDnet website, the annual LAUSD Benefits handbook and mailed out to every employee. A scaled down version was published in the UT newspaper in the summer of 2000. Board Member, David Tokofsky, Dr. Joe Zeronian, CFO and our 403(b)Aware group rewrote and updated the 403(b) information to the Benefit part of the Employee Handbook, but by the time it got through the system, the same old outdated information was still in place. The LAUSDnet website information is absolutely useless. There is literally a list of companies with no contact information. Add insult to injury, you have a list of companies that are NOT available. What good does that do for us to list companies we cannot use. Amazing! Then, if any of us want more information, you invite employees to contact a financial adviser for further information. What am I missing here? This is wrong. The 403(b) benefit is LAUSD's not some sales person plan. Last I heard, LAUSD is not an employment agency for outside sales people with build-in biases. It's the employees who are paying the fat salaries

of these people. Many employees believe that professional financial advisers or insurance agent services are free because they are being told and I quote “the company pays for my fees, not you.” This quote is not a lie, but it is surely misleading. All companies that are represented by a sales person charges an annual expense ratio and either front or back load commissions. Then, the adviser gets paid by the company. But the damage of financial loss to excess fees of these plans to the educator is complete, the sale is made and the educator unknowingly pays huge fees to the company who in turn pays the adviser. That comment is deliberately misleading and it takes advantage of educators’ strong belief that this nice person is truly looking out for “me.” This belief comes from the reality that we educators are truly concerned about our students and so we erroneously assume the sales person truly looks out for us.

403(b) Activism?

When I first signed up with a 403(b) vendor as a new teacher, I was wondering about free advice myself. Because I previously worked in the private sector, I knew from the start that there are no free lunches. The adviser came out to my house and did not charge me for her time. I found out the hard way when, years later, I wanted to transfer my 403(b) from that horrible annuity she sold me to a mutual fund company that I had to pay a \$6,000 surrender fee. That’s one-way the adviser has been paid and was the reason why I became an activist for 403(b) reform. These are real problems. Financial advisers are looking out for themselves. Educators are being ripped off and NOBODY in LAUSD is doing anything about this. LAUSD has been totally indifferent.

After learning how to manage our own self-directed 403(b) retirement plan without expensive advisers, the absolute bottom line in this entire discussion is that my partner and I have considerable assets and will have a comfortable retirement. The current system leaves out 70% of educators with no plan to supplement CalSTRS and the majority of the 30% who do participate in 403(b) plans are expensive where much of their retirement savings will be eaten away by fees, commissions and expenses. Articles and books have been written about this problem.

The problem can be safely avoided.

The Truth About TIAA CREF

Fortunately, insurance companies are getting sued left and right because advisers neglect to tell clients of this fee. Our 403(b) aware group shows teachers how advisers are paid and to avoid annuities from large insurance companies. For the record, there is one good annuity provider in which I participate because it has no surrender fees and extremely low annual expense ratios—TIAA CREF. The status quo advisers/agents will not get a commission by informing employees that TIAA CREF, Fidelity investments, USAA, and the rest of the low fee and no load (no commissions) companies that are available. In fact, the TSA financial advisers loathe TIAA CREF and for good reason, the commission based financial advisers cannot compete. TC is a direct threat to the lucrative commissions that agents and financial advisers have enjoyed for years. Remember, the insurance industry has kept out competition for the 403(b) market for 30 years and are extremely comfortable and protective of their lucrative commissions.

How the Financial Management Profession Makes Money Off YOU!

I cannot underestimate how the financial management profession makes money. By comparison, all other professions charge a onetime fee and you're done. You go to the doctor, attorney or a tax preparer, the client is charged a certain agree amount. Not so in the financial management profession. If you are not careful, a financial adviser for your 403(b) will take a little bit of your 403(b) contributions for as long as you stay in their plan. Many times the educator never sees their financial adviser/insurance agent again in their entire careers! But a small portion of the educator's hard earned money slowly leaks into the adviser's bank account, year after year.

Years ago, a 403(b) consultant from KPMG who cleaned up the Chicago Public schools' 403(b) program, said to a Los Angeles Times conference audience that the investment management profession is "the most lucrative highest paid profession in the world" at a 403(b) panel meeting at the 1999 L.A. Times Investment Strategies Conference. Just think about getting 3, 4, or 5% of someone else's money multiplied

over several hundred employees (One agent recently told me that he had 350 LAUSD clients), you get an idea how the current system works. It is clearly for the benefit of the professional sales force who permeate this district at the direct expense of the employees' best interests.

How 2% Fees Add Up Over Long Periods of Time

Lets compare fees with a simple calculator. TIAA CREF charges an annual fee of .36% for the equity index fund. Most large company insurance annuities and loaded mutual fund companies charge 2% or more per year in expense ratios (commissions are added on to the expense ratios). On the surface, some might concur that this difference is inconsequential and immaterial. In the short run, it IS trivial, but lets look at the numbers over long periods of time. Let's not forget that retirement planning is a long-term endeavor. Suppose teacher A puts \$400 a month every month for 20 years in the expensive annuity and teacher B does the same thing only puts her money in TC's equity index. In ten years, teacher A will pay about \$60 per month, every month for ten years paying the higher fee. After twenty years, the difference in expenses is staggering. Teacher A will spend \$150 more than teacher B per month, every month after 20 years of sustained investing (assuming a hypothetical 8% annual performance).

The Alternative to These Fees Is Right Under Our Nose

Fortunately, there is an alternative. Allow me introduce you to TIAA CREF (TC). This institution is the biggest pension non-profit institution in the country with \$250 billion in assets. It is the only not-for-profit institution of all 150 companies on the LAUSD 403(b) vendor list. This institution has a long and colorful history of credibility with our brother and sister educators in the collegiate sector. Their 403(b) plan is simple, diversification of assets with extremely low fees with no commissions and no transfer/surrender charges. They have admirably served over 5000 colleges and universities in the country for almost a hundred years. Instead of welcoming this great institution into our fold, TIAA CREF has been treated as a pariah from the start. LAUSD employees are very lucky to have this great institution because for years they avoided the K12 market for good reason. I am contributing my own

403(b) money into this institution and I recommend TC to anybody who wants to get started with retirement planning. It is the only low cost “safe” annuity.

Instead, what does LAUSD do? It informs employees via this recent announcement of another for-profit insurance company offering pet insurance. We don’t need this district to spend marketing money to inform employees about this nonsense!

Indexing Strategies for LAUSD Employees

TIAA CREF has the Russell 3000 index fund too (Equity Index Fund) and which I am investing my 403(b). Employees need to know this! Since 1976, when legendary investment guru John Bogle, the former CEO of the other nonprofit no-load mutual fund company Vanguard, launched the first index fund, S&P 500 Index, much has been discussed about this approach to safely invest for working folks such as educators who do not have the time to watch the stock market. Index funds offer much more than superior returns. Here’s why: They also provide maximum diversification, no overlap, no style drift, no manager changes, lower turnover, lower expenses, greater simplicity and peace of mind. If it is good for CalSTRS to use the Russell 3000 index as a benchmark, our employees should also know that TIAA CREF has this index at a cost of .36%.

Some Hypocrisy Anybody?

Once again, I ask the Board of Education and district policy makers to think about what I said in this letter. This problem of the 403(b) will not go away. Employees want to know. They are tired of LAUSD turning the entire matter over to sales people. Perhaps, the potential outcry over this current release of the new benefits program will highlight what you have not done in the 403(b) plan. We ask you to now inform the employees about the 403(b) benefit plan. Remember this is your plan and you should be proud of it. You cannot hide from this any longer.

It is hypocritical for you to continue to say on the cover of the Brochure that “LAUSD is pleased to introduce the new Voluntary Benefits Program... a whole new dimension in group insurance” with LAUSD logo written three times and on the back in very small print you state: “Although LAUSD has negotiated group discounts with

Liberty Mutual, Veterinary Pet Insurance, and the ARAG Group, LAUSD is not the plan sponsor of these plans and, therefore, is not responsible for determining final quotes, interpreting contract language, or administering claims." I called Liberty Mutual about the discount negotiated and the rep did not know the answer and instructed me to call you. You know damn well that if I try to complain to you about this plan, you staff is instructed to say to me, "call the company." The days of this district having no position, as you once again claim in the brochure, is over. Therefore, what happens to the "valued employee" who has a problem with this plan? You are implying, "employees, you are on your own." This policy of turning the entire matter over to the sales force has to stop whether its this new plan or the 403(b). Now the ball is in your court, you cannot hide the 403(b) plan any longer. I will be waiting for a 403(b) brochure in my mailbox.

In concluding, if you truly see us as "valued employees" you will immediately inform all employees of the following benefits and information:

1. The negotiated fee reduction of the "Voluntary Benefits Program."
2. LAUSD has a some 403(b) low-cost vendor, but few employees know. Advertise and encourage employees to supplement CalSTRS with the 403(b) plan.
3. The spirit of new state law AB2506
4. MEA has been illuminated
5. Publish the maximums that employees are allowed to tax defer in their 403(b) for tax year 2003: \$12,000 and if over 50 an additional \$1000.
6. Implement a 457(b) plan, which would alleviate many of the problems with 770.3.
7. Publish the enclosed chart (See Table 2, page 73): It includes all companies that are available and delineates costs and fees of the various investment vehicles. Publish it in the website, the annual employee handbook that goes out in November and send out only the 403(b) information as a separate informational brochure calling attention to this fine plan.

Mr. Benefits Administrator: You did the pet lovers a favor in this district by announcing to ALL DISTRICT EMPLOYEES that pet insurance is available; now you can replicate this great announcement with the 403(b) benefit.

Sincerely,

Stephen A. Schullo, PhD
3rd grade teacher
Leo Politi Elementary School
cc: Board of Education (7)
UTLA Officers (7)
Superintendent
Manager of Benefits Administration
Chief Financial Officer
Chief Operating Officer
Business Manager
LA Times
Daily News
Wall Street Journal
Dallas Morning News

Appendix K

Fiduciary Oath

National Association of Personal Financial Advisors

The advisor shall exercise his/her best efforts to act in good faith and in the best interests of the client.

The advisor shall provide written disclosure to the client prior to the engagement of the advisor, and thereafter throughout the term of the engagement, of any conflicts of interest, which will or reasonably may compromise the impartiality or independence of the advisor.

The advisor, or any party in which the advisor has a financial interest, does not receive any compensation or other remuneration that is contingent on any client's purchase or sale of a financial product.

The advisor does not receive a fee or other compensation from another party based on the referral of a client or the client's business.

Following the NAPFA Fiduciary Oath means I shall:

- Always act in good faith and with candor.
- Be proactive in disclosing any conflicts of interest that may impact a client.
- Not accept any referral fees or compensation contingent upon the purchase or sale of a financial product.

Signed this ____ of _____

NAPFA-Registered Financial Advisor

CODE OF ETHICS

Objectivity: NAPFA members strive to be as unbiased as possible in providing advice to clients, and NAPFA members practice on a Fee-Only basis.

Confidentiality: NAPFA members shall keep all client data

private, unless authorization is received from the client to share it. NAPFA members shall treat all documents with care and take care when disposing of them. Relations with clients shall be kept private.

Competence: NAPFA members shall strive to maintain a high level of knowledge and ability. Members shall attain continuing education at least at the minimum level required by NAPFA. Members shall not provide advice in areas where they are not capable.

Fairness & Suitability: Dealings and recommendation with clients will always be in the client's best interests. NAPFA members put their clients first.

Integrity & Honesty: NAPFA members will endeavor to always take the high road and to be ever mindful of the potential for misunderstanding that can accrue in normal human interactions. NAPFA members will be diligent to keep actions and reactions so far aboveboard that a thinking client or other professional would not doubt intentions. In all actions, NAPFA members should be mindful that in addition to serving our clients, we are about the business of building a profession, and our actions should reflect this.

Regulatory Compliance: NAPFA members will strive to maintain conformity with legal regulations.

Full Disclosure: NAPFA members shall fully describe method of compensation and potential conflicts of interest to clients and also specify the total cost of investments.

Professionalism: NAPFA members shall conduct themselves in a way that would be a credit to NAPFA at all times. NAPFA membership involves integrity, honest treatment of clients, and treating people with respect.

MISSION

To promote the public interest by advancing the financial planning profession and supporting our members consistent with our core values.

Appendix L

[Note: This letter I wrote to each elected member of the LAUSD Board of Education. I heard that LAUSD was going to launch a new program and we didn't know any details. Thus, I wrote the following letter provide a head ups about this proposal.]

February 25, 2006

LAUSD Board Member:

During the summer of 2004, LAUSD staff began talking publicly, for the first time in history, about enhancing the 403(b) administrative platform and the introducing a new 457(b) pretax retirement savings benefit plan. Both plans will enhance this potentially powerful benefit by allowing employees to significantly supplement their CalSTRS pension plan (Defined Benefit) by voluntarily building a nest egg while deferring taxes (Defined Contribution). With the combined 457(b) and the 403(b) plans, employees can tax defer up to \$30,000 per year. Our 403(b)Aware group, the unofficial watch dog of this little known benefit, listened with interest about staff's 403(b)/457(b) presentations to the Audit, Business and Technology Committee (ABT).

LAUSD benefits department will present again to the ABT committee on Thursday, May 18, 2006 and the full board on May 23, 2006. We again encourage and welcome the ABT committee and the full Board of Education to adopt these plans. It's been done in our sister educational institutions in recent years. For your information, the following institutions did it right:

1. Los Angeles County Office of Education (2003)
2. San Francisco Community College District
3. University of Southern California (2002)
4. San Bernardino County Superintendent of Schools (2002)
5. California Institute of Technology (2002)
6. Los Angeles Community College District (2004)

Unfortunately, that type of plan will not be proposed by staff. Thus, there are three reasons for writing this letter:

- A. this issue is too imperative to be entirely left to the staff and the financial professionals with little or no understanding by you.
- B. to help understand these plans from a consumer point of view so that you can subsequently make an informed decision that would look out for the best interests of LAUSD employees.
- C. to draw attention to the foremost implications of the benefits administrator's presentation so that you can ask questions that directly relate to the best interest of employees.

403(b) Aware Group

403(b) Aware is made up of a small group of employees and retirees of LAUSD and current active participants of 403(b). Of all the benefit plans that LAUSD offers, the tax deferred retirement saving plans are the least understood and least discussed. The vast majority of our district employees find the 403(b) totally mysterious. While there exists several historical reasons for this bizarre system, 403(b) Aware was started by district employees to self educate ourselves about these plans. Our self education removed the mystery and shed light on what turns out to be a powerful and lucrative benefit. Our mission statement is to encourage our fellow employees through our informational meetings to educate themselves by avoiding high priced annuity TSAs and custodial accounts with loaded (commissions charged) mutual fund companies. We encourage our colleagues to learn about the low cost options (no load, low cost vendors). NONE of us represent any of the 403(b) vendors on the LAUSD list. This letter represents our collective thinking about what this district should do to best meet employees' interests.

LAUSD's 403(b) Defined Contribution Pretax Savings Plan

- 30,000 LAUSD employees are actively participating in the 403(b) plan.
- \$115,000,000 a year from employees' wages is tax deferred into TSAs/403(b) vendors. Most are invested or saved with high priced and inappropriate annuities

- (TSA) sold by insurance companies.
- Current 403(b) information provided via the Benefits Handbook, LAUSD's website and the Deduction Unit is inadequate at best and useless at worst. Call the deduction unit and ask what is available and even a board member will not get an answer.
 - Monitoring by LAUSD staff of the current TSA sales force is non existent. The employees have no one to turn to for objective information, to get questions answered and to have complaints addressed. It's an obsolete system regulated by evasive thinking based on archaic LAUSD policies. While this "policy" is bad enough, what is worse is that this legitimate and potentially powerful benefit has never been discussed publicly to ascertain logical and reasonable modification that best meet employees' interests (The sole exception are the two presentations in 2004 but the plan at that time was subsequently dropped with no explanation).
 - The best example of this archaic "policy" is LAUSD's non—response to the launch of CalSTRS' *403bCompare.com* website a year and half ago. The district has never publicized this magnificent award winning website. It provides objective 403(b) product information of the vendors on the LAUSD 403(b) vendor list. This information is available for California employees of local school districts, community college districts and county offices of education. In the process of designing and launching this website, CalSTRS had several meetings in Southern California with LAUSD staff and 403(b) Aware members. The *403bCompare.com* administrators asked all districts to publicize the website to their employees. LAUSD staff repeatedly ignored CalSTRS request. This is worrisome. We are now asked, through your observations as a board member, to suddenly trust that the information presented to you is complete and has the best interest of employees in mind. The evidence is that LAUSD staff would not lift a finger to publicize CalSTRS's wonderful website and the benefit to our employees. Hello! What am I

missing here? The lack of attention by LAUSD staff to anything associated with 403(b) speaks volumes about the inadequacies and informational gaps.

Presentation on May 18 and May 23, 2006:

Observations to Ponder/Questions to Ask

1. Do not rush into this. The topics of 403(b) have been rarely discussed at any board meeting. You may experience an unfamiliar language with technical and legal jargon, requiring a 'professional' to explain. No problem, that's our staff's job. However, from a consumer's point of view, you do not need to be an attorney to familiarize yourself with these plans. This topic should not take any more time that it takes for you to study complicated issues such as instruction, building schools and the myriad topics that come before you at board meetings. By comparison, 403(b) and 457(b) plans are quite simple. But the implications of this new learning will result in a major difference in what you approve for the hard working employees of our district. We are concerned that you may inadvertently approve the plan, as presented by the benefits administrator, without asking the questions in this letter and implementing a review system that includes employees. Too often school districts relinquish their responsibilities to vendors. This "inaction" costs our employees plenty. Our employees deserve a knowledgeable board, knowing the difference between a plan that either takes our employees to the cleaners or offers a low cost and a simple to understand plan. This request is not rocket science, is not new and fortunately, the work has been done repeatedly for decades with thousands of other employer sponsored retirement plans.
2. Follow the money via the COSTS (Fees, commissions, expense ratios, loads) of the plan. Knowledgeable investors have sometimes painfully learned that costs are the primary factor that drains a nest egg over long periods of time. There are many studies that support this assertion. Costs will be disregarded if nobody bothers to ask or will be cleverly

trivialized and rationalized when asked. Financial professionals often take advantage of people's fears by signing them on to "safe" investments with "guarantees." The problem is that many of these products come with excessive fees and commissions. Oh sure, your nest egg will not lose money, but over many years, your savings may not beat inflation because of the excess costs. When you learn about costs of a plan, you will learn the next important feature is to control market risk by implementing an asset allocation across different classes of investments (stocks, bonds, cash, international and REITS (Real Estate Investment Trusts). Diversification is easy to learn and can be set up for your own plan. A high profile role model is our very own CalSTRS. All major pension plans use similar asset allocation and diversification methods.

3. Be aware of "red flag" comments such as "There will be no costs to the general fund of the district." This is merely a selling point for your approval. In reality, somebody has to pay for the administration. If the district is not paying for it, who is? Please don't believe the oldest sale pitch given to unsuspecting educators for generations: "My commission is paid for by the company not you." Our hunch is that it will be the employees who will be paying the cost. Fine. If we are paying, what is the explicit cost? We deserve to know this. Press hard for the actual cost, not a general vague answer or "we will tell you at the next board meeting" or "we are still negotiating this." COME ON! Staff can provide an estimate. You should hear something like 2% or 3% or more of each employee's account. FYI, 2% or more per year per participant is a rip-off and should be rejected immediately. Because of the size of this district, you must demand reduced fees. **Less than 1% with no sales commissions, no hidden fee structure, no sub account expenses from another contract company in variable annuities and no transaction costs.** For example, one percent of \$115,000,000 is \$1.15 million per year that could go to the administration of the plan. This is still expensive

and I think as board members you can demand a **TOTAL cost to employees** of less than 1.0%.

The Questionable Relationship of Liability and Costs

Staff will, no doubt, speak to you about liability. When this topic comes up, think about that simple fact that LAUSD is under no greater liability risks than IBM, Microsoft, LACOE, USC, County, City or State governments or other large employers who sponsor similar retirement plans. Do not believe the seductive rhetoric that liability is more risky with LAUSD than other institutions. It isn't and never was; it is a red herring meant to rationalize a high cost plan over a low cost plan. There is little relationship between liability and costs.

Liability and high cost plans are part of a long and sordid history of 403(b) plans with K12 school districts and the main reason why this topic is so secretive. For example, the latest audit of LAUSD's 403(b) by the IRS resulted in an over contribution of a meager \$2,000 by a sample of 900 employees' 403(b) plans. Yet, the people with self-interests other than our hard working LAUSD employees, will scream bloody murder about "protecting the general fund" or "it will take money away from instruction." These claims are preposterous and insulting when you look at these data. Even this minute liability, the limit one can tax defer annually, technically known as the Maximum Exclusion Allowance (MEA), has been eliminated by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). As a result of EGTRRA, two low cost vendors signed the district's hold harmless agreement and are now available. The point is that low costs plans have the same liability protection as high cost plans. Please do not believe anything I say, I implore you to ask Los Angeles County Office of Education, Los Angeles Community College District and others on the list above if they have enough liability coverage. Enough said.

More Questions to Ask

4. Ask about contracting a single Third Party Administrator (TPA) that will administer the two plans. As I have read the RFP, it looks as though the same TPA will administer both plans. Combining the new 457(b)

with the current 403(b) may run into legal entanglements. For example, will one plan pay for the other? Will the district relinquish all responsibility to the TPA? Is so, why?

5. Has staff asked the employees what they think and want? To be fair, a 403(b) survey has been distributed these past few weeks. There is good news and bad news about this development. The good news is that it was done for the first time in history, but the bad news is that I do not think they were serious about the feedback for three reasons: 1. the survey was probably too late to have any major effect on the final arrangement, 2. no public announcements have been made to alert employees to fill out the mailed survey even after repeated requests suggesting to the staff that they place a simple announcement on LAUSD.net, and 3. employees had to put their own postage on the return envelope. This is hardly the approach that would encourage participation. This survey attempt begs these questions: Why wasn't this survey conducted earlier? What wasn't this survey conducted on the web for immediate data collecting? Why wasn't the survey publicized? Will the data collected be published?
6. Who are the investment management consultants that LAUSD sought for advice? How were their fees paid? Did LAUSD bother to ask our neighbor districts how they did it?
7. As previously mentioned, *www.403bCompare.com* offers 403(b) product information to all California K12 employees. Is the benefits department considering this FREE option in the financial educational workshop plan? Did they consult the 403(b)compare administrators? If not, why not? Why did staff ignore CalSTRS's request to publicize this website to our employees?
8. Finally, accountability is the heart and soul of our concerns: Which LAUSD staff member(s) will be actively monitoring the performance and service behavior of the vendor reps (financial education seminars, individual information and service given

to employees for retirement planning)? Which office can employees file a complaint? Will the people that handle complaints be district employees or vendor employees? Did you ask UTLA if they could assist in any capacity? If this plan does not work out as expected, will there be a “sunset clause?” Please, PLEASE do not repeat the serious mistakes of the current 403(b) system by turning the entire matter over to the vendors, professionals and the sales force without any accountability. This current policy is terrible for all district employees.

Summary

What the Benefits Department is trying to do, conceptually, is great. We welcome restructuring the 403(b), organizing informational workshops for new and veteran educators and adopting the 457(b). Most importantly, we like the publicity and open debate. It is long overdue. However, please keep the method of modifying this benefit in mind—concept to final product. The staff will propose a very good concept, but we all must question the final product and the costs. Why? It’s quite simple: As long as the benefits administration is going through all of this work, it doesn’t make any sense what-so-ever to approve the same old expensive system with no vendor accountability that will be subsequently bought and paid for by the hard working employees of this district. The best evidence that an expensive plan is in our future is that the method primarily used by staff has been conducted in secrecy. Secrecy is a red flag.

An expensive plan will be adopted unless you do your job and be temporary financial advocates and ask for transparency of fees and demand low costs. Without explicit answers to these questions, it suspiciously looks like a deal that may not in the best interests of LAUSD’s employees. Let’s do it right this time by following the tax deferred retirement saving plans already established and working at LACOE, SFCCD, LACCD and 5000 other educational institutions. Those districts can and should be proud of their plans that “look out for the greater good” of their employees. You have an opportunity and the responsibility to also do the right thing. I hope this letter helps you

appreciate that the LAUSD board of education can make history, as the second largest K12 employer, by adopting a low cost plan. Since the employees will ultimately pay for this plan, as we should, we deserve this from you.

Sincerely,

Stephen A. Schullo, PhD
Coordinator, Alta Loma Elementary School

Enclosures
CC
Board Members
UTLA Officers

Appendix M

[Note: I had just served on the "403(b) for Public Workers" panel at the L. A. Times Investing Strategies Conference and met main stream media people. Below is a letter I wrote to Sue Herera asking for more publicity of the beleaguered 403(b) on their morning CNBC show.]

May 24, 1999

Sue Herera
CNBC News Anchor
2200 Fletcher Ave.
Fort Lee, NJ 07024

Dear Ms. Herera,

It was my pleasure chatting with you in Los Angeles last weekend at the investment conference. This letter and supporting materials are a reminder and information of my request that CNBC should discuss 403(b) retirement plans. 403(b) retirement plans get little press and there are problems with meager choices with school district employees. The enclosed documents detail the problem.

The LA Times has been terrific in addressing this problem. Kathy Kristof not only featured my quest to expand options with the Los Angeles Unified School District, she recommended me for the Retirement Plan Issues for Public Employees panel at the Investment Conference. Tom Petrino asked me for recommendations for other panelists and thanked me for the terrific fellow from Chicago who cleaned up the Chicago Public schools. I am hoping we can get him to do the same in LA.

My partner and I really enjoy all of you at CNBC, especially Kathy, Joe, Mark, and David every morning before we go to work. We do not see you as much because you come on later. L Anyway, all of you seem to be one happy family and doing an excellent job.

Thanks for all the hard work trying to make sense of the ever expanding and changing economic and financial world.

Sincerely,

Stephen A. Schullo, Ph.D.
Computer Lab Teacher and Technology Coordinator
Los Angeles Unified School District

Appendix N

[Note: This is an open letter I wrote to the CTA's president asking that CTA to endorse Pension2, start a formal 403(b)/457(b) committee and start financial education workshops. I have heard rumors that CTA was going to launch their own 403(b) product and wanted to do my part to dissuade them.

Update 2014: CTA has begun offering excellent financial workshops. CTA never endorsed CalSTRS pension2. In fact, rumors were leaked trashing Pension2! CTA reported to their retirement committee that they were launching their own 403(b) product. No other details except that their product was on 403bcompare.com for a while and then taken down. There are only rumors about what they are up to and not worth reporting. But the silence speaks volumes!]

April 8, 2010

David A. Sanchez, President
California Teachers Association
1705 Murchison Dr. P.O. Box 921
Burlingame, CA 94011-0921

Dear Mr. Sanchez:

I am writing this letter out of concern that 75% of California teachers are missing out on the tax deferred retirement savings plan, the 403(b)/457(b). I am a recently retired teacher from Los Angeles Unified School District (LAUSD) and former United Teachers Los Angeles (UTLA) Chapter Chair, House of Reps member, 2001 UTLA's "Unsung Hero" Award recipient for my advocacy on 403(b) awareness. I am currently the Alternate Chair of LAUSD's Defined Contributions 403(b)/457(b) Advisory Committee. I cannot emphasize enough how powerful the 403(b) benefit has been for me personally. While the 403(b) remains persistently mystifying to my colleagues, throughout my 24 year teaching career, it has lowered my income taxes, helped me live within my means and retire early. It currently augments my CalSTRS retirement benefit.

What more could I ask of this benefit? Why more of my colleagues don't participate and reap these superb benefits is perplexing. Yet, those that do, most contribute to costly tax shelter annuity products or commission laden mutual funds. I have three suggestions that would enhance CTA's relationship with members by reaching out to teachers to inform them about this benefit. You wrote important points about retirement planning when you wrote on your cover letter: *"I recall the difficulty I had in making investment choices for my own plan. But it doesn't have to be overwhelming."* That's why I am writing to you, Mr. President.

CTA Has An Excellent Start, But...

Talk about the economy and finances in today's world! Nobody has to tell you that some teachers are financially hurting, while others are worried sick about their jobs, and still others wonder about their benefits and their future. Despite these dreadful economic times, affecting all Californians, I want to discuss this one benefit that is available to all teachers—403(b) and the new 457(b). CTA could make a direct impact on members by offering personal financial workshops by partnering with a trustworthy organization that empowers teachers to save and invest. This may sound surprising, but CTA has already started with two impressive 403(b)/457(b) resources already available—the *ctainvest.org* website and the downloadable PDF file *California Education Guide to 403(b) and 457(b) plans* **with your excellent cover letter, Mr. President!** Congratulations CTA, you have done your homework. With the information provided on the *ctainvest.org* website and your leadership, CTA has created a blueprint for this type of workshop and can begin offering face to face presentations immediately. The content of these materials is rock solid and free of conflicts of interest. This information would go a long way to educating and protecting our members' best interests, helping them through these tough economic times.

I Propose these Three Steps for Implementation

- 1. Personalize CTA's excellent financial planning website by offering many face to face small and large group workshops**

CTA should support and inform what you have already created. Having both the *ctainvest* website

and the brochure available on the CTA website is great, especially with the webinars, but it needs a “personal” touch and guidance that CTA members expect. Members need explanation and elaboration of the basic investment concepts: asset allocation, diversification, impact of costs, thinking long term, differences between a sales pitch and objective information, how to get started and how to get out of a Tax Shelter Annuity product are but a few topics. Los Angeles Community College Guide offers a full day conference which includes large group 403(b)/457(b) workshops. CTA could present in very large group settings and have small group breakout sessions. Teachers can get their questions answered and the basic investment concepts clarified. Investment basics are not rocket science and we are not earning an MBA. Our teachers can learn this stuff, from a consumer’s point of view, just what the two case study teachers learned that CTA featured on the website.

Face-to-face workshops will also address the “technology challenged” teachers. Trust me on this, I was a technology coordinator for 2 elementary schools and one middle school. But the good news is that CTA already has the content and multiple “lesson plans” for all age levels including money management during retirement. All you have to do is provide direct instruction using the *ctainvest.org* website as a lesson plan and the brochure as handouts. The hard work of content organization has already been done! Which leads me to my next point.

2. Inform members about CalSTRS Pension2 403(b) Immediately

First, I want to also congratulate CTA presenting *403bcompare.com* and comparing a high priced annuity with CalSTRS Pension2, 403(b) costs. CTA does recognize that there is a product out there that gets it with low fees and should be the standard by which teachers make their investment selections. But as I mentioned with your website, CTA does not go far enough.

CalSTRS Pension2 403(b) is a trusted partner

It is a good start to instruct teachers the generics of personal finance. But they also need to know the specifics of a low cost 403(b), otherwise members will not start to save. I agree that CTA wants to stay clear of direct endorsement or recommendation for a particular 403(b)/457(b) plan for liability implications. UTLA ceased endorsing 403(b) vendors for similar reasons. But CalSTRS Pension2 403(b) is different from all other 403(b)s offered in the marketplace. Pension2 403(b) is offered by CalSTRS which I don't have to tell you is a **public** pension plan. In contrast, the typical 403(b) vendors available for teachers at school districts are from the **private** sector—selling costly, inappropriate and complicated annuities and loaded (commissions) mutual funds (FYI, the Securities and Exchange Commission released a report stating that annuities were costly, redundant and inappropriate in 403(b) plans, June, 2000). The private sector 403(b)s has a profit motive whereas CalSTRS Pension2 does not. There is nothing wrong with the profit motive except that more of our members' hard working money will be slowly siphoned away. California teachers should know this fundamental distinction and let them decide.

UTLA has asked the CalSTRS Pension2 staff to lead financial workshops at no violation of its non endorsement policy. The infrastructure, the due diligence and the fiduciary responsibility are held by CalSTRS. My strongest point, however, is this important fact: CTA has two of their endorsed CalSTRS Board Candidates that won their election to the CalSTRS Retirement Board. The CalSTRS' board with CTA's two selected members is also responsible for Pension2! Is there still a good reason why CTA cannot partner with Pension2 staff and ask them to lead financial workshops? Is the due diligence still not high enough? Is the fiduciary responsibility that rests with the Board not strong enough to protect CTA? Personally, I don't get CTA's silence. It is a mystery to those of us who follow this issue, why

CTA has not, at the very least, informed the members that CalSTRS Pension2 is a low cost 403(b) alternative a lot more aggressively. BTW, Pension2 403(b) is available to ALL teachers in California! Teachers need help now and Pension2 staff is ready to respond with a statewide program.

Yes, this IS urgent!

This quote is taken from American Federation of Teachers (AFT) seminal article on the 403(b) problems that epitomize the current 403(b) private sector system perfectly: *"Teachers, college professors and other education workers are being threatened by sharks--but not the kind that swim in the sea! These equally dangerous predators are 'land sharks' who prey on unsuspecting or uneducated investors and devour their hard-earned retirement money. It's time we put a stop to them"* (Written by Don Kuehn in "Shark Attack" AFT, May-June, 2000). Did you notice the date of publication? TEN YEARS AGO! And the practice continues and nobody is stopping it. You could CTA, right now. The members will be forever grateful that they have a wonderful union that protects their financial interests. Everyday CTA waits to take action, unsuspecting teachers are locked into multiyear high cost annuity contracts that can exceed ten years or more! I know this for a fact; I read the 403(b) reports from our TPA at LAUSD 457(b)/403(b) Advisory Committee meetings. By the hundreds, they are signing up with the insurance annuities or costly commissioned mutual funds!

I have bulleted 4 additional positive points:

- Pension2 is a logical plan to replace the more expensive 403(b)s and 457(b) options. Besides a less costly option, Pension2 is transparent in costs, commission free, does not use annuities and easy to understand.
- Pension2 plan has the existing administration track record of managing the accounts, reporting to clients, handling individual questions and complying with current IRS regulations.
- Pension2 has existing staff to inform and train teachers on how the plan will lead to a retirement

whereby the benefits go to them instead of the sales force.

- **MOST IMPORTANT: All California teachers have the low cost CalSTRS Pension2 403(b) available NOW!**

CTA does not have to look any further for a **trusted partner** than the one right next door. Why would CTA want to go through all of that work, due diligence and years of oversight and fiduciary responsibility to set up and run your own 403(b)/457(b)? (*Unions' Advice is Failing Teachers*, L.A. Times, April 25, 2006).

3. Begin an organized conversation of the tax deferred retirement voluntary plans as you currently do with the other benefit plans: CalSTRS Retirement Benefit, health, vision, and dental plans.

The persistent omission of any discussion, debate and policy in the current organized benefit committees has been a mystery. The long standing argument by union leaders that warn "our union cannot recommend or disseminate financial information because of liability" is more about "fear of the unknown" than anything else. What is really libelous with starting an ongoing 403(b)/457(b) conversation between the CTA reps already dedicated to CalSTRS, initiating a conversion with CalSTRS Pension2 staff and with CTA members? What is libelous about CTA Retirement Committee at State Council including a Pension2 staff as a featured speaker? At this meeting, either a CalSTRS Board member or one of the CalSTRS executive staff are frequent speakers. Why hasn't Pension2 staff been a featured speaker? CTA has so many conferences, trainings and workshops that you could include, at least, one retirement planning workshop at most or all of these conferences. What is libelous about offering face to face workshops with the materials that you already give away from your website? I am confident that CTA will begin the three steps that I have proposed in this letter immediately.

Two Educators Went from “Rags to Riches” Using the 403(b)

Three decades ago, my companion, Dan, also an educator and I started our life together in our late twenties with NOTHING but a couple of aging Volkswagens and a few hundred dollars in the bank. We were NOT from wealthy parents. Our background is similar to majority of our students’ families, i.e., my mother was an Italian immigrant with an 8th grade education and my father was functionally illiterate. The point is that little did we know that the few hundred dollars a month contributed to our 403(b) for years with contribution increases with each salary increase would add up! Referring to your 403(b)/457(b) Investment Guide when CTA quote’s Albert Einstein famous dictum, *“compound interest is the most powerful force in the universe.”* It is NOT how much you make, it’s what teachers do with what you make that has always counted. These concepts are simple, yet most teachers are missing out! Our combined 403(b) manifested into a financially comfortable retirement far beyond our wildest expectations (All on educators’ salary, BTW).

In summary, I have a vision that someday the California unions will understand the full impact of this still mysterious 403(b) and the newer 457(b). The unions will put their energy behind this wonderful benefit by informing the members with unbiased information and partner with CalSTRS Pension2 403(b). Fortunately, both UTLA and CTA are on the right track, but need to take action. Armed with objective information and a little know how, the defined contribution tax deferred retirement savings plans are worth getting excited about. But what is more exciting is a fully funded comfortable retirement, that’s also a fact!

Sincerely and in unity,

Stephen A. Schullo, PhD.
Retired LAUSD Teacher

cc

CTA Executive Officers

Vice President

Secretary-Treasurer

Executive Director

CTA Board of Directors

CalSTRS Retirement Board Members

Appendix 0

[Note: This is an email discussion when "Jim" a financial adviser who took exception to my post to another financial adviser on the 403(b)wise message forum.]

Steve,

I read your response to Eric on the 403(b)Wise message board about your bad experience with financial advisors. I am in the financial services industry. I do not do much work with 403(b)'s however.

You were most likely dealing with product salespeople, not true professional advisors. Please don't let this get in the way of the reality that many individuals, educators included, need assistance with their finances.

You indicate that no advisor can predict the future. True. Good advisors don't proclaim to have a crystal ball. Much of the benefit of using an advisor is not investment performance based. The markets control that. However, there has been ample research that individuals who use advisors to achieve better mutual fund returns because they don't switch back and forth as often as individuals that don't use an advisor.

Advisors provide a benefit in coordination of all financial decisions and "hand holding". You yourself indicate that many educators are naive. I prefer to state that many individuals either don't have the interest, time, or comprehensive knowledge to perform all aspects of their financial planning.

Using financial advisors does cost money. As with anything, if you don't have the ability AND desire to "do it yourself" then you must pay. Price is only an issue in the absence of value. You didn't receive value and stopped paying the price.

That's fine, but your statement that "403(b) sites are ruled by our teachers and we are the best to help other teachers get financially educated." That seems to be a bit arrogant.

403(b) sites should not be "ruled" by anybody. Financial services professionals have a lot to offer to the debate and discussion. The "best" situation is for all interested parties to be able to participate comfortably.

Your comments don't encourage such participation.

I did not post my comments on the board because I think my comments are more appropriate as personal correspondence. I hope that my comments are helpful and that you will reconsider your strong opinions.

Sincerely,
Jim

My response to Jim's private email message:

Jim,
Thank you for allowing me to create a dialog on this very important issue. Below are my responses in bold:

Steve,

I read your response to Eric on the 403(b)Wise message board about your bad experience with financial advisors. I am in the financial services industry. I do not do much work with 403(b)'s however.

You were most likely dealing with product salespeople, not true professional advisors. Please don't let this get in the way of the reality that many individuals, educators included, need assistance with their finances.

(I hear this comment often from professionals that you are a true profession and not an insurance agent and the assistance that you proclaim is really nonexistent. After

the papers are signed what follow up do you do? I know that answer, nothing much.)

You indicate that no advisor can predict the future. True. Good advisors don't proclaim to have a crystal ball. Much of the benefit of using an advisor is not investment performance based. The markets control that. However, there has been ample research that individuals who use advisors to achieve better mutual fund returns because they don't switch back and forth as often as individuals that don't use an advisor.

(I have a research degree and have read that study. It was flawed as it was confounded when they compared investors with advisers to another group of investors who used no-loaded funds with no advisers AND the second group of investors with no advisers jumped around trying to beat the market. Any fool knows the result of that comparison)

Advisors provide a benefit in coordination of all financial decisions and "hand holding". You yourself indicate that many educators are naive. I prefer to state that many individuals either don't have the interest, time, or comprehensive knowledge to perform all aspects of their financial planning.

(As I have asked and will ask again, after the signing, what do you do afterward. What exactly is this "hand holding" that you, the unions and others say over and over? Remember, all we are talking about is a 403(b) account going into a no load mutual fund via payroll deduction.)

Using financial advisors does cost money. As with anything, if you don't have the ability AND desire to "do it yourself" then you must pay. Price is only an issue in the absence of value. You didn't receive value and stopped paying the price.

(The price of using the financial adviser is always hidden and I am not exaggerating. You said that you did not use 403(b) very much, well, this is the sordid story about 403(b) is their hidden fees with teachers thinking the services are FREE!)

That's fine, but your statement that "403(b) sites are ruled by our teachers and we are the best to help other teachers get financial educated." That seems to be a bit arrogant.

(I will maintain this statement as long as you and the annuity agents are promoting the kind of information that hurts educators. When the act is cleaned up and the 403(b) reformed, then we teachers will be satisfied and go about our business. This new medium is the first time financially savvy educators have a dialog with the pros and you folks are not used to this frank discussion. You are accustomed to hundreds of my colleagues just saying yes and signing on the dotted line and never seeing them again. You are not used to financially savvy teachers asking questions about costs with not liking your products. Thus, we have to take it on ourselves to help educate our colleagues *our way*.)

403(b) sites should not be "ruled" by anybody. Financial services professionals have a lot to offer to the debate and discussion. The "best" situation is for all interested parties to be able to participate comfortably.

(I agree. When anybody, pros and other educators alike, promote annuities or the status quo of districts allowing outrageous hold harmless agreements that keep out no load mutual fund companies, we will speak up and say no! Lets talk and debate, it may uncomfortable, but lets get the facts straight. Let's inform people of the horrible annuities, hold harmless agreements. They are very divisive issues in 403(b) forums. We have been fighting for years to educate our educator colleagues and reform 403(b). After all, educators did not create this mess and it has been my experience so far that only educators will end up cleaning it up. It will not the pros, not the districts, not the unions, but us educators. If you do not do it, then we have to do it OUR WAY)

Your comments don't encourage such participation.

(I beg to differ here. I love debating the pros publicly. I

welcome this dialog, but *you* decided to send this message privately. WHY? I think it should be in the open, but you decided to keep this private.... so you are the one who is not encouraging this dialog. Please copy this entire message and put it on the 403(b)wise.com. I give you my permission as long as it is complete with your statements).

I did not post my comments on the board because I think my comments are more appropriate as personal correspondence. I hope that my comments are helpful and that you will reconsider your strong opinions.

Sincerely,

Jim

(I consider what you said here as an affront to all the hard working educators and to chastise us how we communicate to our colleagues about 403(b). This is typical of an adviser who thinks they know it all and wants to intimidate educators who know something about personal finance. 403(b) is a big problem and I suggest you study the 403(b) mess and perhaps you will see that my "strong opinions" are based on facts. Let's work together. Read the July 10 issue of US News and World Report that has an article on 403(b)s problems by Paul Lim). Also visit the Morningstar.com 403(b) forum, a forum that I initiated morningstar to create last December.)

Sincerely,

Steve

Appendix P

[Note: This was my last article published in the union newspaper, United Teachers Los Angeles. I explained investing by using CalSTRS pension plan allocation as an example. I focused on the indexing strategy and which index funds were available that offer broad diversification to construct a portfolio using either or both the 403(b) and the 457(b) offerings]

Looking For Assistance With Your 403(b)/457(b) Retirement Planning?

CalSTRS Investing Model and Passive Investing

By

Steve Schullo

Have you wondered how California State Teachers Retirement System (CalSTRS) can pay retirement benefits several times the amount of Social Security?

The answer is surprisingly uncomplicated. Pension plans generally invest part of their assets in the domestic and International stock markets. The rest of CalSTRS assets are diversified in bonds, real estate and alternative investments (see their holdings at <http://www.calstrs.com>). Their investment strategy is rock solid and based on fundamentals. CalSTRS plans for the long term, diversifies their investments into different asset classes, invests in the stock and bond markets and has low operating costs. Since 1926, stocks have returned about twice as much as bonds and are the one reason why CalSTRS benefit is twice that of Social Security. Social Security is a “pay as you go” plan with no stock market exposure.

We are well advised to follow these established strategies with our 403(b)/457(b) plan. It is interesting to me that educators have been told that stock market investing is too risky. Yet, every LAUSD employee has a portion of their wages deducted and is subsequently invested in stocks

by CalSTRS. If investing in the stock market is safe and routine for CalSTRS, which has the fiduciary responsibility bound by state and federal laws to take care of hundreds of thousands of California educators' retirement plan, my goodness, the investment strategies must be good enough for my little 'ole 403(b)/457(b). It is just plain wrong and hypocritical to sensationalize the risk involved when our money is routinely invested in the stock market.

But how does CalSTRS manage stock market risk? Can I learn from them? How can I choose what's right for me? These are great questions. Let's start from the big picture and narrow it down to your basic choices. First, there are over 5000 publicly traded companies on the New York Stock Exchange, thousands of companies in foreign markets and hundreds of bond market choices. Fortunately, the first task of sorting through this morass of companies both foreign and domestic has already been done. It's a very simple strategy that recently celebrated its 30th birthday last August. The sorting is done through "indexing."

Since 1976, when the first index fund, the now famous Standard and Poors 500 index, was introduced by Vanguard Group under the leadership of John Bogle, the financial world was forever changed. Investing for the ordinary wage earner using the 403(b), 457(b) and the 401(k) (private sector equivalent) became a fixed entity as apple pie in American culture. The advantage of an index is that an expensive team of managers is not necessary. Many research studies have stated that active managers with their talents, education, resources and time cannot competently predict which stocks will do well anyway, so why even try. The result is a low cost, diversified investment that outperforms 80% of the "managed" funds; and I might add, is the principle reason why most financial professionals disdain index funds. The pros argue with convincing charisma that "you don't want to settle for just the averages, you want to beat the averages and here is my plan for you." It's a sales promotion plain and simple; the risk is 100% yours and not the salesperson. You see, the problem is that trying to beat the averages (or benchmarks) is expensive, involves too

much unnecessary market risk and is a drag on your nest egg. But most importantly, it doesn't work because those "hot" mutual funds sooner or later fall out of favor. As an elementary teacher, I think about the analogy of who won the race between the tortoise and the hare. Like the tortoise's simplistic strategy, passive investing strategies work in your favor because of greatly reduced costs, which outperforms the majority of active mutual funds over long periods of time. But the advantage of low costs is only part of the picture. By investing in an index, you are investing in the world economies, not individual companies or risky sectors such as energy or technology and you will never fall below the benchmarks. You can still lose money in the short term, but over long periods of time a diversified portfolio, which is rebalanced periodically is a proven strategy for winners. We are just along for the ride, as the economies of the world develop and grow, so will your portfolio.

The S&P 500 Index includes each of the 500 largest domestic companies. As diverse as the S&P index is, it is risky to invest all of your money in one index. Fortunately, indexing in other parts of the economy has also been done for you. In the last 15 years, indexing has expanded into other asset classes depending on various criteria: size of companies (large, medium and small cap companies), foreign stocks (Asia, South American or European, etc.) or bonds (Short term, Intermediate term, long term and corporate, etc.), companies that focus on real estate, growth potential or "value" (see Morningstar.com for more detailed explanation of asset class terminology).

There are indexes that comprise of several asset classes. For example, the total bond index includes corporate bonds, treasuries, mortgage bonds, short, intermediate and long term durations. The total stock market index comprises all of the large, medium and small cap domestic companies. These two indexes offer investors unique and powerful advantages of simplicity, diversification and extremely low costs. For example, a two fund combination of 50% allocation in the total bond market index and 50% in the total stock market index has been eloquently dubbed the "couch

potato” portfolio by www.scottburns.com, a financial reporter for the Dallas Morning News. We can easily adjust the balance to reflect your risk tolerance level. For example, the risk adverse or an investor near retirement might allocate a larger percentage of your 403(b) money into the total bond market index and less in the total stock market index. As one learns more, one could add a global or international index fund. If you know little to nothing about investing, the couch potato portfolio is an excellent starting point. These valuable tools have been available for years now. With the tremendous amount of information available on the internet, the task of managing your own 403(b)/457(b) with confidence and skill is real. Over many years, the ups and downs will average out and you will end up with a nest egg with more money than if you had a TSA. Nobody can predict exactly which economy will surge and which will pull back. For sure, there are risks involved, that’s why we must be disciplined enough to stick with a plan and think long term. This article on investing is NOT an overnight get rich scheme.

OK, you might think--I know about enough about index investing, diversification in different asset classes and the impact of low costs. I looked into CalSTRS model, I read a book on indexing and read “Teach and Retire Rich by Dan Otter. How do I get started with my 403(b) or my 457(b) plan with LAUSD?

Disclosure: While there are many indexes available, below are the lowest cost indexes available to you through LAUSD’s 403(b) and the 457(b) payroll deduction. This list is to get you started. Because of the lowest costs, this is not an option discussed by most financial advisers or your friends who also get their information from their advisers. All of these funds are not without market risks.

Large Cap Asset Class:

1. 457(b): Vanguard S&P 500 Index (cost: .42%).
2. 403(b): TIAA CREF Equity Index (cost: .32%).
3. 403(b): USAA 500 Index (cost: .18%, commissions/ advisory fees may apply if using an adviser).

Mid Cap and Small Cap Asset Classes:

1. 457(b): Vanguard Extended Market Index (cost: .51%).
2. 403(b): TIAA CREF's Equity Index (cost: .43%).

International/Global Asset Class:

1. 457(b): Vanguard Developed Markets (cost: .57%).
2. 403(b): TIAA CREFs Global Equities (cost: .52%).

Bonds:

1. 457(b): Vanguard's Total Bond Index Fund (Cost .10%).

Note: Do not change your plan by using this information only. This information can change at any time. Always consult with your tax or financial professional first.

For more information, visit:

Dan Otter's website at <http://www.403bwise.com>, Scott Dauenhauer's blog at <http://meridianwealth.com/> or the author's blog <http://latebloomerwealth.com>. These websites are devoted to educators' tax deferred retirement plan topics.

Appendix Q

[Note: Congressman Miller started congressional hearings that in part led up to disclosure of costs in retirement plans. I requested that his committee include 403(b) plans.]

February 19, 2007

Honorable Congressman George Miller
2205 Rayburn House Office Building
Washington, DC 20515

Attn: Michele Varnhagen
Labor Policy Director

Dear Ms.Varnhagen:

Thank you very much for responding to my email regarding the inclusion of the 403(b) and the 457(b) retirement savings plans in the congressional hearings that will be starting soon. Enclosed are documents that explain my advocacy work, testimony given in Sacramento and articles I have written and published on behalf of the tax deferred retirement plan problems.

My activities have been consistent for the past decade. These documents are not about me; it's about a systemic problem that affects millions of educators and other public employees for decades. A chronic and hidden injustice exists to which I and many other educators were deliberately taken advantaged because of my expected lack of knowledge initially with no objective information from my employer, the school district, and my union that would have helped get a broader perspective. Let me be clear, I am a strong union supporter and have been acknowledged by my union on this topic, but almost all teachers' unions have done a terrible job in this area as evidenced by the Los Angeles Times article, *Unions Advice Failing Teachers*.

After a decade of print media attention, the problem of lack of options and hidden fees and the manner to which

the 403(b) products are delivered and sold to teachers continue unabated. Eighty percent of educators are sold the most expensive and inappropriate plans ever created by the financial industry: Tax Sheltered Annuities (TSA). The solutions are relatively straight forward:

1. Teachers unions from the NEA and AFT and their locals need to start educating members about all options, the huge impact of fees over time and to STOP endorsing particular vendors which are almost always include high fee structures and TSA products,

2. Both the districts and the unions need to stop turning the entire matter over to the sales force with no infrastructure for monitoring and oversight, and

3. Public discussion about these plans within the unions and the K12 school districts needs to begin. Currently this secretive "system" is terrible for employees who have no one to turn to for objective information and to get questions answered.

Both Crystal Mendez, the featured teacher pictured on the Los Angeles Times article that is enclosed, and I are willing to testify to the committee. We are both teachers in the Los Angeles Unified School District. We are extremely pleased that you have taken Kathy Kristof's article, "Unions Advice is Failing Teachers" seriously. As you can tell from the enclosed documents, we are ordinary employees with knowledge and experience trying to reform a bad system that for too many years have handicapped employees while giving the financial advantage to the TSA sales force. Our personal stories, from a non financial professional point of view, will be compelling to the committee members.

Please feel free to contact me at my email: sschullo@adelphia.net or call my home phone (323) 223-7257 in case questions arise. Thank you very much for your consideration. I look forward to hearing from you.

Sincerely,

Stephen A. Schullo, Ph.D.
Teacher Adviser
Los Angeles Unified School District

Definition of Terms

12b (1) fee—A type of mutual fund expense in which the fund managers use a portion of your assets to pay for the cost of advertising the fund. This fee is included in the expense table of the fund's prospectus.

401(k) plan—company-sponsored retirement plan in which employees make tax-deferred contributions from their salary, sometimes matched by the employer. Public sector 403(b) and 457(b) plans are rarely matched by the employer.

Accumulation/Distribution Stages—Accumulation stage is the investor working career when they are accumulating (saving and investing) for retirement. Distribution stage is when the investor is retired and taking distributions from his or her retirement nest egg.

Alpha—measures the difference between fund's actual return and its expected return based on the fund's beta and the actual returns of the comparable index. Alpha is often viewed as a measurement of the value added or subtracted by the fund's manager. A positive alpha indicates that the fund performed better than its beta predicted. (See Beta).

Annuities

Fixed annuity: a stream of unchanging payments for a specific period or for an individual's lifetime, depending on the terms of the annuity contract. They are sold by insurance companies to people who desire a fixed income.

Variable Annuity: An annuity with payments to the annuitant that vary depending upon the investment success of a separate investment account underlying the annuity. Because the invested funds are primarily in common stock, this annuity offers greater potential rewards and greater risks than annuities supported by fixed-income securities.

Immediate Annuity: This annuity is a do-it-yourself private pension. At retirement, you can invest a lump sum in an insurance company and it immediately starts paying you a monthly income for the rest of your life.

Equity Indexed Annuity (Now titled: Indexed Annuity): returns are said to be based on the performance of an equity market index, such as the S&P 500 and other equity securities. This product is a fixed annuity and similar to all annuities the contracts are very complicated. The returns are based on the terms of the contract and may have little connection to stock market indexes. The company reserves the right to “adjust” the interested credited to annuitants annually.

Tax Sheltered Annuities (TSA): The oldest product sold to educational institutions for over 50 years. The TSA label became the brand name that overshadowed the IRS code 403(b). TSAs do not provide additional tax deferment already allowed by the IRS.

Asset Allocation—Process of deciding how much of an investor’s money to put into stocks, bonds, real estate, cash or other investments, based on age, goals, time horizon and ability and tolerance to take risk.

Asset Classes—the asset class of indexes and mutual funds are based on Market Capitalization, the relative size of the dollar value of the company. A small cap company that grows to the size of a mid cap company changes asset classes.

Balanced Fund—A mutual fund which buys a combination of stocks, bonds, cash and other investments. It provides investors with a single mutual fund that combines both growth and income objectives.

Benchmark—group of stocks or bonds whose collective performance provides a standard against which to measure the returns of a mutual fund or other investment. Some widely used benchmarks are the Standard & Poor’s 500 stock index, the Dow Jones Industrial Average, the Russell 1000 and 2000 and the Wilshire 5000.

Beta—measures the degree of change in value of a security that can be expected given a change in value in the comparable index or benchmark. A fund with a beta of one (1) indicates that the fund's value will move with the market. A fund with a beta greater than 1.0 is more volatile than its index and beta of less than 1.0 is less volatile than the index. A beta of 1.05 indicates it should perform 5% better than its corresponding index in an up market and conversely, 5% worse in a down market.

Blend/Core Funds—consists of a mix of growth and value stocks. (See growth and value.)

Bogleheads Investment Philosophy—emphasize regular saving, broad diversification, and sticking to one's investment plan regardless of market conditions. Information relevant to the group's core beliefs is available in The Twelve Pillars of Wisdom and Vanguard's Investment Philosophy. Bogleheads approach begins with an investor deciding on percentage allocations to various asset classes, such as U.S. stocks, international stocks, U.S. bonds, etc. The desired allocations are then implemented using low-cost vehicles which are true to the targeted asset classes. Tax costs are carefully considered, influencing decisions as to what investments to place in taxable versus tax-advantaged accounts. Source: Bogleheads Wiki

Bogleheads—a term intended to honor Vanguard founder and investor advocate John Bogle, are investing enthusiasts who participate in the Bogleheads Forum. The forum's regular posters discuss financial news and theory, while also helping less experienced investors develop their long-term goals, a plan with fully diversified portfolios. There are 42,000 registered Bogleheads Forum users who normally make between 500 and 1,000 posts each day and each month millions more check in as "lurkers." Some members also participate in national or local chapter get-togethers and an annual reunion with John Bogle presenting. See reference section for information on two books written by Bogleheads authors. Their best selling book, *Bogleheads Guide to Investing, 2nd Edition* is available. Source: Bogleheads Wiki

Broker-Dealer—A company that trades securities for both its customers and itself and who is registered with the Financial Industry Regulatory Authority (FINRA). An individual who advises investors in stocks, bonds, mutual funds, or other investments and acts as an agent by buying or selling on the investor's behalf. Most brokers charge a commission, or a percentage of each transaction's value, a minority of brokers charge a flat fee or a fee-based on your account balance.

California State's Insurance Code 770.3—The California Insurance Commissioner regulates 403(b) plans under the code 770.3. Currently the code requires all school districts to make available companies who sign the IRS agreements. Two efforts to reform this code to allow for competitive bidding were defeated by the insurance industry in 2002 and in 2011 by the insurance industry again with the help by the state's two largest teachers unions, United Teachers-Los Angeles and California Teachers Association.

Capital Gain—Difference between an investment's original purchase price and the selling price.

Compounding—a mathematical function in which an investment's earnings also have earnings, leading to significant increases in value over time.

Day Trader—a speculator who buys and sells stocks on the basis of small short-term price movements, often reacting quickly to good or bad news about a company or a sector, such as gold.

Defined Benefit Plan—a retirement plan that pays employees a lifetime annuity when they retire. The employee does not manage or control the investments in this plan.

Defined Contribution Plan—a retirement plan offered by employers that allows employees to contribute to the plan, but does not guarantee a predetermined benefit at retirement (as opposed to a defined benefit plan): 401(k), 403(b) and 457(b).

Diversification—reducing stock market risk by investing in

different types of stocks and bonds and different industries, or more simply, not putting “all of your eggs into one basket.”

Dividend—a share of a company’s net profits distributed by the company to a class of its stockholders, usually on a quarterly or annual basis. The dividend is paid in a fixed amount for each share of stock held.

Dollar-cost averaging—Investment of a fixed amount of money at regular monthly intervals or other schedule. This process results in the purchase of extra shares during market downturns and few shares during market upturns. DCA is based on the belief that the market or a particular stock will rise in price over long periods of time.

Emerging Markets—The stock markets of less developed countries that are beginning to develop characteristics of developed countries. Countries usually included are Mexico, China, India, Thailand and Brazil.

Equity—stock, both common and preferred. An investor may prefer to invest in equities instead of in bonds.

ERISA — Employee Retirement Income Security Act of 1974 — the main law that sets standards for private pension plans, including the investment practices allowed.

ERISA 404©: Applies to plans with self-directed investments and allows the plan sponsor and other fiduciaries to avoid liability for participants’ investment direction if the plan meets the requirements of ERISA section 404(c). To comply with ERISA section 404(c), a plan must:

- Offer at least three diversified “core funds” representing a broad range of investment alternatives; each core fund must itself be a diversified portfolio of investments
- Enable participants to switch investments as frequently as “appropriate in light of the market volatility of the investment alternatives”
- Permit transfers of the core funds “quarterly” defined as at least once in any three-month period or more frequently

- Provide participants with certain information on the plan, including costs of each of the investment alternatives
- Must notify all participants of intention to comply the ERISA section 404(c)

With the intent to comply with ERISA section 404 (c), the CFO also recognizes that is still legally responsible in a fiduciary capacity for the selected (and periodic monitoring) of an appropriate menu of plan investment choices available to participants (From LAUSD's Investment Policy Statement).

ERISA Section 3(38) Fiduciary: Section 3(38) is an “investment manager” and by definition is a fiduciary because they take 1) discretion, 2) authority and 3) control of the plan's assets. ERISA provides that a plan sponsor can delegate the significant responsibility (and significant liability) of selecting, monitoring and replacing of investments to the 3(38) investment manager fiduciary. A 3(38) fiduciary can only be (a) a bank, (b) an insurance company, or (c) a registered investment adviser (RIA) subject to the Investment Advisers Act of 1940.

Exchange-traded fund (ETF)—You can trade ETFs on the major stock exchanges anytime during the trading day just like stocks.

Expense Ratio—a mutual fund's annual cost, expressed as a percent of the fund's assets. This fee is disclosed in the fund prospectus.

Fee-only adviser—a financial advisor who charges an hourly rate and/or charges a fee based on the percentage of assets managed.

Fiduciary—is a complex legal issue when overseeing an employer retirement plan. For us consumers, it can be a little simpler. The broadest definition of our interest is in designing a broadly diversified portfolio with low cost funds in which our financial adviser or plan consultant is an individual entrusted with investment decisions on behalf of another. Is legally obligated to make decisions in the client's

best interests. A *nonfiduciary* adviser can select products that pay him or her the highest fees or commissions.

Financial Sales Pitch—to exploit and then alleviate and investors' natural fears of losing money in the stock market, the S&P 500 index, etc. by investing with a "guaranteed" insurance product that may not be in the buyers' best interest.

Ginnie Mae Mutual Fund—A mutual fund that invests exclusively in Ginnie Mae certificates and passes through the interest; payments to owners of the fund's shares.

Global fund—A mutual fund that invests in both United States and foreign securities.

Government National Mortgage Association (GNMA)—A government owned corporation that acquires, packages and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities.

Gross domestic product (GDP)—refers to the market value of all final goods and services produced within a country in a given period. It is often considered an indicator of a country's standard of living.

Growth Stocks—Companies whose earnings are expected to grow faster than average.

Hold Harmless Agreements—An agreement or contract in which one party agrees to hold the other free from the responsibility for any liability or damage that might arise out of the transaction involved.

I Bond—A bond that provides both a fixed rate of return and inflation protected feature. The value of the bond increases by the total of the fixed rate and the inflation feature. The income is tax-deferred until funds are withdrawn. See treasurydirect.org

Index fund—Mutual fund that invests in all or a representative sample of the stocks that make up a benchmark, such as the S&P 500. The fund tries to match the returns of the benchmark.

Individual Retirement Account (IRA)—a retirement account for people with earned income and contribute. Amounts contributed to traditional IRAs, Simple IRA, Simplified Employment Pension Plans (SEP), are usually tax-deferred and are held in the name of the purchaser. See ROTH IRAs.

Inflation—a rise in the general level of prices of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation also reflects erosion in the purchasing power of money – a loss of real value in our investments. A primary measure of price inflation is the annualized percentage change in the Consumer Price Index.

Institutional fund—a mutual fund that is not available to individual investors, unless they meet a high initial investment. Typical clients are pension and profit-sharing plans and endowments.

Interest Rate Risk—the risk that interest rates will rise and reduce the market value of an investment. Long-term fixed-income securities, such as bonds, subject their owners to the greatest amount of interest rate risk. Shorter-term securities, such as treasury bills, are influenced much less by interest rate movements.

International Fund—A mutual fund that invests in non-U.S. securities.

Investment Policy Statement (informally known as a retirement plan or investment plan)—It provides the foundation for all future investment decisions to be made by an investor. It serves as a guidepost, identifies goals and creates a systematic review process. It keeps investors focused on their objectives during short-term swings in the market and provides a baseline from which to monitor investment performance of the overall portfolio. If you are using a financial advisor, an IPS outlines the ground rules of the relationship between you and that advisor. Any proposed changes to your investments must be evaluated and reviewed against your objectives stated in the IPS.

Life Cycle Funds (also called Target-date funds)—A special category of balanced, or asset-allocation, mutual fund in which the proportional asset class allocation in a fund's portfolio is automatically adjusted during the course of the fund's time horizon. The automatic portfolio adjustment proceeds from a position of higher risk to one of lower risk as the investor ages and/or nears retirement. These funds are convenient, but investors need to determine if the asset allocation is right for their risk tolerance.

Liquidity—the ability for investors to get access to invested money quickly. Fixed annuities are considered illiquid because of surrender fees, paperwork and other costs.

Loads—One-time fee charged to investors when they purchase mutual fund shares. Loads are usually assessed by brokers. A front-end load is paid up front and comes out of your initial investment: a back-end load, also called a deferred load, is paid when you take your money out of the fund.

Low Risk Tolerance—puts safety and certainty first.

Market Capitalization—Market Capitalization is based on the number of shares of stock outstanding (owned by investors) multiplied by the price per share of the company. The Market capitalization boundaries are:

Large Cap = over \$10 billion

Mid Cap = \$2.5 – 10 billion

Small Cap = Less than \$2.5 billion

Modern Portfolio Theory—the academic community found the following concepts. First, markets are too efficient (and fast) to allow traders or timers to exploit anomalies (sudden drops in value) in the prices of securities. Active management is therefore counterproductive. Second, asset classes can be expected to achieve, over long periods of time, returns that are commensurate with their level of risk. Third, diversification across asset classes can increase returns and reduce risk. For any given level of risk, a portfolio can be constructed that will produce the highest expected return. Lastly, there is no perfect portfolio for everybody. Each

investor must choose an asset allocation that reflects their ability, time horizon and need to take risk.

Money Market Fund—Type of mutual fund that invests only in short-term instruments, not stocks or most types of bonds. Such instruments include commercial paper, bankers' acceptances and repurchase agreements. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC).

Mortgage-backed securities—bond type securities representing an interest in a pool of mortgages.

Municipal bond—the debt issue of a city, county, state or other political entity. Interest paid by most municipal bonds is exempt from federal income taxes and often from state and local taxes as well. The tax exemption stems from the use to which the funds from a bond issue have been devoted. The tax-exempt interest appeals to high net worth individuals.

Mutual Fund—an investment that allows thousands of investors to pool their money to purchase stocks, bonds or other types of investments, depending on the objectives of the fund. See Sector and Index funds

National Association of Securities Dealers (NASD)—an association of over-the-counter (OTC) brokers and dealers that establishes legal and ethical standards of conduct for its members. NASD was established in 1939 to regulate the over the counter (OTC) market in much the same manner as organized exchanges monitor actions of their members.

Net Asset Value (NAV)—Market value of a mutual fund, minus its liabilities, expressed as a per-share figure. Mutual fund managers sell or redeem shares based on a daily NAV calculation.

New York Stock Exchange (NYSE®)—the trademarked name of the largest and oldest organized securities exchange in the United States. The NYSE, founded in 1792, currently trades about 85% of the nations listed securities. The Dow Jones Industrial Average's stocks are listed on the NYSE.

No-load fund—Mutual fund that does not charge any sales commission or other expense at the beginning or the end of the investment period.

Nominal Returns—Returns that have not been adjusted for the negative impact of inflation.

Panic selling—a flurry of security selling in a particular security or in securities as a whole. Panic selling is accompanied by particularly heavy volume and sharp price declines as owners scramble to sell before prices drop even more. Panic selling is generally set off by an unexpected event viewed by traders as particularly negative. For example, uncertainty surrounding the outbreak of serious hostilities and a cutoff of oil supplies in the Middle East.

Passive Management Strategy—a buy and hold investment strategy, as opposed to an active management strategy. Typically, a passively managed portfolio purchases all securities that fit a desired asset class definition. The amount of each security purchased is in proportion to its capitalization relative to the total capitalization of all securities in that asset class. Each stock is then held until it no longer fits the definition of that asset class.

Plan Document—a legal and required document by the Department of Labor (DOL) will describe the type of plan that an employer is offering, loan provisions, limitations of amounts deferred, distributions a termination of employment, rollovers to the plan and transfers, investment of contributions, plan termination, what an employee must do to become eligible to participate in the plan, and how a participant's money vests in the plan.

PolicyWonks—smart people. They enjoy pontificating endlessly on subjects that most people are more than happy to know that someone else cares about. They have an annoying habit of throwing around arguments, statistics and examples that leave the uninitiated feeling, well...dumb.

Prospectus—a formal written document relating to a security offering that delineates the proposed business plan or the

data relevant to an existing business plan. The information is needed by investors to make educated decisions whether to purchase the security. The prospectus includes financial data, a summary of the firm's business history, a list of its officers, a description of its operations and the mention of any pending litigation and expenses to the purchaser of the security. A prospectus is an abridged version of the firm's registration statement filed with the SEC.

Qualifying Plan—An employer-sponsored tax-deferred employee benefit plan that meets the standards of the Internal Revenue Code of 1954 and that qualifies for favorable tax treatment. Contributions by an employee and employer matches accumulate without being taxed until distribution in an employee's retirement.

Real estate investment trust (REIT)—a company that manages a group of real estate investments.

Rebalancing—the process of reinstating a portfolio to its original asset allocations. Rebalancing can be accomplished either through adding newly invested funds or by selling portions of the best performing asset classes and using the proceeds to purchase additional amounts of the underperforming asset classes.

Registered Investment Advisor (RIA)—A designation representing that financial consultant is registered with the appropriate state regulators and has passed the required exams. According to many professionals, plan fiduciaries and plan participants are best served by an RIA who is appointed as an ERISA §3(38) "investment manager."

Return (also called Yield)—the percentage return on an investment. A given investment can have a variety of yields because of the many methods used to measure yield.

Revenue Sharing—a compensation practice in which money is paid to plan providers out the annual expenses of investments. Revenue sharing is often hidden within the annual operating fund expense ratios.

Risk tolerance (low)—an investor's unwillingness to accept one iota of short-term declines. Prefer to accept significantly less than the average market in so-called "risk-less" investments. Annuities, fixed accounts such as Stable Value and short term bonds in the accumulation stage are frequent products for low risk tolerance investors. These are the folks that may fall prey to annuity sales force. See Risk tolerance (high).

Risk tolerance (high)—the investors' ability and willingness to accept short-term declines in the value of equity (stock funds or indexes) investments without selling and without a worry in anticipation of greater gains to capture average market returns over the long-term. See Risk tolerance (Low).

Rollover—Reinvestment of a distribution from a qualified retirement plan into an IRA or another qualified plan in order to retain its tax-deferred status and avoid taxes and penalties for early withdrawal.

Roth IRA—a tax-favored retirement plan. Contributions are not tax deductible. You pay taxes going into the Roth and that's all. Earnings are tax-free during accumulation and when withdrawn.

R-squared—reflects how closely the fund mirrors the comparable index and therefore reflects the percent of a fund's movement that can be explained by movements in its benchmark index. An index fund is usually 99% or 100% of the comparable index.

Rule of 72—A method of estimating the time it will take for a certain amount of money to double at a given interest rate (72 divided by the interest rate equals roughly the number of years it will take for the money to double).

Russell 2000—the smallest 2000 of the largest 3000 stocks within the Russell index. Normally used as a benchmark for small-cap stocks.

Security—another word for stocks and bonds. See equities.

Sector Fund—A mutual fund that invests in a narrow segment of the market, such as utilities, real estate, technology and health.

Share classes—combinations of front-end loads, back-end loads and 12b-1 fees, by offering several different types of shares. Usually defined by letter, share class A, B, C, D, E, and sometimes F.

Speculation—a financial action that takes above-average risks to achieve above-average returns usually during a short period of time. Speculation involves buying something on the basis of its potential selling price rather than on the basis of its actual value.

Spread—The difference between the price that the dealers pay to buy a stock or bond and the price at which they sell it. Also known as the bid and ask prices.

Standard and Poor's 500 Stock Index (S&P 500)—An inclusive index made up of 500 stock prices including industrials, technology, health care, utilities, transportation and financial.

Standard and Poor's Midcap Index—an index designed to measure price movements of the stock of medium-sized companies. The index comprises market values of the stock of 400 medium-sized companies.

Stock Market "Bubble"—a type of economic bubble taking place in stock markets when market participants drive stock prices above their value in relation to some system of stock valuation. The recent real estate and technology bubbles are examples.

Stock Options—Right for employees buy a defined number of shares in their company at pre-set price, called the grant price, which is usually the market price on the day the option is awarded.

Style Drift—occurs when actively managed mutual funds go outside of their described style. For example, mid-cap fund holds many large-cap company stock because those

former mid cap companies grew to large-cap. They should be sold to keep the fund a mid-cap, but the managers often don't. To do so means giving up gains which investors like, however, investor's portfolio becomes out of balance.

Taxable account—an account in which the securities are subject to annual federal taxes.

Third party administrator (TPA)—is a company that processes certain aspects of employee benefit plans for a sponsoring employer for 401(k), 403(b) or 457(b) plans. This can be viewed as “outsourcing” the administration of the plan, since the TPA is performing a task on behalf of the employer who is ultimately responsible for the plan.

Timing the Market (Market timing)—Attempting to forecast market direction and then investing based on the forecasts. Usually done by individuals who think they can beat the averages.

TIPS (treasury inflation protected security)—similar to an I-Bond. A bond that receives a fixed rate of return, but also increases its principal by the changes in the Consumer Price Index (CPI). Its fixed interest payment is calculated on the inflated principal, which is eventually repaid at maturity.

Trader—professional often employed by a Wall Street firm who buys and sells securities not for long-term investment, but to take advantage of small changes in market prices or to make a profit off the spread.

Treasuries—bonds the federal government issues to finance its debt, Treasury bills mature, or come due, in one year or less. Treasury notes can mature in from one to ten years and Treasury bonds have a maturity of ten years or more.

Turnover rate—The trading volume in a particular stock or mutual fund during a time period, usually one year. For an investment company, the volume of shares traded as a percentage of the number of shares in the company's portfolio. A high turnover rate may indicate excessive trading and commissions.

Turnover—The trading volume of the market or of a particular security.

Value Stocks—buys stocks from companies that are selling for low prices relative to earnings and are out of favor with stock analysts.

Value Tilt—for advanced learners. Tilting is any change from the allocation from a blend of Growth and Blend to Value stocks. Historical returns are greater with value stocks than growth stocks (Note: past returns are not predictor of future returns).

Volatility—Amount of price fluctuation in the value of a stock, bond, mutual fund or benchmark. Measured by the Standard Deviation.

Wall Street—Reference to the entire investment community or a specific geographic area of Lower Manhattan where the NYSE, American Stock Exchange, and many investment banks are located.

Zero-sum game—a situation in which one person's gain must be matched by another person's loss. Without considering taxes and transaction costs, many types of investing, such as options and futures, are examples of zero-sum games.

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<i>Fleeing 403(b) Plan Participants</i>	April 5, 2007
<i>Fleeing 403(b) Plan Participants (Part 2)</i>	May 3, 2007
<i>Fleeing 403(b) Plan Participants (Part 3)</i>	June 7, 2007
<i>Fleeing 403(b) Plan Participants (Part 4)</i>	July 5, 2007
<i>Fleeing 403(b) Plan Participants (Part 5)</i>	August 2, 2007
<i>Fleeing 403(b) Plan Participants (Part 6)</i>	October 4, 2007
<i>Fleeing 403(b) Plan Participants (Part 7)</i>	November 11, 2007
<i>Fleeing 403(b) Plan Participants (Part 8)</i>	June 5, 2008
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26. *Fees take huge toll on 403(b) plans*, *Bankrate.com*, by Leslie Hggin Geary, 2007
27. *How to avoid 403(b) pitfalls*, *Bankrate.com*, by Leslie Haggin Geary, 2007
28. *Annuities: Good, Bad Or Ugly*, *Forbes.com*. By Mel Laudauer, 2010. A six part series.
29. *California teachers' supplemental pension plan is flawed, study finds.* *Los Angeles Times*, by Walter Hamilton, March 2, 2011.
30. *Teachers' 403(b) Plans See Big Changes*, *Wall Street Journal*, January 4, 2012 by Leslie Scism.
31. *Law limits L.A. school district's efforts to simplify 403(b) plan*, *Pensions and Investments*. By Robert Steyer, July 9, 2012

Recommended Investment Books

Below are books that the author highly recommends for your continued personal finance education. Specifically, the inherent values in passive investment strategy with index funds offered by Vanguard and other companies are detailed in the works of Larry Swedroe, William Bernstein and Rick Ferri, and of course, John Bogle. The most recent research cited and explained is found in Rick Ferri's latest book, "The Power of Passive Investing."

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2. Bernstein, William, "If You Can: How Millennials Can Get Rich Slowly" by William J Bernstein, 2014, a short book (28 pages) for young people offered free.
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25. Malkiel's, Burton G. and Ellis, Charles D. "The Elements of Investing" John Wiley & Sons, Inc. NJ, 2010.
26. Ney, Richard, "The Wall Street Jungle" Grove Press, NY, 1970.
27. Otter, Dan, "Teach and Retire Rich" bWise Guys, Inc. 2010.
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29. Schullo, Steve & Roberston, Dan, "Late Bloomer Millionaires: A Financial Story and Investment Guide for Late Starters." Late Bloomer Wealth Press, 2013.
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- Millionaire Next Door” Pocket Books, a division of Simon & Schuster, Inc. 1996.
33. Swedroe, Larry E. “The Only Guide to a Winning Bond Strategy You’ll Ever Need” St. Martin’s Press, NY 2005.
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 39. Tobias, Andrew “The Only Investment Guide You’ll Ever Need” Harcourt, Inc. 2002.
 40. Toohey, Bill and Mary “The Average Family’s Guide to Financial Freedom” John Wiley & Sons, 2000.
 41. Wild, Russell, “Bond Investing for Dummies” Wiley Publishing Co. NJ, 2007.
 42. Zweig, Jason “Your Money and Your Brain” Simon & Schuster NY, 2007.

Television Specials on Investing and Retirement Planning
PBS Frontline: *The Retirement Gamble*. This documentary was first aired on April 23, 2013. See this Emmy-nominated in the Outstanding Business and Economic Reporting documentary by Rain Media films on the PBS website: <http://www.pbs.org/wgbh/pages/frontline/retirement-gamble/> John Bogle and some of his low-cost investing supporters are interviewed. Three teachers are featured: Crystal Mendez, Dan Robertson, my husband and author Steve Schullo.

Financial Websites

<http://Bogleheads.org>

The best and most active investing website for the do-it-yourself investor found on the Internet. The Bogleheads, devotees of Vanguard founder and index-fund pioneer Jack Bogle, run a highly active online forum of over 42,000 registered members and tens of thousands of visitors. If you have time to sift through the posts (anyone can read and search the site without registering), the site offers a wealth of free investing advice—and it's not just for Vanguard investors. Under the forum's broad discussion topics, the Bogleheads chat about long-term indexing strategies, investing theory, ideas for building portfolios, and specific funds. You can also ask the group for help with your own portfolio (You'll have to register to write a post. It's free). Source: Bogleheads Wiki.

[http://www.403\(b\)wise.com/](http://www.403(b)wise.com/)

Founded by Dan Otter, PhD, Steve's warrior colleague to improve 403(b) plans. Packed with 403(b)/457(b) specific information, history, regulations, advocacy and a discussion forum. Dr. Otter is a teacher and financial trainer for classroom teachers who want to teach financial concepts to their students. Along with his wife Mandy, they created an educational product called the *Portal*. The *Portal* is customized retirement plan information website that assists Prek-12 school districts provide objective financial education for their employees.

<http://meridianwealth.wordpress.com/>

Scott Dauenhauer's Blog. Writes articles on the problems with 403(b) investing and regulations. He is frequently cited and interviewed in the financial media. He is a consultant to CalSTRS and the co-creator (with CalSTRS excellent 403(b) team) behind CalSTRS Pension 2, a low-cost quality 403(b) plan available for California teachers.

[http://www.403\(b\)compare.com/](http://www.403(b)compare.com/)

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

<http://ctainvest.org/home.aspx>

California Teachers Association (CTA) financial website. Lots of excellent 403(b)/457(b) information and videos.

<http://www.dalbar.com/>

Research institution that studies investor behavior

<http://www.morningstar.com>

Our portfolio is housed in the “portfolio” feature. Also has many investment forums, current articles, interviews and hundreds of research data and statistics.

<http://www.yahoofinancial.com>

Great site to get information on investments via the ticker symbol.

<http://www.vanguard.com>

Where John Bogle started it all.

<https://www.tiaa-cref.org/public/index.html>

Provides low-cost 403(b) and 457(b) plan options

<http://www.treasurydirect.gov>

Bond information: purchase Treasury bonds online.

<http://www.ifa.com>

Indexing Fund Advisers. This site is packed with on indexed/passive strategy information with data, research articles, charts, history, and interviews of well-known financial authors and academics. Indexing advisers are available for AUM fees.

<http://www.fundadvice.com/home/>

Another site for people who want the indexing investing philosophy with advisers available for an AUM fee.

<http://www.dol.gov/ebsa/aboutebsa/main.html>

The Department of Labor oversees Employee Retirement Income Security Act of 1974 (ERISA).

Research Your Employer’s Plan

<http://www.brightscope.com/>

Rates 401(k)s. They are working on rating 403(b) plans at this writing.

The Following are Great Financial Podcasts

**Support the Indexing Strategy, broad diversification
with low-cost investments.**

<http://paulmerriman.com/podcasts/> by Paul Merriman

[http://itunes.apple.com/podcast/index-funds-advisors-
podcast/id296274081](http://itunes.apple.com/podcast/index-funds-advisors-
podcast/id296274081) by Mark Hubner

[https://personal.vanguard.com/us/insights/newsarchive/
rss-audio-podcast-help](https://personal.vanguard.com/us/insights/newsarchive/
rss-audio-podcast-help) by Vanguard

<http://theindexinvestingshow.podomatic.com/>

by Ron De Legge

Disclaimer About Financial Advisers: The authors have not used the services or any adviser from the four professional organizations listed below. We claim no guarantees about the ultimate cost schedules of any adviser found by any reader. The authors present them as a starting point, but the responsibility for finding a fee-only fiduciary who looks for your best interest is best assured only by the reader's preparation and is the reader's sole responsibility.

Researching and Finding a Financial Adviser

<http://www.finra.org/index.htm>

FINRA is the largest independent regulator for all securities firms doing business in the United States. Choose the "Investor's" tab and learn how to protect yourself by finding out about your adviser or potential adviser.

<http://www.dol.gov/ebsa/newsroom/fsfiduciaryoutreachconsumers.html> Department of Labor Guide Lines for finding a fiduciary adviser.

<http://garrettplanning.com/>

This professional organization has advisers available who charge by the hour, AUM and/or retainer. According to their website, no commissions or products that pay the adviser are recommended to clients. (AUM, percent of assets under management)

<http://www.napfa.org/>

Similar to Garrett. The National Association of Professional Financial Advisers organization has advisers who charge by the hour, AUM and/or by retainer, but not commissions or hidden fees.

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Acknowledgements

Many outstanding and passionate people deserve so much more than my meager gratitude. All good stories involve people struggling against an impossible difficulty while growing, learning and changing in the process. This true story will not win an Oscar, but the following people went beyond personal wishes thinking *only* about the dreams, goals and the financial security of *others*. What's fascinating is that it didn't matter one iota that so few of our colleagues complained or sought our help. All that mattered was *we knew*. We knew the 403(b) system was terribly wrong, wrong for exploiting American educators and wrong for the retirement system.

I profoundly thank Steve Blazak, editor of the United Teachers Los Angeles (UTLA) union newspaper for taking a chance and began publishing my 403(b) columns in 1996. And thanks to Steve's successor, Kim Turner, for continuing to place my well-received articles until 2008, when I retired.

I am so proud and honored to have known magnificent UTLA colleagues who answered the call-to-action: Sandy Keaton, Brad Rumble, Crystal Mendez, Joe Macdonald, Ed Kaz, Dean Cohen, Louise Delaney, Gregg Solkovits, Esther Ginsberg and Mark Becker. They showed up and went to work trying to make the 403(b) a better plan for *all* of our colleagues (Sadly, Esther and Mark are not longer with us, but their kindness and generosity are remembered). Sandy, Brad and Crystal became committee members of the LAUSD Investment Advisory Committee and have continued to work for the best financial interests of thousands of LAUSD employees.

Meeting these great people was only possible by financial reporter, Kathy Kristof, who had a pen in hand when I called her to share my story. This book and the group that Sandy Keaton and I founded, 403(b) *AWARE!* would not have come to fruition without her article. Thank you Kathy.

Wonderful financial professionals and genuine fiduciaries began showing up at our 403(b) *AWARE!* meetings!

We didn't know they existed. Multiple thank yous are owed to Brian Cressey and Richard Shafer both formerly of TIAA CREF, Scotty Dauenhauer from Meridian Wealth Management, Barbara Healy and Bill Tugaw of SST Benefits, Carolyn Widener retired CalSTRS board member, Dan Otter, webmaster of 403(b)wise.com and David Goldberg, former UTLA Treasurer. Without hesitation, they supported and agreed with our cause that the 403(b) is a mess and needed reform.

Former LAUSD's benefits director, George Tischler, now retired, left a lasting mark that will live on to make the retirement lives of teachers and our profession more secure and satisfying. George was the first professional *inside PreK-12 education* who acknowledged that 403(b)s were typically high-cost annuities with low performance. George dared to think different in a huge and complicated bureaucracy that doesn't welcome change with open arms. Thank you George for your incredible genius, courage and the willingness to use your power to do what is right for LAUSD employees.

A number of financial professionals, authors, Palm Springs Writer's Guild (PSWG) critique group and friends read parts or all of the manuscript and made useful suggestions: Ted Leber, Sandy Keaton, Phil Mortimer, Bill Bernstein, Karen Reyes, W. Scott Simon, Mark Anderson, Scott Dauenhauer, Ken White, Judi Hollis, Jim Duggin, Steve Scott, Irene Tritel, Fritzie Von Jessen and to my two professional editors Mike Foley and John Carrigan (from PSWG) for clarifying my sometimes tortured prose.

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Finally to my supportive, loving and to my 24/7 humor-filled husband of 40 years. Dan started in all when he came home announcing he had low-cost 403(b) available with a simple two-page agreement which made 12 employees at his work site happy-campers. Thanks for listening to my complaints and successes, correcting my grammar while providing a much needed sense of humor on this often difficult and serious topic.

Author Bio



Stephen A. Schullo, Ph.D. (UCLA '96) is a retired elementary teacher and technology adviser from Los Angeles Unified School District (LAUSD). This is his second book. He co-authored and self-published his first book *Late Bloomer Millionaires* with husband Dan in 2013. Steve and Dan have been married for 40 years and live with Sammy, their Jindo Korean dog, in Rancho Mirage, California.

Steve grew up on a northern Wisconsin farm, attending a one-room country school. After a stint serving with the Marines and in Vietnam, he settled in Southern California and has written for both the popular press and professional journals. He published personal essays about his one-room country school experience and as a Marine in Vietnam. In 1984, he published his Master's Thesis in the *Journal of Personality and Social Psychology* comparing same-sex with opposite-sex long-term relationships years before *Marriage Equality* became a household name. He presented his Ph.D. dissertation at the *American Education Research Association* annual meeting about how low-income students learn (or not learn) Algebra. The Los Angeles Times published his Op-Ed piece supporting bilingual education.

Steve saved in his 403(b) every year throughout his 24-year teaching career, switching from annuities into genuine growth investments. He wrote a column for the United Teachers-Los Angeles (UTLA) newspaper to alert his union colleagues about low-cost mutual fund options and the hidden costs of 403(b) Tax Shelter Annuities. The

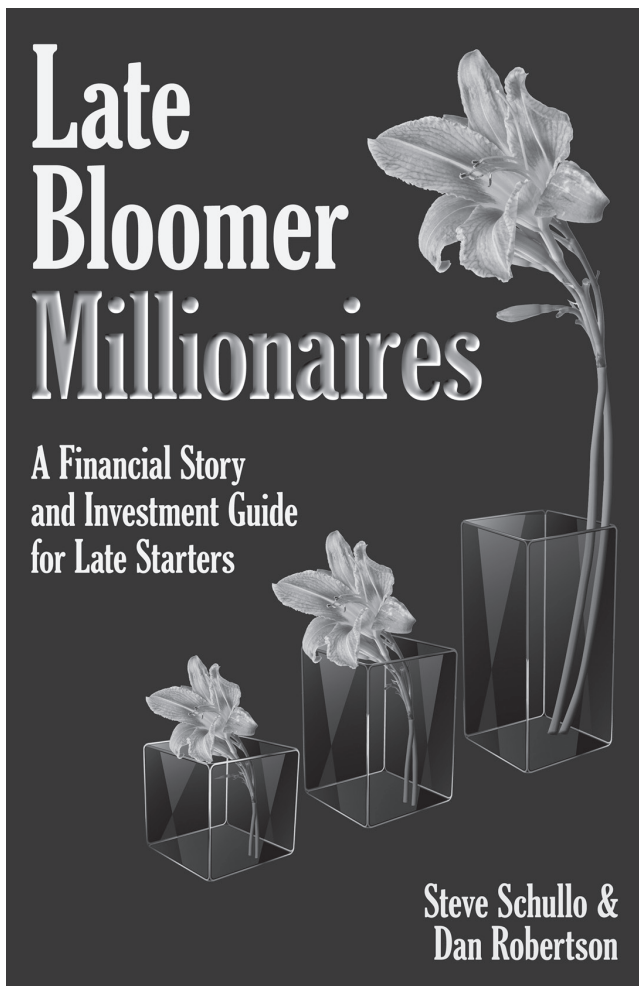
Los Angeles Times asked Steve to serve as a 403(b) panelist at their annual 1999 Investment Strategies Conference. He co-founded an investor self-help group 403(b) *Aware* (with Sandy Keaton) presenting investment information at union meetings and held ongoing meetings at a local restaurant for five years which was open to LAUSD colleagues. Morningstar started the 403(b) forum as a result of Steve's persistence. He is currently a prolific poster (5,500 posts) in three investment online forums since 1997: 403bwise.com, Bogleheads.org and Morningstar.com. He is frequently quoted in the financial press, testified at legislative hearings, has been honored by UTLA for his 403(b) advocacy and most recently was featured (with husband Dan) in the national broadcast PBS Frontline's documentary: *The Retirement Gamble*.

He currently serves on LAUSD's Investment Advisory Committee as a Member-at-Large and former co-chair. The committee monitors the 457(b)/403(b)/PARS plans of 54,000 former and current LAUSD employees, worth more than \$2 billion in total assets. He recommended that LAUSD hire a genuine fiduciary responsible Committee financial consultant, reduced plan costs, added index funds which led to a "Plan Design" Award given by the National Association of Government Defined Contribution Administrators in 2014.

Steve and Dan write a blog at latebloomerwealth.com.

Did you enjoy “Fighting Powerful Interests”?

Pick up Steve Schullo & Dan Robertson’s
“Late Bloomer Millionaires” at Amazon.com



Fighting Powerful Interests

Nonfiction
\$12.95

The 403(b) system has ripped off PreK-12 public school educators since 1961. It needs an *open and objective discussion* about this employer-sponsored retirement savings program. High-cost tax-sheltered annuities have survived due to powerful industry-backed regulations and self-serving sales campaigns which withhold fee-transparency. Secrecy about the insurance-annuity connection costs our nation's teachers dearly.

Read how a dozen resourceful educators from the Los Angeles Unified School District changed from knowing *next-to-nothing* about investing and retirement plans and finished with an award winning 457(b). The second largest school district in the country has a savings plan we can be proud of because it is *ours*-transparent, low-cost, best-in-class investments and free from insurance products, cynical regulations and conflicts of interest.

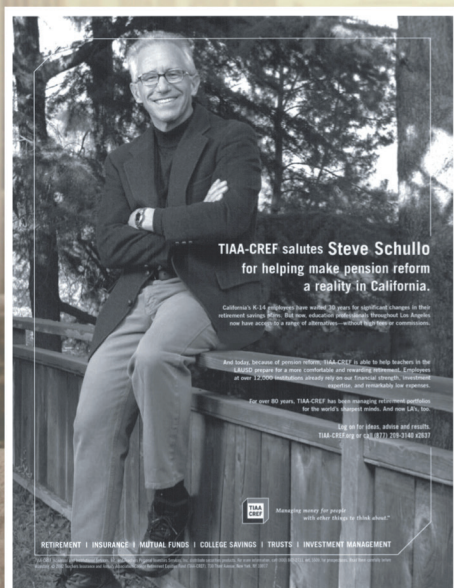
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