



What Teachers Should Know about their 403b:

Retirement investing for teachers can be confusing. In addition to pensions, teachers can have access to 403b and 457 plans. There are also considerations related to Social Security. It's no wonder many teachers are scratching their heads.



403b plans were first introduced roughly 60 years ago. They are sometimes called **Tax Sheltered Annuities** (TSAs). Long ago, annuities were the only investment option. A lot has changed since then, but 403b plans are still often referred to as TSAs...and expensive, fee loaded annuities still dominate the investment options for many plans.

Are you investing in an annuity or a mutual fund?

This can be hard to answer for some because it isn't always clear. With a 403(b), you can choose from an individual account with an annuity contract provided through an insurance company or a custodial account invested directly in mutual funds.

Annuities are contracts issued by insurance companies. They often allow investments in mutual funds via "sub-accounts" – These look like funds, but come with an additional "insurance wrapper".

One big difference between annuities and mutual funds is cost. Annuities generally have a higher cost than mutual funds. They may include **surrender fees** and **mortality expense fees**, in addition to the cost of the funds. These fees can significantly reduce your returns over time.

Despite the availability of mutual fund options, many teachers still invest in higher cost annuities (as of 2009 80% of plan assets were in annuities). However, it's not because they are the best option. Instead, it's because they aren't aware of alternatives that may be a better fit and less expensive. A likely reason so many teachers invest in annuities is because ***“plan participants don't fully understand the options available to them.”*** This is according to the California Teachers Association (ctainvest.org).

This is due in large part to the strong foothold that 403(b) vendors selling annuities established with school districts across the country before mutual fund investments were permitted.

Is my advisor putting my interests first?

Many educators decide they need help choosing investments for their 403(b) or 457 plans. If you're among them, you might be looking for a financial advisor. But it's important to keep in mind that many of the representatives who come to your school to talk about investment products have a conflict of interest: They may be earning a commission based on what they can get you to buy.



So, your first step is to make sure you are getting objective advice. Instead of asking a sales representative what you should buy, think about hiring a fee-only financial advisor. Because fee-only advisors don't receive commissions, they may be more likely to be objective about what to recommend to you. Here are a few tips:

1. Ask what the advisor's credentials are. Is she/he a Certified Financial Planner™? Registered Investment Advisor or other credentialed individual? While having credentials is no guarantee, it does indicate the individual's level of understanding and commitment to the investment profession.

2. Ask whether the advisor is working in a fiduciary capacity. That means the advisor is legally and ethically required to put your best interests first when making an investment recommendation.
3. Ask how they are paid. Are they paid commissions for selling certain products, or do they only earn a fee charged to their clients for the services provided? If you can determine how they are paid, it will help you understand who they are really working for.
4. Once you start working with the advisor, does he or she contact you regularly? You should have a review at least once a year to make sure you are on track.
5. Can you easily contact your advisor if you have a question?
6. What are you paying for the advice? And what are you paying in fees for the investments that are recommended?

Fees are an important consideration when choosing investments for your 403(b) or 457 plan. Although fees may seem small when expressed as a dollar amount or percentage of assets, the reality is that they can have a significant impact on the ultimate balance of your nest egg when they are paid year after year.

Any investment involves some fees; you can't avoid them entirely. What you can do, though, is be sure you understand what you're being charged, and why. Then you will be able to gauge whether the value of what you get for the fee justifies the cost.

This article should be considered a starting point for those taking a closer look at their 403b plans. What might be a good fit for one person may not work for another. Investments in annuities may be appropriate for some people, especially those who have maxed out their tax-deferred investment options in employer-sponsored plans and IRAs. But many 403(b) plan participants – those who don't need all of the features offered by annuities – may pay less in fees by investing directly in mutual funds

There is never a one size fits all. However, getting up to speed on your retirement options will make you an informed investor and lead to better financial decisions.

Teachers: It's Time To Review Your 403(b) And 457 Plan

■ What is 403bCompare?

A no-cost Web site, administered by the California State Teachers' Retirement System, that serves as a 403(b) retirement products information bank. It includes information about 403(b) products, such as performance, fees, etc. Check out 403bCompare.com for additional information.