

## **The 4-Bucket Plan: a better 403(b) retirement plan**

### **1. Summary of idea/project.**

School business officials joined efforts to develop a better 403(b) retirement plan for our school districts, our employees, our colleagues, and our profession. The result was the 4-Bucket Plan: a better 403(b) retirement plan. Implemented January 1, 2009, we have achieved a retirement plan with investment choices of just about any mutual fund available, performance results beating the category average in nearly every risk category, and low administrative and investment costs.

The four buckets allow participants to determine how much or how little involvement they have in their own retirement plan:

Bucket 1: Core Fund Line-up – This bucket contains a core line-up of 29 mutual funds across broad investment categories and provides a mix of actively and passively managed mutual funds. This bucket would be for the participants that would like to select their own investment portfolio, knowing that all options have been reviewed by investment professionals and determined to be the best in its investment class.

Bucket 2: Guided Portfolios – This bucket contains five custom asset allocation portfolios that are created out of the underlying core fund line-up (Bucket 1) and range from conservative to aggressive. A simple investor profile questionnaire leads the participant to one of the five portfolios. Most participants choose a Guided Portfolio.

Bucket 3: Mainspring Managed – This bucket is for the complete "please actively manage my money for me" approach. The Standard does everything to help the participant meet his/her retirement goals, including building a plan, determining contribution levels, managing the investments, providing access to a call center staffed with professional investment advisors, and providing ongoing statements to show progress along the way. All portfolios are created out of the underlying core fund line-up (Bucket 1).

Bucket 4: Open Brokerage Window – This bucket offers access to over 5,000 mutual funds, all without loads/sales commissions. This is a self-directed brokerage account through the Schwab Personal Choice Retirement Account (PCRA).

### **2. How is this a new idea?**

No other school districts in our State had the courage to push for the development of a better 403(b) retirement plan. The 4-Bucket Plan is based on a single recordkeeper model that, in itself, is fairly unique in school districts. The addition of an open mutual fund window, in our opinion, makes this a far superior retirement plan for our participants than any employer retirement plan available anywhere.

An excerpt from our Request for Proposal is best cited to articulate our pursuit of a new and innovative 403(b) retirement plan for the participants in our public school districts:

During the process we used to develop this request for proposal, we began to form a vision for what our new 403(b) plan might look like. The vision was very different from the traditional 403(b) plans that currently exist in public schools in [our State].

The essence of what we believe to be in the best interest of our Districts' plan participants is that the ideal 403(b) plan should be a single vendor model that (1) operates solely in the interest of plan participants and their beneficiaries for the exclusive purpose of providing them with retirement plan benefits, (2) has transparent costs, each of which is reasonable versus the service provided in return, and (3) features broadly diversified investment options designed, within a portfolio context, to reduce risk and increase

return. Our beliefs were developed from what we believed to be right and affirmed by a series of articles “Fiduciary Focus: Fleecing 403(b) Plan Participants (Parts 1-7)” by W. Scott Simon (Morningstar Advisor Edition, 4-5-07 thru 11-11-07). These articles will give you a real sense of our vision.

### **3. Why you feel the project is innovative?**

Our criteria in pursuit of a better 403(b) retirement plan was uncompromising.

The new 403(b) solution was expected to:

- #1 Provide compliance with new IRS regulations AND IRS expectations
- #2 Maximize participant retirement savings with the selection of investments and by minimizing erosion caused by high vendor fees

In addition, we insisted on:

- Low cost: mutual funds with low internal fees; low cost plan administration; and, efficient structure
- Total disclosure of fees charged and return of revenue sharing to offset fees
- The plan provider to accept fiduciary responsibility for fund selection
- Independent: no proprietary mutual funds or other insurance products to sell to participants
- Large enough vendor with solid established history of managing retirement plans; our plan should not make up the majority of their funds under management
- Structured fund selection process by a team of professionals, not one or two salespeople
- As much structure as before for those who need it, i.e. “I don’t know, just pick what I should do.”
- More flexibility than before: virtually unlimited access to legal 403b mutual fund investments
- Ability to work with a personal or previous financial advisor: Participant would continue to pay for the financial advice, just in a different way; if you don’t use advice you don’t have to pay for it
- Improved/consistent education on saving for retirement

ALL of our criteria was achieved – every single one.

### **4. Is this project replicable by other schools/entities?**

The 4-Bucket Plan was developed by four school business officials with a spirit of a cooperative arrangement between multiple school districts and common expectations for participation in a 403(b) Consortium. Each school district in the 403(b) Consortium is its own plan sponsor of its own 403(b) retirement plan, but we all work together to share the effort, and the success.

In the first year of implementation 15 school districts opted in and implemented the 4-Bucket Plan. By the end of the first year, the consortium had accumulated \$8,500,000 in assets.

Our 403(b) Consortium welcomes other school districts to join us. The negotiated per-asset plan fees drop as the combined consortium assets grow through multiple tier levels. The 4-Bucket Plan and our 403(b) Consortium is already developed, bid, and negotiated. The 4-Bucket Plan is

simple, yet robust. Our 403(b) Consortium is a service consolidation initiative. Question and answer communications, a website, other employee communications, and employee education on retirement planning are already developed. Several business officials have all shared in the work, but all may share in the success.

**5. Cite measurable examples of the improvements/savings.**

First year performance results, gross expense ratios, and plan fees were all analyzed and the measures clearly showed that we achieved a beneficial retirement plan.

The 2009 performance results of the portfolios in the 4-Bucket Plan beat the category average in nearly every risk category.

	Return Annualized ( % )				
		Moderately		Moderately	
	Conservative	Conservative	Moderate	Aggressive	Aggressive
Category Average	13.07%	17.83%	22.48%	27.17%	30.46%
Consortium 403(b)/457 Plan	13.01%	17.91%	22.58%	27.35%	30.80%

By comparison with our own District’s old 403(b) retirement plan, the 2009 performance of the investments held in our most common annuity product that was formerly available was 15.3%.

The 2009 gross expense ratios of the portfolios in the 4-Bucket Plan beat the category average in every risk category.

	Gross Expense Ratio ( % )				
		Moderately		Moderately	
	Conservative	Conservative	Moderate	Aggressive	Aggressive
Category Average	0.81%	0.99%	1.17%	1.35%	1.43%
Consortium 403(b)/457 Plan	0.66%	0.68%	0.70%	0.72%	0.66%

The plan fees paid by our participants and our school district reduced by 91% between 2008 and 2009. In 2008 in the old 403(b) plan, participants paid \$112,265 in plan fees and our school district paid \$6,823 in plan fees. In 2009 in the 4-Bucket Plan, participants paid \$10,011 in plan fees and our school district paid \$0.

When combining plan fees and fund expenses, our participants achieved a total cost of 1.17% of assets. The 403(b) industry average retail mutual fund plan fees and fund expenses is 2.86% (source: Morningstar). The 403(b) industry average annuity plan fees and fund expenses is 2.95% (source: CNNMoney.com). Even a 1% loss to fees can have a big impact on retirement savings over a participant’s career.

**6. How does this project affect student achievement?**

The primary beneficiary of this innovative practice is the participant: the teacher, the principal, the bus driver, the secretary, the teachers’ aide, the custodian. But by having a sense of security that their 403(b) plan is working toward achieving a financially secure retirement, staff is able to focus on one true purpose, educating our students.