



Understanding 403(b) Plans

How to support educator clients in navigating retirement plan options

Introductions



Scott Dauenhauer, CFP®,
MPAS®
Meridian Wealth Management



Autumn Knutson, CFP®
Styled Wealth



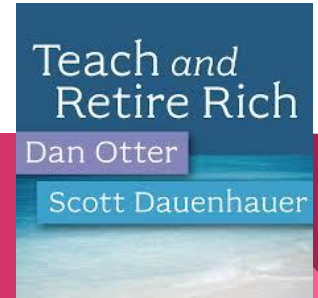
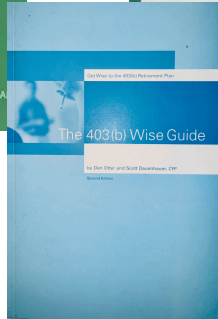
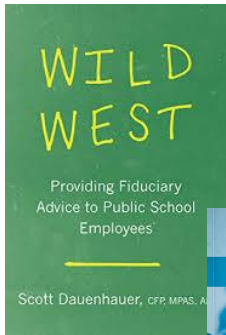
Ryan Frailich, CFP®, CSLP
Deliberate Finances





Scott Dauenhauer, CFP®, MPAS®
Meridian Wealth Management

- 20+ years working with educators
- 20+ years advocating for educators
- Nearly 20 years consulting with government DC plans
- Author of “Wild West: Providing Fiduciary Advice to Public School Employees”
- Co-Author of “The 403bwise Guide”, “Teach and Retire Rich” with Daniel Otter, Ph.D
- Director of Research, 403bwise.org
- Co-host The Teach and Retire Rich Podcast (338 episodes)
- Spouse of a teacher
- Owner of Meridian Wealth Management
- Not taking on new clients





Autumn Knutson, CFP®,
Styled Wealth

- Former teacher and high school counselor
- Psychology degree
- Navigated learning the Teacher Retirement System in Texas while teacher
- Support teachers in Oklahoma and Teacher For America with their plan choices
- Styled Wealth serves impact-driven people, with a healthy mix of educators, non-profit founders and employees, government workers, and founders of tech-driven startups.
- Accepting new clients for ongoing, comprehensive financial planning engagements





Ryan Frailich, CFP®, CSLP
Deliberate Finances

- Former teacher and school administrator
- Married to a teacher currently in her 17th year.
- Bought a 2% fixed income annuity inside a 403(b) at age 25.
- Navigated unwinding a 403(b) plan as a school administrator
- Deliberate Finances serves impact-driven people, with a healthy mix of educators, non-profit founders and employees, and government workers.
- *Occasionally* taking new clients.





5 Pitfalls To Watch for In 403(b) Plans

- Giveaways (lunch, gift cards, dinners, donuts, etc.)
- Absurd surrender schedules
- Extremely high costs
- Fixed income annuities with low returns
- Dozens of vendors





Surrender Charges

Charge as a % of contribution for each year following contribution						
1	2	3	4	5	6	7+
7%	7%	6%	5%	4%	3%	0%

Extremely high fees

2+ %



Fixed income annuities with low returns

RYAN FRAILICH
4226 S CARROLLTON AVE
NEW ORLEANS, LA 70119-6820

Your Account Balance as of March 31, 2015

\$3,309.04

Your Account Summary

Account Balance on 01/01/2015	\$3,291.73
Investment Earnings	\$17.31
Account Balance on 03/31/2015	\$3,309.04
Payments YTD	\$0.00
Payments Since Inception	\$2,997.95
Withdrawals since Inception	\$0.00

Dozens of Vendors

Texas 403b Approved Vendors: [List](#)

Oregon Department of Education Approved [403b Vendors](#)



(Re)Evaluating 403(b) Plans

- Review surrender schedule

Charge as a % of contribution for each year following contribution						
1	2	3	4	5	6	7+
7%	7%	6%	5%	4%	3%	0%

- Determine plan total fees

- Contract %
- Investment Options

Annual Fee	Minimum	Maximum
Base Contract ⁽¹⁾	1.20%	1.20%
Investment options (Portfolio fees and expenses) ⁽²⁾	0.57%	2.65%

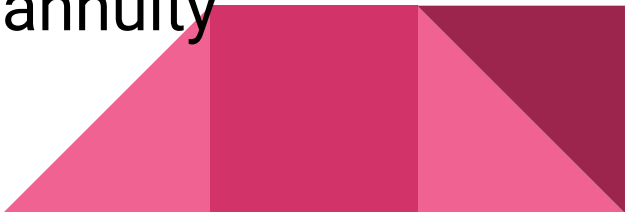
- Compare surrender charges to the total fees in the plan to determine whether to divest from plan
- Opportunity cost of leaving investments in high fee plans
 - Goal is to reduce financial loss and cost over time - this may require a short term surrender charge to immediately reduce fees and allow for better options for the investor, both in cost, alignment to ideal investing philosophy, flexibility, etc.

Alternatives Beyond the 403(b) Offering

- IRAs
- Spousal employer plan
- 457(b)
- As the advisor - document your recommendation (especially if rollover)
- Paperwork gotchas:
 - Call with the client and go section by section through the paperwork
 - Compliance administrator must be involved
 - Make a copy before sending any original hard copies
 - Be aware: Equitable, Valic, VOYA, are some of the worst actors
 - Ask for signature requirements: Digital accepted? Wet signature requirements.
 - Paperwork can “expire” & timeliness matters. You can’t sit on it for weeks. Sign asap.
 - Set timelines for checking in on the process.
 - Don’t trust - Do verify.



Always Check Before Surrendering

- Guaranteed minimum interest rate
 - Contract date
 - Years since last contribution (Equitable)
 - Annuitization as an option
 - Living benefits that are “in the money”
 - Understand indexed annuity crediting strategies
 - VA/MF easier than Fixed and Indexed annuity
- 

Conflicts of Interest

Page 4 “Equitable Advisors and its FPs receive other compensation and benefits related to recommendations of or involving Proprietary Products. Specifically, consistent with Internal Revenue Service (IRS) rules, FPs must meet certain minimum sales requirements in proprietary insurance products to qualify for health and retirement benefits provided by Equitable Financial, and this is an incentive for FPs to recommend Proprietary Products over third-party products.”



Spam e-Mail Marketing

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TEACHER'S
PENSION
& INSURANCE SERVICES

Hi [REDACTED]

We are writing you to make sure you are taking advantage of the 5% match on your 403b or 457 retirement contributions that you now have available to you through your district.

If you do not have this set up, let's have a quick phone call so we can help you get setup to take advantage of the additional 5%.

Schedule Your Consultation

Hi Shauna,

Have you had *your 403b/457b benefit reviewed or audited* recently? In light of the current economic and market conditions, you may want to review your 403b/457b contributions or have questions about how your assets are allocated. If you are not contributing to a 403B or 457B, we can provide a *Retirement Income Gap Analysis*, to determine how much, if any, extra you should be saving.

[Begin Audit](#)

In your retirement plan account audit, you will discover the following:

- Do your *deductions match the amount received* by the investment provider(s)?
- Are your *contributions going to the correct account(s)* and vendor?
- Was *each account set up correctly* and in compliance with the IRS?
- Are your *account(s) still receiving funds*?
- Finally, have your account(s) *matched your performance expectations*?
- Can you *access your funds early without IRS penalties*?
- Do you have a significant *Retirement Income Gap* between pension income and projected needs?

An audit specialist will assist you in receiving your Benefits Audit Report.

If your Audit / Benefits Specialist already has access to your account data, they will have your report ready in time for your call. If more information is needed, you will just have to answer a few questions before the audit report can be completed.

After the call with your audit specialist, you will also *receive an Income Retirement Gap Report*, which will estimate your combined pension and 403B/457B contribution income into the future. This report also takes into consideration your cost of living and post-employment financial needs and calculates if there is a possible gap. This information will be posted in your confidential Employee Benefits Portal.

Best Regards,

TDS Benefit Counselor

Incentives to Sell Bad Products



THE RITZ-CARLTON
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CONFERENCE OF CHAMPIONS
LOS CABOS
MEXICO
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JUNE 1-5, 2023



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- Las Vegas
- Los Cabos
- Ireland
- Spain
- Italy
- Hawaii
- Portugal
- Alaska

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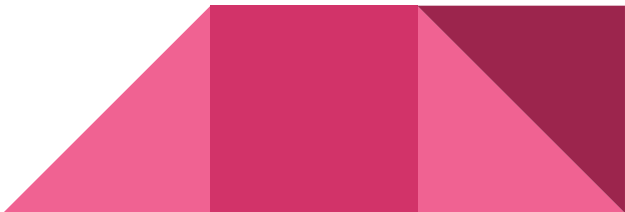
INTERNATIONAL CLUB

Alaskan Cruise 2008. 1,500,000 personal production credits. 6,000,000 rollup team.
(Refer to 2008 Convention Rules)

THE RITZ CLUB

THE RITZ CLUB Personal: 900,000 production credits and 3 new producing recruits. Team: 3.6 million rollup production credits and 10 new producing recruits. A week at an ocean-front Ritz villa.

Compliance Administrators (TPA)

- Nothing like a 401(k) TPA
 - Essentially runs the plan
 - Highly conflicted with a few exceptions
 - Dominated by one company, plus regional
 - Large 403(b) vendors gaining ground as CTPAs
 - All transactions handled through CTPA
 - All vendor approvals start with CTPA
- 

Solutions For Bad 403(b) Products

- Exchange to a better 403(b)
- Rollover to an IRA
- Switch contributions to a 457(b)
- Taxable brokerage or Roth IRA
- [403bwise.org](https://www.403bwise.org) as a resource



Solutions For Bad Plans

- Add a green vendor
- Get a good 457(b)
- Consider fewer or single vendor
- Remove red vendors, specifically indexed annuities
- Disclosure and transparency
- Warning: this is hard and takes time



Government 457(b) plans

- Not a 457(f), different animal
- Non-ERISA, but many states have fiduciary duties
- SBJPA requires trust, not available to ER creditors
- Often a great alternative
- Many states offer
- 457(b) has become very similar to 403(b)



How is 457(b) different than 403(b)

- No 10% penalty upon separation
- Non-ERISA, but many states have fiduciary duties
- Three year catch up rule, doubles contribution
- Often single vendor, often a better program
- Same contribution limits
- Educators can contribute to both in full



PLANNER PROFILE

Back to School

Leave no teacher behind: Scott Dauenhauer specializes in providing hourly, fee-only advice to educators in California's public schools

BY KAREN HANSEN WEESE



QUICK, GET OUT YOUR NO. 2 PENCIL! WHAT ARE THREE great reasons to be a teacher? (No, not "June, July, and August.") For most teachers, despite the mountains of tests to grade, the chalk dust as a constant clothing accessory, and that freckled kid who just threw up on his spelling book again, there are many good reasons—but you can bet "fabulous 403(b) plan options" won't top the list.

Why? Because, for the most part, their plan options stink, says planner Scott Dauenhauer, of Meridian Wealth Management in Irvine, California. Most of the investment choices in teachers' 403(b) plans are annuity-oriented, which can frequently sport hefty costs, long surrender periods, and surrender charges as high as 15%. The cost structures are nearly impossible to decipher, and busy teachers rarely realize that buying a tax-deferred annuity product inside a tax-deferred retirement plan is like wearing scuba gear inside a submarine: You don't need both layers to get the full effect, and the extra layer just means added expense.

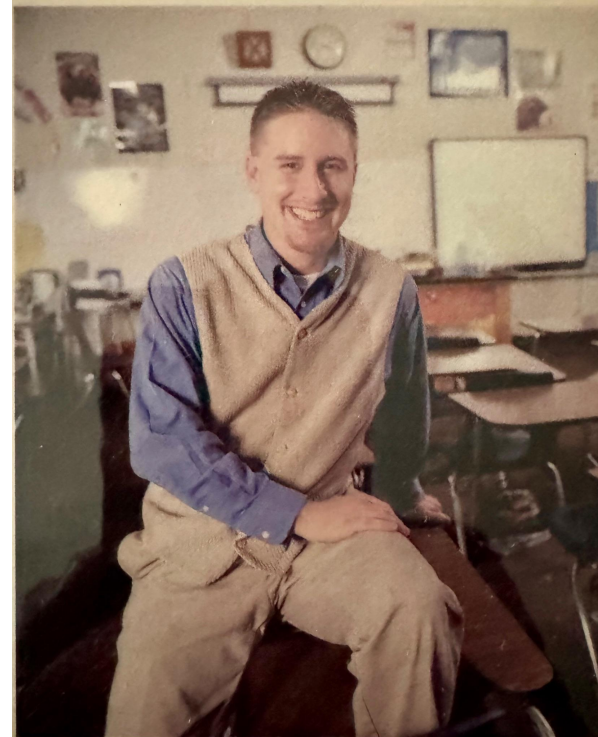
Worse yet, says Dauenhauer, there are too many choices, at least in California, thanks to an old law stating that anyone who wants to offer a 403(b) plan can do so as long as they sign an agreement with the school district. Thus, when a teacher calls up the payroll department and asks to sign up for the plan, they receive a lengthy list of dozens of "approved vendors"—the vendors' names, that is, but no company information, no addresses, not even phone num-

bers. When Dauenhauer's wife, a junior high school science teacher, wanted to sign up in the Orange County School District, there were 22 vendors on the list; the Los Angeles Unified School District has a bewildering 140 vendors, according to 403bwise.com. And "even if there were no-load companies on the list, the teachers wouldn't have any way to find out which ones they were," says Dauenhauer. "They just get this list and the payroll office says, 'Okay, go for it!'"

"They're feeding them to the sharks."

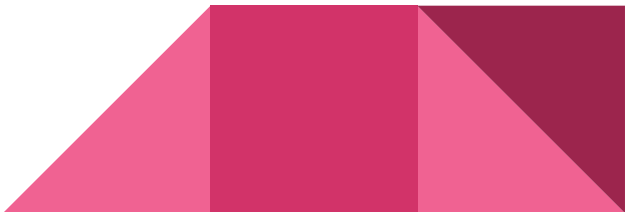
And the sharks are having a field day, particularly when they can earn big commissions. One teacher Dauenhauer worked with had been sold an equity-indexed annuity that would have returned less than 4% a year, and would have required a 15% surrender charge if she took her money out any time within the next 15 years. "I see a lot of equity-indexed annuities being sold, and I don't think they're good for anybody," he says. "The insurance company has way too much control over the return of the product, and they make them extremely complicated so that it's hard to know how each product will work."

You won't find Dauenhauer railing indiscriminately against all annuities, however. "If it's a low-cost, no-load annuity, doesn't have surrender charges, and has decent managers, I don't really have a problem with it, at least in qualified accounts. TIAA-CREF and Vanguard have good annuity products," he says. "The problem is when you start adding all these bells and whistles and baloney that some of the insurance companies are pushing. And



Additional Resources


- [New York Times 5 Part Series on 403\(b\) plans from 2016.](#)
- <https://403bwise.org/>
- <https://www.403bcompare.com/>
- [Podcast: Learn by Being Burned](#)
- Scott's book, "Wild West". Email Scott and he'll send you a copy:
scott@meridianwealth.com
- Emily Maretsky @teacherfinancialplanner (Instagram)
- 403b.substack.com



Q & A



Custody in 403(b) and 457(b) Markets


- Convenience
 - Fee debits
 - Might add to cost of product
 - Growing movement to single vendor
 - Advice without custody
 - Custody creates conflict
 - PCS Aspire, Fidelity, Orion, Penserve, TIAA
- 

History of bad 403(b) products

- Section 403(b) added in 1958
- Annuities only investment allowed, mostly fixed
- 1974 added Mutual Funds (ERISA)
- Majority of assets still in annuity products
- Variable annuities are significant
- Indexed annuities have risen dramatically



Common Annuity Issues

- Bonus products and high surrender charges
 - Rolling surrender charges
 - Old two-tier fixed and newer living benefit riders
 - Structured investment options
 - Often a companion cash-value policy sold alongside
 - NEA endorses and sells some of the worst products
- 

401(k) vs Public K-12 403(b)

401(k)

One recordkeeper

ERISA

DOL/SEC/FINRA

Fiduciary duty

One investment lineup

Single education source

Match

Group

Public K-12 403(b)

Multiple vendors combined with a third party compliance administrator

Non-ERISA

SEC/FINRA/Dept of Insurance - significant loopholes

No Fiduciary duty

Thousands of investments across dozens of product and vendors

Sold by conflicted insurance agents and registered representatives

Generally no match

Generally Individual

Some states offer 401(k) plans to their education employees (Idaho, North Carolina and others)

There are single vendor 403(b) plans (CPS, MCPS, Denver area, etc)