# Teachers, did you forget to do your homework on 403(b) plans?

*by Lynn O'Shaughnessy*

For many years, my mother taught in a sunny, spacious classroom in our neighborhood school in St. Louis. She was such a wonderful teacher that every year parents lobbied the principal to secure spots for their kids in my mom's class.

I used to tell her that she should be proud that she was in such demand, but my mom abhorred the fuss. Ironically, what she did feel good about was her 403(b) retirement plan. When she retired, she was pleased with the cash she had squirreled away in her tax-sheltered annuity.

As it turned out, my mom was a master at motivating fourth-graders, but she knew less than a dilettante about what was inside her retirement account. Her 403(b) account did grow over the years and ultimately generated monthly checks when she finally called it quits and boxed up a lifetime of books, apple knickknacks and bulletin board decorations. What my mom didn't know was that her annuity, which was offered by a big-name insurance company, was loaded with unnecessarily high fees that squished her nest egg.

Unfortunately, millions of teachers and others who invest in 403(b) plans are just as oblivious as my mother. I'm not wildly speculating on this one. All you have to do is take a gander at where teachers are stashing their retirement money to know they haven't done their own homework. Only 19 percent of teachers' 403(b) cash, according to a Spectrem Group survey, is invested in mutual funds. In this $607 billion market, the vast majority of teachers have embraced expensive annuities.

Since our brains seem to be hard-wired toward finding the best deals - think about all those folks who will be pressed against the doors to Wal-Mart the morning after Thanksgiving to snatch up holiday specials - you may be puzzled why teachers eagerly embrace what is far worse than that third helping of pumpkin pie. They stick with pricey annuities because that's what the insurance agents and brokers are peddling in school lounges.

These annuity reps seem believable and earnest and, unlike students, they keep their shirts tucked in. In contrast, you won't find the low-cost 403(b) players, most notably Fidelity Investments, T. Rowe Price, TIAA-CREF and Vanguard Group, chasing anybody down the hall.

Because the stakes are so high, you need to know what's inside your 403(b) plan. Are the investment choices you made any good? What kind of fees are you paying? You may find that your 403(b) account balance is groaning under the weight of sales commissions, investment and insurance expenses, subaccount fees, wrap fees, surrender charges, and who knows what else. Once you start poking around, the odds are you won't like what you discover.

If you need incentive to pore over your plan's particulars, here it is: The federal government is significantly overhauling its 403(b) regulations for the first time in 40 years. One aim of the regulations, which haven't been finalized yet, is to make the 403(b) look and feel more like 401(k) plans, which have stricter administrative guidelines to protect participants.

That's certainly a good development, but the regulations will unfortunately limit teachers from fleeing a bad plan. Currently, teachers who are saddled with mediocre 403(b) choices can typically move their cash to a 403(b) provider that isn't in a school district's lineup. Suppose, for instance, that a district offers a dozen 403(b) providers, but these firms only market annuities. Today, many teachers can move the money in their 403(b) accounts to one of the low-cost mutual fund companies that I mentioned earlier, through something called a 90-24 transfer. These transfers won't be allowed in the future.

Of course, 90-24 transfers wouldn't be necessary if school districts offered respectable 403(b) choices. But the administrative requirements of the new regulations are going to encourage fewer choices, not more. It's up to teachers to find out what choices are included in the plan and to make sure inexpensive mutual fund options aren't ostracized.

If you are tempted to flee before the new regulations are finalized and the 403(b) escape route is padlocked, you'll want to determine what your price of freedom would be. One of the drawbacks of 403(b) annuities are the surrender charges they assess to deserters. To walk away from an annuity, you may have to pay 7 percent or more of your assets. In contrast, if you dump a 403(b) that contains no-load mutual funds, there is no penalty.

If you want to learn more about 403(b) plans, I'd urge you to spend time atwww.403bwise.com, the brainchild of a couple of educators. Also, you might want to read "Teach and Retire Rich," by Dan Otter, one of the creators of 403bwise.com. You can order the book at www.TeachandRetireRich.com.

I only wish my mom had these kinds of resources when she was teaching.

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