Taking Stock: Teacher learns harsh lesson on retirement plans

by Malcolm_Berko

Dear Mr. Berko: I've been teaching for seven years and took my 403(b) plan home so my new husband could evaluate it. Since 2001, my net return, after annual expenses, is 2.6 percent while my husband's 401(k) has earned better than 14 percent a year. My husband, who works for a private company, told me to send my plan to you for your analysis. Please give me some good advice and tell me what to do. I've discussed this with two other teachers and they are also shocked at their very low returns. One woman has about $34,000 invested in 11 years and its now worth $38,226. We can't get out because the penalties, in some cases are as high as 12 percent. Please help us and don't use my name or city because it could cause problems for us.

X.X.

California

Dear X.X.: In too many instances, your teachers' unions are as crooked as a shillelagh. In too many instances, unions' elected officers and directors are as sedulously self-serving as a congressman or senator. In too many instances, officials at teachers' unions earn enormously more than the teachers whom they represent.

In too many instances, teachers' unions figuratively cohabit with insurance companies and brokerages to recommend high costs, high commission products that have low returns. Union officials would endorse the investment as well as the firm peddling it to the teachers. In return, the brokerage or insurance firms would enrich the union's treasury, take union officials and their families on holidays, advertise in union publications, pay consulting fees to friends or families of union officials, provide personal gifts and make myriad perks available on demand.

According to the Buckeye Institute Report, the National Education Association collected over $50 million in 2004 and $53 million in 2005 from annuities, life insurance and other financial products it endorsed. Many observers think that these millions of dollars may only be a part of a big enchilada. If you take a close look at the annuity papers you forwarded to my office, you might note that you own a fixed annuity paying 3 percent less expenses of almost 1.5 percent for the last seven years. As you know, there's an enormous penalty big enough to give you a heart attack if you cash in your annuity.

The reason your husband's 401(k) has done so much better than your 403(b) is that he owns several Fidelity mutual funds, which have average returns the last five years of better than 16 percent. The company for which he works cares about its employees and no one is on the take. I'll wager dollars to dominoes and doughnuts that the executives at American Federation of Teachers and the National Educations Association have personal retirement plans which are so superior to yours that they would take your breath away - just as superb as the retirement and health plans of your U.S. congressman and senator.

I'm continually astonished that teachers, most of whom have advanced degrees, are so bloody ignorant and unconcerned about their personal retirement accounts. Some believe that a teacher's ignorance about personal financial matters may reflect their teaching abilities. However, I'm going to give you some free advice. As you know free advice is often worth its cost but in this case the free advice I'm going to give you could be worth several hundred thousand dollars over the next 35 years. Consider suing the school board, the annuity company and your union. Find an attorney in your state who is sympathetic to and understands the problem.

This is a great opportunity for a smart lawyer because he will be representing thousands of teachers, many of whom may also request his personal legal services in the future. The attorney will probably call a meeting of the district's school employees, discuss the annuity performance problem and his recommended course of action and ask the attendees to sign a consent form allowing him to represent them in this matter. The lawyer should be able to find myriad examples of collusion and wrong doing that will encourage positive changes in your 403(b) plans and eliminate the "cash-out" penalty on the fixed annuity. When you can cash out without penalty, do it. Then ring Fidelity, T. Rowe Price or Vanguard and get yourself a real 403(b) rather than a union-sponsored plan that enriches union coffers and chosen employees. If this type of performance occurred with a state pension fund or a corporate plan there would be a few more people in jail today.

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