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Teaching Subtraction

School System ahead of IRS on streamlining 403(b) vendors

By Kelley M. Butler

Although variety is the spice of life, officials at Jefferson County Public Schools in Golden, Colo., felt last year that they had too much of a good thing. After all, the school system's 403(b) plan contained a whopping 55 vendors – way more than the district needed or could support.

"Anytime we hired a new employee, if that employee [held prior retirement assets] with a particular vendor, we would scoop them into our plan," explains Jefferson County's CFO Lorie Gillis. "Eventually, it became clear that we didn't understand all the fees we were paying or the fiduciary responsibility we had in doing business with 55 vendors."

JCPS had made several efforts in the past to streamline the number of retirement plan vendors, but "it didn't really happen," Gillis admits. However, last year, she decided to revisit the issue in earnest.

Enlisting the assistance of Denver-based pension consultant Innovest, Gillis and her staff began the RFP process for a new, smaller slate of vendors. "With Innovest's level of expertise and knowledge, they were able to come in and guide the entire RFP," Gillis says. "Plus, they had no relationships with any of our current vendors, and they understood the specific requirement we were looking for – automation, detailed reporting levels and transparency in fees."

JCPS received 13 proposals, but one provider, Greenwood Village, Colo.-based Great-West, stuck out right away. Gillis recounts the vendor's attributes: "Their administration fees were so much lower, their services included a full-time, in-house financial counselor, and they were local. The selection process was pretty easy."

A lesson in communication

But next came the hard part – convincing JCPS's 12,000 employees that reducing the 403(b) plan's vendors from 55 to just one was actually good for them.

"Employees felt we were taking away their choice," Gillis recalls. "More than half of the employees that were contributing to the plan were contributing to a provider that was not selected. But all of the funding options were very similar, even redundant, and we had to explain that to them."

She admits that the education process got off to a rocky start. "In hindsight, if we would have begun educating people sooner, it probably would have lessened the speculation, rumors and fears that spread. But once we got our message out ahead, those things died down."

The education process was aided by a Great-West financial counselor, who worked full-time with JCPS employees on making retirement planning decisions. The counselor continues to work in-house currently, helping the school system's workers meet their retirement goals.

"He's almost totally booked every time he sets up meetings," says Gillis.

Overall, Gillis has great things to say about the vendor-streamlining process. "It was rocky to get here, because there always will be a percentage of the population that will resist change. But now employees are enjoying the benefits of a skilled provider representative and much-improved retirement opportunities."

Fear of change

Perhaps Gillis's positive experience will help allay the fears of other 403(b) plan sponsors regarding the IRS' first regulatory changes to such plans in 40 years.

The regulations, due for release this summer and effective January 2007, clarify several points on fiduciary responsibility and specifics of retirement plan documents; they also encourage plan sponsors to limit the number of vendors they offer to ease fiduciary and administrative responsibilities.

In a Fidelity Investments poll of 300 plan sponsors in education and health care, 85% are somewhat or very concerned about the potential outcomes or side effects of the changes.

"While many plan sponsors are raising concerns, we believe these concerns are to be expected, given the magnitude of these changes and how long it has been since 403(b) regulations have seen any material modifications," says John Begley, executive vice president of Fidelity's tax-exempt services company. "The good news is that the new regs will encourage plan sponsors to streamline the number of vendors and investment options available in 403(b) plans."

Note "encourage," not require. Among common misperceptions of the new regulations, 39% of plans sponsors believed the new IRS rules would require a limit on the number of vendors they could use, Fidelity reports.

However, streamlining vendors could prove to be a good thing for both employees and plan sponsors. According to Innovest, moving from a multiple-vendor to a single-vendor 403(b) platform can save participants 1% per year in fees. For a participant saving of $5,000 per year for 25 years, a 1% fee savings equals nearly $60,000. Further, says Begley, simplifying investment options helps avoid "the inertia participants experience when facing too many investment choices."

Gillis says streamlining has yielded positive outcomes for the district and its employees, and also provided a valuable learning experience.

"I learned so much from this process, and the district is in a much better place now than when we started."

--K.B.