

How I Got Vanguard

Like most new teachers, when I started teaching 14 years ago I had no idea what a 403(b) was, but I knew it sounded like a good idea. In fact, the Insurance Guy I spoke with made it sound almost too good to be true. In order to choose the best company to invest with, I brought the summaries of the different plans home to my father, who although not a financial professional, is a pretty smart guy, and he reviewed them and told me that they all stunk. He added however that the tax-deduction alone made a 403(b) worth it, whatever that meant. We went with VALIC, and Dad put me in a fixed income investment to reduce the high fees “going to the pigs,” as he puts it. He also set up an automatic yearly 10% transfer to Vanguard where the money went into a mutual fund. He then said to me, “you really need to get Vanguard in Wayne.” (I teach in the Wayne Public School District in Wayne, NJ.) I didn’t really understand what he meant, and I wasn’t confident in my knowledge base going to the Board to request Vanguard be added as a provider, so my money went to VALIC for 13 years with 10% transferring to Vanguard every year.

Over the years I prodded my Dad to teach me about investing, but I hadn’t done any research myself, so he told me to subscribe to Money magazine and read the business section every day and then we would talk, so that’s what I did. At first I understood nothing, but over the course of a few months, phrases like expense ratio, asset allocation and variable annuity started to make sense, being a math teacher helped. The problem was, as I began to gain an understanding of investing, I also started to understand why Dad had told me years before that I really needed to get Vanguard as a provider in my district. After doing a lot of research on the internet, especially the 403bwise site, I felt ready to ask our Board to add Vanguard as a 403(b) provider, but this simple task proved much more difficult than I expected.

My first step was to contact the Business Office and ask what needed to be done to add a new 403(b) provider. I was told that we needed to collect 25 signatures from employees that they wanted a new provider, in this case Vanguard, and the Board would add it. Seemed simple. We easily collected the 25 signatures and submitted them to the Board and 2 months later we were told that we didn’t need 25 signatures, we needed 25 people to actually sign up with Vanguard, and **then** Vanguard would be added. This was the first of many confusions and miscommunications. I wondered, “Who would go through the work of signing up for a company that may not even be approved?” and I asked why it was so difficult to get a new provider. I was told that the Board felt it was “**too much paperwork**” to add a new provider. That was all I needed to hear. I knew that not having a low cost mutual fund provider was going to cost me thousands if not hundreds of thousands of dollars over time, not to mention the cost to the other 1000 teachers and staff throughout the district, so I made it my mission to get Vanguard by the end of the school year. The date was March 10th, 2006.

My plan was to attack the Board on two fronts, one a frontal assault and the other from the flank. To attack them directly, I requested a meeting with the Board Members to teach them about 403(b)’s. I was told by the Business Administrator that I would not be given an opportunity to meet with the Board Members because they weren’t interested in adding any new providers, another miscommunication, so I sent a 4 page e-mail to each Board Member explaining why it was so important to add a company like Vanguard. To

attack from the flank, I knew that if I could get the other teachers in the district as educated as I was about what they were paying for in their 403(b)'s, they would be as fighting mad as I was, and the power of 1000 is much greater than the power of one.

I began to educate my fellow teachers by placing a 403(b) flier in everyone's mailbox. I made it look as professional as I could, but I made sure people knew it was from a teacher and not from an insurance salesman. I also e-mailed the flier to every teacher in the district. The flier included a quiz with 5 questions. What is a 403(b)? What is an expense ratio? What is a death benefit? What is the Rule of 72? And the big one, what is a Tax Sheltered Annuity? I told them if they didn't know the answers to these 5 questions, then they didn't know enough about where their money was going and they needed to learn more. I knew almost all of the teachers currently in 403(b)'s were in annuities and I also knew that virtually none of them knew what they really were, so I hoped this would get their attention. I set up an e-mail address and I simply asked them to e-mail me if they were interested in learning more.

The response was slow at first, you know teachers, but there was enough interest to begin doing 403(b) presentations throughout the district so that is what I did. I came up with an hour long presentation explaining exactly what a 403(b) Tax Sheltered Annuity is, and what a 403(b)(7) Custodial Account could be. While I was biased against the Insurance Companies, I tried to remain as objective as possible because the facts speak for themselves. Near the end of the presentation I had a couple slides comparing the growth of a hypothetical investment with a mutual fund company like Vanguard and a Variable Annuity Insurance Company like we currently had access to. Not everyone understood everything I presented, but everyone understood the difference between an \$800,000 nest egg and a \$500,000 nest egg. Most of the people who came to my presentation not only left with a better understanding of Tax Sheltered Annuities, but they also left with a commitment to help me get Vanguard as a provider in Wayne.

At the same time I was doing these presentations, one of the Board Members I had e-mailed my letter to, e-mailed me back to tell me that she thought what I was doing was great and that she was totally behind it. It turned out that she is a professor at a nearby college and they had just restructured their own 403(b) system by adding a number of new providers. Her positive response really boosted my spirits and her support proved invaluable throughout the entire process.

My mission was really starting to take on a life of its own now. By mid June I was doing a presentation almost every day and I was up to over 100 people on my e-mail list with more streaming in. Then the first bomb hit. Back when I had given the first presentation at my school, one of the Insurance Salesman who reps our building, "Tom with Equitable", dropped me a note asking to attend my meeting so that his industry would have a voice. I was not confident enough in myself to allow him to be at the meeting, but I did request an individual meeting with him so that I would be better educated about his products. He is a very nice guy and explained his offerings, but in the end, the facts were the same; his products cost more. We left amicably with an agreement to disagree, but then things got worse. I continued my presentations and I got an e-mail from Tom that his company was considering legal action against me for practicing legal advising without a license. In actuality, one of the people at Equitable was continuing to receive commissions from accounts he had generated in Wayne, and since people who had come

to my presentation were leaving Equitable for Vanguard, this person was going to lose a source of income so on his behalf, Equitable threatened me in an attempt to get me to stop my presentations. I had already contacted the SEC about what my legal rights were and I knew I was not in violation, so I responded to Tom's threat by telling Tom that I had better then stop my presentations, but what I really did was continue my presentations with more ammo against the insurance companies, and I called the newspaper. The newspaper reporter killed the insurance industry because once again, the facts speak for themselves, and it gave some legitimacy to what I was trying to accomplish in my district. Tom and I haven't spoken since.

The second bomb dropped right around the same time I called the newspaper, only this bomb eventually turned out to be a good one.

There were still a few schools that I had not given presentations to and when I went to one of them to drop off fliers, I was told that I could not hand out fliers without the superintendents' approval. I drove straight to her office to request her approval. I had already contacted the superintendent previously in an attempt to gain her support for Vanguard, as a Board employee she is also entitled to a 403(b) so why wouldn't she want Vanguard, and she had previously told me that so long as our Union supported Vanguard, it would be no problem having Vanguard added as a provider. I also knew her husband and son worked for VALIC, one of the Insurance Companies in the district, which although certainly not illegal, there was a possible conflict of interest here and I was concerned. I also knew that she knew I had already contacted the paper about being threatened by our AXA rep, I had e-mailed all the Board Members regarding that situation, and she was concerned about negative publicity in the paper so the meeting did not get off to a great start.

First of all she did not give me permission to hand out the fliers in the district. She then expressed her significant displeasure that I had gone to the paper claiming that the newspaper articles often make things worse, (our district had been the victim of some bad press recently.) Then I told her I was also planning on going to the Board Meeting that night to express my own displeasure that Vanguard had not been added yet and she was not interested in seeing me at that Board Meeting. There were a couple other "higher ups" in our meeting as well including the new assistant superintendent, personal director and Business Administrator, but by this time I had all the knowledge I needed to take on all comers, and while the meeting made me a little nervous, I did not back down in my resolve to see Vanguard as a 403(b)(7) provider in our district. The end result of our meeting put us back where we started. I basically promised not to go to the Board Meeting that night and promised that the article in the paper would not bash the district, (never my intention by the way), and the Superintendent promised that if I could get 25 people to actually sign up for Vanguard, she promised me that she would make sure Vanguard would be added.

I went back to my growing e-mail list and explained the result of the meeting and told everyone that if they were 100% sure that they wanted to switch to Vanguard, they should e-mail me and I would get them the paperwork. By the last day of school we had 38 sign-ups, and on July 20th, our Superintendent kept her word, and the Board voted unanimously to approve the addition of Vanguard as a 403(b)(7) provider in our district.

Epilouge:

I left out some of the detail that goes along with this story because how much do you really want to know? But looking back, the biggest hurdle to overcome was global ignorance. Once I got my chance to sit down with the Board Members, who were understandably ignorant about the products, it's not like they are eligible for them, and explained the difference between a 403(b) and a 403(b)(7), they were totally sold that we needed Vanguard. Once I was able to eliminate much of the ignorance the teachers had about their own investments, they too were completely on board with Vanguard. In my experience, the only ones not basically ignorant about what is going on with 403(b)'s are the insurance companies, and trust me, they know exactly what is going on.

If you are interested in taking on a challenge like this in your district go for it. It was extremely educational for me and a great source of pride as well. I made a number of new friends, only a couple new enemies, but overall it was one of the most worthwhile experiences of my life. My Advice, if you want to take on this challenge get educated first. You have to become an expert on 403(b)'s because as we teach our students, knowledge truly is power.

If you would like to see the letter I sent to the Board Members, or view the power point presentation I gave or have any other questions please visit my website at www.mcnuttmath.com. Follow the links for 403(b) information and good luck.