New Jersey Teacher Wins Fight on Retirement Fees: John F. Wasik

By John F. Wasik

Oct. 2 (Bloomberg) -- Although he's a math teacher, Bruce McNutt had been in his profession for 14 years before he did the ugly arithmetic to see how fees were devouring his supplemental retirement plan.

They were too high. Instead of allowing expenses to silently eat away at his 403(b) retirement funds, he did something about it and campaigned for lower-cost products.

After organizing seminars and speaking before 100 of his district's 815 teachers, he persuaded 50 of them to sign up with a new provider. McNutt then asked his school board to provide funds from the low-cost Vanguard Group of Valley Forge, Pennsylvania. The board agreed to add Vanguard to the program.

``When I'm 80 years old and sitting in my rocking chair, I'll think that this is one of the greatest things I've ever done,'' the 37-year-old from Wayne, New Jersey, told me.

Somehow I don't think McNutt will be resting in his rocking chair at that age. I am certain, though, that unless more people protest exorbitant fees in retirement plans, far too many of us won't be comfortable in our dotage.

As relatives of the 401(k) plan, 403(b)s are all too often ugly stepsisters. The plans are typically sold by brokers and insurance agents, carry above-average mutual-fund expenses and layers of other fees.

Designed as supplemental retirement plans for teachers and other employees of non-profit institutions, they are among the costliest retirement vehicles on the market.

$600 Billion

According to the Spectrem Group, a Chicago-based research firm, of the estimated $600 billion invested in 403(b)s through last year, almost $500 billion was in variable or fixed annuities. Most of those people who invested in these products work in elementary schools, higher education and health care.

At the advice of his businessman father, McNutt examined a prospectus for his 403(b) and discovered that funds provided by three annuity vendors in his district were charging as much as 3 percent annually. Considering that Vanguard was essentially offering mutual funds for as low as 0.18 percent a year, he said he felt compelled to organize seminars for his fellow teachers.

One vendor resisted. McNutt's extra-curricular education efforts hit a nasty snag when a sales representative for AXA- Equitable Life Insurance Co. threatened him with e-mails

that stated he ``might get a letter from our legal department," suggesting McNutt was doing something illegal.

McNutt's campaign was perfectly legitimate since he wasn't compensated in any way. His PowerPoint presentation, in fact, was quite thorough and balanced.

AXA Response

Mary Taylor, a spokeswoman for AXA-Equitable, a unit of Paris-based AXA SA, responded: ``The AXA Equitable Law Department was not notified and, without viewing Mr. McNutt's full presentation, would not presume to comment on whether Mr. McNutt has violated Securities and Exchange Commission rules about recommending the purchase of variable products.

``Since Mr. McNutt is not a qualified representative of AXA Advisors, we do not feel he should attest to represent our products."

Most 403(b) assets are invested in high-cost variable annuity products. While the insurance guarantee may be desirable, expenses could be much lower.

``It's a major problem," said Dan Otter, a former teacher and author of ``Teach and Retire Rich."

``More than 80 percent of 403(b) money sits in annuity products. With the exception of TIAA-CREF, most annuity products cost more than mutual funds."

`Wrap Fee'

In addition to money-management charges, annuity packages nick investors with mortality expenses for the insurance component. There's yet another layer called a ``wrap fee," which often can be levied by the insurer for packaging the product. Sales commissions may erode retirement savings even more.

In McNutt's presentation to his colleagues, he showed how high expenses devoured retirement assets over time. One example focused on what you would have after 20 years at an 8 percent annual return.

If your annual expenses were 1.1 percent -- a basic cost of a variable annuity -- you would pay $46,250 in fees and forgone earnings over that period on a total of $186,797.

Slash the annual expense to 0.18 percent, and your fees and lost earnings would be reduced by a factor of five, and you would have $38,000 more in your kitty.

The savings are greater over longer periods of time with larger amounts of money. Even if you don't have a 403(b), you can do these cost comparisons in 401(k)s, 457s and any individual retirement account.

Lobby Your Employer

Want to rid 403(b) or 401(k) plans of needless expenses? You have the right to lobby your fellow employees -- and employer -- for change.

Look at literature from low-cost providers such as Fidelity Investments, T. Rowe Price, TIAA-CREF and Vanguard. Fee-only financial advisers can also set up plans using exchange-traded index funds.

Tell your employer that you need new vendors with lower costs. This applies to any retirement plan, including 457s, SEP- IRAs and Simple programs.

Remember that employers are obligated by law to heed your call and do something to lower expenses, boosting your net returns. Don't wait until you are close to retirement. When is the best time? For most of us, ``now'' has a nice ring to it.

(John F. Wasik, author of ``The Merchant of Power,'' is a Bloomberg News columnist. The opinions expressed are his own.)

To contact the writer of this column: John F. Wasik in Chicago at jwasik@bloomberg.net
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