

Our Vanguard 403(b) Story

My name is William Blackstone (WILLIAM.BLACKSTONE@domtar.com) and my wife's name is Dana. She is a career schoolteacher in the state of Texas, a veteran of 23 years. During her career, Dana & I have discussed retirement investing many times. Like most teachers, Dana had no real knowledge of the investment opportunities available to her, but knew tax deferred investment made good sense. Unfortunately, the 403(b) investment options available to her were always with insurance companies. Consequently, we always chose not to participate in her 403(b) plan.

Having worked for Shell Oil Company, I had been much better prepared by my employer about investment options so I knew investing with an insurance company made very little sense. Plus, I had once taken a business course in which the professor required students to read and report on articles from *The Wall Street Journal*. The very first article I picked was about insurance company annuities and teacher 403(b) plans. The author explained how many unsuspecting teachers were sold high-fee insurance financial products loaded with unnecessary charges, including excessive surrender penalties. The article also explained that unlike 401(k) plans, K-12 employers bore very little fiduciary responsibility with 403(b) plans, and were required to provide zero investment education.

Several years ago I began to really question why teachers did not have investment opportunities equal to general industry. After all, teachers are professionals and since they are not highly paid, one would expect that they would have great investment options. In researching the issue, I found the 403bwise ([link](#)) website. Run by teacher Dan Otter, the site advocates the availability of objective 403(b) information and access to quality low-cost investments. I was able to find a lot of information about the state of the 403(b) plan (not good), information on the workings of the plan, and resources for advocating for better choices. I also checked with brokers and other investment companies to see if they could offer a low-cost investment to my wife's employer. Unfortunately, they couldn't. I finally approached Vanguard, a company known for extremely low-cost investments. While a player in the K-12 403(b) arena, it is not a core market for them. To my delight I was able to find a workable solution. The next hurdle was school board approval.

Fortunately, some of our board members had investment knowledge. I wrote a letter to all of the members pleading my case. Information from 403bwise was invaluable in this effort. I then discussed the situation with the Superintendent, who gave me the school's hold harmless agreement (an agreement some entities require that absolve them of any liability). Vanguard reviewed and signed the "hold harmless" agreement. The forms were filled out and in no time my wife's contributions began. We were thrilled that the employees of Dana's school district would have access to such quality, low-cost investments. All was grand in the land of De Kalb Independent School District until a third party administrator (TPA) entered the picture!

In early December 2008 we received a letter informing us that Vanguard was no longer an option for our 403(b) plan. Spurred by impending changes to the 403(b) plan, employers across the country, including Dana's, began contracting with TPAs to administer their plans. According to the TPA, the IRS was requiring an information

sharing agreement be signed by each vendor, and Vanguard was balking at signing the TPAs. We found out that Vanguard had their own information sharing agreement, but the TPA wouldn't agree to it. Ugghhhhh!

My wife and I were aware of the coming changes to the 403(b) and had heard that many employees were losing access to low cost companies such as Vanguard. Fearing a similar fate I contacted 403bwise's Dan Otter even before receiving the news about Vanguard. Dan and his friend, Scott Dauenhauer, a certified financial planner, were extremely helpful. They were well aware of the TPA problems and offered advice and information. They provided us with the name of a TPA (JEM Resource Partners <http://www.jemtpa.com/services-403b>) who has signed agreements with Vanguard, and other low-cost investment providers. JEM currently administers plans in Texas and California. It's important to note that JEM is a fee-only company, meaning they charge for plan administration services but do not sell financial product. It's my understanding that many TPAs do sell financial product along with providing administration services. In such cases, it's not a stretch to believe these kinds of TPAs would be less than supportive of having low cost providers as competitors.

If you are having similar problems with a TPA and your 403(b) investment, I would suggest contacting JEM. Approach your school board with suggestions. In my opinion, if one TPA can work an agreement with low cost investment companies, any TPA should follow suit. Teachers should not be penalized during this time of transition to the new regulations. My next mission? Getting objective plan information to employees at my wife's school district. Stay tuned.

Sincerely,

William & Dana Blackstone