

NAPFA Supports Stronger Federal Regulation of 403(b) Retirement Programs for Educators

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ARLINGTON HEIGHTS, IL - The National Association of Financial Planners (NAPFA) applauds The Wall Street Journal for bringing to light inadequate consumer protection for teachers who are participants in 403(b) retirement savings programs. The 403(b) programs are designed for educators to save for their retirement, similar to the ways that many workers use 401(k) programs.

Unfortunately, as the Journal pointed out in a front-page article on Aug.

25, the regulatory framework to protect 403(b) investors, particularly teachers working in the K-12 environment, is very weak. The Journal detailed alleged abuses in the Bayport-Blue Point Union Free School District, as well as other jurisdictions.

"The 403(b) program has an estimated 6.8 million participants and \$600 billion in assets across the country. That's very substantial. It should be subject to greater protection for savers and investors," said Peggy Cabaniss, NAPFA Chair. "NAPFA historically has stood up for giving consumers complete information and unbiased investment advice, and it seems that some 403(b) plans are lacking these basic attributes."

As the Journal explained, 403(b) plans are regulated by the Internal Revenue Service (IRS) and state securities regulators. School districts'

administrators are given wide latitude to select providers of 403(b)s, and the administrators are not required to conduct a great deal of screening of companies that wish to offer investment products.

Moreover, the district administrators who decide which companies can administer the plans are not fiduciaries - that is, they do not have a legal obligation to protect the plan's participants.

"The rules for 403(b) plans stand in stark contrast to rules governing fiduciary conduct by advisors to 401(k) plans. If it's good enough for a typical worker in a 401(k), it should be good enough for America's teachers," said Cabaniss. She noted that some NAPFA members are advisors to companies' 401(k) plans or offer plan investment services to 401(k)s.

Compounding the problem of weak oversight, teachers many times have a limited assortment of choices for their 403(b) plans. Some of the choices have high commissions, high expenses, and mediocre returns. "We are not criticizing all providers of 403(b)s. TIAA-CREF and Vanguard, for example, have many low-cost plans that our members' clients are using satisfactorily.

But it's clear that high-commission abuses occur, particularly in plans offered to teachers in the K-12 environment."

Though there is no apparent action to date in Congress to regulate 403(b) plans, NAPFA would support legislation that would provide teachers with better investment choices and greater protection of their retirement accounts.

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