Submitted by Kerrie Vanden Bosch

Fragmentation of the State's Defined Contribution Plans

If passed by the legislature and signed by the Governor, HB 4338 would require DTMB to contract with eight to ten multiple defined contribution plan provider(s) for employees that are qualified participants of the 457 and 401(k) plans. While on the surface it may seem that more options would be a good thing, this proposal is bad for participants and bad for the state plan overall.

Costs: The existing process allows the Department to shop the market as a major purchaser and ensure competitive administrative and investment fees through a rigorous "Request for Proposal" process. The State of Michigan's retirement plan is large, with around 130,000 participants and nearly $6.5 billion in assets, affording it access to the most competitive and lowest fee structures available on the market. Participants in smaller plans pay higher fees, as much as four times higher, in order to cover the fixed costs of more vendors to maintain and administer the plan in a decentralized and diluted program. Fees are also greater in smaller plans than in the state's current plan because the current plan relies on salaried investment professionals, rather than salespeople who need to rely on commissions. The additional plan fees that would result from fragmenting the plan would lead to a direct decrease in participants' retirement nest eggs. This decrease can be substantial; TIAA-CREF found that an educator participating in a low-cost plan can potentially accumulate up to $60,000 more in real retirement wealth compared to an educator in a higher-fee plan.

Plan Features: Because the current plan is large and more efficient, it can offer many different plan features and services that might not be cost-effectively offered through a small plan. The benefits of staying with a large retirement plan are clear in the table below, which compares the state plan to six other retirement plan vendors that are currently service providers for school 403(b) plans.

	State of Michigan 457 and 401(k) Plan	American Funds 403(b)	American Century Investments 403(b)	Fidelity Direct 403(b)	Franklin Templeton 403(b) Plan	Oppenheimer Funds 403(b)	Vanguard® 403(b) Individual
Purchase Method	One Location Offered by Human Resources for the School District.	Offered through a local representative or advisor.	Direct purchase from the vendor (customer makes own investment decisions).	Direct purchase from the vendor (customer makes own investment decisions).	Offered through a local representative or advisor.	Offered through a local representative or advisor.	Direct purchase from the vendor (customer makes own investment decisions).
Features:							
Roth Eligible	✓		✓	✓		✓	
Self-Directed Brokerage Accounts	✓						
Financial Planning and Advice Services	✓						
Auto-Enrollment Available	✓						
Auto-Contribution Escalation	✓						
Local Office Support	✓						

Education and Advice: The existing plan offers robust education and advice options, including educational websites, seminars and webinars. Through the plan, participants have access to a Personal Online Advisor that will allow them to review their retirement accounts online and give them advice, or they can elect to meet and review their investments with a professional account manager and have their accounts managed by a licensed investment professional.

The Office of Retirement Services is currently in the process of implementing an administrative change to the plan that allows participants more access to local advisors through the plan. With this change, participants in the Self-Directed Brokerage Account (SDBA) will be able to enter into a relationship with a local Registered Investment Advisor (RIA) of their choosing. The RIA will have the ability to manage the participant's account through the SDBA, while being held to a higher fiduciary standard than some other types of advisors. The RIA's fees can be deducted directly from the participant's account. We believe this would address Rep. Forlini's goal of providing plan participants with the option of working directly with an advisor of their choosing, while averting the more drastic changes included in HB 4338 that would hurt all participants in the plan.