PRESENTS A WHITE PAPER:

TRS, PSERS, Social Security and the Critical Role of an Effective Retirement Savings Program

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5.25.2018

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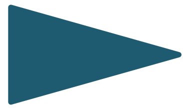


Section 1: Introduction

Leaders in public school districts in Georgia know well the superior benefits delivered by the Teachers Retirement System or TRS. Not only is it one of a dwindling number of "defined benefit" retirement plans, but the promise of future benefit payments has been responsibly funded and the plan is financially sound. The cost to achieve this reality is very high – now 20+% of pay – funded by local school boards, and another mandatory 6% of pay from participants – but there is no arguing the financial security this plan provides. "Career employees" – those with 30 years of service – are promised a lifetime benefit equal to 60% of their "pay" (more if you work longer), with the definition of pay being the average of their highest two consecutive years of pay (not including the last two). That's a lot of security. And it's on autopilot. If you're fortunate enough to be covered in this plan and you put in the time, you will reap an uncommon reward.

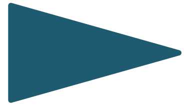
There is equal awareness that if one is *not* in a job category that qualifies for TRS participation, things are not quite so peachy. While also a defined benefit plan that is adequately funded, PSERS delivers a modest, flat, benefit amount (now $15) for each year of service, rather than one that is calculated based on one's pay. A career employee (using the same 30 years above) earns a benefit of $15 x 30 or $450/month in retirement. The global reactions we hear are: "that's not much money" and "PSERS is a lousy plan". The first is hard to argue. $450 barely covers the cost of State Health for a family. But the plan itself actually delivers a very significant benefit when you consider the contribution required to get it – just $36/year if I started working before July 2012 and $90/year if I started after that. Even in the latter category, over a 30-year career, I contribute $2,700 to get a guaranteed, lifetime benefit of $450/month. Who wouldn't take that deal?

But here's the real problem:

If my annual pay is $9,000/year, that $450/month calculates to 60% of pay – the same benefit a career employee receives in TRS. But not many people are earning just $9,000/year.

If I earn $15,000, $450 is just 36% of my pre-retirement monthly pay. At $24,000, it's just 22.5%; and at $50,000, the $450 PSERS benefit is just 10.8% of pay. So, as one's job responsibility and pay grows, his pension benefit replaces a smaller and smaller percentage of his pre-retirement income. This presents a major challenge for a person hoping to build a secure retirement.

We can perhaps say it is fortunate that only about 20% of most Georgia school district employees are in PSERS and about 85% of them earn $24,000 or less. But while this makes the overall magnitude of the problem smaller, these statistics don't speak to the individual employees and families staring this retirement income gap in the face. Nor do they help benefits administrators aid (or even comfort) a bus driver or custodian discovering that he can't actually retire at all.

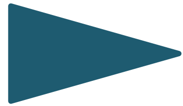


Section 2: What about Social Security?

The obvious, first "aid" the employee has (in most school districts) to help close his retirement income gap is Social Security. Here, we have another defined benefit plan – but this time the benefit promise is not well-funded. That's far too charitable, actually. In fact, Social Security is projected to go bankrupt in fewer than 15 years. Today, there are fewer than two active workers for every retiree receiving benefits – and the baby boomers soon will all have reached full benefits eligibility. You don't have to be an actuary to make a gloomy forecast from that set of facts! Do you think our kids and grandkids will object to paying Social Security taxes of 25%-50% of pay to fix it?

So, in the case of Social Security, there are two glaring obstacles to it being a viable source of security for anyone but near-term retirees. First, it may well not be there at all and second, both the employee and the employer are paying 6.2% of pay to fund it! 12.4% of pay to fund something the math says won't be there in 15 years. For younger people, let's say those under 45, this appears to be something like making tough mortgage payments each month on a house that won't be there when you've paid off the loan. It's a bitter pill. To be prepared, it would be better to assume that Social Security, at least as we know it, will not be there.

Without devoting 20 pages to how our government got us here or musing about solutions we imagine could save Social Security, we are going to focus our attention on the readily attainable solution: Educating employees on all these issues and creating a proper retirement savings plan that can help them meet their newly discovered retirement savings goals.



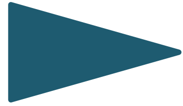
Section 3: Is there really a path to retirement income adequacy for PSERS participants?

The short answer is "yes". With the right education, tools and guidance, employees in every job category, regardless of the pension plan to which they are assigned, can achieve an adequately funded retirement. PSERS participants at most salary levels can achieve something approaching equivalency to their colleagues in TRS. And with a small employer match, they can all do even better, believe it or not.

Is there a magic solution or some insurance product to purchase that will achieve these results? Quite the opposite. The insurance products – annuities, in the retirement realm – do indeed offer guarantees, but if I were to be critical (and I am), they are pretty much a guarantee that one will *never* achieve a retirement benefit equivalent to one from TRS. Why? Because insurance companies know all the numbers and they are going to make their money first. Any guarantees they offer will be ultra conservative to assure ***their*** success.

A saver's goal must always be to maximize the return on his investment with an amount of risk that is personally tolerable. So regrettably, these two goals are in substantial conflict. By the time an insurance company charges for its services and guarantees, there will never be enough earnings left to allow one's savings to accumulate to anything substantial. It may be better than nothing but that's about the best you can say for it. The investment return one gets may marginally beat inflation but probably not, and if you have a cash crisis and need the money, the surrender charges will wipe out your gains in an instant.

This is a critical piece of knowledge for school district leaders – Finance, HR and Board members – to internalize if you are going to be an agent of change for that group of employees who are most profoundly affected by this retirement benefit shortfall. The status quo for 403b and 457 plans will never achieve the desired results if maximized savings are necessary – and they are! If the goal is to protect a local sales person or boost the profits of a particular insurance company, then the right strategy may already be in play. But if you want to help your employees to do what serves them best, you'll need to first take on a larger role in educating both yourself and them on the issues. Then, take action to improve your plan so that it will be an efficient tool for participants who want to close their retirement income gap.



Section 4: What's wrong in today's 403b/457 plan environment?

Acknowledging that we're generalizing in these observations, the flippant answer might be, "what isn't?". Although all school districts share the same primary goals for student achievement, that can be where the similarity ends, so we are not declaring that every district has exactly the same list of 403b/457 challenges. Several have made major plan improvements, but at the same time, there are common issues that we see again and again that run counter to efficient retirement saving and investing. So, without further caveat, here's the list. Which ones apply to your district?

- TRS/PSERS down-played or not properly acknowledged by sales people
- Confusion – too many choices with minimal guidance on how to invest
- Poor investment choices – plans burdened by annuities and actively-managed mutual funds
- Advice and guidance provided by people who are being paid out of plan assets
- Poor participation – generally less than 30%
- Bad decision-making by participants – too conservative, taking loans or distributions, run when the market goes down
- Multiple vendors – more confusion – annuity salesmen vs. financial advisors, "cross-criticism" destroying credibility
- Large number of sales people interferes with your greater mission
- Staff is burdened with plan administration, deductions, remittance, etc
- Cost – outrageous cost to employees via sales commissions, hidden fund expense, surrender charges and "annuity clutter"
- Compliance – monitoring maximum deferral percentages and due diligence

In an environment where personal savings are more important than ever – due to weak PSERS benefits the uncertainty of Social Security, etc. – these are hindrances in savings plans that can, and really must, be eliminated.

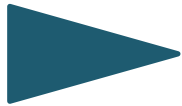
Identifying the problems that your plan has is the first step to a retirement savings plan that is easy to understand, efficient and low-cost enough to enable participants to reach a goal of equivalency with TRS. But that may be the easy part. There are some practical hurdles that will need to be overcome on the way to accomplishing that goal. Here are the major ones:

- Most districts have no hard-dollar cost associated with their plan(s), unless there is a matching provision. With no cost attached, even the worst of plans may not be a high-priority item on the to-do list.
- With little or no cost to the district, the idea that your plans are horribly expensive to participants may be entirely lost.
- Current vendors are entrenched and have internal "heroes" who may think of them as indispensable. Some vendors may be "community leaders" who are politically connected.
- General inertia on the status quo. The offerings we see are similar from district to district and thus fairly prevalent. It can be hard for leadership to accept that such prevalent options are not in their employees' best interest because "everybody is doing it".
- The perception of leadership, including Board members, that lots and lots of choice is a good thing
- The district cannot identify an internal quarterback that is knowledgeable enough lead the project
- The district cannot identify an external resource that is both knowledgeable and impartial – *meaning that resource takes no compensation from plan assets*

Again, which of these hurdles to achieving a successful retirement savings plan are true for your district?

The attributes, skills and experience you'll need to do a comprehensive review of your district's retirement plan (in some combination of internal and external resources) are as follows:

- Consulting firm that is independent, impartial, knowledgeable
- Accepts NO income from employee assets
- Helps provide leadership with a comprehensive understanding of TRS and PSERS, investments, issues, cost, communications and compliance
- Ability to facilitate development/articulate goals for improved plan and lowest possible cost
- Manage/execute project – design, simplification, investment options, cost reduction, compliance
- Ability to conduct a valid "purchasing" project
- Communicate/Educate to employees, leadership, participants



Section 5: Putting real numbers on the problem

Before we focus on ***how*** to make a plan successful, let's delve deeper into the PSERS shortfall problem we laid out in our introduction. Ultimately, your success will be defined by how well, with your guidance, employees are able to close that gap over their working life and achieve benefit equivalency (or better) with TRS.

Earlier, we talked about the percentage of pre-retirement income that a 30-year employee will receive from PSERS. Here's a quick reminder, this time with the monthly dollar shortfall, when compared to TRS.

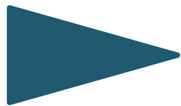
Pre-Retirement Income (PRI)		PSERS Benefit/Mo	% of PRI	TRS Benefit/Mo	PSERS Shortfall/Mo
Year	Month				
$ 9,000	$ 750	$ 450	60.0%	$ 450	$ -
$ 15,000	$ 1,250	$ 450	36.0%	$ 750	$ 300
$ 24,000*	$ 2,000	$ 450	22.5%	$ 1,200	$ 750
$ 50,000**	$ 4,166	$ 450	10.8%	$ 2,500	$ 2,050

*More than 85% of PSERS participants are earning at or below $24,000/year. At that level, a PSERS participant would need to have an additional $750/month in retirement to reach benefit equivalency with TRS.

**only a handful of PSERS participants will have earnings at this level.

The data says that pretty much your entire population of PSERS participants (again, around 20% of your workforce) needs to accumulate a significant sum of money by the time they retire in order to fill in their particular gap. The higher their salary, the bigger the gap. But without a match, or some other inducement to join, you will probably see about 25-35% participation across your school district and likely less than that in the PSERS group. An auto-enroll provision costs nothing and can boost those numbers to as high as 90%, but only a handful of school district have adopted that provision to date.

So, **the vast majority of PSERS participants are currently doing nothing** to close their gap – perhaps because they aren't aware they have one. Perhaps they do know and believe there's nothing they can do. Or, they may have such misgivings about investing that they've consciously decided not to do it. But what about the ones who *are* saving? We see them repeating the same mistakes that have been documented in 401k participants: investing too conservatively and/or running when the market (and their investments) go down. As detailed earlier, today's plans may contain an element or two to help an employee to succeed, but as a rule, there are more hindrances than helps. Ultimately, a participant should be knowledgeable about his true risk tolerance and be confident about selecting an investment with the potential to earn at least a 6-8% long term return.   This takes us into the arena of plan investment offerings. Let's look briefly at the landscape.



Section 6: Plan Investments

In plans like TRS and PSERS, knowledgeable committees of investment professionals decide where plan assets should be invested. In a retirement savings plan, the investment responsibility and related decision-making belongs to participants and they are neither trained on, nor particularly interested in, learning how to invest. Predictably, their track record is terrible.

From 1988-2007, the S&P 500 returned an annualized rate of 11.81 %. Bonds returned 7.56%. T-bills 4.5%. Individual investors? **Just 4.3%.** During that period, $10,000 invested in the S&P 500 appreciated to $93,242. The average investor's $10,000 grew to $24,025. It's very helpful to keep this in mind as you consider the effectiveness of your own plan and whether it's performing effectively for your district and your employees.

In the 403b/457 world, investing "conservatively" is much more harmful than it is in most 401k plans. One reason that is true is because the conservative investments in these plans tend to be the fixed annuities of insurance companies rather than the "stable value" mutual funds found in 401k plans. We discussed the insurance company annuity problem earlier. By the time commissions, expenses, profit and surrender charges are taken into account, there's no chance of a meaningful return to the participant. It's ironic that the attraction of these products is their guarantee that one won't lose money, yet in the long term, the real (but unstated) guarantee is that you're not earning anything meaningful on your savings!

When we talk about people investing "too conservatively", we mean with respect to the *overall risk and diversification* **in their own retirement security picture**. Remember, most employees will have a substantial chunk of their retirement security guaranteed by PSERS. Older workers will have Social Security to rely upon as well – also guaranteed. So even a conservative investor in your retirement savings plan would be well-served to take a bit more risk on this prong of his retirement plan, both to diversify and to maximize his return. We'll talk more about risk tolerance later.

But even if we managed to help employees to become more diversified in their investments and not to run when the market goes down, most 403/457 plans today are not offering them the kind of investment choices (or guidance) necessary for their success. Most districts are offering lots of choices, often through multiple vendors with high-cost, proprietary investments. Education is mostly provided by the sales people involved. It's difficult to imagine a less helpful combination.

Let's take a look at the most common investments featured in today's plans.

Beyond the fixed annuities so prevalent in school district plans today, which often garner the largest single chunk of participant dollars, we see several other common investment options:

Indexed Annuities: These are often just a variation on the fixed annuities we've discussed thus far. These annuities offer a guarantee to never lose money and a chance to "participate on the upside" if the market should rise. That's a compelling sales pitch and the sales people often declare there is "no fee". But make no mistake. These products are among the most costly of all investments with no commensurate value. The cost will never be disclosed, but it will be siphoned off of the participant's investment return forever – plundering his nest egg. These products also have a high commission and thus massive surrender charges that persist for many years.

Mutual funds in an annuity "wrapper" or offered under an annuity contract: An otherwise OK investment encumbered by all the extra expense of an annuity contract – ugh! Hidden and/or tacked-on fees that are quietly siphoned off and lower the participant's returns

Actively-managed mutual funds: Largely a product of the 401k world where highly-paid managers create a basket of stocks from selected companies that are of similar size or strategic category and combine them into an investment fund. The least costly of the offerings described thus far but still very costly.

Proprietary funds: These are commonly actively-managed funds built into a vendor's investment line-up but with extra cost attached to compensate investment managers or cover administrative fees.

Index funds: In contrast to actively-managed funds, index funds create a basket of stocks from ALL the companies of a particular size or strategic category. A computer does the work and the cost is about a tenth that of actively-managed funds. Historically, (and surprising to most) index funds get better returns than the much more expensive actively-managed funds about 85% of the time. This is the obvious choice for inclusion in a well-conceived plan, yet are usually present in just one fund offering - S&P 500 fund.

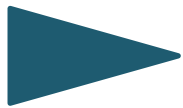
Regardless of the investment offerings in your plan, it's critical you be aware (and beware), of advisors, consultants and the like tacking on cost to your funds. Often 40 or 50 basis points or more, there is no justification for having that level of cost perpetually siphoned off of participant accounts – including yours!

Generally, employees are forced to wade into these offerings, vendors and sales people on their own. It's like sending Dorothy into the haunted forest by herself! Is it any wonder why so many employees choose not to go?

There are two types of funds in use today that make the forest a little more friendly. These funds provide some investment management based on the participant's time horizon and/or risk tolerance:

Target date funds: These are typically funds made up of actively-managed funds (funds of funds) created to reflect a participant's investment time horizon. The participant selects his approximate "target date" and the fund manager manages the investments based on that end date. This means they invest more aggressively early on and then gradually more conservatively as the target date approaches. If you think about it, this is bringing some professional management back into the picture. Historically, participants do far better in target date funds than they do in investments they choose or combinations they create on their own. And they "stay the course" far more often, too. That's all good! Still, target funds do have their own set of drawbacks – including substandard funds in their holdings, no attention to individual risk tolerance and higher cost.

Model portfolios comprised of index funds: The best of all worlds. These funds are created with low-cost index funds and take into account both risk tolerance and time horizon. Amazingly, funds like these are never recommended by "advisors" and thus virtually never seen in school district plans, yet they are low-cost, easy to understand and apply to any individual's saving/investing strategy – and ***they totally repel flying monkeys***. Vanguard, the leading source for index funds, generally offers no facility for advisors to tack on added cost. Do you think that may be why this approach is never recommended?



Section 7: Compliance

If reviewing your plans is not a priority for the sake of participants, it probably should be for compliance reasons. Here's some background:

401k plan sponsors have been sued with increasing frequency in the past 10 years and they almost never win. In truth, once participants sue a plan, the employer loses so much in credibility and employee trust, the money becomes a side issue. The most common focus of the complaints boils down to cost – be it the cost attached to an investment, the absence of index funds or recordkeeping fees.

Until very recently, we saw virtually no participant challenges to 403b plans. Now, Emory, Vanderbilt and Duke are three of perhaps a dozen institutions that have been challenged. Ironically, the very history of 403b plans, and several "standard" practices that remain in place seem to now add to the jeopardy of compliance challenges. Nowhere is that any more apparent than in these three university suits. If one looks at how they were managing their plans, including the presence of even a limited number of vendors, you might be surprised to see them cited for things you have long-considered to be the norm in your own plans.

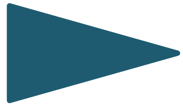
In the old days, 403b plans were minimally considered employer plans and the *employee* was largely considered the "client". The employer just allowed the use of a payroll slot for deductions. You may continue to see that attitude in some of the sales people assigned to you even today. But in the last 10 years or so, the laws governing 403b's have brought employer responsibilities into closer alignment with those of 401k sponsors. Plans have employer-signed documents and employers are being required to make decisions about investments in the plan and to perform cost-related due diligence – not just offer an array of options from multiple vendors in an "investment strip mall" fashion.

The old multi-vendor approach, while creating an added administrative burden for staff, was at one time viewed as a way to insulate the employer from criticism – enabling the district to declare, "we give them lots of choices – it's their decision to make". In today's legal climate, the multi-vendor approach actually adds liability and even if it didn't, it clearly adds cost.

Today, all the research indicates that choice is more paralyzing than it is empowering. It literally depresses participation. At the same time, using multiple vendors fails to accomplish any economy of scale, thereby increasing cost to participants in a host of ways. This was central to the complaint at both Duke and Vanderbilt. Any district performing due diligence will quickly learn that the multi-vendor approach is fraught with both cost and compliance exposure.

If you agree that only good can come from employees fully understanding their 3-part retirement plan (at most districts), that it serves employees well to save as much as they can at every stage of their life and that investing appropriately over the long haul is critical to their retirement well-being, then multiple vendors will only sabotage that objective, as does the increased cost.

Finally, the task of monitoring maximum deferral limits falls squarely on the employer and to say that's a challenge with multiple providers may be a bit of an understatement.



Section 8: The Impact of Cost

Most or all of the cost for 401k plans is borne by participants. In the absence of a match, the cost of 403/457 plans is all funded by participants. If "no cost to the district" has kept your plan off your priority list for review, it may be time to reconsider.

As we mentioned earlier, private sector 401k's have been sued successfully dozens of times – essentially over cost. The average cost of 403b/457 plans is significantly higher than those in a 401k and if annuities and multiple vendors are in the mix, you can expect to find your cost to be twice as much or more. Avoiding a legal challenge can be a great motivator but creating the best plan possible for participants is a much nobler motive and it can be both rewarding and fun to do!

The dollars involved are significant and they are being siphoned out of participant accounts on an ongoing basis. We've already discussed the retirement income gap that well-informed PSERS participants are going to be trying to close. To close the gap, they must save as much as they can and then earn as much on those savings as possible during their working years. Removing unnecessary expense can quickly improve a 5% return to 6% or more, depending on the condition of your plan today, and that difference will have a huge impact on an individual's savings.

As mentioned previously, in annuities, there are typically commissions paid to sales people. Keep in mind too, that these folks are insurance agents and not investment advisors. Any time an up-front commission is involved, the participant will suffer a significant "surrender charge" if he ever decides to move his money to a different investment. There are other costs built into every annuity product that are typically not disclosed. The use of annuities in a retirement savings plan should be limited as much as practical and participants educated to make more advantageous choices for themselves.

In mutual fund parlance, the major expense category is called an "expense ratio". Sales loads or commissions rarely ever (nor should they) come into play. The expense ratio is a percentage of plan assets paid by the participant but it's expressed as "basis points". 1.00% is 100 basis points. 1.50% is 150 basis points. One half of 1.00% is 50 basis points. If you have actively managed funds in your plan, expect to see average expense ratios well above 100 basis points and in smaller plans, perhaps even in excess of 200 basis points. A fund with an expense ratio of 200 basis points would need to earn 8% to deliver a 6% return to the participant. In contrast, index fund (discussed above) expense ratios will be closer to 10 basis points.

Here's how a 100 basis point difference affects long term savings:

HOW DOES A 100 BASIS POINT (1%) DIFFERENCE IN EXPENSES AFFECT YOUR LONG TERM SAVINGS?

IF YOU INVEST:	With an Expense Charge of 100 Basis Pts.	Instead of 200 Basis Points	You'll have This Much More
$50/10years/8%	$ 8,870	$ 8,383	$ 487
$50/20years/8%	$ 26,320	$ 23,396	$ 2,924
$50/30years/8%	$ 60,644	$ 50,281	$ 10,363
$100/10years/8%	$ 17,740	$ 16,766	$ 974
$100/20years/8%	$ 52,638	$ 46,791	$ 5,847
$100/30years/8%	$ 121,288	$ 100,562	$ 20,726
$200/10years/8%	$ 35,481	$ 33,532	$ 1,949
$200/20years/8%	$ 105,277	$ 93,583	$ 11,694
$200/30years/8%	$ 242,575	$ 201,124	$ 41,451
$400/10years/8%	$ 70,961	$ 67,064	$ 3,897
$400/20years/8%	$ 210,553	$ 187,465	$ 23,088
$400/30years/8%	$ 485,151	$ 402,248	$ 82,903

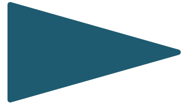
IF YOU HAVE:	With an Expense Charge of 100 Basis Pts.	Instead of 200 Basis Points	You'll have This Much More
$10,000/10yrs/8%	$ 19,762	$ 17,908	$ 1,854
$10,000/20yrs/8%	$ 38,697	$ 32,071	$ 6,626
$10,000/30yrs/8%	$ 76,122	$ 57,435	$ 18,687

As you can see, a seemingly small difference in expense creates an enormous drag on a person's ability to maximize his long-term investment return. In situations where annuity investments are prevalent, the difference may well be significantly greater than 100 basis points.

Consider too the aggregate value of 100 basis points of expense on a mid-size District's plan – say one with 1,500 employees, 33% participation (500 active participants) and $20 million in assets .

$20,000,000 x .01 = $200,000

That's $200,000 *every year* that could be staying in participant accounts.



Section 9: Helping PSERS Participants Get to Benefit Equivalency

Georgia school districts have a bit of an employee relations problem with the contingent of their population in PSERS even though they have no real control over which retirement plan employees can join. Educating that group on the shortfall issue and showing them a path to close the gap should also help close the employee relations gap. Of course, the main goal is to help them get their retirement benefit gap closed.

Here are a few thoughts on how to do that once your retirement savings plan has been re-engineered.

Let me make the bold statement that most employees who have even a rudimentary understanding of the two plans would rather be in TRS than PSERS. They take one look at the benefit in TRS and it seems obvious that's the better place to be. It's likely their managers and district leadership would agree with them too. Here's an excerpt from the earlier chart to illustrate on an employee earning $24,000/year:

Pre-Retirement Income (PRI)		PSERS Benefit/Mo	% of PRI	TRS Benefit/Mo	PSERS Shortfall/Mo
Year	Month				
$ 24,000	$ 2,000	$ 450	22.5%	$ 1,200	$ 750

It's easy to see that this employee is far better off in TRS than he would be in PSERS, right? Well, maybe. Because the aspect that is usually overlooked is that, if I'm in TRS, I have a mandatory contribution of 6% of pay. It's not a choice, it's a condition of the plan. And 6% of a $2,000/month salary is $120/month. The contribution to PSERS is $10/month. For this sample employee earning $24,000 with a $750/month pension benefit shortfall, here's what $110/month ($120 - $10 = $110) ***saved and invested*** can do:

$110/month, earning 6% for 30 years equals $110,502

So, this PSERS employee could have his $450/month benefit PLUS a nest egg of $110,502.

But to do it, he'd need to save an amount equal to the required TRS contribution and have the knowledge and confidence to invest in something besides a fixed annuity!

Here is some additional food for thought:

- Taken a step further, $110,502 invested at 6% could produce a monthly benefit of about $660/month, just $90/month short of the TRS benefit.

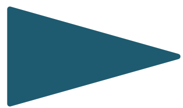
- With an 8% return, he'd amass **$163,950** which invested at 6% would produce a monthly benefit of $1,195/month - $445/month ***more than TRS***

- Alternatively, if his district matched his contribution at 25%, his monthly investment would be $137.50. Invested at 6% again, that would yield a $138,128 nest egg, which invested at 6% would produce a monthly benefit of about $824/month – about $74/month ***more than TRS***.

- The district match costs $27.50/month. The required TRS contribution (just for reference) would be $418/month.

From a recent study:

- School district with 1700 employees
- 235 in PSERS
- Total Salary - $4,076,091
- cost of .25 match - approximately $60,000/year
- Every participant achieves a benefit in excess of TRS if funds earn 6%



Section 10: Conclusion

For a host of reasons, there has probably never been a greater need for personal savings than there is today.

Georgia's public school districts have a rich, but costly retirement plan for teachers and supervisory employees and a modest, low cost plan for everyone else. The gulf between the two creates a "have and have not" situation that impacts employee relations. Benefits managers are frequently confronted with employees in PSERS who think they can retire, only to have to tell them they can't afford to – at least not if they want to maintain their health insurance!

With a proper education campaign and a re-engineered retirement savings plan, districts can help employees understand the positives of their plans and also understand where they may fall below expectations. The great news for PSERS participants is that there is a practical path to close their retirement benefit gap even without an employer match. With a modest match, anyone willing to save 6% of their pay (the same amount as their TRS contribution would be) can eliminate their gap. And while the focus is on PSERS participants, young TRS participants should also be preparing for the absence of Social Security in their future.

The condition of most school district 403b/457 plans today – their delivery, their cost, their investment offerings – makes them a less-than-effective tool for even the most knowledgeable and motivated investor. Legacy practices need to change and change quickly -- primarily to create the best place for employees to save and invest, but also to get ahead of the compliance challenges that have now spread from private sector 401k plans to university 403b plans. K-12 plans seem to be the next logical target – particularly given that they typically have even higher costs and weaker options than the other two.

Even though most Georgia school districts have little or no cost associated with their retirement savings offerings, the time is probably right to make them a high priority for review!

Ready to make a positive change in your district?

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Visit our website to learn more!

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