



YESTERDAY, TOMORROW AND FINANCE
2020 CSMFO ANNUAL CONFERENCE
JANUARY 28-31, 2020
DISNEYLAND CA





SPEAKER
PRESENTATION

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WHO IS WATCHING THE HEN HOUSE?

THE 457 NEST EGG DILEMMA



Our Agenda

- Setting the stage
- The roles and responsibilities of the players
- Your fiduciary duties
- Potential conflicts of interest
- Controlling plan fees
- Case studies and common problems
- Best practices

The Tale of the Farmer and the Hen House

Once upon a time...



The Roles and Responsibilities of the Players

- The farmer (sponsor; sometimes the administrator)
- The farmer's family (participants)
- The watch dog (recordkeeper)
- Professor Geoffrey (benefits attorney)
- The housekeeper (independent advisor or consultant)

Your Fiduciary Duties

- ERISA and non-ERISA plans
- California's law for governmental plans:
 - Cal. Constitution Article XVI, Section 17
 - Cal. Govt. Code §§53216.6
- Special rule for participant-directed plans
 - Cal. Govt. Code §53213.5 essentially imports the requirements of ERISA 404(c)

Potential Conflicts of Interest

- Watch out for anyone (participant, fiduciary, recordkeeper, consultant, or advisor) who may be acting in “their own” best interest rather than the plan’s as a whole
- Examples: fees tied to specific investments; investments based on individual needs/desires; provider makes more by promoting a certain type of investment; fees are based on something other than the value of services

WHO PAYS THE
COST TO RUN A
457 PLAN?
Why you are
personally
liable?



100% OF COSTS ARE PAID BY PARTICIPANTS

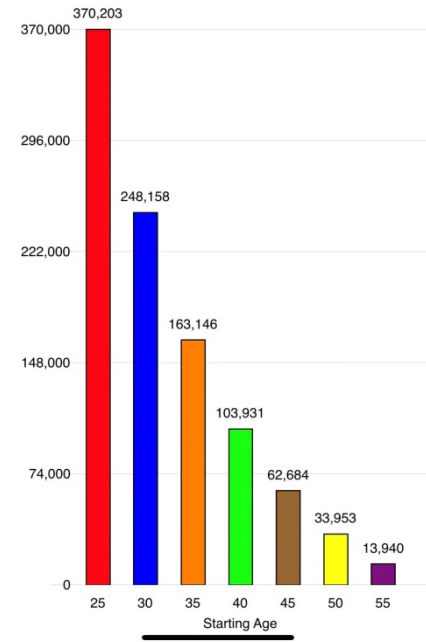


YOUR RETURNS (***FUTURE
RETIREMENT BALANCE***) ARE
DIRECTLY AFFECTED BY THE
FEES DEDUCTED FROM THE
FUNDS IN YOUR 457 PLAN.

FUND FEES
PARTICIPANT
FEES
SERVICE FEES

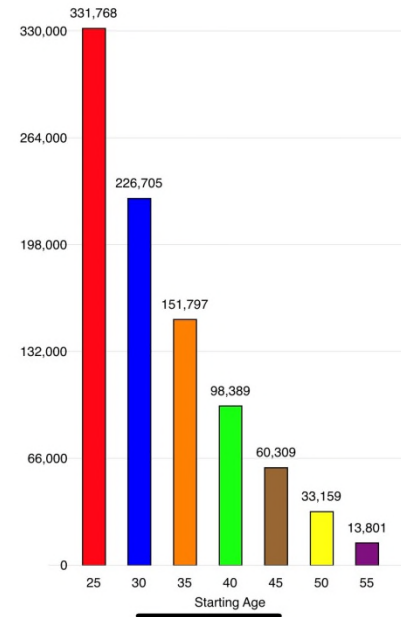
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Monthly Save	Annual Return%	Retirement Age
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444,000 Total Savings at Age 60		



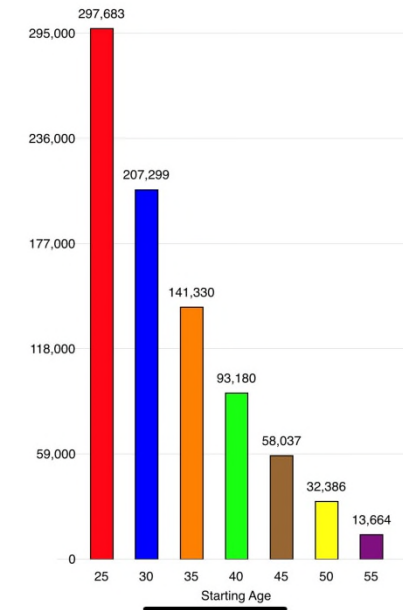
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396,000 Total Savings at Age 60		



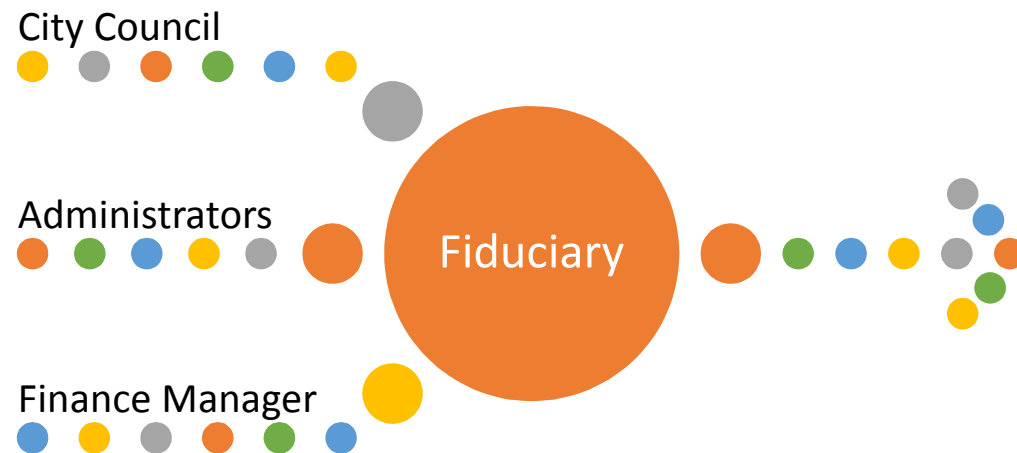
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Monthly Save	Annual Return%	Retirement Age
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354,000 Total Savings at Age 60		



UNDERSTANDING THE ROLES OF YOUR 457 ADMINISTRATORS AND ELIMINATING CONFLICTS OF INTEREST.

Fiduciary by function, title, or influence over plan assets = Personally Liable





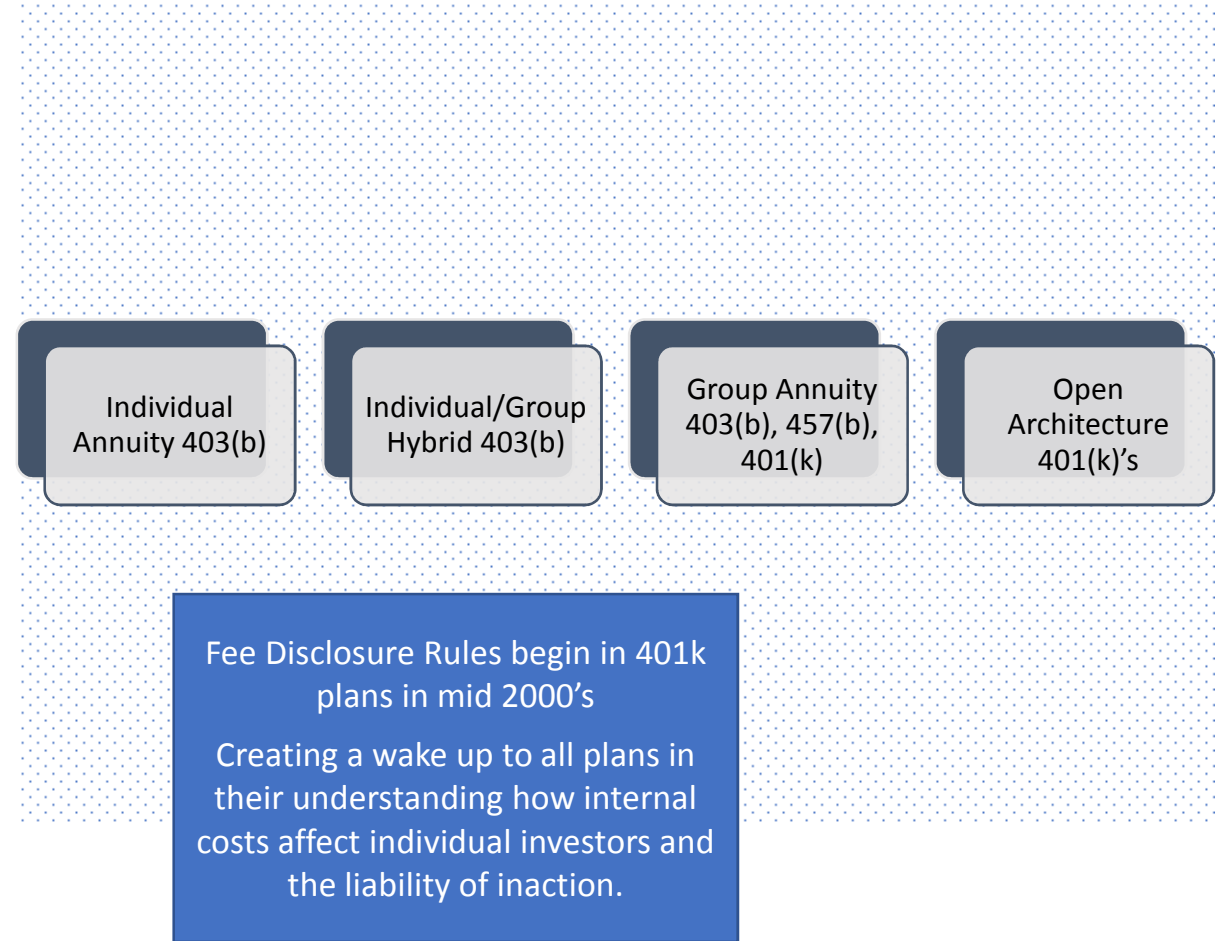
How "Diversification" worked before open arch

Want Different Funds?

Bring in another 457 provider!



Retirement
plans from
1980'S
today and fee
disclosure rules



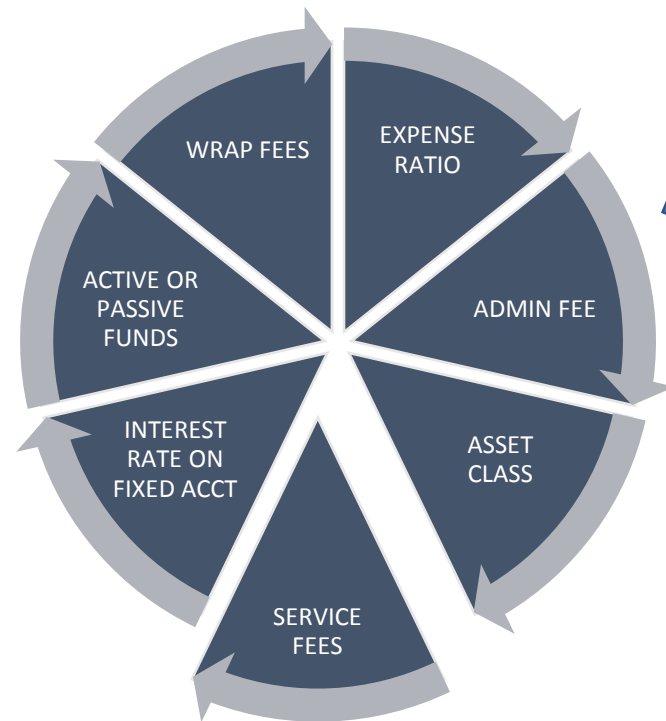
What is open architecture?

Why should I care or why should this matter?



457 PLAN FEES HIDE IN VARIOUS WAYS

FACTORS THAT PLAY INTO HOW COSTS ARE
MANAGED IN A 457 PLAN



Different ways your vendor moves fees around



SO DID YOU ACTUALLY LOWER YOUR PLAN FEES?

*TRADITIONAL PLACES
WHERE NEW FEES CAN
HIDE AFTER YOU
RENEGOTIATE DOWN
ADMIN COSTS*



With Freedom Comes Real Responsibility:

16

Removing conflicts of interest


Open architecture is ONLY part of the key

- Quality control over fund menu – what choices do participants really have?
- Control what funds are offered and available in your plan/s
- Fiduciary oversight provides structure for quality control with your input
- Formalizing oversight includes your voice on committee
- Independence from vendor in fund menu and asset oversight
- Access to the best funds in the market – Who chooses?
- Continuous fee and service oversight – annual benchmarking



457 FEE PITFALLS TO LOOK OUT FOR

- Lowers Admin fee but increases share class funds (all funds come in different cost or classes called "share class") same fund with different fee.
- Bait and Switch – Stable Value Funds with an initial higher credit rate to lure you in and drop significantly after 2-3 years locking in these assets with high fees unable to liquidate out.
- Managed Accounts and Proprietary products such as Target Date Funds.
- Open arch is useless if 457 funds are chosen by vendor (conflict of interest) versus an independent prudent expert or committee with proper oversight.
- Advisors with conflicts of interest: taking payments from vendors for using their platform or "indirect fees".
- Advisors who take a percentage from any fund on the platform regardless if it is disclosed.
- Pricing out 457 plans at the expense of 401a credit rate – versus independently.

- 
- Full Transparency – excess gets credited back to your account quarterly
 - Lower fees with full access to entire fund universe
 - Remove conflicts of interest with proprietary funds
 - Access to CFP no matter your balance
 - Treated as a mid-size plan versus two small plans
 - Competitive interest rate in fixed or stable value accounts

DISADVANTAGE OF HAVING SEVERAL SMALL 457 PLANS

- **SMALLER PLANS PAY LARGER FEES TO MAKE UP FOR THE REVENUE VENDOR NEEDS TO COVER ADMIN COSTS**
 - **Hence the smaller the plans, the larger the admin fees (typically)**
- Lose Economies of scale to drop these hidden fees
- Lose level of attention and resources when small compared to large plans

FINANCE DIRECTOR ROLE IN PLAN ADMINISTRATION

- Working with your Fiduciary
- Understanding your plan design
- Fund line-up decision making

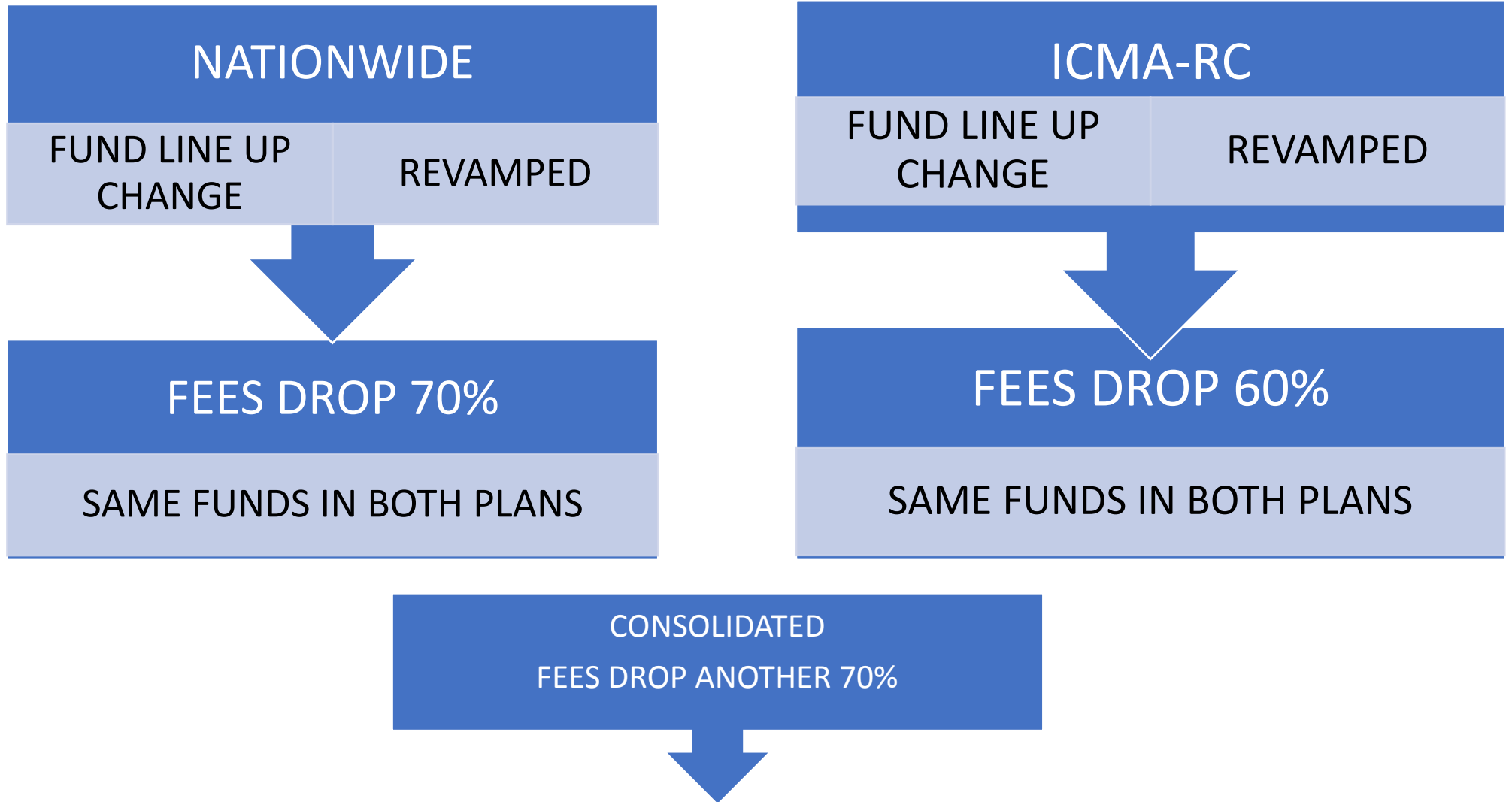
Negotiating Plan Admin Fees

- Identify comparable agencies (Size/Type of Plan)
- Fiduciary will gather plan admin fees from comparable agencies
- Discuss and authorize negotiating points with Fiduciary
- Execute plan amendment documents

Managing 457 liability and building better plans with employees

- Maintain a compliant plan
- Reduce plan fees when possible
- Maintain open communication with the plan participants, especially when significant plan changes are being considered
- Educate participants on purpose of the plan and various roles of the parties involved

CHULA VISTA STORY





QUESTIONS? MORE INFORMATION?

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