

## **MRIC TALKING POINTS**

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### **Background Information to Use With All Groups (as needed)**

The IRS issued final regulations under Section 403(b) of the Internal Revenue Code which generally became effective as of January 1, 2009. The regulations made significant changes and imposed new requirements on public education employers offering Section 403(b) tax-sheltered annuity programs to their employees. The impetus of change was twofold. One, federal audits reflected non-compliance (loans, limits, distributions) and two, participants of 403b plans were paying higher fees and experiencing lower performance than similar 401k plans. In response to these new regulations the Michigan Retirement Investment Consortium (MRIC) was formed. Since the beginning, the consortium was focused on meeting two simple, yet complex, goals:

1. Compliance - comply with the regulatory requirements of the IRS. Non compliance means employee's lose tax sheltered status and employers incur IRS penalties.
2. Employee focused - leverage the size of the consortium to lower fees and improve product offerings for employees

What started out as an idea between a few districts morphed into the largest 403b educational consortium in the nation. The size of the consortium is rather staggering...here are a few facts:

- The consortium has 217 local school districts, 29 ISD's and 5 community colleges for a total of 251 districts.
- The consortium has over 19,500 active participants and 51,790 total accounts.
- The total assets of the consortium participants was \$1,177,762,315.00 (\$1.2 billion) as of June 2011.
- The consortium Board is comprised of 23 members from participating school districts.

### **Talking Points for Local Districts/Superintendent/Board/Key Internal Staff**

- This consortium has been of great benefit to the district, as meeting the IRS regulations and continued compliance requirements without the consortium would be difficult and not a good use of limited staff resources. The consortium has also contained costs through economies of scale with legal fees, the third party administrator (TSA), and Gallagher Retirement Services.
- The consortium has been very successful in meeting the compliance needs and now needs to focus on protecting employees and adding more value to employee investments. Because there are over 35 vendors, there is limited oversight of investment products being sold and little to no fee disclosure.

- The consortium Board hired a consulting firm, Gallagher Retirement Services, to strategize and develop a vision for the future. It became clear in their review of the consortium a new model of investment strategy and reporting was necessary. Gallagher is exploring the marketplace to evaluate what models exist to meet this vision and what those models look like and mean to participants, districts, vendors and the Board.
- In order for MRIC to serve its mission into the future, it has been determined that at a minimum better controls need to be implemented in the area of product and pricing to ensure that plan and participant fees are reasonable and the products offered are suitable to the participant's needs. The optimal strategy would leverage plan assets and implement tighter controls on the product to effectively impact pricing and provide for a uniform employee education strategy utilizing printed media, online access, and consistent on site messaging and education. Different models exist in the marketplace that offer varying levels of control on pricing, product, and employee education. Gallagher is helping the Board determine the most appropriate model for the consortium into the future. Once a model is selected, Gallagher will initiate a formal evaluation of vendors through a request for proposal process based upon the requirements of the selected model.

### **Talking Points for Vendors**

- The consortium Board met in mid August for a strategic planning session. The purpose was to analyze and evaluate whether the consortium had met its original objectives, which were established when the consortium was formed in 2008, and to chart the future direction of MRIC.
- Gallagher Retirement Services discussed feedback they had received from many vendors. While they were complimentary of many aspects of MRIC, there was concern regarding the consistency of product offering and fees.
- The MRIC Board was in agreement that while the consortium has been very successful in meeting the IRS compliance requirements, it now needs to focus on protecting employees and adding more value to employee investments. There is limited oversight of investment products being sold and little to no fee disclosure. This was a concern shared by some vendors.
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