

Teachers often misled in retirement investments

Certified financial planner Eric Weiss reviews investment strategies with retired teacher Phyllis Compton.



BY ED GORIN

Phyllis Compton is one of many teachers who don't find out until they retire that early in their careers they were misled into bad investment decisions that ultimately reduce their retirement savings by many thousands of dollars.

Compton's mistake was in buying an annuity contract from an "investment representative" who was soliciting teachers at her school. During a teacher's break, he convinced her to buy a tax-sheltered annuity as the vehicle for putting funds into her Miami-Dade supplemental 403(b) plan.

Compton, a music teacher who most recently taught at the Ruben Dario Middle School, retired after 35 years with the Miami-Dade County School System.

"It was bad advice," said Eric Weiss, Certified Financial Planner, to whom Compton went for additional investment advice after retiring. "She did not need a tax-sheltered investment, since her pension plan already was tax sheltered. It was like buying an umbrella that could only be used indoors."

The annuity carried fees of 3.6 percent, compared to more typical annual expenses of 1 percent (mutual fund plus investment advisory fees), Weiss said. Assuming monthly contributions of \$150 and an average annual return of 11 percent, a teacher would end up with \$86,000 after 20 years instead of \$116,000. (Large cap stocks earned an average of 11 percent over the past 20 years.)

Compton, who lives in Kendall, had the impression that the investment was being offered through the school system, with its approval.

"It was rushed and I really didn't understand," she recalled.

Weiss, a Pinecrest resident who is president of Brightscape Investment Centers Inc. in Palmetto Bay, said Compton's experience is not unusual among Miami-Dade teachers. He has seen other cases like Compton's.

"There are a variety of reasons, but mostly it starts with the nature of teach-

ers' retirement plans, known as 403(b) plans, which are similar but have important differences when compared to their 401(k) cousins," Weiss said.

Unlike many 401(k) plans, the public school districts make no matching contributions, he said. Therefore, the Miami-Dade Public School District does not recommend or make judgments about which companies have access to the teacher's funds.

Also, there are no federal guidelines pertaining to the appropriateness of investments offered, the costs of such investments, or the administrative costs to run a 403(b) plan, he said.

"This laissez-faire policy results in little or no investor education being provided to the teachers," Weiss said.

Weiss prepared a new financial plan for Compton.

"Based upon my Florida Retirement System (FRS) pension, Deferred Retirement Option Plan (DROP) and other investments versus my projected costs, he prepared a financial plan and outlined the steps I should take to ensure a secure retirement," Compton said. "He showed me how the difference in costs between the tax sheltered annuity and low-cost mutual funds could positively impact my investments."

Weiss said current teachers may have two options to switch to a better investment strategy — something called a "90-24" transfer, or to terminate the 403(b) and roll over the assets to an IRA. In either case, he said, advice from a Certified Financial Planner will assure low-cost, professional guidance.

"It's a shame that people like Ms. Compton go all the way to retirement before realizing they have a problem," Weiss said. "Hopefully, teachers will examine their retirement plans and take corrective action while they are still relatively young."

Teachers wishing to reach Eric Weiss for more information can call 888-888-0967 or send email to <info@brightscape.com>. For more information about his firm, the website is <www.brightscape.com>.