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INFORMATION

Department of Financial Services
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

June 4, 2014

MEMORANDUM

To: All Montgomery County Public Schools Employees

From: Susanne G. DeGraba, Chief Financial Officer 

Subject: INFORMATION— Defined Contribution (403b/457b) Plan Improvements

The purpose of this memorandum is to follow up regarding a project to improve the defined contribution retirement savings plans—the 403(b)/457(b)—that are available to you. As announced in February 2013, a Montgomery County Public Schools (MCPS) work group, representing the interests of all constituents affiliated with the plans—the Montgomery County Education Association, the Montgomery County Association of Administrators and Principals, the Service Employees International Union Local 500, MCPS retirees, and MCPS management—is overseeing this effort.

As a first step, Graystone Consulting, an independent, third-party, national investment consultant, was commissioned to conduct a benchmarking study to evaluate the 403(b) and 457(b) plans offered to employees. Now completed, the benchmarking study found that:

- MCPS plan participants are being charged higher fees on their investments than participants in comparable plans.
- There is significant opportunity to improve the plans at all levels—customer service, fees, and compliance management.
- The current structure of nine vendors for each plan is well above the average found in the industry and reduces economies of scale, which leads to higher fees for participants.
- The current plan designs can result in participants being charged different fees for investing in the same mutual funds through different record-keepers.
- The current plan designs inhibit transparency of fees, impede effective oversight, and should be improved.
- The current plan designs do not require that financial advisors have a fiduciary responsibility to employees.

Based on the study results, the work group is moving forward to redesign the plans. MCPS has retained Hewitt EnnisKnupp, a nationally recognized investment consultant, to advise the work group during this process. The work group expects that the new plans would have:

- **Increased Transparency**—Create a plan design that allows participants to clearly identify and compare the various fees being paid for record-keeping, investment management, and investment advice.
- **Lower Fees**—Consolidate the number of vendors to improve economies of scale, so that participants will experience lower fees than are available now for administration and investment options.
- **Independent Financial Advice**—Offer option for employees to obtain independent financial advice that is not tied to the sale of investment products.
- **Improved Oversight**—Establish a governance structure that includes stakeholder representatives to oversee the plans and ensure compliance with applicable laws and best practices.

The work group intends to submit proposals for the new plan designs to the Board of Education later this year. If the Board adopts the changes, requests for proposals would be issued to potential service providers with the goal of new plans being in place by January 1, 2016.

There are many steps as we move through this process, and as the plan design materializes, we will reach out to you again with greater details. Our overarching goal is to ensure that employees have retirement savings options that are on par with or exceed the best practices that exist in the industry.


If you have any questions, please contact Ms. Marisa Grant, acting chief investment officer, Department of Financial Services, at 301-517-8100 or via e-mail.

MG:jer

Copy to:

Mrs. Cuttitta	Dr. Mugge	Mr. Changuris
Mr. Israel	Mr. Prouty	
Ms. Miller	Mr. Rodich	

Approved:



Larry A. Bowers, chief operating officer