

Retirement Plan Consortium Structures for K–12

A well-structured retirement plan consortium has the potential to improve efficiency and reduce costs.

By John Kevin



As school districts continue to seek administrative efficiencies and cost reductions in the wake of severe budget pressures, the resources they devote to creating or expanding retirement plan consortia is increasing.

Understanding how to structure a retirement plan consortium is paramount to successfully achieving the many objectives of administrative

efficiency, reduced costs, and improved participant options and services. The creation or expansion of such a consortium can raise at least two questions:

- Are there any legal prohibitions or restrictions?
- Are the activities likely to result in the desired efficiencies, cost reductions, and other improvements?

With regard to the first question, school district personnel should

consult with counsel regarding any legal issues related to establishing, maintaining, or expanding a 403(b) plan consortium. After any legal issues have been identified and addressed, you can determine whether the consortium will help you achieve the desired benefits.

Simply establishing a consortium does not always guarantee the benefits you seek. For example, a group of school districts that create



a retirement plan “consortium” without using the same plan document, contribution remittance, and administrative processes are doing little more than linking districts in a geographically similar area. Such a “consortium” will unlikely yield the desired economic or operational efficiencies, for the plan or for your retirement plan vendors. Why? Because each school district has its own plan document governing its plan, in which the selection of provisions may vary widely. It can also have its own contribution remittance process and its own set of administrative guidelines. These variations make it difficult for the retirement plan vendor to combine the districts in any manner to administer the plan more efficiently.

Instead, they increase the likelihood that each district would be evaluated on its own plan characteristics for pricing and investment product decisions. The absence of any one of the three critical pieces—administrative efficiency, reduced costs, and improved participant options and services—eliminates the scale benefits of a true consortium structure.

An effective consortium may include the following elements:

- **A plan sponsor.** The consortium may establish a nonprofit

organization for the sole purpose of sponsoring the plan.

- **A uniform plan that applies to all members.** This plan allows administrative provisions such as loans, hardships, and catch-up contribution limits to be uniformly applied to all school districts that join.
- **A third-party administrator to coordinate contribution remittances and to provide day-to-day plan administrative services.** Some of the greatest efficiencies here may arise from automated processes for contribution remittance and for loan and distribution approvals.
- **A simple joinder agreement** that allows school districts that wish to join the consortium retirement plan to restate their existing plan or create a new plan.
- **A process by which school districts remit contributions to the consortium’s administrator,** who then aggregates and forwards the contributions by vendor within the consortium’s investment arrangements. (Please note: This process assumes that the school districts have stopped contributions to investment arrangements outside the consortium; if not, it also reduces the consortium’s efficiencies. Even if contributions

outside the consortium are stopped, however, compliance coordination will still need to encompass those frozen accounts.) Plan participants and district employees are now directed to the administrator (or to the administrator’s automated system) for disbursement requests, such as for loans and hardships, if available under the plan.

The benefits of this structure for school districts may include

- The reduction of day-to-day plan management activities.
- Lower bank costs resulting from a reduction in the number of bank wire transfers for contributions.
- Lower costs for plan document origination and maintenance as consortium members use a single plan document.
- Lower labor costs.
- The ability of plan participants to benefit from the consortium’s greater purchasing power, which can result in lower costs and better services.

I hope this summary provides you with an overview of the information necessary to successfully structure a consortium that will aid member school districts in achieving the multiple objectives of administrative efficiency, cost reductions, and improved participant options and services. As always, please consult legal counsel to ensure that you are eligible to participate in a consortium. Additional retirement plan information can be found on the 403(b) Retirement Plan Web Resource Center on ASBO International’s Website (www.asbointl.org/403bRetirementPlanResources.htm).

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