

Agenda Item:	III E: Information/Discussion Item
Date:	May 18, 2023
To:	Magnolia Educational & Research Foundation dba Magnolia Public Schools (“MPS”) Board of Directors (the “Board”)
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead(s):	Steve Budhraj Ed.D, Chief Financial Officer
RE:	403b & 457 Plan for MPS Wide Implementation for 2023-24 School Year

### **Action Proposed:**

No Board action will be taken for this item at this time. MPS Administration has researched several options to provide additional retirement compensation to all Magnolia Public Schools (MPS) employees. This item is being placed as information/discussion in order to describe potential 403b & 457 plan options that could be made available for MPS staff beginning in the next fiscal year.

### **Background:**

Currently, MPS has a 401k plan through John Hancock that is available for Home Office employees only. There are some Home Office employees that wish to contribute towards their retirement through the 401k plan but cannot do so because of rules related to the existing 401k plan. Specifically, the plan does not allow employees whose annual salary exceeds \$135,000 to contribute under the plan as they are considered to be “highly compensated” employees under IRS rules.

One of the options that would help mitigate this issue would be to allow for a 457 plan option that would allow these employees to contribute up to \$22,500 towards their retirement in order to provide for a retirement savings and also reduce their annual tax liability.

In addition to adding a 457 plan, MPS is evaluating a 403b plan option that is commonly used among Local Education Agencies. This plan would effectively convert existing Home Office 401k plan participants into a new 403b plan and also offered to all MPS employees and not just Home Office staff. The 403b plan option would allow school site employees to have a supplemental retirement plan if they choose to participate that would be in addition to their current Cal STRS or PERS.

Costs: One of the challenges that MPS must consider when rolling out these plan options to allow employees is the additional expenses that would be associated with these plans. In contemplation, the following items must be into consideration before making a decision.

- The 457 plan would be limited to only a select number of MPS employees (less than ten) and requires no employer contribution or match.
- The 403b plan option would allow all employees to contribute up to \$22,500 annually of their taxable income to supplement their retirement
- Discretionary Option - Both of the above noted plans would not require MPS to match dollar for dollar employee contributions but rather be “discretionary” meaning that MPS could decide each year whether to contribute from anywhere between 1 – 4 percent for its

employees.

### **Timeline**

Should MPS decide to move forward with dissolving the existing John Hancock 401k plan and move towards the implementation of the Nationwide Financial 457 & 403b plans, we would send out communication to all MPS employees during Summer 2023 and provide information on how to enroll, investment plan options, beneficiary information etc. We currently estimate that less than half of employees would choose to participate based on costs and reluctance for having additional withholdings being deducted from their paychecks.

### **Budget Implications:**

Based on current estimates, we anticipate the annual costs to be approximately \$660,000 assuming a 50 percent participation rate. If approved, MPS would utilize funds from the anticipated Employee Retention Credit (ERC) to cover the costs of this program for the 2023-24 fiscal year. The ERC credits are expected to be approximately \$6 million and we would like to utilize \$1.3 million of those proceeds to cover the costs of a maximum 4% match for the first two years of the program (23/24 & 24/25). The first year match would take place at the end of the 23/24 fiscal year once we have determined the number of eligible participants. This item would be brought forth and included as part of budget approval/updates during the next fiscal year.

### **Exhibits:**

The attached presentation covers additional details of the plans as well as projected annual costs. Any additional information would be gathered and presented during the June 8<sup>th</sup> board meeting for Board approval.



Allied Wealth Partners &  
Nationwide will create  
*optimized retirement plans.*



# *We are building a new 403(b) + 457 Plan together*

## 403(b) Plan

The 403(b) is for ALL Magnolia Public School staff



## 457 Plan

The 457 Plan is limited to Highly Compensated Employees (person making over \$135,000)



**\*\*IMPORTANT\*\***

**\*\*These plans are separate & mutually-exclusive from any/all CalSTRS/ CalPERS plans\*\***



## The 2 Components of the 403(b) plan:

### *Employee Contribution:*

This refers to the participant's salary deferral each pay period

### *Discretionary Contribution:*

A voluntary component to be added each year by Magnolia Public Schools into the plan for the participants



## 457 Facts:

- We now can integrate a 457 plan (based upon your Charter School classification)
- This addition will complement, and not offset the existing 403(b)
- Our 457-plan resource is positioned to provide a totally bundled solution for Magnolia.

Our due diligence determined that this plan does not permit the requisite employer contribution



Welcome

Five Reasons  
to Start  
Saving Today

What Kind of  
Investor Are  
You?

# Here are some of the key facts and features of Pension2.

You can learn more, download an enrollment form, and make transactions by going to [Pension2.com](#). Or you can call the toll-free Pension2 information line at **844-electP2** (844-353-2872). Pension2 service representatives are available to help you—whether you have questions, need more information, or just need help enrolling or making a transaction. Don't be shy, feel free to call.

Click on topic below for more information, or [click here](#) if you would like a printable version of your plan highlights summary.

Eligibility



Enrolling



Contributions



Contribution is the term used for the money you put into Pension2. Your contribution amount is the dollar amount that you designate on the salary reduction agreement which is then deducted automatically each payroll period and deposited to your Pension2 account.

Pension2 allows you to defer any amount, subject to annual limits, from your paycheck on a pre-tax basis—or on an after-tax basis to a Roth 403(b) and/or 457(b), if offered—to those plans through Pension2, subject to IRS annual contribution limits. Please refer to [www.voya.com/IRSlimits](#) for current limitations.

Age 50 Catch-up Contributions



Trust. Legacy. Confidence.®

# Magnolia Public Schools 403(b) Plan Expense Comparison Summary

Fee Description	John Hancock 401(k)	Nationwide 403(b)
Weighted Net Expense	\$1,582	\$780
Wrap Fees	\$6,790	\$6,790
Administration Fees***	\$8,010	\$0
Participant Fees	\$696	\$1,392
Total Fees	\$17,078	\$8,961
Total Expense Ratio	2.24%	1.175%

\*\*\*\* **SAVINGS = \$8,117 or 1.065%** \*\*\*\*

\*\*\* John Hancock's administration fees of \$8,010 cover additional services such as fund selection & monitoring, consulting, plan compliance, plan reporting & other administrative services. Nationwide includes these services in their wrap fees.

John Hancock does NOT provide a 3(38) investment manager, so the plan Trustees bear the liability for the plan IN THE EVENT OF AN AUDIT. Nationwide provides a 3(38) fiduciary & their fees are already included in the wrap fee.