WATCHDOG

San Diego County schools retirement program outsources financial advisers

The move to the private sector — intended to offer a broader range of services to tens of thousands of local educators — has raised concerns about possible conflicts of interest

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Thousands of Southern California educators are supplementing their retirements through a special program of the San Diego County Office of Education, creating an investment fund that has swelled to nearly $800 million over the past 20 years.

The initiative, operated under a joint-powers authority called the Fringe

Benefits Consortium, has drawn members from 120 or more K-12 districts, charter schools and community colleges across San Diego, Riverside, San Bernardino and Imperial counties.

The collaboration invites 90,000 or more teachers, principals and other school employees to grow their retirement income by investing in mutual funds, annuities and other financial products through the in-house adviser.

But the looming retirement of the program's manager prompted consortium officials to rethink the way the effort is being managed.

Instead of replacing the longtime manager, an employee of the county schools office, the executive board in charge of the Fringe Benefits Consortium voted to hire a for-profit investment consultancy to run the program.

The decision was made in August absent any public bidding process or staff report to the executive board or the public.

Under the policy shift, contractor PlanMember Services is poised to earn millions of dollars by marketing and managing the accounts of 14,000-plus participants who rely on the San Diego County Office of Education for retirement planning.

PlanMember Services also will have plenty of room to grow; some 75,000 more people are eligible for the program.

In addition to millions of dollars in fees, the new vendor is expected to collect hundreds of thousands of dollars a year from the consortium for various management services.

San Diego County Office of Education officials said outsourcing the work will provide investors a broader range of services at reasonable costs.

The job has been performed by deferred compensation program manager Daniel Puplava for years. Steven Salvati, the Fringe Benefits Consortium executive director, said the deferred-compensation program has become so successful that more expertise was needed.

“Because of the increased complexity of the program as it has grown over time, we did not feel we can continue to provide that service with just one person,” Salvati said.

“We thought it was best to bring in a larger firm that could do all of that as one — marketing, compliance, investment management and platform management,” he said.

Salvati also defended the absence of any competitive bidding for the contract.

He said the consortium issued what's called a request for information and went over each of five firms' responses with the executive board before PlanMember Services was given the job.

"It just kind of worked out that way," Salvati said. "There were only two who could really do the whole program by themselves, without having to bring in consultants. Out of those two, one of the two could do it without disruptions to the services."

A PlanMember Services official said the firm will provide the same services and recommendations as the retiring program manager — and at the same cost to participants.

"For those wanting a more comprehensive option with additional education and advice, PlanMember is adding a full-service option for interested school district employees, all of which is governed by a fiduciary and/or best-interest standard," executive vice president Al Close said in a statement.

Most financial professionals are required by law to disclose their fees and potential conflicts of interest. They also must put their clients' interests ahead of their own.

But government oversight and regulation can be limited. And there is a built-in tension between advisers' need to be paid and their investment recommendations.

Some investors are not thrilled with the decision to turn public-sector work over to a private contractor.

Alfredo Ibarra, who teaches physical education at Brawley Union High School in Imperial County, said he doesn't understand how a financial adviser could provide objective advice when they have a stake in the outcome.

"They show up with sandwiches. They show up in nice cars. I don't know if it adds up," Ibarra said. "If they're a for-profit company, they answer to somebody.

"They are in it to make money, and that means they're putting their interests over mine," he said.

Scott Dauenhauer is a Murrieta wealth manager who volunteers as director of research for 403bwise.org, a nonprofit that educates teachers about various retirement programs and also rates investments.

Dauenhauer said the county schools office should have hired an in-house successor to the retiring program manager, because outside consultants have too many built-in conflicts of interest.

"The FBC had a choice to go in a different direction," he said. "They could have hired a professional, not a vendor, to manage the program and they could have used the vast asset base to hire more salaried financial representatives to continue growing."

The San Diego County Office of Education said the Fringe Benefits Consortium is an independent program supervised by its own board of directors — not the county school board.

‘A fiduciary to members’

The county schools office said it already has taken steps to make sure its new retirement-planning contractor is acting in the best interests of teachers and principals rather than of its sales force.

PlanMember Services will not collect commissions on products it sells to members like Ibarra, officials said, and all fees will remain at current levels unless participants choose to access higher levels of service offered by the vendor.

“This does not pose a conflict of interest,” said Music Watson, the chief of staff to county Superintendent of Schools Paul Gothold. “PlanMember Services will be a fiduciary to members.”

Fiduciaries are required to act in the interests of their clients before themselves.

County schools officials said they plan to hire third-party experts to make sure their new investment advisers are acting in members’ financial interests. They also said PlanMember Services is already heavily scrutinized and regulated.

“The FBC has more than 22 years of experience in administering its deferred compensation program with the support of various outside financial and investment experts,” Watson said.

However, even federal regulators concede that every financial adviser has an inherent conflict of interest in dealing with investors.

“They have an economic incentive to recommend products, services or account types that provide more revenue or other benefits for the firm or its financial professionals,” the U.S. Securities and Exchange Commission website says.

To help what are called retail investors — everyday people supplementing their retirements with 401(k), 403(b) and 457(b) plans — federal rules require advisers to disclose conflicts in a public document called the SEC Regulation Best Interest Form, or Reg BI.

The disclosure PlanMember Services filed in March stretches 24 pages.

Among other things, the company noted it does not monitor accounts after its customers buy or sell securities. It also acknowledged that agents are limited in the products they can offer clients and that its financial professionals receive upfront commissions on securities transactions.

“We have an incentive to recommend the account type that results in additional fees and revenues for us,” the disclosure states.

PlanMember Services also said its agents make money in ways that are not always transparent.

"For some investments you purchase based on our recommendation, we receive payments from a third-party that are in addition to the transaction-based payments described above," it said.

"For investments with multi-share class structures, we generally receive comparatively more compensation when we recommend you purchase or hold a share class that is likely to be more costly for you."

The company also makes money from simple transfers, its Reg BI notes. "We get paid when you engage in a rollover transaction," the disclosure says.

New agreement, familiar scrutiny

Approved in August, the agreement between the Fringe Benefits Consortium and PlanMember Services runs for five years, with automatic five-year renewals unless a 12-month termination notice is submitted in writing by either side.

The consortium executive director said the agreement is designed to improve services to the thousands of members, who will receive more attention than they were getting from the departing program manager.

Although the agreement calls for no commissions for PlanMember Services sales agents and no increase in the fees participants now pay, the contract encourages the vendor to offer expanded services to teachers and other participants.

The new advisory services, while strictly optional, would impose added fees of between 1.15 percent and 1.5 percent based on the value of the investments under management. Accounts of up to $250,000 would be charged the highest rate, while investors with $1 million or more would pay 1.15 percent.

Online investment advisers generally place fees for 403(b) accounts anywhere between 0.49 percent and 1.48 percent.

Watson said the PlanMember Services agreement avoids hidden fees that might not be disclosed by other advisers and provides small investors access to recommendations and guidance they may otherwise not receive.

“When comparing comparable services and products, the FBC is meeting its mission of providing a wide variety of services at low costs with full transparency,” she said.

The decision to bring in a for-profit adviser to take over for a public employee is not the first time the county schools office’s deferred compensation program has faced scrutiny.

The San Diego Union-Tribune reported 15 years ago that Puplava was operating a private brokership out of the Office of Education, supplementing his six-figure county salary with two and three times as much income in commissions from financial products he sold to teachers, principals and others.

His county phone number was listed on statements provided to hundreds of his clients as his primary means of contact.

Puplava declined to comment at the time. But his attorney said the former superintendent knew about and permitted the side business as a condition of Puplava's employment.

His client had "a significant, thriving practice prior to ever joining the county Office of Education," attorney Randall Winet said back then.

After the 2009 report was published, the county Board of Education changed Puplava's job title and converted his position to a non-supervisory role. He made $153,000 in 2022, according to the Transparent California database.

Puplava voluntarily gave up his broker's license after he was suspended for three months in 2011 and fined $7,000 by the Financial Industry Regulatory Authority, or FINRA, which oversees U.S. brokers and securities dealers.

Regulators said Puplava had failed to properly supervise a signature stamp that was being used by an assistant and kept blank forms signed by his clients.

These days, Puplava is licensed to sell insurance products for a subsidiary of

National Life Group, which also does business with the Fringe Benefits Consortium.

He said he does very little insurance business outside his county job.

"Out of the small number of clients that I do have, some are not in the educational field but are family and friends," he said by email. "My supervisors are aware of this activity."

Salvati said Puplava needs to carry a state insurance license to perform his duties for the county schools office.

The PlanMember Services agreement with the Fringe Benefits Consortium is due to be presented to the full board for final approval next month.

Jeff McDonald