

# **CSD 403(b)/457 Cooperative**

**“Helping participants reach retirement successfully”**

**“Increasing Participant Choice”**

**“Helping districts deal with a changing environment”**

**“Reducing district costs and administrative burden”**

# Agenda

- 403(b)/457 Program:
  - History
  - Why Now?
  - Meeting the Challenge
- RFP Process
- Findings/Recommendations
- Addressing Issues & Concerns
- Why Should You Participate?

# 403(b)/457 Coop: History/Why Now?

## Problems with Current/Historical Model

- Districts have not utilized group purchasing power to lower participant costs & increase retirement balances
- Current system focuses on “sales”, not “retirement education”... causing participant confusion & lower participation
- Retirement outcomes are not being optimized

In Jul 2007, the IRS added new 403(b) requirements for plan sponsors re: monitoring employee deferrals, loans, & hardship withdrawals, thus adding to the cost, administration & responsibilities for Districts.

- New Challenges to maintaining Plan Qualification.

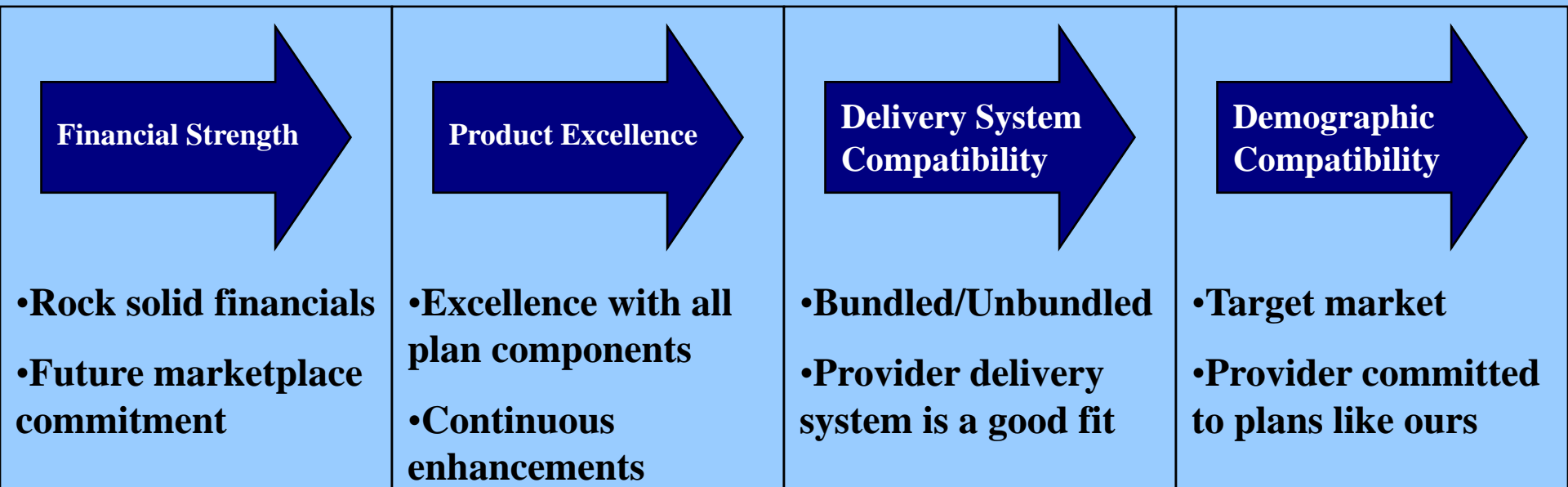
**15 Months Ago CSD Members asked for help**

# Meeting the 403(b)/457 Challenge Cooperatively

- CSD assembled a task force comprised of business officials & NEA district leaders representing a cross section of our membership and, with CBIZ, developed a process to select a provider(s) to facilitate the cooperative plan
- No predetermined solutions
- Open Process

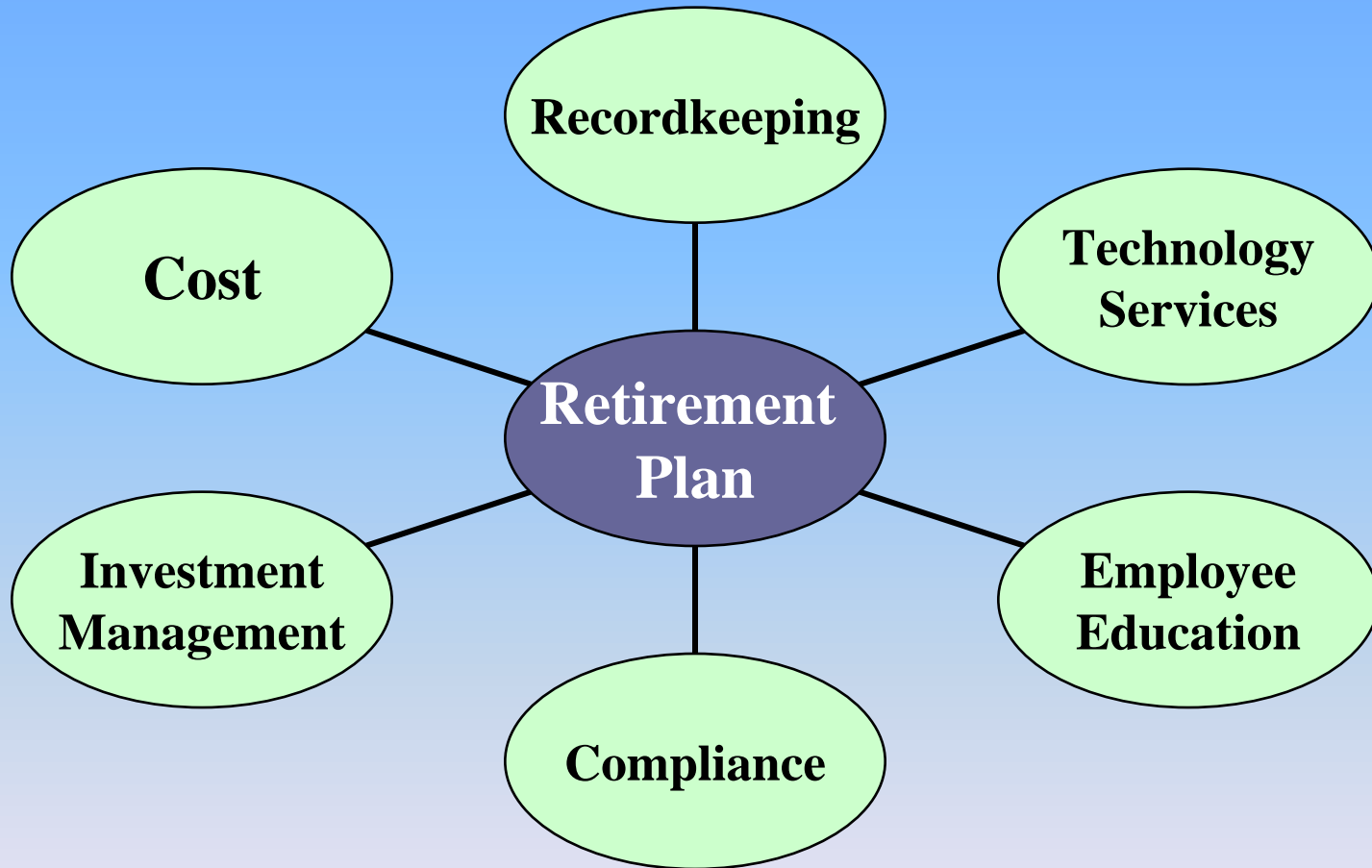
# RFP Background and Purpose

- The Request for Proposal (RFP) enabled the Task Force to pursue a time-efficient, well-informed provider selection process. With CBIZ's help, we identified provider(s) who deliver the **highest quality products and services** at the **most competitive total plan cost** and asked them to propose a plan.
- Provider selection was a multi-step process beginning with a financial analysis, followed by an evaluation of products, service capabilities, delivery system, and demographic compatibilities. Our goal was to identify provider(s) who had the greatest likelihood of delivering excellent products/services to our participants.



# Understanding Plan Components

The diagram below illustrates the essential components that collectively define plan services delivered to your school district. The Task Force focused on plan providers who were capable of delivering product excellence in all areas.



# Why a “single provider” makes sense

- Pricing/cost to participants is lowered
- Pricing breakpoints are reached sooner, thus reducing fees
- Pure employee “retirement education” versus “sales”
- Easy to understand (Employees)
- Easy to communicate (Districts)
- Compliance and administrative burden for districts is less and a single provider maintains plan qualification

# Task Force Recommendation

- Fourteen (14) Providers were sent the RFP
- Nine (9) responded
- After reviewing proposals, the Task Force selected/interviewed three (3) finalists
- The Task Force chose **VALIC** as the single provider for the Cooperative 403(b)/457 plan

# Why VALIC?

- ✓ Is the #1 provider of 403(b)/457 plans based on school districts serviced & plan assets administered
- ✓ Offered the lowest initial pricing with breakpoints that automatically reduce participant fees as plan assets increase
- ✓ Significant STL advisor base (40+) to service employees
- ✓ Currently have a presence in 90% of our districts
- ✓ Will personally and conveniently meet with participants to provide advisory services
- ✓ No commissions/sales loads/surrender charges or redemption fees
- ✓ Offered to reimburse participant “rollover charges” up to 3% for 180 days for participating districts

# Why VALIC?

- ✓ Will not sell non-403(b)/457 products
- ✓ Software enables them to integrate a participants tax-deferred savings plans w/the PSRS/PEERS program
- ✓ Provides consolidated statements for a participant's 403(b) & 457 plans
- ✓ Complete investment “open architecture” provides access to over 10,000 mutual funds
- ✓ Will align goals with CSD's re: employee focus and will put their service fees at risk if they don't achieve
- ✓ “Retirement Manager” administrative program provides compliance for districts to ensure the plans stay qualified

# Addressing Concerns

## Concern

## Response

“I will lose my relationship with my advisor”

Although you will not be able to utilize them for investing new dollars, **you can continue to work with your advisor for other needs and/or your current retirement savings. You can also compensate them directly.**

“What do I do with my current funds?”

Your options are:

- Leave your current 403(b)/457 w/your current advisor
- Move your current 403(b)/457 to the new plan.
- VALIC will reimburse rollover penalties up to 3% for any rollover in the first 180 days.**

“Is my money safe with VALIC?”

Yes. The Variable Annuity Life Insurance Company (VALIC) is financially strong with reserves that meet regulatory requirements and adequate capital and surplus. **Moreover, as a 403(b)/457 vendor, your assets (except for the VALIC Fixed Account) are separate from the general assets of VALIC. As such they are not subject to any creditors of VALIC. VALIC is a conduit for funds and is the record-keeper & the administrator. Participant equity assets are invested with the fund manager they choose.**

# The Investment Fund Lineup

## *Keys to Remember:*

- Covers all generally accepted asset classes, giving participants of every age and risk tolerance the opportunity to build a well diversified portfolio
- Universe of 10,000+ funds screened down to a “best in class” lineup using various suitability criteria (not just performance)
- Monitored quarterly by CSD investment committee and CBIZ – funds will be added and replaced!
- Offers active and passive (index) strategies in each asset class
- Portfolio of leading and recognizable fund families as well as niche managers
- VALIC has the ability to offer “**institutional**” low cost mutual funds

# Fund Lineup

(fund expense ratios shown in parenthesis)

Higher

POTENTIAL RISK/RETURN

Lower

**International/Global**

American Funds EuroPacific Growth (0.51%)  
American Funds Capital World Growth/Income (0.45%)

**Small/Mid Cap Growth**

Vanguard Mid Cap Growth (0.61%)

**Small/Mid Cap Value**

Janus Mid Cap Value (0.99%)  
Royce Pennsylvania Mutual (0.91%)

**Large Cap Growth**

American Funds Growth Fund (0.33%)  
T. Rowe Price Growth Stock (0.73%)

**Large Cap Value**

Vanguard Windsor II (0.39%)  
T. Rowe Price Equity Income (0.71%)

**Target Date / Balanced**

Vanguard Target Retirement Income (0.19%)  
Vanguard Target Retirement 2005-2050 (5 yr increments)  
(0.18% - 0.19%)  
American Funds Balanced (0.31%)

**Fixed Income**

PIMCO Total Return (0.46%)  
American Funds U.S. Government Bond (0.38%)

**Short-term/Stable Value**

VALIC Fixed Interest

## Plus Vanguard Index Funds in the following categories:

- Bond (0.22%)
- Large Cap Growth (0.28%)
- Large Cap Value (0.26%)
- S&P 500 (Large Blend) (0.18%)
- Mid Cap (0.27%)
- Small Cap (0.28%)
- Foreign/International (0.34%)



# Competitive Fee Structure

(based on institutional pricing)

<p>Investment Management Fees (estimated range of 0.18% to 0.99% based on sample investment line-up)</p> <ul style="list-style-type: none"> <li>▪Applies to all mutual funds offered through the plan but does not apply to the Fixed Interest Fund (current net rate=3.75%)</li> </ul>	Average 0.35%
<p>Asset Charge* (estimated to decline to 1.00% as total plan assets grow)</p> <ul style="list-style-type: none"> <li>▪Applies to all mutual funds offered through the plan but does not apply to the Fixed Interest Fund (current net rate=3.75%)</li> </ul>	1.20%
<p>Total (estimated all-in)</p> <ul style="list-style-type: none"> <li>▪Applies to all mutual funds offered through the plan but does not apply to the Fixed Interest Fund (current net rate=3.75%)</li> </ul>	1.55%

\*Asset charge includes VALIC, CBIZ & CSD Administrative Fees

# Institutional Fee Structure

## *Keys to Remember:*

- No loads – current environment, many participants are paying front- or back-end loads which usually range from 2-5%
- No surrender charges – current environment, many participants are paying surrender charges of up to 7% (declining scale)
- No M&E expense – current environment, many participants are paying M&E expenses of up to 2% annually
- No account maintenance fees – current environment, many participants are paying account maintenance fees of up to \$50/year

*Eliminating these costs ultimately increases investors returns & retirement balances!*

# Why should you participate?

- Benefits to the participant:
  - Reduces expenses & increases investment choices
  - Investment options are reviewed quarterly vs. investment objectives to ensure “best in class”
  - Focus on “Retirement Education” not “Sales”
    - Single provider reduces confusion and focuses on retirement strategies and improving participant retirement outcomes
  - No attempt to sell you other financial products
  - Consistent delivery of retirement education and communications via multiple media, i.e. Voice Response; Website; one-on-one meetings, etc.

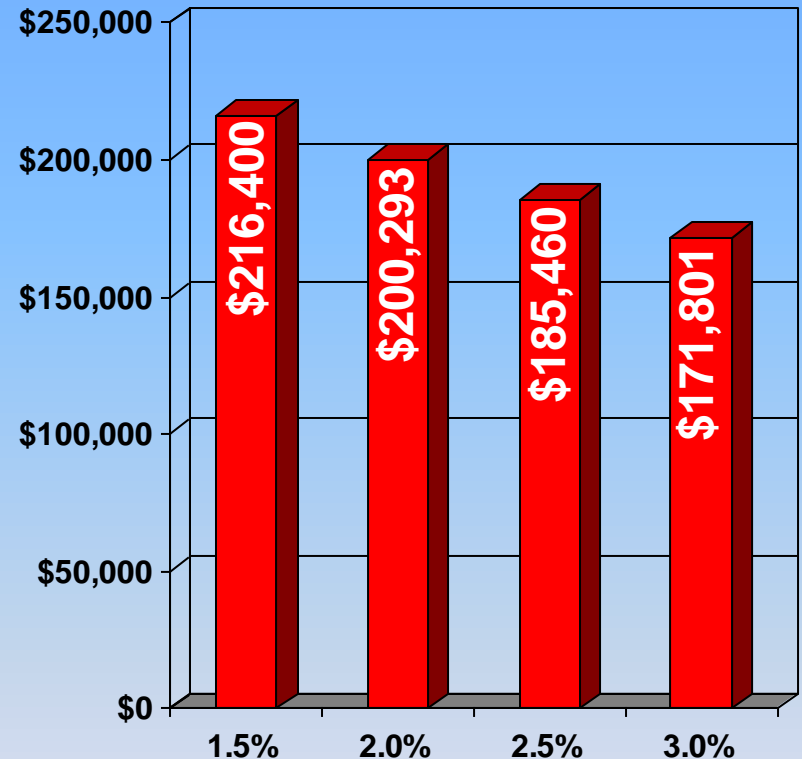
# Impact of Fees

## (What a difference 1% makes)

The following denotes the impact of fees on retirement account balances, assuming all other factors equal

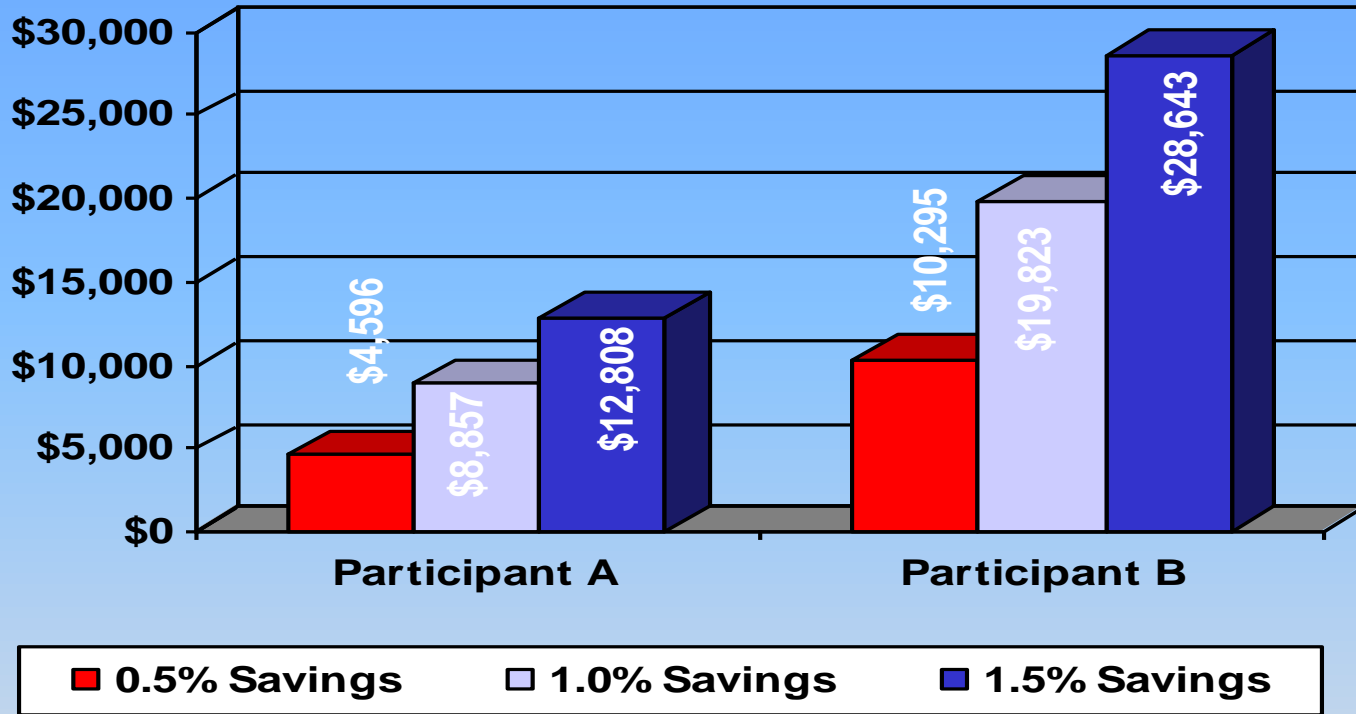
*Example 1:* An individual with 20 years to retirement, a current account balance of \$50,000, contributing \$115 per pay period to the 403(b)/457 (\$3,000 per annum) and a 6% investment return would have:

- **\$44,599 MORE** in their 403(b)/457 account at retirement if they paid 1.5% in annual fees versus 3.0% in annual fees (**1.5% in savings**)
- **\$30,940 MORE** in the 403(b)/457 account at retirement if they paid 1.5% in annual fees versus 2.5% in annual fees (**1.0% in savings**)
- **\$16,107 MORE** in their 403(b)/457 account at retirement if they paid 1.5% in annual fees versus 2.0% in annual fees (**0.5% in savings**)



# Impact of Fees

(What a difference 1% makes)



The preceding chart denotes the impact of fees on retirement account balances and how, assuming all other factors equal, lower fees result in higher retirement savings. Both participants are assumed to be 20 years from retirement and earn a 6% investment return.

*Participant A* has a current account balance of \$10,000 and contributes \$58 per pay period (\$1,500 annually)

*Participant B* has a current account balance of \$25,000 and contributes \$115 per pay period (\$3,000 annually)

# Why should you participate?

- Benefits to Districts:
  - Relieves districts of the compliance and fiduciary responsibilities, saves money and insures the plan stays qualified, avoiding tax consequences.

# What will the new program look like?

- CSD Coop 403(b)/457 will have a “best-in-class” plan design reflecting current IRS requirements now and in the future (stays qualified)
- Participating Districts will govern the Coop 403(b)/457 via a Board of Advisors
- Investment Committee made up of Board of Advisor members & two NEA/union reps will initially select/review the investment platform with assistance from CBIZ, our Registered Investment Advisor

# Process Timeline

- October: Informational Meetings
- November: Participant enrollment meetings
- Dec 31, 2009: Effective date of new plan implementation
- Jan 1, 2010: Participant 403(b)/457 contributions begin