

## Summary Notes for the OSU Faculty Council Retirement Committee

Summary of the discussion at the October committee meeting regarding offering OSU employees the option to invest 403(b) and 457(b) contributions in a wide selection of mutual funds through an outside firm such as Iron Financial or FTJ Choice Funds.

### Questions and Answers:

- 1) How does the above option differ from OSU's current offering of investments with individual insurance companies and investment companies?

Currently employees must fill out an account application and possibly additional paperwork with each of the individual companies with which they want to invest their contributions. This is in addition to completing OSU's salary reduction agreement forms for 403(b) contributions and/or 457(b) contributions. If an employee wishes to invest with more than one company, this can result in a large amount of paperwork to be filled out by the employee and submitted to each company. The employee then has separate 403(b) accounts and/or 457(b) accounts with each company. Each insurance and/or investment company must be designated on the salary reduction agreement along with the amount of the employee's contribution to be sent to each company, and OSU must send separate contribution amounts to each company.

If an employee wanted to invest with different companies, he/she could possibly have a large number of separate accounts (example: using five different companies could result in up to 10 separate accounts). This makes tracking and evaluating performance of investments very confusing and difficult. Also, if an employee wants to change either the amounts being contributed to each company or wants to change companies, paperwork must be completed for each company affected. If an employee wants to change mutual fund companies (example: from American Century to Fidelity) an application and additional paperwork must be filled out to set up accounts with the new company, as well as transfer of account form(s) to transfer the employee's money from one company to another, and a revised OSU salary reduction agreement has to be completed. This can create a great deal of confusion and frustration, as well as opportunities for mistakes to be made.

If an employee is currently investing in an annuity with an insurance company, that annuity may have a surrender period during which the employee would have to pay surrender charges in order to move that account to another company, or money can only be transferred out via a complex process (example: ten-year pay out annuity from TIAA to CREF before being able to transfer money to another company). This can result in the employee having less flexibility in making adjustments in his/her investments, especially during periods of bear (down) markets.

By using a firm that offers a wide selection of mutual funds, paperwork, time, and confusion can be reduced and the process simplified. An employee would establish one 403(b) account and/or one 457(b) to which their entire contribution could be sent. Within each account, the employee would be able to select a number of mutual funds in which to invest her/his contribution (record keeping done at the outside firm, not at OSU). If the employee wants to change mutual funds (within one mutual fund family or to another mutual fund family – see example above), this is done by simply selling the shares of the mutual funds the employee wants to move out of and buying the shares of mutual funds in which he/she is interested. No additional applications/paperwork would need to be filled out, nor would the OSU benefits employees have to process any additional paperwork. The changes are processed by the outside company. The performance information of all of the mutual funds an employee holds in a 403(b) or 457(b) is included in one statement, rather than individual statements from each mutual fund company and/or insurance company.

Under the current system, employees must contact each insurance company or mutual fund company regarding loans and in-service withdrawals, which may or may not be available, and regarding distributions after retirement or separation from service. Once the retiree reaches age 70.5, the required minimum distribution must be calculated for each type of account with each company. Having to work with a number of different companies, each of which may offer different distribution options, can be very confusing and frustrating. This can make managing income during retirement more complex than it needs to be.

Having one 403(b) account and/or one 457(b) account with one firm can simplify the management of his/her accounts for the employee, yet still offer a wide enough variety of investment options to provide for different levels of risk tolerance (very conservative to more aggressive) among employees and retirees, and for the need for diversification of investments within a single account.

There may also be the possibility for employees to have access to “load-waived” mutual funds and to institutional shares of certain mutual funds. “Load-waived mutual funds” generally have front-end loads (charged when money is put into the mutual fund) that are waived for large purchasers such as retirement plans or institutional purchases. Institutional shares have lower expense ratios and are generally available to institutions that make large purchases (such as retirement plans or firms with large numbers of accounts). A large number of no-load mutual funds, which do not charge either a front-end load or a back-end load, are also available.

- 2) If an employee leaves OSU for reasons other than retirement, will he/she be able to take the account(s) with him/her?

Any 403(b) account can be rolled over to either a traditional deductible IRA in the individual’s name or to another 403(b), or 401(k), or 457(b) (governmental)

account with another employer, if that employer's retirement plan accepts rollovers. Any 457(b) (governmental) account can be rolled over to a traditional deductible IRA in the individual's name, or to another 457(b) (governmental), or 401(k), or 403(b) account with another employer, if that employer's retirement plan accepts rollovers. There are no restrictions on transferring money out like there may be with fixed or variable annuities (example: ten-year payout annuity from TIAA to CREF before money can be transferred to another plan).

- 3) There are hundreds of mutual funds to choose from, which will be confusing for many employees. Can a more limited selection of mutual funds be chosen for OSU's retirement plans?

Yes, there are several options for employees to choose from depending on the amount of control they want to maintain over their own accounts. Employees who are either un-experienced or have little experience with investing can choose from a selection of model portfolios that are offered by either Iron Financial or FTJ Choice Funds. These model portfolios are comprised of mutual funds selected by the investment firms based on set criteria and are monitored for performance based on the portfolio objective. If a mutual fund ceases to meet the criteria for being included in the portfolio, it is removed and replaced with another mutual fund. For the participant, this means someone is monitoring the performance of the mutual funds held within their account(s).

Employees who are very experienced with investing and want to maintain total control over their accounts can choose to do an entirely self-directed account and choose their own mutual funds as long as the mutual funds are on the list of available mutual funds.

OSU may also choose to work with the investment firm to choose a more limited selection of mutual funds (for example: 20 or 30 mutual funds) or have the investment firm determine the selection. The selection of mutual funds would be based on criteria established for OSU's retirement plans. Generally an investment policy statement is used to detail the parameters for the mutual funds selected. Employees who want guidance in selecting specific mutual funds for their accounts may choose to work with a company advisor, or may choose to work with an independent investment advisor who provides investment advice for a fee (no commissions are paid on any of the mutual funds to sales representatives).

- 4) What about the problems within the mutual fund industry that are currently under investigation?

While there are problems with a number of mutual fund companies regarding their trading practices, not all mutual funds are involved. Part of the due diligence process in researching mutual funds to be offered should certainly involve checking with each mutual fund company and requesting written

assurance as to the absence of the questionable/unethical practices being investigated.

- 5) How will employees have access to information about their accounts?

Internet access via firm websites is available, as well as 800 number telephone service, for access to account information and for issuing orders to buy or sell mutual funds held within participant accounts. Periodic statements are sent to participants, as well as confirmations of any buying or selling activity. Personal contact with a company representative is also available.

- 6) What are the fees for this type of service?

Fees are negotiable depending on the level of services provided and the specific services provided vary by firm. Fees can be charged to individual participant accounts or paid by the university or a combination of the two. Fees will be detailed once the specific number of services is determined. Mutual fund fees and expenses are assessed by each individual mutual fund and should be considered in the selection of mutual funds by participants.

- 7) Is employee education available to assist employees in making informed investment decisions?

Iron Financial provides a complete retirement education program that includes on-site enrollment meetings, easy-to-understand enrollment materials, personalized forms, and an informative quarterly newsletter. A workbook is provided to participants to guide them through developing a personal investment strategy, and includes a risk assessment questionnaire and a worksheet to assist in calculating retirement income needs. Meetings with individual participants are available as often as semi-annually. I have not received information yet on what FTJ Choice Funds offers in this area.

- 8) Is it possible to meet with a representative of each of the companies for possible consideration? Yes