

MSU RETIREMENT PLANS CONSOLIDATION – FREQUENTLY ASKED QUESTIONS

Last Updated 9-30-11

All of the changes referenced below are only effective for new contributions beginning January 1, 2012 and beyond. They do not affect the vendors and investments for contributions made on or before December 31, 2011, regardless if you are an active MSU employee, MSU retiree, or a former MSU employee with a balance in one of the MSU retirement plans. At this time, all current account balances consisting of contributions made on or before December 31, 2011 can stay with the current vendor and investments, and you are not required to make any changes. You may choose to transfer your account balances into the new core investment menu with one of the approved vendors.

Why are changes being made to the retirement plans?

- The IRS issued retirement [403\(b\) regulation changes](#) that affect the MSU retirement plan.
- While technically the University is exempt from some of the regulations governed under the Employee Retirement Income Security Act (ERISA), including [fiduciary responsibilities](#), best practice implies we should follow them.

How do the new IRS 403(b) regulations and ERISA impact MSU's plans?

- They impose significant “oversight responsibilities” on employers similar to what private sector employers have to follow with 401(k) retirement plans.
 - Employers must have a 403(b) plan document and must govern the plan based on that plan document.
 - Employers need to monitor all costs for employees in the administration of these plans and make sure they are reasonable.
 - Employers need to have processes in place to monitor on a regular basis the funds offered to employees so they are solid investment choices.
 - Employers can provide unbiased retirement education and advice to help employees reach their retirement goals.

What specifically are the changes and why are they being made?

- Reduce the number of [Retirement Investment Vendors](#) from six to two with Fidelity and TIAA-CREF remaining.
 - By reducing the number of vendors, Fidelity and TIAA-CREF will reduce the administrative costs that are charged to most employees.
 - Fidelity and TIAA-CREF are the only MSU 403(b) Base Retirement Program vendors that would allow non-proprietary (investments not offered by Fidelity and TIAA-CREF) mutual funds to be offered by each of the two vendors. For example, Fidelity and TIAA-CREF both will allow some Vanguard funds to be offered.

- Several of the current vendors only offer retail investments that include sales commissions and high fees. These investments are relatively expensive choices.
- Fidelity and TIAA-CREF are the two most widely used vendors. About 87% of MSU's faculty and staff are currently contributing their retirement savings to these two vendors.
- Fidelity and TIAA-CREF will both be available for all three account types (the MSU 403(b) Base Retirement Program, the MSU 403(b) Supplemental Retirement Program, and the MSU 457(b) Supplemental Retirement Plan).
- Reduce the number of investment choices offered today from over 550 to a [Core Investment Menu](#) of 20.
 - MSU is responsible for regularly monitoring the funds offered to employees. To monitor 550 funds is very complex and costly.
 - By limiting the number of choices available to employees, MSU will be better able to monitor the funds selected, increasing the likelihood that employees will earn better long-term performance.
 - There is much redundancy and overlap in the investments offered today.
- Move to group annuity contracts/custodial agreements and institutional investments.
 - The current individual annuity contracts/custodial agreements allow vendors to offer retail investments that can be excessively expensive to employees.
 - Group annuity contracts/custodial agreements provide employers a way to pool the retirement plans' assets together to help reduce employee costs, offer lower-cost institutional investments, and provide high-quality services to all employees.
- Provide a [Self-Directed Brokerage Account](#) that offers thousands of investment choices.
 - For those investors who wish to invest outside of the new simplified core investment menu options and are comfortable in assuming greater risk, a brokerage account is available.
 - A brokerage account with Fidelity or TIAA-CREF can offer over 4,500 mutual funds from hundreds of fund families that are not available in our current list of investment choices.
 - Additional fees and costs may apply.
 - MSU will **not** be monitoring any of the investments offered in the brokerage accounts.
 - Only mutual funds are available in the brokerage accounts for MSU retirement plans. Stocks, bonds and other investment vehicles (other than annuities) are prohibited by IRS 403(b) regulations.
- Continue to offer [StraightLine](#)'s expertise as our retirement investment advisory service.
 - StraightLine provides unbiased and independent investment advice and account management to assist employees on the right investment mix for their goals.

How did the University decide on these changes?

- MSU contracted with Hewitt Ennis Knupp, the world's largest institutional investment consulting firm, to assist the University in a comprehensive review of our current vendors and investment choices.
- In their recommendation for the new investment menu of 20 choices, Hewitt Ennis Knupp used an extensive screening process, including evaluating an investment manager's:
 - Investment process, personnel and organizational structure.
 - Fees, operation and any legal or regulatory issues.
 - Past performance. However, Hewitt Ennis Knupp puts greater focus on those factors that tend to impact future performance, including trading expertise, organizational stability, perceived skill and fees.
- The consulting firm reviewed the retirement vendors on a number of factors, including fee transparency, client servicing, and core competencies. Based on these factors, and along with the fact that about 87% of active employees were contributing to Fidelity and TIAA-CREF, Hewitt Ennis Knupp recommended keeping the two most widely used vendors to help minimize the disruption to MSU faculty and staff.
- The MSU Retirement Investment Advisory Committee (RIAC), with support from Human Resources, reviewed Hewitt Ennis Knupp's findings and recommendations.
- Those recommendations were then taken to a number of groups across campus to discuss and receive feedback about the proposed changes. The groups included:
 - The Coalition of Labor Organizations (along with direct meetings with the Board of some of the specific unions)
 - The University Committee on Faculty Affairs
 - The Faculty Senate (formerly the Faculty Council)
 - The Union of Nontenure-Track Faculty
 - The Academic Specialist Advisory Committee
 - The Retirees Association
- In the spring of 2011, communications were sent to active faculty and staff about the proposed changes. The communication offered an opportunity to learn more about the proposed changes during open public forums, along with the ability to ask questions and provide feedback. A website was created to offer greater detail on the proposed changes, including a way to complete an electronic survey to ask questions and respond with comments.
- The feedback from all of the groups, forums and surveys were reviewed by Human Resources and RIAC, and the decision was then made to recommend to executive management to implement the proposed changes.
- Executive management approved to implement the proposed changes effective for January 1, 2012.

When will these changes take place, who will be affected and how will it be communicated?

- The changes will be effective January 1, 2012 and will only affect contributions made to the retirement plans on and after that date.
- All changes are for contributions to the University's 403(b) Base Retirement Program, the 403(b) Supplemental Retirement Program, and the 457(b) Deferred Compensation Plan.
- All account balances prior to the effective date will not be affected by these changes.
- Retirees will not be affected, unless they choose to transfer to the new investments.
- All employees will receive a series of communications explaining the reasons for the changes, what the changes are, and what steps they will need to take.
- There will be numerous educational group seminars and individual counseling sessions that will be available for employees to learn more about the changes.

When can I make changes that will be effective for the January changes?

- The ability to make changes to your retirement vendor for January contributions will not begin until November 1, and must be completed by November 30, 2011.
- The ability to elect the new core investment menu choices for January contributions will not begin until November 1, 2011, and will continue indefinitely.
- A detailed open enrollment guide will be available [online](#) in October and you will also receive additional information about the changes in the mail.
- A simple [Flow Chart](#) has been created to visually help faculty and staff understand what steps they can or must take regarding the upcoming changes.

If I'm currently contributing to either Fidelity or TIAA-CREF and don't actively choose my new investments elections in November, what will happen?

- Safety nets, or defaults, have been established to make sure your retirement contributions continue to be invested.
- Your January contributions will be mapped to any of your current investment choices that are available today **and** in the [Core Investment Menu](#) (for example the TIAA Traditional or the Fidelity Contrafund) in the same percentage as you have it being contributed today. Any remaining contributions will be made to an age appropriate target date retirement fund based on the year you were born and the year you will be age 65. An example of which target date fund will be chosen for you can be found on the [Default Target Date Fund Mapping](#) schedule.
- Beginning in January, you will be able to change your investments in the [Core Investment Menu](#) at Fidelity or TIAA-CREF, and even choose to change your vendor to either Fidelity or TIAA-CREF.
- More information of what will happen can be found in the HR News Bulletin on the [MSU Retirement Plan Consolidation](#) webpage, and more detail will be provided in October.

If I'm currently contributing to one of the deselected vendors (AXA Equitable, Lord Abbett, VALIC or Vanguard) and don't actively choose to change my contributions to either Fidelity or TIAA-CREF, what will happen?

- Safety nets, or defaults, have been established to make sure your retirement contributions continue. You will be defaulted to Fidelity, which will open an account on your behalf, for contributions made on or after January 1, 2012.
- Your contributions will be made to an age appropriate target date retirement fund based on the year you were born and the year you will be age 65. An example of the how this will happen is found on the [Default Target Date Fund Mapping](#) schedule.
- Beginning in January, you will be able to change your investments in the [Core Investment Menu](#) at Fidelity, or choose to change your vendor to TIAA-CREF.
- More information of what will happen can be found in the HR News Bulletin on the [MSU Retirement Plan Consolidation](#) webpage, and more detail will be provided in October.

Do these changes affect retirees?

- No, these changes will not affect current retirees or anyone who is not currently contributing to the MSU retirement plans. Also, the changes do not force individuals to move their existing accounts to different vendors or different investments.
- However, retirees will be able to choose to transfer their current MSU retirement plans' balances to the new [Core Investment Menu](#) with either Fidelity or TIAA-CREF to take advantage of these options' lower costs and potential for longer-term performance.

How do the changes affect employees who are nearing retirement?

- As is the case with all employees in the plans, the current account balances will stay in the employees' chosen vendors and investments (unless an employee chooses to transfer their account balances to the new core investments with an approved vendor). All future retirement contributions will need to be made to either Fidelity or TIAA-CREF in the [Core Investment Menu](#), based on the choices made by each employee. Upon retirement, the retiree will continue to have access to the same withdrawal options that are available through the current vendors.

How do the changes affect the retirement plans' withdrawal and transfer options?

- The changes will not affect the retirement plans' withdrawal options. When employees retire, terminate their employment, or for the 403(b) plan, reach age 59 ½ while actively employed by MSU, they can choose from among several withdrawal options. These choices include:
 - A specific withdrawal amount taken once, or periodically each month, quarter or year.
 - Through a TIAA-CREF annuity arrangement, a guaranteed monthly payment for the rest of their lives.
 - The option to leave their money in the accounts and decide at a later time when to withdrawal some or all of their balances.
 - The option to rollover their account balances to an IRA or to another employer's retirement plan.

- There will be changes to the plans' transfer options.
 - Currently, retirement plan participants can transfer (sometimes referred to as an "exchange") their account balances between approved vendors within the same account type. As of January 1, 2012, participants will no longer be able to transfer balances to the four deselected vendors (AXA Equitable, Lord Abbett, VALIC and Vanguard). Participants will only be able to transfer between Fidelity and TIAA-CREF.
 - However, participants who want to transfer their account balances from any one of the four deselected vendors to either Fidelity or TIAA-CREF within the appropriate account can do so.

How will the new investments provide the potential for better long-term performance?

- Many of the six current vendors' proprietary investment options have underperformed their benchmarks and fund peer groups. By offering an "open architecture" investment structure through Fidelity and TIAA-CREF, we can provide retirement plan participants a diversified core group of high-performing investment options from a variety of investment managers.
- Tiers I and II of the [Core Investment Menu](#) will be the same for both Fidelity and TIAA-CREF, with a few differences in Tier III between the two vendors.
- This new structure, along with the regular monitoring of the investments by MSU and its investment consultant, Hewitt Ennis Knupp, will provide compelling investment choices that can help participants achieve the long-term performance they seek for their retirement savings.
- However, there is no guarantee of future performance. Investments in the core menu will be monitored for performance, along with other key criteria, and may be changed as needed based on a number of factors. Any changes will be communicated to MSU retirement plan participants as promptly as possible.
- Also, some of the investments that are on the core investment menu are proprietary investments (for example the CREF Stock Fund and the Fidelity Low Priced Stock Fund) and were chosen as good investments that are currently widely used by MSU retirement plan participants, and would help to minimize the necessary changes that active employees would need to take.

Additional Questions and Answers

Below are some additional questions that were expressed at the Spring 2011 forums and through the online survey along with answers.

WHY ISN'T VANGUARD ONE OF THE APPROVED VENDORS SINCE THEY ARE KNOWN FOR BEING ONE OF THE LOWEST COST VENDORS AVAILABLE?

Many factors were considered in selecting the approved vendors. Cost was an important factor, but it was not the only factor.

The overwhelming majority of MSU employees and retirees will experience reduced costs as a result of the vendor selections, and they will experience those savings without having to select a different vendor if they do not wish to do so. With close to 90 percent of MSU employees and retirees already participating in TIAA-CREF or Fidelity, the selection of these vendors will allow us to achieve the needed consolidation from 6 down to 2 vendors with the minimum amount of disruption for the majority of employees.

In addition to the advantage of minimizing disruption, the two vendors were willing to commit to a core menu of diversified investment options, including providing access to funds other than their own. This means some investment options from Vanguard will still be available in the core menu options, regardless of which of the two approved vendors an employee chooses.

We do recognize that to access Vanguard funds that are outside of those offered through the proposed core menu, investors would need to work through the brokerage window, and this may entail additional fees for some fund selections. We regret that a small percentage of employees may experience greater costs under the changes, depending on their choices. However, we believe the core investment menu, along with the vastly expanded options that will be available through the brokerage window, will provide all employees with sound, effective retirement investment options and good array of choices both within and beyond the core investment options.

WHY AREN'T MY FAVORITE FUNDS ON THE CORE INVESTMENT MENU?

Nearly all investors have some personal favorite fund choices that they strongly believe provide the precise mix of stability and return on investment they desire. It would be impossible for MSU to offer a retirement plan that contains every single investor's favorite investments. Determining what investment options should be offered in the MSU Retirement Plans' core investment menu is a very important decision that requires careful analysis by experienced investment professionals that are knowledgeable about the performance of thousands of fund options. For this reason we relied heavily on the guidance of Hewitt Ennis Knupp, the world's largest institutional investment consultant. This highly respected firm was contracted through a national RFP process and they provided us with critical guidance in developing the proposed recommendations for changes.

While some investors will undoubtedly be disappointed to find their favorite fund choices are not included in the core menu, most investment choices will still be available through the brokerage window option, though some selections may bring additional fees or charges.

It simply is not possible for us to achieve the needed simplification and consolidation of our retirement plan options while including every single investor's favorite fund choices. It is worth noting however, that experienced investors who are willing to bear more risk and pay some fees, will have a greatly expanded range of choices after the changes occur.

THIS SEEMS LIKE YOU ARE TAKING AWAY SOME OF OUR CHOICE TO DECIDE FOR OURSELVES WHAT IS BEST FOR US. WHY?

As with all of MSU's other benefits programs, decisions about vendors and plan design must be continuously considered in order to ensure we can continue to provide good benefits at a sustainable cost that are designed to best meet the needs of the majority of our employees and retirees. Rather than removing choice, the proposed changes will actually increase choice, though some choices would carry added expenses. We believe most MSU employees would be best served by the core investment menu options. In addition, investors who decide to use the brokerage window would have access to significantly more investment choices than they do now. However, to access that broader array of choices, investors might need to pay some additional costs, depending on what choices they make.

We agree that taking away choice entirely would be a very negative direction. However, we believe that offering employees a solid menu of monitored low-cost core investment options plus providing access to thousands more choices through an open brokerage window is a good and fair approach, even though accessing wider choices may entail greater costs to some investors.

WHERE CAN WE ACCESS MORE DETAILED INFORMATION ABOUT WHAT CHOICES WILL BE AVAILABLE THROUGH THE SELF-DIRECTED BROKERAGE WINDOW?

You can view detail on the brokerage accounts, including a list of mutual funds available, at: <http://www.hr.msu.edu/benefits/retirement/SelfDirected.htm>

WHAT IF I HAVE ADDITIONAL QUESTIONS NOT COVERED ON THE WEBSITE OR IN THIS FAQ?

If you have additional questions, email the HR Benefits Retirement Office at retirementinfo@hr.msu.edu, or call 800-353-4434 or 517-353-4434, ext 3.