

Fall, 2005

# TSA Inve\$tor

## Editor's Note

We are introducing a new format with this issue of the *TSA Inve\$tor*. Inside articles will be listed on the first page in the 'Inside this Issue' box below this column and you may notice a few more graphic elements than in the past. Our purpose has not changed, however. We want to make sure you have all the information you need to take full advantage of the UW TSA Program. We will continue to publish articles on plan changes, legislative developments, retirement planning, and investing.

You may have noticed that our lead article, 'Does Your Portfolio Harbor Hidden Risks?' is reprinted from Morningstar. In each issue we plan to reprint one or two articles from outside sources rather than develop all of our content internally. That will allow us to use resources more efficiently and, we hope, provide you with an interesting selection of articles.

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## Does Your Portfolio Harbor Hidden Risks?

*Watch for these five portfolio traps.*

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You avoid trendy sector funds like the plague. You keep your holdings in your employer's company stock to a minimum. You have also assembled a portfolio with an asset allocation that makes sense given your age and risk tolerance.

In short, you're avoiding a lot of the big mistakes. But even well-meaning investors who have done their homework can assemble portfolios that harbor hidden risks. Answer the following five questions to see if you're exposed to significant risks you might not know about.

### 1. *Are you overloaded on a single investment style?*

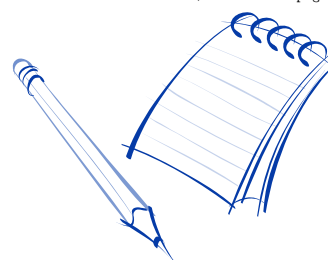
The Morningstar style box and category system [which categorizes the investment styles of mutual

funds according to value/blend/growth on one axis and small/mid-cap/large company size on the other] can help tremendously when it comes to building a diversified portfolio. But even if you've taken care to select funds from varying corners of the style box, it's still possible to end up with a fair amount of style overlap. For example, a lot of growth-oriented funds have been dipping into traditional value territory (notably, certain energy and industrial stocks) over the past few years, while more and more value managers are finding onetime growth stocks attractive. Meanwhile, many managers of large-cap funds have been venturing into hot-performing mid-caps lately, while many onetime small-company funds have also been pushed into mid-caps as their assets have grown.

All of these factors increase the likelihood that you'll end up with a style bet you didn't know you were making and underscore the importance of checking up on your overall portfolio's style positioning.

To help discern whether you're banking too heavily on a single investment style, compare your portfolio's style-box positioning with that of a broad market index such as the Wilshire 5000.

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## How Do I... ?

*Frequently Asked Questions about the TSA Program.*

Campus Benefit Coordinators get lots of questions about the TSA Program. Here are a few of the more popular ones.

### **How much can I contribute to the plan?**

The general limit for 2005 is \$14,000 per year up to 100% of your University income. It will go up to \$15,000 in 2006.

If you are age 50 or over, you can contribute an additional \$4,000

in 2005 and \$5,000 in 2006.

For employees with at least 15 years of service with the University of Wisconsin (not combined with service at other institutions), it may be possible to add up to an additional \$3,000 to those amounts. Check with your campus staff benefits office.

You can also contribute an equal amount to the State of Wisconsin Deferred Compensation Plan.

### **Does the UW contribute to the TSA plan?**

No, your TSA account consists only of your contributions and investment earnings.

### **Do I have to file any forms or reports with the IRS?**

No, the University deducts your TSA contributions from the taxable income reported to the IRS. Therefore, you don't have to file

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TSA Inve\$tor is published semi-annually in the spring and fall to provide information on investing, retirement planning, and University of Wisconsin retirement benefits. Contact your staff benefits office for information on how to participate in the TSA program. Additional information is available at [www.uwsa.edu/hr/benefits/retsav/tsa.htm](http://www.uwsa.edu/hr/benefits/retsav/tsa.htm).

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## Frequent TSA Program Questions *(continued from page 1)*

any additional forms or even enter your TSA contribution on your tax return.

**Why does the University have a TSA plan as well as a retirement plan?**

For most long-term employees of the University, the WRS retirement plan will provide the bulk of their retirement income. For those who wish to supplement that income, the TSA plan provides a convenient, tax-advantaged way to do so.

**When can I combine UW TSA funds with those from my previous employer?**

You can roll over retirement savings from most plans to the UW TSA plan at any time. Contact your mutual fund or insurance company for the procedures.

## Risks *(continued from page 1)*

As of the end of March, the index had 21% in the large-value box, 31% in large blend, and 19% in large growth; 6% in mid-value and 7% each in mid-blend and mid-growth; and 3% in each of the style box's small-cap squares. Don't be too concerned about minor style divergences—you might be perfectly comfortable with a modest bet toward value stocks, for example. But if you find that your portfolio is skewing heavily toward a single corner of the style box, it's probably time to think about getting things back into balance.

### *2. Are you taking on too much risk with your bond investments?*

It's true that most bonds and bond funds carry a far smaller risk of substantial losses than stocks and stock funds do. But it's a mistake to assume that bonds and bond funds are risk-free. In fact,

When you terminate your employment with the UW System, you can leave your funds here or transfer them to another retirement plan [401(k), 403(b), or IRA].

**Is this a 403(b) or a Tax-Sheltered Annuity plan?**

Both. The plan is called a 403(b) plan because that is the section of the tax code that authorizes tax-sheltered annuity plans.

Several years ago, the government standardized the rules for TSA plans and 401(k) plans so 'Tax-Sheltered Annuity plan' is a bit of a misnomer. TSA plans are allowed to offer mutual funds as well as annuities. The UW TSA plan offers four mutual fund families as well as annuities through four insurance companies.

**How do I enroll?**

It's simple. First, open an account with one of the mutual fund or insurance companies included in the plan. You can do this online with Fidelity and TIAA-CREF or with a mail-in form to the other vendors.

Then, turn in a completed Salary Reduction Form to your campus benefits office.

For more information, forms, and links, check out the TSA Program website at [www.uwsa.edu/hr/benefits/retsav/tsa.htm](http://www.uwsa.edu/hr/benefits/retsav/tsa.htm).



### *3. Are you betting too heavily on one or two geographic regions?*

In particular, be on the lookout for big positions in emerging markets. Stocks from these markets carry the potential for big returns—prompting many managers to load up on them over the past few years—but are also riskier than developed-market securities. At the other end of the spectrum, ignoring foreign markets altogether is a risk in and of itself. Foreign stocks have the potential to enhance your portfolio's return and lower its risk—a fact that was on prominent display in years like 2003 and 2004. Meanwhile, many fund managers have been telling Morningstar's analysts that they're finding more attractively valued stocks overseas than they are in the U.S. Even so, most U.S. invest-

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## Risks *(continued from page 2)*

tors are substantially light on foreign stocks relative to a global market benchmark like the MSCI World Index—and for no good reason. Even if you're not comfortable staking a full 50% of your stock portfolio overseas, as the index does, I think you can make a case for keeping 25% or more of your portfolio in foreign stocks.

### *4. Are you paying more hidden costs than you need to?*

Low fund expenses are the single best predictor of whether a fund will outperform in the future. (That's right, low costs matter more than good past performance or the presence of a star manager.)

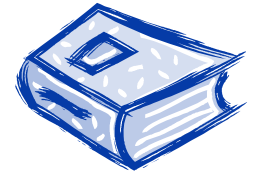
But even if you've heeded our warnings about not overpaying, you could still be on the hook for high costs that aren't reflected in your funds' expense ratios. Funds incur charges when they buy and

sell stocks and bonds; while fund's don't disclose these charges in their expense ratios, they still take a bite out of your total return. Of course, it's tricky to try to rein in costs you can't see, but one basic way to ensure that you're not paying too many of these hidden fees is to keep most—if not all—of your portfolio in funds with low turnover rates. Low turnover (less—preferably much less—than 50% for stock funds) is an indication that a manager is using a buy-and-hold strategy and isn't racking up lots of these hidden charges. And if you're holding investments in a taxable account, it also pays to watch out for any ticking tax bombs in your portfolio. High turnover rates—once again—are a red flag, as they can indicate that a manager is apt to generate a lot of taxable capital gains, some of them short-term.

### *5. Are you trading too much?*

While you're on the hunt for hidden risks in your portfolio, perhaps a little introspection is in order. Could you be adding to your portfolio's risks by trading too often yourself? Yes, it's tempting to opt for the fund that lands on the top of the leader's list for the previous year, whether it's real estate, energy, or commodities. But by making frequent alterations to your portfolio, you can potentially rack up high tax and transaction costs, and you also risk adding to a sector or style just as it's about to cool off.

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*“Low fund expenses are the single best predictor of whether a fund will outperform in the future. (That's right, low costs matter more than good past performance or the presence of a star manager.)”*

## Retirement and Investment Advice on the Web

*A few of the better websites to get you started.*

A Google search for ‘investment information’ turns up 253 million hits. Here are a few that we've found helpful.

First, we can't help but recommend our own website, [www.uwsa.edu/hr/benefits/retsav/index.htm](http://www.uwsa.edu/hr/benefits/retsav/index.htm), as a comprehensive source of information on University of Wisconsin retirement benefits.

The websites of the insurance companies and mutual funds that participate in the program are a good start for fund performance data, retirement planning advice, and investment education. (See [www.uwsa.edu/hr/vendors.htm](http://www.uwsa.edu/hr/vendors.htm) or the back of this newsletter.)

Morningstar is a good source of unbiased fund analysis and general investing advice. There is lots of free content, but you'll have to pay for a premium membership (\$125/year) to access most of the analyst reviews ([morningstar.com](http://morningstar.com)).

If you can get over the name, Motley Fool ([fool.com](http://fool.com)) caters to small investors and can be a good source of investing ideas and financial news. In contrast, The Street ([www.thestreet.com](http://www.thestreet.com)) has more of a Wall Street insider orientation. Both sites are free.

The Wall Street Journal Online ([wsj.com](http://wsj.com)) costs \$99/year but it's one of the best news websites available—financial and other-

wise—and you can customize it to your own interests.

For a sober approach to retirement planning, try Financial Engines ([financialengines.com](http://financialengines.com)), which utilizes a statistical model developed by Nobel Prize winning economist William Sharpe (\$300/year). The UW Credit Union ([uwcu.org](http://uwcu.org)) and T. Rowe Price ([troweprice.com](http://troweprice.com)) both offer good basic retirement planning models at no cost.

Social Security's website ([ssa.gov](http://ssa.gov)) allows you to apply for benefits, find out your age for full retirement benefits (it's not 65 for most of us!) and request a benefit estimate.



Finally, here are some additional free sites worth checking out: [finance.yahoo.com](http://finance.yahoo.com), [indexfunds.com](http://indexfunds.com), [savings-bonds.gov](http://savings-bonds.gov), [money.cnn.com](http://money.cnn.com), [smartmoney.com](http://smartmoney.com), and [bondsonline.com](http://bondsonline.com).

Good luck!

Human Resources Information Services  
5901 Research Park Blvd.  
Madison, WI 53719

## Benefit Fair

Learn more about the TSA Program and other benefits at this upcoming benefit fair:

La Crosse—October 20

Cartwright Center—Valhalla 10-4

More on the TSA Program at  
[www.uwsa.edu/hr/benefits/retsav/tsa.htm](http://www.uwsa.edu/hr/benefits/retsav/tsa.htm)

## Individual Counseling Sessions

Free individual counseling sessions will be provided on the following dates.

**TIAA-CREF**—Call 800-842-2005 ext. 5657 or go to [www.tiaa-cref.org/moc](http://www.tiaa-cref.org/moc) to schedule a session.

Stevens Point—October 24-27  
Oshkosh—October 31-November 2  
Parkside—November 7-8  
Green Bay—November 3-4  
Platteville—November 14-17  
Whitewater—November 21-23

Check our website for an updated list of sessions!  
[www.uwsa.edu/hr/counsel.htm](http://www.uwsa.edu/hr/counsel.htm)

	VENDOR FEES	ANNUAL FEE	SURRENDER/REDEMPTION CHARGE	MORTALITY/RISK
Insurance Companies	Ameriprise /IDS 877-640-6894 <a href="http://www.ameriprise.com">www.ameriprise.com</a>	\$30	Old contract: 7% years 1-3; declining to 0% in year 9 New contract: 7% years 1-3, thereafter 0%.	1.000%
	American United Life 800-627-3660 ext. 1250 <a href="http://www.aul.com">www.aul.com</a>	Lesser of 0.5% or \$7.50 per quarter.	Old contract: 8%, years 1-5; 4% years 6-8 New contract: 7% in year 1, declining by 1% per year to 0% in year 8.	1.250%
	Lincoln National Life 608-231-2231 or 800-967-2046 <a href="http://www.lfg.com">www.lfg.com</a>	None	Old Contract: 8% for 5 years; then 4% for 3 yrs; then 0% New Contract: 6% yrs 1-3, then declining 1% per year to 0% in year 9.	1.002%
	TIAA-CREF 800-842-2776 <a href="http://www.tiaa-cref.org">www.tiaa-cref.org</a>	None	None	.005%
Mutual Fund Companies	Dreyfus 800-358-0910 <a href="http://www.dreyfus.com">www.dreyfus.com</a>	None	Selected funds have a 1% charge on redemption of shares held less than a minimum period. See prospectus.	n/a
	Fidelity 800-343-0860 <a href="http://www.fidelity.com">www.fidelity.com</a>	None	Selected funds have a redemption charge on shares held less than a minimum period. Fidelity Select Funds have a standard redemption fee. See prospectus.	n/a
	T. Rowe Price 800-492-7670 <a href="http://www.troweprice.com">www.troweprice.com</a>	None	Selected funds have a charge on redemption of shares held less than a minimum period. See prospectus.	n/a
	Scudder Investments 800-541-7705 <a href="http://university.scudder.com">university.scudder.com</a>	None	None	n/a
	Wisconsin Retirement System 608-266-3285 or 877-533-5020 <a href="http://etf.wi.gov">etf.wi.gov</a>	None	None; No withdrawal or transfer permitted before employment terminates.	n/a
UNIVERSITY FEE: \$9.00 per year deducted from payroll when you join the program and in early March each year thereafter.				