

# TSA Invest

## Pension Protection Act of 2006

The Pension Protection Act of 2006 (PPA) was signed into law on August 17, 2006.

Much of the act is concerned with the way defined benefit plans are funded and has no impact on the University of Wisconsin TSA 403(b) plan; however, certain provisions do affect our plan and are generally welcomed.

### EGTRRA Permanency

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) became law as part of a budget bill, and thus had a ten-year lifespan. The EGTRRA provisions were scheduled to sunset in 2010. EGTRRA permanency provides needed stability.

Some important EGTRRA 403(b) provisions that are now permanent include:

- The elimination of the complicated maximum exclusion allowance (MEA) calculation.
- Higher deferral limits. Dollar limits on contributions, benefits, and compensation for years 2007 and following will be based upon indexing.
- Catch-up contributions for participants age 50 and older. These catch-ups can also be indexed for inflation.
- Rollovers from 403(b) plans to qualified or 457(b) plans and vice versa.

The PPA makes permanent the nonrefundable tax credit, also known as the “saver’s tax credit,” for qualified retirement savings contributions, which was set to expire 12/31/06, and very importantly indexes the credit to inflation. For more information, see [www.uwsa.edu/hr/benefits/ret-sav/savers.htm](http://www.uwsa.edu/hr/benefits/ret-sav/savers.htm). ■

## TSA Review Committee news

The TSA Review Committee welcomes two new members this fall – David Porter, Professor of Finance and Business Law at UW-Whitewater and Robert Kunkel, Professor of Finance at UW-Oshkosh.



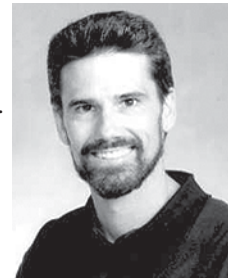
David Porter

Dr. Porter specializes in market micro-structure and teaches Investments and Portfolio Theory; he is completing Ron Crabb’s term on the committee. Dr. Crabb, who served on the TSARC since 1996,

retired this last spring from UW-Whitewater. Warm thanks to Ron for his many contributions and outstanding service to the University and best wishes in his new adventures.

Dr. Kunkel’s research and consulting interests include personal finance, investments, and market anomalies. He succeeds Lori Worm, Assistant Vice-Chancellor for

Administrative Services at UW-Oshkosh, who served on the committee since 2000. We extend deep appreciation and warm wishes to Lori.



Robert Kunkel

Two current members, Carol Fischer, Professor of Business at UW-Colleges (UW-Waukesha) and Robert Carney, Professor in the UW-La Crosse Finance and Business Law Department have graciously agreed to continue to serve and have been reappointed to new three-year terms.

The TSARC is a ten-member committee of faculty and academic staff appointed by the UW System president to provide oversight of the Program and advice on Program issues.

All members of the TSARC (listed on page 2) welcome your comments and suggestions about the Program. ■

## Where is your money going?

*How to choose among the investment approaches in the UW TSA Program.*

### Money is always on its way somewhere.

Gary Ryan Blair

If any of your money will be making its way to the UW TSA 403(b) Program, you will face an important decision: whether to invest with a mutual fund company, an insurance company that sells its products through agents, TIAA-CREF, or the Wisconsin Retirement System (WRS). Since only a very small percentage – approximately 2% – of TSA participants invest with the WRS, that option will be discussed in a later article.

First, a few basics. **Mutual fund** companies offer a wide variety of different funds managed by their own investment managers. Mutual funds hold a portfolio of stocks, bonds, or other securities according to their stated investment objective. While you are saving, each contribution purchases a number of shares of the fund. The value of your account depends on the

number of shares you own and the investment performance of the fund’s assets.

Insurance companies sell **annuities**. Hence the name of our program – the Tax-Sheltered Annuity Program – which, in its early days, only included insurance companies. As mutual funds became more widespread and popular, they were added to our investment options. Today, you can invest in a mutual fund in the TSA 403(b) plan, take your money out in retirement as you need it, and never even get close to an annuity.

### What is an annuity?

An annuity is a contract between you and an insurance company that allows you to take benefits as periodic payments for your lifetime or a fixed number of years, immediately or at some time in the future. By investing with an insurance company, you have an annuity, although when it comes time to take out your money, you

The **TSA Inve\$tor** is published semiannually in the spring and fall to provide information on investing, retirement planning, and University of Wisconsin retirement benefits. Contact your staff benefits office on how to participate in the TSA program.

Information, investment options, and returns are listed at the TSA Web site: [www.uwsa.edu/hr/benefits/retsav/tsa.htm](http://www.uwsa.edu/hr/benefits/retsav/tsa.htm)



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## TSA Program highlights

In 2005, UW employees contributed \$71.6 million to investments in the TSA 403(b) Program, a 5.4% percent increase over 2004. Participation increased slightly to 11,724 employees in the Program. Accumulated plan assets increased by more than 10% in 2005, from \$957 million to \$1.27 to \$1.41 billion.

Thirty-five percent of all permanent employees, more than 44% of those between age 50 and 59, and 56% of those between age 60 and 69, participated in the TSA Program.

The average TSA contribution was about \$6,115; however, almost 14% of participants contributed \$1,000 or less. Well over half of all participants – 57% – contributed \$5,000 or less. For more information see the 2005 Annual Report online at [www.uwsa.edu/hr/benefits/retsav/tsa.htm](http://www.uwsa.edu/hr/benefits/retsav/tsa.htm).

## Take a look at the Selected Returns!

The Selected Returns, a partial list of the investment options available to you in the TSA 403 (b) Program, are in printable pdf format at [www.uwsa.edu/hr/benefits/retsav/selected.pdf](http://www.uwsa.edu/hr/benefits/retsav/selected.pdf).

All Index Funds are on the first page, and All-purpose Funds are on the second page, listed by type in order of five year returns. The fund with the best five-year return is listed first.

Target Retirement Date (also known as Life Cycle) funds are on the bottom of page 2. They are

## How do I . . . ? *Frequently asked questions about the TSA Program*

### How do I increase the amount I contribute each year?

Simply fill out a new Salary Reduction Agreement (SRA) and submit it to your campus staff benefits office. The SRA tells the University how much money you would like withheld from your salary and where you would like the money sent. The form is available at your campus benefits office or on our website at [www.uwsa.edu/hr/sra.htm](http://www.uwsa.edu/hr/sra.htm). The campus benefits office addresses and fax numbers are listed on page 2 of the SRA.

You may change, stop, or restart your Salary Reduction Agreement at any time during the year. The new Salary Reduction Agreement replaces and cancels all previous agreements on file.

In 2007 you may contribute \$15,500, plus an additional \$5,000 if you are 50 or older. Contribution limits are on our website at [www.uwsa.edu/hr/benefits/retsav/limits.htm](http://www.uwsa.edu/hr/benefits/retsav/limits.htm)

### Can I just make out a check and send it to my company?

No. In order to be tax-deferred, contributions must come out of your wages before taxes are taken.

## ... and limits

You can participate in the 403(b) Program and contribute as little as \$8 bi-weekly or \$20 per month. The maximum contribution in 2007 is \$15,500 – plus an additional \$5,000 if you are 50 or over. If you have worked for the University for 15 years or more you may also be eligible for a service catch-up. Check with your benefits office to see if you qualify.

To increase your deferrals for 2007, simply fill out a new Salary Reduction Agreement, available from your benefits office or online at [www.uwsa.edu/hr/sra.htm](http://www.uwsa.edu/hr/sra.htm). You may send it or fax it to your benefits office.

Even small savings can add up. If you're already in the Program—think about increasing your contributions and make sure to tell a friend about the Program. If you're not in yet—sign up today! ■

professionally managed, diversified funds that are automatically rebalanced to become more conservative over time.

The pages 3–5 list top performers by fund type in order of five-year performance.

If you do not have internet access, we are happy to mail the Selected Returns to you. Contact Terry Lauber at the address on your left. The complete list of returns is available at [www.uwsa.edu/hr/returns.htm](http://www.uwsa.edu/hr/returns.htm). ■

### How do I change my investment mix with my investment company?

Contact your company or companies. You can call them or log into your account(s) online using a logon and password. You may change the way your future contributions are allocated or move your money from one fund to another on the phone or online. It is a good idea to review your asset allocation or investment mix at least once a year to make sure that it still reflects your goals. Rebalance if necessary.

### How do I change my address with my investment company?

Contact your company or companies. Some will take changes over the phone, others prefer changes in writing. The University has no way to provide updates to companies.

### I read on the Internet that a certain fund is closed to new investors. Does that affect me in the TSA Program?

No – with only one exception. The UW has had long-time relationships with all our investment companies, so you may invest in any fund that the company offers that is appropriate for our 403(b) plan. Only Fidelity's Low-Priced Stock fund is currently closed if you have not contributed to it before. ■

## Investment approaches. . . *continued from page 1*

can take it out of your account however you wish. You do **not** need to take it out in periodic payments or, in other words, “annuitize” it. In the payout phase, you can get a lump sum distribution from an insurance company, or you can use the money in your mutual fund to purchase an annuity.

Annuities can be fixed or variable. A **fixed annuity** offers a guaranteed return by investing in low-risk securities like government bonds. However, since risk and return go hand in hand, on a very safe investment, the return is limited.

A **variable annuity** offers results that vary with the performance of the securities (e.g., stocks or bonds) in which the money is invested. Often, these variable annuity subaccounts, as they are called, are modeled after or even go by the same name as retail mutual funds. Some insurance companies even contract with mutual fund portfolio managers to direct a “cloned” subaccount investment. Both Lincoln and Ameriprise have some well-known funds from multiple fund families within their offerings.

### Cost Differences

Variable annuity subaccounts and mutual funds are very similar, so how do they differ? *One main difference is cost.*

**M&E charge.** Lincoln National and Ameriprise/IDS charge 1.002% and 1.1% respectively per year in addition to other management fees and charges for a Mortality and Expense Risk (M&E) charge. You do receive some value for it: a guaranty that if you die, your beneficiaries will receive a specified amount, typically the amount you contributed, or a specified “stepped-up” amount. However, since, over time, earnings normally make up a large portion of most retirement accounts, that guaranty may not cost that much to provide. TIAA-CREF charges .005% (five thousandths of one percent) per year for it, and it is not an “extra” charge; it is a part of the regular expense ratio of the fund.

The M&E charge is assessed only on the assets in the variable subaccount portion of the account, not on any fixed annuity portion. If you have variable annuity assets of \$40,000, with an M&E charge of 1.1% you are paying \$440 per year. As your account grows, your M&E charges can be substantial.

If it does not cost that much to provide the death benefits, why do Lincoln and Ameriprise charge 1% or more for the M&E? The M&E charge not only pays for the guaranteed death benefit, it also may cover the overhead expenses the insurer incurs with the annuity contract, including **agent compensation**. Keep in mind that this is about the same amount you would pay for a financial planner.

**Other charges.** Lincoln and Ameriprise/IDS also levy surrender charges – penalties for withdrawals in the first years after an account is opened. In the UW plan, surrender charges are based on the date the contract was started and cannot extend longer than eight years; “rolling” surrender charges – linked to the date you make subsequent contributions – are prohibited. Surrender charges start at 6% or 7% in the first year and decline to zero in the 3<sup>rd</sup> year for Ameriprise and the 9<sup>th</sup> year for Lincoln. Ameriprise also charges an account fee of \$30 per year.

**Expense Ratios.** Mutual funds do not have mortality and risk expense or surrender charges. They earn their money solely through management fees – as reflected in the expense ratios for each fund – ranging from .1% to over 1.5% per year, depending on the fund. When you look at fund performance numbers, these fees have already been subtracted, see [www.uwsa.edu/hr/returns.htm](http://www.uwsa.edu/hr/returns.htm). Remember that M&E and surrender charges are in addition to similar management fees charged by Lincoln National and Ameriprise/IDS.

### Personal Attention

Lincoln National and Ameriprise/IDS provide individual financial planning through a local agent. The agent receives compensation every year to provide these services. Many participants prefer to work with an agent who knows them personally and is available at almost any time. The participants feel they receive personal attention to help them make informed financial decisions.

Mutual fund companies and TIAA-CREF do not have local agents. However, you can sign up for free individual counseling from TIAA CREF, Fidelity, T. Rowe Price, and Dreyfus representatives when they visit your campus (whether you invest with them or not). There are also many excellent resources on the web and toll-free numbers for individual advice, see [www.uwsa.edu/hr/benefits/retsav/tsa.htm](http://www.uwsa.edu/hr/benefits/retsav/tsa.htm)

### Summary

**All fund options are No Load (no broker’s fees)**

#### Ameriprise/IDS and Lincoln:

- Personal attention from a dedicated local agent
- M&E charges of 1.1% or 1.002% per year
- Penalties (‘surrender charges’) if you withdraw money in the first years of your contract
- Fixed annuities guaranteed by the company’s financial stability

#### TIAA-CREF:

- Counseling via toll-free numbers, web resources, and regular campus visits
- Low fees (M&E charge of .005% included in expense ratio); No surrender charges
- Offers both annuity and mutual fund options
- Fixed annuities guaranteed by the company’s financial stability; excellent financial stability ratings
- Available at almost all US educational institutions

#### Mutual fund companies:

- Counseling via toll-free numbers, web resources, and regular campus visits
- Offer many choices, some high-performing funds
- Many offer Target Retirement Date funds
- No M&E or surrender charges

### TIAA-CREF

Part of TIAA-CREF – TIAA, the Teachers Insurance and Annuity Association – is an insurance company, but unlike Lincoln National and Ameriprise/IDS, TIAA-CREF does not use agents to sell its investments, so the mortality and expense risk charge is negligible (.005%) and is already included in the expense ratio for each fund. There are also no surrender charges or account fees. TIAA-CREF was originally established as a nonprofit company providing retirement benefits for the educational community, and it is offered at almost all educational institutions. It is known for its low cost and low expense ratios. In the UW TSA Program, TIAA-CREF also offers a selection of mutual funds, including Target Retirement Date funds.

### Financial Security

Knowing the financial strength of the insurance company you invest with—including TIAA-CREF—is important, because if an insurance company goes bankrupt, you could lose that part of your account invested in the fixed annuity products. That’s not the case with mutual funds, since the funds are held in trust and do not depend on the financial stability of the mutual fund company itself. Of course, the stocks and bonds in a mutual fund can lose most or all their value, but that risk is different from the risk of bankruptcy, and it is the same risk you face with a variable subaccount in an insurance company.

Several services issue ratings meant to assess financial stability of insurance companies. The TSA Review Committee tracks these ratings and will notify investors or take other action when a company’s rating falls below a certain level. Ratings are published on the web site in the *Quick Guide to the TSA Program*.

Whatever option you choose, UW TSA 403(b) Program provides a low-cost, flexible way to save for retirement on a tax-deferred basis. If you haven’t begun, start today! ■

**Individual Counseling**

Would you like to sign up for the program or make some adjustments in your investments but aren't sure how? These **free** sessions are here for you! Other sessions may be scheduled. Check our website at [www.uwsa.edu/hr/benefits/retsav/tsa.htm](http://www.uwsa.edu/hr/benefits/retsav/tsa.htm).

**TIAA-CREF** – Call 800-842-2005 ext. 5651 or sign up on the web site at [www.tiaa-cref.org/moc](http://www.tiaa-cref.org/moc).

Eau Claire – November 28-30                      Whitewater – Nov. 30 - Dec. 1  
Superior – November 21-22

**T. Rowe Price** – Will offer counseling at several campuses in the spring. Check [www.uwsa.edu/hr/benefits/retsav/counsel.htm](http://www.uwsa.edu/hr/benefits/retsav/counsel.htm).

**Dreyfus** – To make an appointment e-mail [palmieri.p@dreyfus.com](mailto:palmieri.p@dreyfus.com)

Eau Claire – March 20                      Madison – March 19 & 22  
Green Bay – March 13                      Milwaukee – March 12 & 15  
La Crosse – March 21                      Stevens Point – March 14

**TSA 403(b) workshops this fall****Cutting Taxes Today & Investing for the Long-term**

Learn about the TSA 403(b) Program—your voluntary retirement savings plan—and the basics of investing from TSA staff.

**Madison: Dec. 7, 12:00 pm, Room 108, 780 Regent St.**  
(Behind the Kohl Center next to Fraboni's) Free parking behind building.  
Brown bag; feel free to bring your lunch. Call 608-262-1805 for info.

**UW-Marathon: Nov. 27, 1:00, Terrace Room**

**UW-Fox Valley: Dec. 15, 12:00, Room 1229**

**Getting Started in the TSA Program**

**UW-Madison:** January 10, 3:00 - 4:00 pm  
March 8, 12:00 - 1:00 pm

All presentations at 21 N. Park St., Room 5045  
Free campus bus #85 drops you right at the door.

To sign up go to [www.ohrd.wisc.edu](http://www.ohrd.wisc.edu) and search on **TSA**.  
For information call 608-262-5650 or 262-5564.

TSA events are free and open to all UW employees and their families.

**UW TSA 403(b) Investment Company Contacts & Program Fees**

	UNIVERSITY FEE:	\$9.00 per year, deducted from payroll when you join the Program and in early March each year thereafter.		
	VENDOR	ANNUAL FEE	SURRENDER/REDEMPTION CHARGE	MORTALITY/ RISK CHARGE
I n s u r a n c e  C o s.	Ameriprise/IDS 877-640-6894 <a href="http://www.ameriprise.com">www.ameriprise.com</a>	\$30 Waived for new contract accounts over \$50,000	Old contract: 7% years 1-3; declining to 0% in year 9 New contract: 7% years 1-3, thereafter 0%	Old contract 1.000% New contract 1.1%
	Lincoln National Life 608-231-2231 or 800-967-2046 <a href="http://www.lfg.com">www.lfg.com</a>	None	Old contract: 8% years 1-5, 4% years 6-8, 0% thereafter New contract: 6% years 1-3, 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% -- part of expense ratio)
M u t u a l  F u n d  C o s.	Dreyfus 800-358-0910 <a href="http://www.dreyfus.com">www.dreyfus.com</a>	None	Certain funds have short-term trading fees -- a redemption charge on shares held less than a minimum period.	-
	Fidelity 800-343-0860 <a href="http://www.fidelity.com/atwork">www.fidelity.com/atwork</a>	None	Certain funds have short-term trading fees -- a redemption charge on shares held less than a minimum period.	-
	T. Rowe Price 800-492-7670 <a href="http://www.troweprice.com/wisconsin">www.troweprice.com/wisconsin</a>	None	Certain funds have short-term trading fees -- a redemption charge on shares held less than a minimum period.	-
	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.	-