

TSARC News

The Tax-Sheltered Annuity Review Committee (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. This fall the committee welcomes two new members – Donna Weber, interim Director of Human Resources at UW-Eau Claire and Dr. Valeriy Sibilkov, Assistant Professor of Finance in the Lubar School of Business at UW-Milwaukee.

Donna Weber is completing Lucretia Mattson's term on the committee. Dr. Mattson, who served on the TSARC since 2001, retired this past spring from UW-Eau Claire. Hearty thanks to Lucretia for her outstanding service to the committee and the University and best wishes in her new pursuits and travels.

Professor Sibilkov specializes in corporate finance, and his current research focuses on capital structure, corporate cash policies, and corporate governance. He is taking a seat formerly held by UW-M Associate Professor of Finance Qinghai Wang. Warm thanks to Dr. Wang for his many contributions.

Two current members, Kevin Bahr, Associate Professor of Business and Economics at UW-Stevens Point and David Porter, Professor in the Finance and Business Law Department at UW-Whitewater have graciously accepted to continue to serve and have been reappointed to three-year terms.

All members of the TSARC (listed on page 2) welcome your comments and suggestions about the program. The TSARC will meet in Madison on November 2. This meeting is open to the public. ■

How to find a great core stock fund

Tips on finding a large-cap anchor for your portfolio.

By John Coumariansos Reprinted by permission of Morningstar, Inc.

Fancy academic theories often express very simple ideas. For example, a part of academic finance called Modern Portfolio Theory divides up the stock market into style and market-cap segments (think of the Morningstar style box) and basically argues for diversifying or spreading your bets.

But spreading your bets doesn't mean diversifying equally among different funds. Some funds may deserve more of your assets than others. Morningstar analysts call the more important ones

“core” funds and the less important ones “supporting” funds; we consider niche offerings like sector and regional funds to be “specialty,” meaning you should relegate them to a small percentage of your portfolio.



© The New Yorker Collection 1997 Mike Twohy from cartoonbank.com. All Rights Reserved.

This article will highlight one type of fund—diversified large-cap funds—that can often serve as core stock holdings in a portfolio. Knowing that your portfolio includes a rock-solid core can help you better cope with the extreme volatility that has plagued the market in recent weeks.

Why Large Caps?

Typically a core stock holding is a large-cap fund. That's because the market is made up of mostly large-cap stocks. (A stock's market capitalization, or cap, is its number of shares outstanding multiplied by its price per share. Currently, anything over \$11.5 billion or so in market cap is considered large cap.) In fact, large caps account for

continued on page 3

New 403(b) regulations

The regulations under Internal Revenue Service (IRS) code Section 403(b) were first published in 1964. There have been many changes to pension and tax law over the last four decades, but many of those changes have been to 401(k) or 457 plans or pension plans in general. Now the IRS has issued regulations specifically regarding 403(b) plans and how they should be administered.

Proposed 403(b) regulations were issued in 2004, and since then there has been much conjecture when the final regs would come out and what they would look like. Basically, the regulations will help to make 403(b) plans (for employees of educational institutions, churches, and certain nonprofits) more like 401(k)s (for employees of private companies). That is, these regulations will help make retirement plans of all types more uniform.

The IRS has given plans some time to comply with these regulations – most of the regulations will be effective January 1, 2009. The 403(b) regulations will have little impact on our UW TSA 403(b) plan, however, because we have always operated under a best practices model, and we already conform to most provisions. For example, from its inception in 1972, the UW TSA plan has had a plan document (posted on our web site), and has restricted the number of “vendors.”

A few provisions are effective sooner than 2009. The big change for other plans that took effect after 9-24-07 is that “90-24” transfers, which got their name from Revenue Ruling #24 in 1990, are no longer allowed. Our plan has never allowed 90-24 transfers – we only allow transfers to other approved UW TSA 403(b) providers, and these transfers are still allowed. ■

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



Members of the Tax-Sheltered Annuity Review Committee:

Kathleen Kelley, UW-Platteville
Chair
(608) 342-1176
kelly@uwplatt.edu

Kevin Bahr, UW-Stevens Point
Vice-Chair
(715) 346-4062
kbahr@uwsp.edu

Robert Carney, UW-La Crosse
(608) 785-8117
carney.robe@uwlax.edu

Howard Erlanger, UW-Madison
(608) 263-7405
erlanger@ssc.wisc.edu

Carol Fischer, UW-Waukesha
(262) 521-5432
cfischer@uwc.edu

Robert Kunkel, UW-Oshkosh
(920) 424-7191
kunkel@uwosh.edu

David Porter, UW-Whitewater
(262) 472-5462
porter@uww.edu

Valeriy Sibilkov, UW-Milwaukee
(414) 229-5559
sibilkov@uwm.edu

Donna Weber, UW-Eau Claire
(715) 836-4323
weberdj@uwec.edu

Randall Ryder, UW-Milwaukee
Ex Officio

Staff Members

Program Administrator:
Rose Stephenson
(608) 262-5564
rstephenson@uwsa.edu

Benefits Specialist:
Terry Lauber
(608) 262-1805
tlauber@uwsa.edu

TSA Program highlights

In calendar year 2006, 11,432 UW employees contributed more than \$74.6 million to investment options in the UW Tax-Sheltered Annuity 403(b) plan, a 4.1% increase over 2005. Accumulated assets increased by more than 7.5% in 2006 to \$1.51 billion.

As a percent of salary our employees contribute generously at more than 10.6%. The average TSA contribution was about \$6,526, but over 13% contributed \$1,000 or less to the plan and 56% – well over half – of our participants contributed \$5,000 or less.

On the whole, approximately 34% of employees enrolled in the Wisconsin Retirement System participate in our program. Our largest populations continue to be in the 50–60 and 60–70 age brackets, with almost 42% and 45% of those age ranges participating.

According to investment company reports, almost 76% of all contributions were invested in equities funds, including insurance company variable sub-accounts. Of the total contributions, over 41% of contributions were invested in mutual fund companies, 42% in TIAA-CREF,

not quite 15% in other insurance companies, and 1.7% in the WRS. For more information, see the **2006 TSA Annual Report** online at our web site.

Don't Delay! Join today!

If you are **NOT YET** contributing to the UW TSA 403(b) plan, take advantage of tax-deferred investing and sign up today! You may contribute as little as \$8.00 biweekly or \$20.00 per month. Even small savings can add up with time. The maximum contribution in 2007 is \$15,500 or \$20,500 if you are 50 or older.

The UW Tax-Sheltered Annuity plan is an extremely low-cost, convenient, easy, well-monitored way to save for your long term goals. Saving for retirement is important – especially with longer life expectancies and increased health insurance costs!

You'll find information at www.uwsa.edu/hr/benefits/retsav/tsaenroll.htm. If you need additional help, contact your campus staff benefits office or TSA Program staff (contact info on your left) — we are here to help you! ■

Ameriprise/RiverSource and Lincoln on watch

In the past several years, the TSA Review Committee and program staff have undertaken a strategic evaluation of the TSA Program design and administration. The committee recommended several steps to enhance the program, which have been approved by UW President Kevin Reilly. One of the enhancements concerns insurance company ratings of financial stability.

It is the mission of the UW TSARC to ensure that the UW TSA 403(b) Program offers investment companies of high quality. In 2006 the committee moved to simplify the insurance company rating requirements in the TSA Criteria and increased the minimum financial stability ratings of insurance companies in the program.

The financial strength of an insurance company is a function of the nature of its current and future liabilities, the current and future liquidity of

its assets, and the size of the insurer's shareholders' equity. This financial strength is important to you if your TSA investment dollars are **not** being invested in variable sub-accounts.

With a **fixed** annuity, the life insurance company guarantees your principal and guarantees you a minimum rate of interest. Because you are relying on those guarantees for your future financial security, the financial strength of the life insurance company is important to you.

Two of our insurance companies, Ameriprise/IDS (now RiverSource) and Lincoln National Life Insurance, fail to meet the minimum financial stability requirements set by the TSA Review Committee and have been put on "watch." The committee has decided not to take any further action at the present time, but will continue to monitor the status of these two companies. ■

No more surrender charges

As part of an ongoing effort to improve the program, at its spring 2007 meeting, the TSA Review Committee established minimum service level standards for the our investment companies to be implemented starting January 1, 2008. The UW System President has approved these requirements and they have been incorporated into the TSA Criteria, published at www.uwsa.edu/hr/benefits/retsav/tsa.htm.

These service level requirements provide written expectations for service from our TSA investment companies in reporting, providing investment education for our employees, retain-

ing and recruiting participants, and limiting fees. Most notably, insurance company products sold after January 1, 2008, will have **no surrender charges** (charges that are assessed if you withdraw your funds or transfer them during the first years of the contract).

The two insurance companies in the TSA Program whose products currently have surrender charges are Ameriprise/RiverSource and Lincoln National. Please be aware that even though new contracts have no surrender charges, contracts issued before January 1, 2008 may have surrender charges lasting up to eight years. ■

Core funds

continued from page 1

about 70% of both the DJ Wilshire 5000 Index and the Morningstar U.S. Market Index (two indexes that approximate the whole domestic stock market). This is primarily why advisors put the bulk of their clients' money in large-cap stocks or mutual funds and why Morningstar designates most funds that own large-cap stocks as "core" holdings. You're simply getting exposure to a bigger slice of the market when you own a large-cap fund than when you own a mid-cap fund, small-cap fund, or a fund dedicated to a particular sector or industry of the economy.

Knowing that your portfolio includes a rock-solid core can help you better cope with the extreme volatility that has plagued the market in recent weeks.

Does this mean that you must always have 70% of your stock exposure in large caps? Not at all. Different allocations may be appropriate for different investors. However, it's important to know what the market looks like, if for no other reason than to understand how you might be deviating from it.

Given that small caps and mid-caps have outperformed large for the past five years, a question that naturally arises is "Why does my portfolio have to look like the market with all those lackluster large-caps?" And it's true that large, established companies are subject to the same problems as other kinds of companies. They can get overpriced, as we saw during the bubble years (2000-02), and they can engage in large-scale deception and fraud as we saw with Enron. But large caps tend to be steadier over extended periods of time than smaller stocks, giving investors the courage to stick with them through the rough patches. In short, they tend to be solid businesses with steady profits that compound your money decently over time.

Also, there are times when large caps do better than the rest of the market. Many of our favorite fund managers believe that high-quality, large-cap businesses look as cheap now as they have in a long time and that a return of interest to businesses with steady earnings and profits might be in the offing after a period of investor neglect. If the economy slows, large-cap stocks tend to hold up better than their smaller counterparts for a variety of reasons. Multiple product lines (often with brand-name recognition), market dominance, multiple customers often spread around the world, greater access to capital, and generally stronger management teams are some of the reasons why larger businesses can withstand difficult economic times. We certainly don't advocate dumping all your small-cap funds, but now may be a particularly good time to recheck your allocation and make sure that your core holdings are beefed up enough.

Additional Considerations

If you've decided that you want to use a large-cap fund as a core holding, there are a few other factors to bear in mind. First, you should consider fees. Although it may not seem like a big difference whether you're paying 1% or 2% as an expense ratio, fees cut into returns dramatically over time. Additionally, even if the stock market continues to return the 10% or so annually that it has, on an average basis, returned over the past 75 years, keep in mind that inflation has run at over 3%, meaning that stocks have only increased your purchasing power by 6% or 7%. In other words, every percentage point counts when it comes to trying to beat inflation, and you should try to pick a fund for a core holding that has an expense ratio of around 1% or less.

Second, if you're picking an actively managed fund (instead of one that simply tracks an index like the S&P 500), look for an

experienced manager with a solid track record. As in other professions, experience counts in the investment world, and you want to make sure that the manager has weathered market storms reasonably well and has stuck to his investment style when it was out of favor. Morningstar analyses tend to focus lots of attention on a fund's management team, and there's a management section beside every analysis giving you the dope on what we think of the manager and analyst staff at a particular fund.

Third, consider an index fund—especially one that follows the S&P 500 Index, the DJ Wilshire 5000 Index, or the Russell 1000 Index—as a core holding. Index funds are generally low-cost options that virtually guarantee to get you nearly all of the market's return. This doesn't make them safe in the sense of being good at preserving capital, because markets can decline dramatically from time to time. However, most actively managed funds have a hard time beating the major indexes, so an index fund can relieve you of the burden of searching for one that has in the past and that has a good chance to do so in the future; you also won't have to worry about changes in management or strategy. ■

© 2007 Morningstar, Inc. All rights reserved.

A few core ideas

You have access to a strong line-up of good funds in the UW TSA plan. If you invest with either Ameriprise/RiverSource or Lincoln National, you are paying for the services of an advisor, and he or she can help you pick a good core fund and establish your portfolio. But what about those who invest with TIAA-CREF or one of our mutual fund companies – where do you start?

Remember, you can always choose a pre-diversified fund like an asset allocation fund or a target retirement date fund and let the manager do the work for you. See page 2 of the Selected Returns www.uwsa.edu/hr/benefits/retsav/selected.pdf for a list of those funds. TIAA-CREF and our mutual fund providers offer free individual counseling sessions, and advisors can help you pick funds and fine tune your portfolio (see schedules on page 4). You may also call the company toll free and a phone rep can help you.

To help you along a little more, our companies have made some suggestions of large-cap funds that may potentially be strong core anchors for your portfolio. This is not a recommendation to buy or sell a particular fund. It is provided for information only and in no way constitutes investment advice.

Here are some ideas from our companies:

Dreyfus – Dreyfus Appreciation (DGAGX), Dreyfus Premier Strategic Value (DRGVX), Dreyfus Premier S&P Stars (BSSPX), Dreyfus S&P 500 Index Fund (PEOPX)

Fidelity – Fidelity Spartan US Equity Index (FUSEX), Fidelity Spartan Total Market Index (FSTMX), Fidelity Equity Income (FEQIX), Fidelity Disciplined Equity (FDEQX)

TIAA-CREF – CREF Stock, CREF Equity Index (CREF funds are annuity products and do not have mutual fund ticker symbols), TIAA-CREF Large Cap Value Index (TRCVX), TIAA-CREF Growth & Income Fund (TRGIX)

T. Rowe Price – T. Rowe Price Growth Stock (PRFGX), T. Rowe Price Capital Appreciation (PRWCX), T. Rowe Price Value Fund (TRVLX), T. Rowe Price Total Equity Market Index (POMIX)

The investment companies' web sites provide a wealth of information about all of their funds. Before making any decision you may want to find out more about your selections at Morningstar.com or finance.yahoo.com. Also, please refer to the fund's prospectus, which contains complete information, including investment objectives, risks, fees, and expenses, that you should read and consider carefully before investing. ■

TSA Inve\$tor

Human Resources

780 Regent St., Suite 305

Madison, WI 53715

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 web site at www.uwsa.edu/hr/benefits/retsav/tsa.htm.

Dreyfus – To make an appointment, call 1-877-482-6058 or e-mail retirement@dreyfus.com.

Madison – October 10, 31, November 1

Milwaukee – October 8, 29, 30

Fidelity – Sign up online at www.fidelity.com/atwork/reservations or call 1-800-642-7131.

Madison – October 12

Whitewater – October 10

TIAA-CREF – Sign up on the web site at www.tiaa-cref.org/moc or call Dianne at 1-800-877-6602 (Eau Claire, River Falls, Stout) or Leslie at 1-800-842-2005 ext. 5651 (other campuses).

Eau Claire – November 1

Milwaukee – October 17;

Green Bay – October 18–19

Nov. 1–2, 20–21, 28–30

La Crosse – November 2

River Falls – October 30

Madison – October 10; Nov. 7–9

Stout – October 31

T. Rowe Price – To make an appointment, call 1-800-839-1901 or e-mail james_baumgardner@troweprice.com.

Madison – October 10

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

TSA 403(b) workshops this fall

Getting Started in the TSA Program: Cut Taxes Today & Invest for the Long-term!

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

Eau Claire – November 6, 12:00 noon & 2:00 pm,
Davies Center, Arrowhead Room

Green Bay – October 30, 1:30 pm, 1965 Room

La Crosse – October 18, 12:00 noon, Cartwright Center

Madison – October 23, 11:00 am; December 3, 3:00 pm;
February 15, 12:00 noon. Registration required.

21 N. Park St., Room 5045. Free campus bus #85 drops you right at the door. For information call 262-5650 or 262-5564.

Oshkosh – November 12, 11:30 am, Reeve Union 201

Stout – November 7, 9:05 am & 1:25 pm

Memorial Student Center, Ballroom A

NONPROFIT ORG.
U.S. POSTAGE
PAID
MADISON WI
PERMIT NO. 658

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.		
	COMPANY	ANNUAL FEE	SURRENDER/REDEMPTION CHARGE	MORTALITY/ RISK CHARGE
Insurance Cos.	Ameriprise/RiverSource 877-640-6894 www.ameriprise.com	\$30 New contract only: Waived for accounts over \$50,000	Old contract: 7% years 1-3; declining to 0% in year 9 New contract: 7% years 1-3, thereafter 0%. Contracts issued after 1-1-2008 will have no surrender charge.	Old contract 1.00% New contract 1.10% ----- 2008 contract 1.25%
	Lincoln National Life 608-231-2231 or 800-967-2046 www.lfg.com	None	Old Contract: 8% for 5 years; then 4% for 3 yrs; then 0% New Contract: 6% yrs 1-3, declining 1% per year to 0% in yr 9. Contracts issued after 1-1-2008 will have no surrender charge.	1.002%
	TIAA-CREF 800-842-2776 www.tiaa-cref.org/	None	None	.005% (Included in the expense ratio)
Mutual Fund Cos.	Dreyfus 800-358-0910 www.dreyfus.com	None	No surrender charge. Certain funds have a short-term trading fee – a redemption charge on shares held less than a minimum period. See prospectus for details.	n/a
	Fidelity 800-343-0860 www.fidelity.com/atwork	None	No surrender charge. Certain funds have a short-term trading fee – a redemption charge on shares held less than a minimum period. Fidelity Select Funds have a standard short-term redemption fee. See prospectus for details.	n/a
	T. Rowe Price 800-492-7670 www.troweprice.com/wisconsin	None	No surrender charge. Certain funds have a short-term trading fee – a redemption charge on shares held less than a minimum period. See prospectus for details.	n/a
	Wisconsin Retirement System 608-266-3285 or 877-533-5020 etf.wi.gov	None	No withdrawal or transfer permitted before employment terminates; after termination – no surrender charge.	n/a