

How do I . . . ?

Frequently asked questions about the TSA Program

I read that I should review my investment mix once a year or so and rebalance if necessary. How do I do that?

The first step is to find out where you are and look at where you need to be. Then adjust accordingly. There are two ways to do this.

You can move your money from one fund to another to achieve the percentage of assets that you want in each fund. Do this through your investment company over the phone or online. When you move money from one fund to another you get the share price as of the market close for that day.

Another more gradual way to achieve your goal is to revise the percentage of your contributions going into your funds.

Using this method, it may take you several months to achieve your desired balance and you must remember to revise your contributions again once you get where you want to be. But this method uses dollar cost averaging, and it may be easier for some to make changes gradually.

I contribute to an IRA. Does that affect my TSA contribution?

No, you can contribute the full amount to both programs. The 2007 contribution limit for a traditional or Roth IRA is \$4,000 plus an additional \$1,000 if you are 50 or older.

The 2007 TSA 403(b) contribution limit is \$15,500 plus an additional \$5,000 if you are 50 or older. If you have 15 years of service at the UW, you may also be eligible for "service catch-up." Check with your campus benefits staff. Contribution limits are on our website at www.uwsa.edu/hr/benefits/retsav/limits.htm ■

Confused by all the choices?

Here's some help in narrowing down the options.

If you are not in the UW Tax-Sheltered Annuity 403(b) Program, it might be that you just haven't gotten around to it yet. You may already be convinced that the UW TSA Program is a great supplemental retirement savings program.

You know that your contributions are taken pre-tax, so you save state and federal taxes up front, and your account grows tax-deferred until you withdraw it in retirement. You know that the UW TSA Program is **flexible**—you decide how much to contribute—as little as \$8.00 biweekly or \$20.00 monthly or as much as the federal limits allow—and you can start, change, or stop your contributions at any time. It's **low-cost**: the annual UW fee is \$9.00, there are no loads or sales charges, and most funds have lower than average expenses. And it's **convenient**: once you begin, your contributions continue automatically until you stop them.

But you may not know exactly *HOW* to start. There are so many funds, you may find the choice daunting. If so, don't de-

spair. Here are a few strategies to help you get started. Like those books of Sudoku puzzles, they're arranged by degree of difficulty—easy to advanced—so that you can go right to the option that works for you.

EASY

If you don't want to spend a lot of time doing the necessary homework to choose and monitor your investments, consider a **target date fund**. Also known as target-retirement, target-maturity, or life-cycle funds, they are about as low-maintenance as it gets. Pick the fund that corresponds with date you want to start withdrawals (which could be later than your retirement date), and the fund manager handles the rest.

These funds, available in our TSA program from Fidelity, T. Rowe Price, and TIAA-CREF, select a mix of assets appropriate for a target date, for example, 2010, 2015, 2020, 2025, etc. As the target gets nearer, the fund's asset mix is gradually adjusted—either by a professional manager or a computer model—by selling stocks and buying bonds or money-market funds and moving from aggressive to conservative investments. There also are income ver-

continued on page 2

The WRS as a TSA Option

There are many different investment company options in the UW Tax-Sheltered Annuity 403(b) plan. One that is rarely discussed is the Wisconsin Retirement System (WRS)—hence this article.

All WRS employees can make additional AFTER-TAX contributions to the WRS, but only state employees at the University of Wisconsin can make TAX-DEFERRED contributions. All tax-deferred contributions must be made by payroll deduction. Our TSA plan, established in the 1970s, offered the State Teachers Retirement System as one of the original options and therefore has been grandfathered in under Federal regulations to allow deferrals to our state retirement system. Many local school employees also have this option through their 403(b) plans.

Here are some things to consider as you decide whether to put tax-deferred dollars into the WRS.

The funds in the WRS are managed by the State of Wisconsin Investment Board (SWIB), and SWIB has a pretty good track record of returns. SWIB's objective is to ensure the long-term ability of the WRS to pay promised benefits. To do that, it must earn 7.8% over the long-term. Once that goal is reached stability is very important. Thus SWIB is less interested than some investment companies in making high but risky profits. In 2006 the Core Fund (formerly called the "Fixed") reported a return of 9.8%. The Core Fund is a diversified fund of approximately 60% stocks and 40% bonds and other securities. We categorize it as a Moderate Allocation fund (using Morningstar criteria).

The Core Fund uses a buffering mechanism called the Market Recognition Account (MRA) to smooth the returns over a five-year period. This reduces the volatility of the returns and makes a loss somewhat less likely. In fact, over the history of

continued on page 2

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

Lucretia Mattson, UW-Eau Claire
(715) 836-2422
mattsols@uwec.edu

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

Qinghai Wang, UW-Milwaukee
(414) 229-4775
wangq@uwm.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

WRS

continued from page 1

the Core Fund there has never been a loss, and the lowest annual return has been 5%. The 3, 5, and 10-year annualized returns are 8.26%, 7.43%, and 10.54% respectively.

The WRS also has a Variable Fund that is composed almost entirely of stocks. The Variable has no buffering mechanism and suffers losses from time to time, as well as impressive gains. From 2000 to 2002, for example, the variable fund had three straight years of losses with a -27% loss in 2002—its lowest return ever. In 2003, it reported a 34% gain, its highest ever. The 3, 5, and 10-year annualized returns for the variable are 12.94%, 8.25%, and 8.86% respectively. To see the history of WRS returns, go to our website at www.uwsa.edu/hr/benefits/retsav/tsa.htm. You'll find a link to the WRS historical returns on the investment returns page.

In order to participate in the Variable Fund with your 403(b) contributions, you must also participate with your regular WRS contributions. If you do not, all of your additional contributions will be deposited in the Core Fund.

How your additional contributions are invested depends on when you elected to participate in the Variable. The Variable was closed between 1980 and 2001. If you have been participating in the Variable since April 29, 1980, or earlier, you may specify what portion of your additional contributions you wish to be Core and Variable. If you chose to participate in 2001 or after, your regular and additional contributions will be split 50/50 between the Core and Variable.

When you invest with the WRS, a dividend is credited once a year on money that has been with the WRS the ENTIRE calendar year. In other words, your additional contributions begin to earn interest on January 1 after they are received by ETF and the gain or loss is credited on December 31 of that year. You are not taking advantage of dollar cost averaging as

you are with mutual funds, where you actually buy shares of your fund with every contribution.

You cannot access moneys invested with the WRS for any reason as long as you are employed in a WRS-covered position. So although loans or hardship withdrawals may be available through other TSA investment company options, they are not available for moneys you have in the WRS. And although you can transfer all of your other TSA investments from one TSA company to another, you cannot transfer your WRS 403(b) assets. The WRS also does not accept moneys rolled-in from outside sources. You can use your WRS additional account to purchase forfeited and other service from the WRS, however.

Even though the WRS has posted good returns, there are investment options in the TSA Program that offer better returns. So why do some people contribute additional moneys to the WRS? Perhaps because it offers a relatively conservative, very low-cost investment opportunity with good returns and requires virtually no research, monitoring, or rebalancing. **Some may see it as a way to increase their WRS annuities—one of the lowest-cost annuity options available**, although you could also take out your additional contributions as a lump sum. WRS annuities also have the potential to be increased every year depending on investment performance. Historically, WRS annuities have seen an increase every year except one—2002.

Why do most employees not choose this option? Perhaps they feel that they have more diversity of investments with other providers and want to have more access to their money. Perhaps they were unaware of the opportunity. Some invest with both a mutual fund provider and the WRS, but remember all TSA contributions count toward your yearly elective deferral limit.

To begin pre-tax or post-tax deferrals to the WRS, contact your staff benefits office! ■

Choices . . . *continued from page 1*

sions of target date funds for retirees. Target date funds are designed for one-stop shopping. Once you select the fund that's right for you, you can simply invest and forget.

Target-retirement date funds are typically "funds of funds," that is, they are composed of shares in other mutual funds in the company's line-up. Although some life-cycle funds are new, the underlying funds have solid performance histories. It's just the combination that is new.

Two considerations:

- Just looking at the date of a target fund may not give you a sure fit. Employees with the same retirement target could differ in age and have very different investment needs, depending on risk tolerance, retirement savings goals, and other family priorities.

- Not all target date funds are the same. T. Rowe Price's 2020 fund, which in a neutral investment climate would seek to hold about 80% stocks, is more aggressive than Fidelity's 2020 fund, which would seek to hold about 70% equity funds. Before you invest, compare the asset allocation profiles of a couple of target date funds to be sure you know what you are buying.

You can modify your allocations somewhat: by choosing a fund with a date closer than your actual retirement date, you can reduce your stock exposure; by choosing a date that is farther off, you can increase your stock exposure.

Also, realize that you are not locked in! Just because you choose a 2030 fund does not mean that you must retire in 2030. As with almost any fund in our plan, you can move your assets at

no cost very easily within the fund family or with a bit more work even from one fund family to another. As you get more experienced, if you decide you'd like to be more involved in your asset allocation, you can transfer your balance to other funds. Remember that target-retirement date funds are designed to be your total portfolio however, and if you mix them with other funds, you may be overweighted in one type of fund or another.

More EASY options

Asset allocation funds have a stated investment objective, for example, Income, Balanced, or Growth. To achieve their objective they hold varying percentages of the major asset classes (stocks, bonds, and cash or short-term investments like money-market funds). They do not change their objective over time. The Fidelity Asset Manager funds state the percentage of stock component in the title, for example, *Fidelity Asset Manager 50%* holds 50% stocks in its allocation. Choose an asset allocation fund and you will be pretty well diversified. There is a catch, however. If you choose a fund with an aggressive allocation when you're 39, and you don't make any changes by the time you retire at 65, you may not be *appropriately* diversified.

Balanced funds or moderate allocation funds invest in both stocks and bonds with between 50 to 70% of their assets in stocks. The bond component may reduce overall returns but should help to stabilize the fund when stocks are volatile.

The fund's manager has the freedom to adjust the fund's asset mix slightly. For example, when stocks are doing well, the manager may increase the fund's equity holdings slightly. But mostly, balanced funds are a stable mix of stocks and bonds and could be a core holding in your portfolio. There are a large number of balanced funds available in our plan, and some have very good track records.

Page 2 of the *Selected Returns* www.uwsa.edu/hr/benefits/retsav/selected.pdf lists all the target-retirement date, all the asset allocation and the best-performing balanced funds ranked by 5-year returns in the UW TSA Program.

MODERATE

If you want to be the one controlling your asset allocation (the mix of stocks, bonds, and short-term investments in your portfolio) and still take a relatively hands-off approach to your investments, you could try **index funds**.

Index funds, sometimes called passively-managed funds, attempt to mirror the make-up of the market itself (or a sector of the market). For example, Fidelity's Spartan 500 Index Fund or Dreyfus's Basic S&P 500 Index Fund mirrors the performance of the S&P 500. Index funds will not perform much better than their benchmark, but should not do much worse either and their expenses tend to be lower – sometimes dramatically lower – than actively managed funds (funds which attempt to beat a stated index). Remember, in the long run, the majority of fund managers DO NOT beat the performance of their benchmarks.

A number of investment gurus have developed variations of a "lazy-person's portfolio" with varying percentages of a broadly based index fund, an international index fund, and depending on age and risk tolerance, a bond index fund. This may be something that you'd like to try. It requires a tad more work than the easy options, but not as much research and monitoring as the Do It Yourself approach.

All the index funds offered in our program (except those offered by our two insurance companies that sell their products through agents) are on page 1 of the *Selected Returns* www.uwsa.edu/hr/benefits/retsav/selected.pdf. They are listed according to the benchmark they attempt to mirror in order of 5-year returns.

ADVANCED

Do It Yourself: Develop your asset allocation and pick the actively-managed funds to fill it out. Our UW TSA Program offers access to some high performing actively-managed funds. You'll have to do some research to identify them and then monitor them to make sure the fund managers are meeting your expectations or are even still running those funds.

If you decide to go this route, you should first come up with an asset allocation plan and decide what percentage of your portfolio should be in large-cap, mid-cap, or foreign funds and so forth. Asset allocation is a major subject in itself, but many mutual fund companies offer web-based tools to help you. One easy one is T. Rowe Price's Online Investment Strategy Planner.

The EASIEST option: Pick the **Target Date Fund** that corresponds with the date you want to start withdrawals, and the fund manager handles the rest!

Next you may want to spend some time identifying which funds would make good core holdings. These will be the backbone of your portfolio, and will probably account for the major portion of your holdings. Core portfolio holdings typically are found in the large-blend or large-value categories, though a conservative large-growth fund or possibly even a balanced fund could work as well. We'll look at how to determine what might be good core holdings in the next TSA newsletter.

If you decide your portfolio should have a bond component, many investment professionals suggest looking for a high-quality intermediate-term bond offering. With the rest of your portfolio, you can add other offerings that focus on mid and/or small caps, foreign funds, and possibly emerging markets, real estate, or high-yield bonds according to the plan you have laid out.

As different market sectors grow at different rates, you will also have to periodically rebalance your accounts to make sure you have the percentages of fund types that you intend.

No matter which option you choose, Easy, Moderate, or Advanced, you'll want to select funds that have delivered solid returns over the long term and that have low expense ratios. One quick way to sort out performance is to use the Morningstar ratings. You may want to decide to hold funds with Morningstar four star or five star ratings.

There are tools that can help you gather information. You can get free fund information at your fund family's website, at finance.yahoo.com, and at morningstar.com. You must first establish a logon at the Morningstar site, but it has a wealth of information free of charge. The UW TSA Program web site also provides a lot of information, lists the free individual counseling sessions put on by our investment companies, and has links to other sites that may be helpful. See www.uwsa.edu/hr/benefits/retsav/tsa.htm.

How you split your portfolio between stocks, bonds, and short-term investments should depend on your age, when you want to retire, and your risk tolerance. It may also depend on how much you're saving each year. If you're just starting out and are only able to save \$50 a month (\$500 a year), you may be fine by beginning with just one fund, perhaps a large-cap fund – either index or actively managed. But remember, even \$50 per month, invested over 30 years at a 7% return, comes to \$58,803, so at some point you may need to diversify.

Don't delay any longer – even little amounts invested over time can add up to big savings. Start today to save for your long-term goals! ■

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.

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

- | | |
|-----------------------------------|--------------------------|
| Eau Claire – April 25 | Oshkosh – April 17 |
| Green Bay – April 18 | River Falls – April 26 |
| La Crosse – March 21 | Stevens Point – March 14 |
| Madison – March 19 & 22, April 23 | |
| Milwaukee – April 16 | |

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

Madison – April 9-10

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 Superior) or Leslie at 1-800-842-2005 ext. 5651 (all other campuses).

- | | |
|--------------------------------|---------------------------|
| Eau Claire – May 1-2 | River Falls – April 17-18 |
| Madison – April 11-13, May 3-4 | Stevens Point – April 3-5 |
| Milwaukee – March 27-29 | Stout – April 19 & 26 |
| Oshkosh – April 11-13 | Superior – April 18-20 |

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

TSA 403(b) workshops this spring

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.

Milwaukee – March 20, 11:30 a.m., Student Union Room 280

Retirement Planning Overview – Join Peter Palmieri of Dreyfus Investments to learn about sources of retirement income, how inflation and taxes affect your investments, how to build your own investment plan, and how Dreyfus can help.

Green Bay – April 18, noon, Environmental Science, Room 107

Madison – April 23, 11:30-12:30, Red Gym

Milwaukee – April 16, noon, Student Union

River Falls – April 26, noon, 218 HR Conf. Room, North Hall

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. M u t u a l F u n d C o s.	Ameriprise/RiverSource 877-640-6894 www.ameriprise.com	\$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 www.lfg.com	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 www.tiaa-cref.org	None	None	(.005% - part of expense ratio)
M u t u a l F u n d C o s.	Dreyfus 800-358-0910 www.dreyfus.com	None	No surrender charge. Certain funds have short-term trading fees - a redemption charge on shares held less than a minimum period.	-
	Fidelity 800-343-0860 www.fidelity.com/atwork	None	No surrender charge. Certain funds have short-term trading fees - a redemption charge on shares held less than a minimum period.	-
	T. Rowe Price 800-492-7670 www.troweprice.com/wisconsin	None	No surrender charge. 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 etf.wi.gov	None	No withdrawal or transfer permitted before employment terminates. After termination - no surrender charge.	