

When markets slow down, costs matter more

With the S&P 500 flat for the year (as of September 15), now is a good time to review your costs of investment. When gains are modest, your fund's costs can eat up a sizeable portion of the earnings. Lowering your costs is as good as improving your portfolio's performance.

What are your funds' **expense ratios**? All mutual funds and variable annuity sub-accounts pay management expenses out of their assets. These expenses reduce the fund's gains or increase its losses. The average U.S. stock mutual fund spends 1.43% of assets per year for management costs. For you to gain 8%, the fund must actually earn 9.43%.

The expense ratio for every fund in the UW TSA Program is included on our web-site, at www.uwsa.edu/hr/returns.htm. Expense ratios are also published in the fund's prospectus, in newspapers, and often on the investment company's web-site.

Cheapest is not always best. Bear in mind that smaller funds are generally more expensive than larger ones, and foreign, specialized, and/or small-company investments are generally more complicated to manage—thus more costly—than blue-chip U.S. investments. You may decide that a fund's past performance or future potential justifies higher expenses. But when you compare similar funds, low cost is an important criterion.

If you have a variable annuity, what are you paying for **mortality and expense charges**? This charge ranges from 1.00% to 1.25% of assets per year. It usually covers insurance on your principal, should you die when your account is showing a loss, and the company's cost to guarantee a future annuitization rate. Your agent is also compensated from this charge.

What's it worth to reduce your investment costs?

- All other things being equal, a lower-cost investment generates more money for you.
Example: \$10,000 invested for five years at 8% with a 1.5% expense ratio accumulates to \$13,624. With a 0.5% expense ratio, the accumulation is \$14,330, almost 20% more earnings.
- If your portfolio is too risky, shifting all or part of your investments to a lower-cost, more conservative fund lets you reduce your risk without a proportional drop in earnings potential.

Example: \$10,000, expected to earn 12% for five years, with a 1.5% expense ratio, is projected to grow to \$16,340. In a more conservative fund, with a 9% expected return and a 1.5% expense ratio, the accumulation would be just \$14,266. However, if the conservative fund had an expense ratio of 0.5%, the accumulation would be \$15,005.

- If you need to reduce your savings, you can lessen the impact on your future accumulation by choosing a lower-cost investment.

Example: Assuming equivalent earnings rates, over ten years, \$1,000 in a fund with an expense ratio of 1.5% will perform about the same as \$905 in a fund with an expense ratio of 0.5%.

These examples were developed using the U.S. Securities and Exchange Commission's **Mutual Fund Cost Calculator**, an interactive web tool found at www.sec.gov/mfcc/mfcc-int.htm. The Calculator allows you to input expected earnings rates and expenses for an investment and tells you how much, over a specified period, your investment will cost. ■

New Faces on the TSARC

The UW Tax-Sheltered Annuity Review Committee (TSARC) monitors the TSA Program. Its members are appointed to three-year terms by President Lyall. Three members of the TSARC finished their terms this summer. Bob Carney, Professor of Finance at UW-La Crosse, was reappointed to the TSARC for a new term. Leaving the Committee are Tom Barry, Personnel Director at UW-Green Bay and Jan Johnson, Staff Benefits Coordinator at UW-River Falls. Thanks to all of them for their expertise and hard work!

The two new members of the TSARC are Linda Boelter, Professor of Family Living at UW-Extension, Oneida County Office, and Lori Worm, Director of Budgets at UW-Oshkosh. Professor Boelter teaches family financial management, including retirement planning. In addition to her fiscal responsibilities, Ms. Worm has been active in the Academic Staff Senate and the University Credit Union.

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

1999 TSA Program Highlights: In 1999, 11,716 UW employees participated in the TSA Program, up from 11,468 in 1998. Contributions rose to \$54,383,961—an increase of more than \$2.2 million from 1998. Total program assets grew to over \$1.1 billion at the end of 1999. One-third of our participants defer less than \$2,000, and over one-half of participants defer less than \$4,000. The average age of a TSA investor is 48, whereas the average age of UW permanent employees is 45.

As in 1997 and 1998, stock funds are the most popular TSA investments; 51% of contributions was invested in large-cap mutual funds and variable annuities and 11% went to mid-cap and small-cap funds. Fixed annuities made up 14% of contributions. An additional 7% was invested in international funds, and 7% in balanced funds (consisting of stocks and bonds). The remainder was split among specialty, bond, and money market funds.

The purpose of the *TSA Inve\$tor* is to provide educational information regarding opportunities and investment principles to assist University of Wisconsin employees who participate in the UW approved Tax-Sheltered Annuity program to prepare for a financially secure retirement.

The *TSA Inve\$tor* is published semiannually in the Spring and Fall by staff members of the UW System Office of Staff Benefits and Payroll Policy,
780 Regent Street, Madison, WI 53715

Investment options and recent returns are listed at the UWSA Web site. www.uwsa.edu/hr/returns.htm

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Investment News



Dreyfus unveiled two new funds this past summer, Dreyfus Premier Future Leaders Fund and Dreyfus Premier NexTech Fund. Dreyfus Premier Future Leaders Fund invests in small companies believed to be characterized by new, innovative products, services or processes. Dreyfus Premier NexTech Fund invests mainly in stocks of growth companies that are leading producers or users of technological innovation. Call 1-800-358-0910 for more fund information and to request a prospectus.

Fidelity has incorporated several new features into its quarterly statements including a personal rate of return and a fund performance section. Participants are now also able to create customized statements through NetBenefits (netbenefits.non-profits.com).

T. Rowe Price is sponsoring several on-line chats this fall about retirement, estate, and career planning on AOL's Sage Online. Topics will include how to manage your finances during retirement and what to consider when rolling over your account. Visit www.troweprice.com for the link to the chats as well as to transcripts of past chats.

T.Rowe Price has also recently filed papers with the SEC for five new funds, some of which may appeal to more aggressive investors. The new offerings are Developing Technologies, Global Technology, Emerging Europe and Mediterranean, International Index, and U.S. Bonds Index.

Strong Investments Inc. announces the opening of an office in downtown Madison. Contact Matthew Wilbur at 608-252-8616 to discuss investing with Strong.

The **TIAA-CREF** Asset Allocation Calculator can help you choose the appropriate asset allocation for your portfolio. To get started, go to the TIAA-CREF Web Center at www.tiaa-cref.org, look under the Retirement Products section, and click on the Allocation Calculator. ■



Check your quarterly statements carefully

The investment companies are not infallible. The University has no way to detect errors – it's up to you. Check your quarterly statements to make sure all your contributions have been received and deposited in the correct fund, note any discrepancies, and notify the company. If you do not get timely satisfaction, please let us know, and we will help to get the issue resolved. Mistakes are rare, but they do happen! ■

Tell a friend about the TSA Program

This summer and early fall TSA Program staff have been busy getting the word out about the TSA Program. We've put on information sessions for new participants at Milwaukee, Platteville, and Parkside and have trips scheduled for Whitewater, Eau Claire, River Falls, Stout, and Superior. Participation is roughly at the 35% level on most campuses. That's pretty good, but we think it could be even better. Saving for retirement is important! If you think so too, mention the TSA Program to a friend. Give them our web site address www.uwsa.edu/hr/staff.htm or tell them to contact their benefits office to sign up. Or if you'd like us to put on a presentation on your campus, ask your benefits office to contact us.

And, by the way, have **you** looked at our web site recently? We've been adding new features: You'll find back issues of the *TSA Inve\$tor* newsletter, investment returns from June 30, 2000, easy links to the web sites of all the investment companies, a list of campus contacts, and copies of our brochures including *The TSA Question and Answer Guide*. You'll also find the dates and locations of one-on-one counseling sessions with our investment company representatives. Check it out! ■

Tips for transferring moneys

Maybe you want to consolidate your savings or think your returns will be better with a new company. Maybe you're dissatisfied with the company you are investing with. For whatever reason, you've decided to move your TSA investments to a different company. Though most transfers go smoothly, occasionally there are frustrating delays. Here are a few pointers to help ease the process.

1. The prospectus for your current investment explains how to redeem your mutual fund shares or surrender your insurance contract. This document is always well worth reviewing.
2. To get started, call the new company and ask for a 403(b) transfer request. Your new company is responsible for contacting the old company and requesting the money. If you're not signed up with the new company, request a UW 403(b) enrollment kit. Complete the form(s) and return them to the new company.

Exception: If you are transferring money from American Express/IDS or Lincoln, you must use **their** form. You'll also need the new company's form. Complete both and send them to your new company. Alert your new company that it must submit the IDS or Lincoln form.

3. Avoid delays by making sure you have the right form and filling it out correctly.
 - You will need to provide the correct address for your old investment company (if you don't know, call and ask).
 - You may have to describe your old and your new accounts in IRS terminology. Mutual funds in a TSA Program are sometimes called 403(b)(7) accounts. Annuities are 403(b) or 403(b)(1) accounts. Annuities can be either fixed or variable.
 - Understand the difference between transfers and distributions (including rollovers). Until you reach age 59 ½ or separate from University service, you may only make a direct transfer to another 403(b) account. Federal law does not allow you to take a distribution or to roll your money over to an IRA. (Exceptions apply in case of disability, death, financial hardship, or annuities accumulated prior to 1989.) If you qualify for a distribution, contact the appropriate company for a distribution/rollover request.
 - Some institutions require a signature guarantee on the transfer request before releasing the assets. Call the company you are leaving to see if you should include one.
4. Keep copies of the forms for your records. Make a note of any information you get by telephone, including the date and the name of the person you spoke with.
5. Expect that the entire process will take two to four weeks. Your new company will notify you of the amount received, the date it was invested, and the number of shares or units in your new account. If you have heard nothing after three weeks, contact the new company to be sure it has all the necessary paper work.

Other points to remember:

1. A few UW TSA Program mutual funds have redemption charges. Be sure you know what to expect.
2. As long as you are employed by the University and under age 59 ½, you may not transfer TSA moneys to a company that is not authorized in the Program. (See the back page for

a list of authorized vendors.) Your company will reject your transfer request if you name an unauthorized company.

3. If you want to send future TSA contributions to the new company, complete a new Salary Reduction Agreement (SRA). Submit the company's account application if you haven't already done so. Be sure that both your new and your transferred assets are invested as you intended.
4. Your transfer amount will be based on the market prices of your shares/units at the close of business on the day the old company receives your valid transfer request. Your new investments will be based on their market prices at the close of business on the day the new company receives the funds. These two dates are unpredictable! If you are worried about market swings during the transfer process, you can ask your current company to move your account to its money market fund before you begin. You won't benefit from any market upturns but the value of your account will be stable.

Special considerations if you've been investing with an insurance company:

- If you are transferring funds from an insurance company (American Express/IDS, American United Life, or Lincoln), **make sure you know what the surrender charges will be** (and the new company's charges, if any). You may want to leave your accounts intact with your present company until the surrender charges are lower, and simply direct your new contributions to the new company.
- The insurance company will notify your agent and give him or her several days to contact you. This is to allow the agent to notify you of any surrender charges you may have to pay, but also to try to conserve the account. Try not to let that offend you – remember it's their livelihood.

If you want to shorten the transit period, ask your current company whether the check can be sent overnight or by wire transfer.

Although fund exchanges within a company are completed on the same day, transfers between companies take days or weeks, in part because of record-keeping requirements. Your TSA account is tax-privileged and subject to IRS scrutiny. Annuity sales are further regulated by state law. Under federal law, mutual fund companies and most variable annuity accounts have seven days to make payment after receiving your valid transfer request. Because investment companies need to have a "paper trail," they usually produce a paper check and mail it through the post office.

This means that when you make a transfer, your funds will be out of the market entirely for up to a week or more. If you want to shorten the transit period, ask your current company whether the check can be sent overnight or by wire transfer. This service is not always available, and you may have to pay for it.

Transferring funds from one company to another can be a stressful process (after all—it's *money*). It's best to choose a company that you like and will want to stay with over a long time. But if you do decide to change, with just a little care, things will go smoothly. ■

Program Changes, Maybe

H.R. 1102, the Comprehensive Retirement Security and Pension Reform Act of 2000, was passed by the House in July and by the Senate Finance Committee on September 7. If enacted, the bill would substantially raise the contribution limits in 403(b) and other retirement plans, allow “plus” contributions similar to Roth IRA contributions, and relax certain Deferred Compensation Program rules.

Check *What's New* on our web-site for updated information on H.R. 1102 and other news related to the 403(b) program: www.uwsa.edu/hr/staff.htm.

UW TSA Vendor 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	American Express/IDS 800-866-4437 www.americanexpress.com	\$30	7% years 1-3; declining to 0% in year 9	1.000%
	American United Life 800-634-1629 www.aul.com	Lesser of 0.5% or \$7.50 per quarter. Waived for accounts over \$25,000	7% in year 1, declining by 1% per year to zero in year 8	1.250%
	Lincoln National Life 800-967-2046 www.lfg.com	None	8% years 1-5, 4% years 6-8	1.002%
	TIAA-CREF 800-842-2776 www.tiaa-cref.org	None	None	.005%
M u t u a l F u n d C o s	Dreyfus 800-358-0910 www.dreyfus.com	\$10 per fund (\$25 maximum)	Selected funds have a 1% charge on redemption of shares held less than a minimum period. See prospectus.	-
	Fidelity 800-343-0860 www.fid-inv.com	None	Some funds have a redemption charge on shares held less than a minimum period. Fidelity Select Funds have a standard redemption fee. See prospectus.	-
	T. Rowe Price 800-492-7670 www.troweprice.com	None	None	-
	Scudder Investment Services 800-323-6105 university.scudder.com	None	None	-
	Strong Investments, Inc. 800-368-2882 www.strong.com	None	None	-
	Wisconsin Retirement System 608-266-3285 badger.state.wi.us/agencies/etf	None	None; No withdrawal or transfer permitted before employment terminates.	-