THE Advisor

IMPORTANT NEWS FOR YOUR FINANCIAL AND PERSONAL FUTURE

JANUARY 2013 (Rev 07/15)

SAVE MORE in Your 403(b) Plan by Avoiding High Fees

True or false? Participants in 403(b) plans – that means many educators like you – pay higher fees than private sector 401(k) participants.

It's true! A study by the U.S. Government Accountability Office indicates that 403(b) plan participants are more likely to invest in products that have higher fees than their private-sector counterparts.*

Know Your Fees

The type of 403(b) product you purchase will determine the level and type of fees you pay.

There are three basic types of 403(b) plan products:

- **403(b)(7) mutual fund custodial accounts.** Mutual funds pool the money from many investors to buy shares of stocks, bonds or other assets. The gain or loss in the mutual fund depends on the performance of the stocks and bonds it holds.
- **Variable annuities.** Variable annuities are contracts with insurance companies. Investors choose from a pre-selected list of investments, called subaccounts, which are generally mutual funds. The gain or loss in the variable annuity depends on the performance of the subaccounts. Variable annuities involve all the fees of mutual funds, plus insurance fees.
- **Fixed annuities.** A fixed annuity is also a contract with an insurance company, but in this case the insurance company guarantees a specific rate of return for a specific period. In exchange for the guarantee, returns tend to be relatively low.

Let's take a look at the fees in each type of plan product.

ANNUITIES OFFER NO ADDITIONAL TAX BENEFIT

The earnings in an annuity grow tax-deferred, but since your 403(b) or 457 plan is already tax-deferred, that feature of an annuity is of no additional benefit when you invest in one through your retirement plan.

* Source: U.S. Government Accountability Office, "Retirement Savings," September 2009.

Types of 403(b)(7) Mutual Fund FEES

		WHO PAYS AND HOW MUCH?
Administrative Fees	Fees charged to administer the plan. May include recordkeeping, accounting, trustee and legal fees. May also include costs of maintaining a website and participant education.	Everyone in the plan. Fees may be deducted from the investments or charged directly to you. It may be a flat fee (for example, $75 a year), or in many plans, a percentage of assets. For example, if the plan charges 0.05% and your balance is $100,000, then the annual fee would be $50. But if your balance increases to $200,000, your fee would be $100 – costing you more even though it does not cost the plan any more to provide the service.
Investment Management Fees	Covers the management of the assets in each mutual fund, and is expressed as an expense ratio. For instance, if you have $10,000 invested, an expense ratio of 0.5% would cost $50 a year; a fee of 3.0% would cost $300 a year.	Everyone who owns shares in the mutual fund. Deducted from the fund's assets, so a participant with a balance of $100 in a fund with an expense ratio of 1% would have $99 after one year plus or minus gains or losses. The level of investment fees can vary widely depending on the asset class and investment style. Fees may range from less than 0.1% to greater than 2%. Actively managed mutual funds generally have higher fees than passively managed or index funds.
Transaction Fees	Fees charged for extra services, such as taking out a loan or hardship withdrawal.	Usually only participants using the service. Fees vary.
Sales Fees	Also called a load, this may be charged when you buy or sell shares.	If a front-end load, you pay when you purchase the shares. If a back-end load (also called a deferred sales charge), you pay when you sell the shares. Could be a flat fee (for example, $25) or a percentage of the purchase or sale amount. No-load funds do not charge a sales fee.

TIP: Not sure what kind of product you have? Check the name of the investment on your statement. If the vendor name includes "Insurance or Annuity" you may have a variable or fixed annuity. If it says 403(b)(7) custodial account, you have a mutual fund. You can also check the 403bCompare.com website, which contains detailed information on all products offered to educators in the State of California.

Types of Variable Annuity FEES

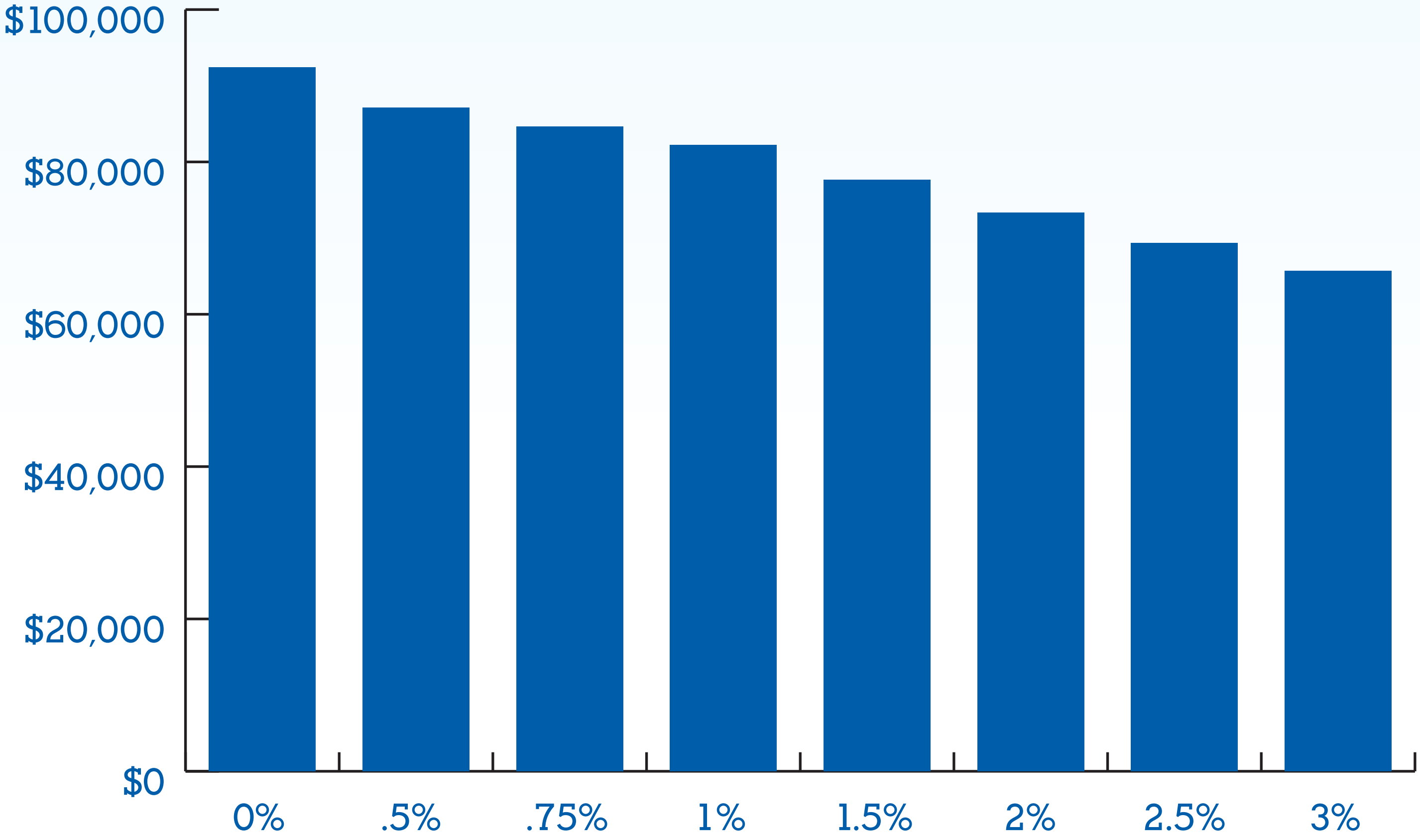
		WHO PAYS AND HOW MUCH?
Administrative Fees	Fees charged to administer the plan. May include recordkeeping, accounting, trustee and legal fees. May also include costs of maintaining a website and plan education.	Everyone in the plan. Fees may be deducted from the investments or charged directly to you. It may be a flat fee (for example, $75 a year), or in many plans, a percentage of assets. For example, if the plan charges 0.05% and your balance is $100,000, then the annual fee would be $50. But if your balance increases to $200,000, your fee would be $100 – costing you more even though it does not cost the plan any more to provide the service.
Investment Management Fees	Covers the investment management of the funds that make up the subaccounts. Often expressed as an expense ratio. For instance, if you have $10,000 invested, an expense ratio of 0.5% would cost $50 a year; a fee of 3.0% would cost $300 a year.	Everyone who owns shares of the subaccounts. Deducted from the fund's return, so a participant with a balance of $100 in a fund with an expense ratio of 1% would have $99 after one year plus or minus gains or losses. The level of investment fees can vary widely depending on the asset class and investment style. Fees may range from less than 0.1% to greater than 2%. Actively managed subaccounts generally have higher fees than passively managed subaccounts.
Transaction Fees	Fees charged for extra services, such as taking out a loan or hardship withdrawal.	Usually only participants using the service. Fees vary.
Sales Fees	Also called a load, this may be charged when you purchase a variable annuity.	Can be up to 5%, but most variable annuities do not charge up-front sales loads.
Insurance Fees	The mortality and expense fee.	Everyone who has the variable annuity. Average is 1.25% a year.
Surrender Fees	Fee charged if you sell the annuity before the surrender period is up. Surrender periods are generally six to seven years, although they may be as high as 20 years.	Anyone who sells the annuity during the surrender period. Fees generally start at about 7% of assets and step down a percent or so a year until they reach 0%. A few variable annuities do not charge surrender fees.
Optional Feature Fees	Additional fees for optional features such as guaranteed death benefit, return of principal guarantees, disability riders, etc.	Anyone who selects the optional feature. Fees vary. Examples: 1.25% for a guaranteed lifetime withdrawal benefit; 0.75% for return of principal guarantees.

Types of Fixed Annuity FEES

		WHO PAYS AND HOW MUCH?
Transaction Fees	Fees charged for extra services, such as taking out a loan or hardship withdrawal.	Usually only participants using the service. Fee varies.
Sales Fee	It can be extremely difficult to determine the fees paid in a fixed annuity. There are typically no up-front or explicitly stated management or administrative fees. That does not mean, however, that there are no fees associated with the annuity. This is because the insurance company will typically guarantee a rate of return that is net of fees and expenses, so while participants may not see an explicit fee charged, they are effectively paying fees through lower returns.	Contract owner. Example: If the insurance company earns 5% but pays you 3%, the effective fee is 2%.
Contract Fee	May be charged on a schedule determined by the insurance company.	Anyone purchasing a fixed annuity that charges a contract fee. May be flat fee (such as $25 or $30) or a percentage of accumulated value.
Surrender Fees	Fee charged if you sell the annuity before the surrender period is up. Surrender periods are generally six to seven years, although they may be as high as 20 years.	Anyone who sells the annuity during the surrender period. Fees generally start at about 7% of assets and step down a percent or so a year until they reach 0%. A few fixed annuities do not charge surrender fees.

Why Fees MATTER

Chart shows value of hypothetical account after 20 years of a $200 monthly investment earning an average annual rate of 6%, minus the deduction of various annual fees.* The calculator "How Will Fees Affect My 403(b) or 457 Plan Savings" at **CTAinvest.org** can help you understand the impact of fees on your particular situation.



* Rate of return is for illustration only and is not meant to represent the return of any specific investment.

Strategies to REDUCE FEES

Here are some strategies available to you:

☑ Avoid variable annuities. Variable annuities layer fees on top of the fees charged by the underlying investments.

☑ Use direct invest options (see "All-in Fee" on page 6). By working with a registered investment advisor provided by the vendor or using online resources, you can avoid buying products that offer large commissions to sales representatives.

☑ Consider passively managed funds, like index funds. Expenses tend to be less than those of actively managed funds because they are not paying a fund manager to constantly buy and sell stocks or bonds for the fund.

CTA has created a best-in-class, low-fee, high-quality 403(b) plan for educators:

- **High-quality investment options**: A national independent investment advisory company will recommend funds for the plan based on their track record of performance, fees and stability.
- **Convenient participation**: Members will be able to enroll with the help of an education representative who comes to school sites, on the web or on the phone with a registered investment advisor.
- **Choices for members at different ages and comfort levels with investment**: The plan will offer target date funds that base their investment mix on how close participants are to retirement. Participants will also have the option of creating their own portfolio by choosing from the list of investments recommended by the independent investment advisor.
- **No conflicts of interest or commissioned sales representatives**: This program will follow a fiduciary standard, which means all investment recommendations are made solely in the interest of the plan participants. The investment advisory company has no financial association with any of the funds offered. The education representatives and registered investment advisors are salaried rather than paid on commission.

All-in FEE: Bundled vs. Unbundled Plans

Understand and consider the "all-in" costs associated with a vendor's investment program. For example, if it's a bundled plan, it may provide plan administration, investment options and recordkeeping from one provider, rather than choosing different providers for recordkeeping and investments. Many bundled providers are from insurance companies. With bundled plans:

- The fees are not transparent – it's hard to tell what you are paying for.
- Fees are often paid on a percentage of assets, so the more your account earns, the more you pay – even though the plan is not providing any additional services for your money.
- There is a potential conflict of interest with revenue sharing – which could lead to increased fees and/or a compromised investment line-up.

CTA's new 403(b) plan supports an unbundled approach:

- No hidden fees.
- A flat administrative fee – every participant pays the same fee.
- An array of mutual funds selected with the lowest-fee share class and recommended by our independent investment consultant.
- A recordkeeper that offers expertise and excellent service, with no conflicts of interest.

Keep this in mind: Sometimes, a flat administrative fee may appear more expensive at first glance, but if it is associated with low-fee mutual fund investments, it may cost you significantly less over time than an investment that carries a low administrative fee and high investment fees. High investment fees will eat up more of your earnings.

Consider Two FEE SCENARIOS:

	Administrative Fee	Average Investment Fee	Total Fees After 38 Years
Investment A ☹	$0	1.5%/year	$127,000*
Investment B ☺	$65/year	0.26%/year	$29,000*

* Note: Assumptions are based on a $41,181 starting salary, 3% annual salary increase, 8% deferral rate and average annual return of 7% over a period of 38 years. Assumptions are for example only and are not intended to represent the returns of any specific investment or individual's plan account.

Education Is KEY

Learning as much as you can about the fees that are charged by the vendors and investment options within your 403(b) or 457 plan can help you make the choices that are best for you. Remember, though, that fees are just one consideration when deciding where to direct your money. **CTAinvest.org** offers a wealth of information to help you make sound decisions about your retirement savings dollars.

2015 Contribution LIMITS

	CONTRIBUTION LIMIT	AGE 50+ CATCH-UP	OTHER CATCH-UP PROVISIONS
403(b)	$18,000	$6,000	15-year rule*
Roth 403(b)	$18,000	$6,000	15-year rule*
457	$18,000	$6,000	3-year provision**
Roth 457	$18,000	$6,000	3-year provision**

* Eligible employees with 15 or more years of full-time service may be able to contribute up to $3,000 more for five years, or a maximum of $15,000.

** Employees may be eligible to defer up to two times the contribution limit in effect for the final three years of service. Employees cannot participate in the three-year catch-up and the 457 plan age 50+ catch-up during the same tax year.

RESOURCES

CTAinvest.org Learn more about investing and retirement planning at CTAinvest.org, a free resource from California Teachers Association.

403bCompare.com Look up the vendors and products available in your district's 403(b) plan.

CTA nea

cTAinvest.org

This publication is designed to provide general information in regard to the subject matter covered. It is neither an offer to sell, nor a recommendation for you to purchase, any investment security or annuity contract. It is provided with the understanding that the California Teachers Association (CTA) is not engaged in rendering legal, tax, accounting, investment advice, or other professional financial services to the viewer. CTA does not guarantee the accuracy of the information contained herein.

We strongly recommend that any person using the information provided in this presentation seek counsel from his/her own professional financial advisors to determine its applicability to his/her own personal situation.

CTA Risk Management & Business Initiatives & Development Department

ADV0715-rev