CTA MODEL PORTFOLIOS

Helping You With Your 403(b) and 457 Plan

CTA Economic Benefits Trust

CTA Business Initiatives & Development Department
CTAinvest.org

nea

CTA's Model Portfolios help simplify 403(b) and 457 investment decisions

Eric C. Heins
President
California Teachers Association

Dear Colleague,

It is our vision to provide a secure and dignified retirement plan for all CTA members. That is a **core union value** reflected in CTA's mission statement which begins with the statement that ***CTA exists to protect and promote the well-being of its members***.

Although CalSTRS and CalPERS offer a valuable defined benefit program for you - the plans won't replace 100% of pre-retirement income. And, educators covered by CalSTRS do not pay Social Security taxes on their income as educators.

That is why you should consider saving for your retirement through a 403(b) or 457 plan. These plans are offered through your employer and offer tax advantages and the opportunity to help fill any gaps in your retirement income.

This booklet was prepared to provide education on these plans and empower you to make an *informed* investment decision with your 403(b) and 457 plan. Please read it and use the resources we've developed at CTAinvest.org to start saving wisely for the retirement you deserve.

Sincerely,

Eric C Heins

Eric C. Heins
President
California Teachers Association

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For your 403(b) and 457 plans

CTA worked with professional investment consultants to develop Model Portfolios — here's why

Your defined benefit pension plan through CalSTRS or CalPERS is an excellent starting point for your financial security throughout retirement, but it's not enough. Most California educators will find there's a gap between what their pension provides and the amount they need to cover expenses during a retirement that may last decades.

With an appropriate investment strategy, your 403(b) and/or 457 plan can help you supplement your pension and work toward the retirement lifestyle you envision. But unlike your CalSTRS or CalPERS pension, you have control over how your 403(b) or 457 plan money is invested. CTA's professionally developed Model Portfolios give you a helping hand in devising an appropriate investment strategy.

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Use the Projected Retirement Expense Calculator at **CTAinvest.org**.

What can you expect from your CalSTRS pension?

For CalSTRS members first hired before January 1, 2013 (subject to the 2 percent at age 60 formula):

CalSTRS calculates that the median pension benefit replaced less than 60 percent of the final salary for the members who retired in 2013.* The average monthly Member-Only benefit was $3,939.** This is known as the replacement ratio. Consider whether you'd be comfortable living on less than 60 percent of your current income.

For CalSTRS members first hired on or after January 1, 2013 (subject to the 2 percent at age 62 formula):

CalSTRS estimates that the replacement ratio for educators hired on or after January 1, 2013, will be about 47 percent of their highest three years' salary, assuming the future member's age and service at retirement is the same as recently retired members.* Although it's true that many people's expenses fall when they retire, your expenses are not likely to drop enough that you could live on less than half of your current income.

CalSTRS educators can't rely on Social Security

CalSTRS members do not qualify for Social Security retirement benefits based on CalSTRS-covered employment because they do not pay Social Security taxes.

You may qualify for Social Security benefits based on other employment or as a spouse, widow or widower. However, because you will receive a CalSTRS pension when you retire, two federal rules may reduce any potential Social Security benefits for which you might qualify.

- The Windfall Elimination Provision affects Social Security benefits that are based on your earnings. Social Security uses a different formula to calculate benefits for people who receive a pension from work where Social Security taxes were not taken out of their pay, generally resulting in a lower Social Security benefit.
- The Government Pension Offset (GPO) affects your spousal, widow or widower Social Security benefits that are based on your spouse's earnings. The GPO reduces the amount of your Social Security spouse's, widow's or widower's benefits by two-thirds of the amount of your CalSTRS pension.

For CalPERS members

What can you expect from your CalPERS pension?

CalPERS reports that the average monthly pension benefit paid to CalPERS school miscellaneous members as of June 30, 2014 was $1,615.*** That amounts to $19,380 a year – a nice start, but probably not nearly enough to maintain your current lifestyle, especially with California's high cost of living.

What about Social Security for CalPERS members?

Educators participating in CalPERS generally do pay Social Security taxes (in 2015, 6.2 percent of earnings up to $118,500) and therefore are eligible for Social Security benefits at retirement. If you have always paid both Social Security tax and contributed to your CalPERS pension on all earnings on which your CalPERS (or any other pension) is based, your Social Security retirement benefit should not be affected. According to the Social Security Administration, the average retired worker received a monthly benefit of $1,298 in April 2014, or $15,576 a year.

Keep in mind that these are average figures, and your individual benefits will be different. But adding up the average CalPERS benefit ($19,380/year) and the average Social Security benefit ($15,576/year) totals $34,956 a year. Could you live comfortably on that?

403(b) and 457 plans can help fill the gap

Even though you may understand the need to invest in your 403(b) or 457 plan, it can be difficult to know how to make the best use of your plan and choose appropriate investments. That's why CTA, as your trusted resource for retirement information, hired an independent professional investment firm to develop the investment allocations that make up the Model Portfolios.

CTA has observed that many educators unknowingly invest in high-fee, low-return products that are most likely not a good match with their long-term return needs, potentially costing them tens or even hundreds of thousands of dollars in retirement savings. The Model Portfolios may help you get better long-term results from supplemental retirement accounts such as your 403(b) or 457 plan.

Choose the right kind of 403(b) or 457 plan account

In your 403(b) or 457 plan, you can either set up an individual account with an annuity contract or establish a custodial account invested in mutual funds.

An annuity is a financial contract with an insurance company that offers tax-deferred growth until withdrawal. For the general public, an annuity's tax deferral is often one of its primary attractions. But 403(b) and 457 plans are already tax-deferred. There's no additional tax advantage to putting a tax-deferred annuity in a tax-deferred plan.

Annuities often charge hefty fees, including surrender fees that penalize you if you want to cancel the contract within a certain period of time. The fees are not transparent – it can take a good deal of digging to discover what they are. And the surrender fees restrict liquidity, so if you choose an annuity but then change your mind, you may pay a hefty price.

Watch "A Look at Fixed Annuities" and "The Truth about Variable Annuities" at **CTAinvest.org**.

Two primary types of annuities

- **Fixed annuities** offer a guaranteed rate of return for a specific term. The rate is guaranteed by the issuer of the annuity (the insurance company). A guaranteed return sounds good, but the reality is that fixed annuities may pay a rate of return that is so low that it doesn't even keep pace with inflation. Since you already have a guaranteed return with your CalSTRS or CalPERS pension, it may not make sense to sacrifice long-term earnings potential for the low return of a fixed annuity. A variant of a fixed annuity is an **equity-indexed annuity**. These types of annuities are so complex that FINRA has issued an investor alert about them.

- **Variable annuities**, unlike fixed annuities, do not pay a guaranteed return. Instead, they pay a return that varies with the performance of the subaccounts you choose. Subaccounts are basically mutual funds held by the insurance company. So you end up paying the usual fees for mutual funds, plus fees charged by the insurance company. And surrender fees can keep you locked in to a poor investment for years to come.

Read the investor alert at **FINRA.org**.

The alternative: mutual funds

Establishing a custodial account invested in mutual funds allows you to choose investment options that are appropriate for your timeline and circumstances. Mutual funds charge fees as well, but they are generally lower than those of annuities because you don't have the additional insurance company costs. Mutual funds allow you to diversify your holdings even when your balance is small, and the pooling of transaction costs can achieve lower average trading costs than if you owned individual stocks and bonds.

By investing in a variety of stocks and / or bonds, mutual funds can help manage risk. That's because the performance of one individual investment within the fund may not have an outsized impact on the performance of the entire mutual fund.

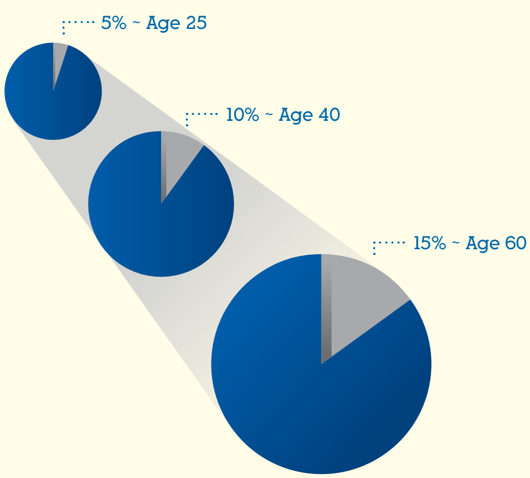
Consider the following tale of two teachers to see how using an asset allocation strategy – your mix of investments that includes mutual funds – based on a Model Portfolio could help you versus relying on an annuity.

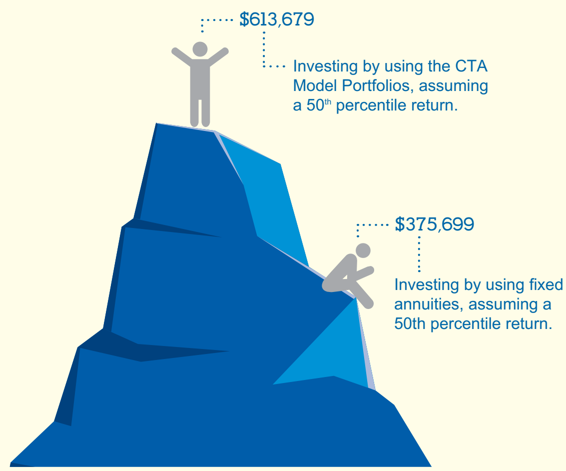
TALE OF TWO TEACHERS

Investing in CTA Model Portfolios versus Fixed Annuities

Start investing in your 403(b) plan early in your career!

This way, you can slowly, but incrementally, step up your contributions over your career as your income grows!





Simulation assumes a contribution rate of 5.00% at age 25 (start of contributions), increasing by 0.03% annually to 15.00% at age 60 (end of contributions). Contributions are based on the average starting salary of a beginning teacher from medium elementary and high schools statewide for the 2011-12 school year, which is $41,642. Assumes an average salary growth rate of 2.25%.

Tax benefits of 403(b) and 457 plans

When you're deciding how much of your pay to invest toward a financially secure retirement, remember that tax savings help you work toward the retirement lifestyle you envision:

- **Pre-tax contributions** in traditional 403(b) and 457 accounts can lower the amount you owe in taxes during your working years. This means you can save more without seeing a corresponding decrease in your take-home pay. For example, suppose you are in the 25 percent federal tax bracket and 8 percent California income tax bracket. If you contribute $100, it doesn't reduce your take-home pay by $100. Instead, that $100 contribution could reduce your take-home pay by just $67. You pay taxes only as you withdraw money from your account in retirement.

- **After-tax contributions** to a Roth 403(b) or 457 account (if offered in your district's plan): Unlike the traditional 403(b) or 457, the money you contribute to a Roth account is taxed immediately. However, no tax is owed on qualified withdrawals from a Roth account. In other words, if you comply with restrictions on withdrawals from a Roth account, you are not taxed on any of the earnings on your contributions, only on the contributions.

- **Tax-free compounding**: Instead of being paid to you immediately, the earnings and appreciation in a 403(b) or 457 account are re-invested in the investments you choose, or compounded. For example, if you earn $50 for every $1,000 you invest in the first year (5 percent rate of return), your earnings on that $1,000 investment, at the same rate of return, will be $52.50 per $1,000 the next year, $55.125 the year after, and increasing every year that the investment continues to earn a positive return. In addition, the earnings on all 403(b) and 457 accounts (both traditional and Roth) compound tax-free. The effective compound return on your investment is even higher, because you don't have to use any of the earnings from income or appreciation to pay taxes each year, before you withdraw from the account in retirement. (The example above shows the effect of tax-free compounding. In the case of a taxable investment, both the initial return of $50 per $1,000 and the later, compound returns would be lower. For example, in the case of a 10 percent effective tax rate, the investment would earn $40 per $1,000 after taxes in the first year, $46.80 in the second, and $47.11 in the third year.)

Now that you know more about why you need to invest in a 403(b) or 457 plan, read the next section to find out how CTA Model Portfolios can help you make your investing decisions easier.

* Source: Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014 http://www.calstrs.com/report/comprehensive-annual-financial-report

** Source: 2012-2014 Sustainability Report http://www.calstrs.com/sites/main/files/file-attachments/2013-2014_sustainability_report.pdf

*** Source: CalPERS at a Glance June 2015 http://www.calpers.ca.gov/eip-docs/about/facts/calpers-at-a-glance.pdf

Learn more about annuities and mutual funds at **CTAinvest.org**.

Charting a path for your future

The importance of Model Portfolios to your retirement plans

CTA's Model Portfolios were developed based on the idea that your time horizon (or years until retirement) is the single most important factor for determining your potential investment strategy. "Time – the length of time investments will be held and the period of time over which investment results will be measured and judged is the single most powerful factor in any investment program," writes Charles Ellis in his best-selling investment book, "Winning the Loser's Game: Timeless Strategies for Successful Investing."

What is a model portfolio?

CTA's Model Portfolios are investment illustrations, developed by independent financial experts, of how you may wish to allocate your retirement savings. They suggest how hypothetical California educators in different stages of life may choose to invest in their 403(b) and/or 457 plans. They do not reflect the experience of any specific individual. The Model Portfolio that may be most appropriate for you is one that is based on a combination of your personal goals, timeline and risk tolerance.

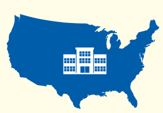
You will note that each Model Portfolio is divided into sections, representing the percent of funds allocated to each of the three primary asset classes: stocks, bonds and cash investments (also known as money market instruments). The Model Portfolios subdivide stocks into three distinct categories: large-company U.S. stocks, small and medium size company U.S. stocks and non-U.S. stocks. Additionally, the Model Portfolios differentiate between high-quality bonds (those with high credit ratings) and inflation-linked bonds (those whose returns are indexed to the rate of inflation). There are additional categories of investments that exist, such as low quality/high yield bonds, that are

WHAT KIND OF INVESTMENTS ARE IN PORTFOLIOS?

Large Company U.S. Stocks

Stocks of larger U.S. companies, often represented by the S&P 500 Index.

Small and Medium Size Company U.S. Stocks



Stocks of small to medium size U.S. companies. These may have higher growth potential but also higher risk than large company stocks.

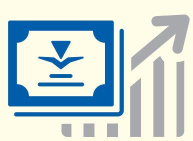
Non-U.S. Stocks

Stocks of companies located outside of the U.S. These may be a mix of small and large companies.

High Quality Bonds

Bonds typically issued by a government, state, municipality or corporation in excellent standing.

Inflation-linked Bonds



Bonds which are designed to help eliminate inflation risk by adjusting the principal amount over time.

Money Markets

Funds that invest in short-term securities such as U.S. Treasury bills. These may have lower risk, but lower growth potential.

not included in the Model Portfolios that may be a smaller part of a reasonable asset allocation strategy. The Model Portfolios focus on asset classes that are most critical in developing an appropriate long-term strategy, as well as those asset classes most likely to be represented by mutual funds offered in your district's plan.

Typical investments in Model Portfolios

The Model Portfolios assume you will be investing in mutual funds, based on the most common investment options available in the majority of 403(b) and 457 plans. Mutual funds are professionally managed investments which pool money from many different investors in order to purchase securities such as stocks, bonds or cash investments. The combined holdings of a mutual fund are known as its portfolio. Investors buy individual shares in mutual funds, with each share representing the investor's partial ownership in the fund and any income it generates.

Mutual funds may invest in a wide variety of stocks and bonds – or both – which helps to manage investment risk.

When determining which specific mutual funds to make part of your 403(b) and / or 457 plan, you should review each fund's disclosure document, called a prospectus, to help make an informed investment decision.

CTA Model Portfolios and their objectives

As noted earlier, your investment time horizon should be an important component of your investment decisions. A Model Portfolio made up primarily of stock mutual funds might deliver higher returns over time, but may also expose your investments to greater short-term price variations (also known as volatility). When you have many years until retirement, you may be willing to accept that volatility in exchange for a better probability of higher long-term returns. Investing primarily in bonds or cash equivalents has historically generally reduced volatility, but can also potentially lower returns. If you have a shorter investment time horizon, this may be a trade-off you are willing to make.

Time-based factors such as these are reflected in the Model Portfolios: Early Career, Mid-Career, Near Retirement and Retirement

For **younger educators** with a longer time frame until retirement (25+ years), the greatest portion of the Model Portfolio is in stocks.

For **educators who are in mid-career** (10 to 25 years until retirement), the Model Portfolio suggests adding more bonds.

Educators nearing retirement (in less than 10 years) will see a Model Portfolio with a higher allocation to bonds, but still including a significant percentage of stocks.

For **educators in retirement**, the Model Portfolio indicates investing primarily in bonds and cash, yet still holding a portion in stocks for growth potential throughout retirement.

CTA Model Portfolios

The following Model Portfolios, with their accompanying hypothetical stories, suggest why you may wish to choose a comparable investment portfolio for your own 403(b) and / or 457 plan. Keep in mind that these examples do not reflect any specific investor's experience. Your own investment choices should be based on your goals, timeline and risk tolerance.

Capital Appreciation

- Large Company U.S. Stocks
- Small and Medium Size Company U.S. Stocks
- Non-U.S. Stocks

Capital Preservation

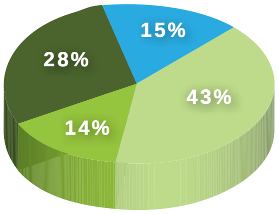
- High Quality Bonds
- Money Markets/Cash

Inflation

- Inflation Linked Bonds

Early career – long time (25+ years) until retirement; long-term growth portfolio

Heather



Early Career: Historical Risk / Return (1926-2014)	
Average Annual Return	11.0%
Best Year (1933)	48.1%
Worst Year (1931)	-37.7%
Years with a loss	22 of 89
Years with a gain	67 of 89

Primary objective: long-term growth

After recently finishing college, Heather is relatively new to teaching. While she cannot afford making large contributions to her 403(b) account now, she knows it is important to start saving for retirement early, and she expects to increase her contributions as she grows older. Heather chose the long-term growth Model Portfolio because:

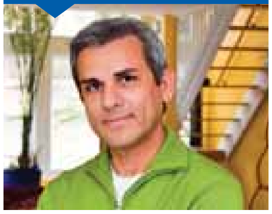
She has a very long time horizon until retirement, and understands that a portfolio that is made up mostly of stocks likely gives her the best potential for long-term growth.

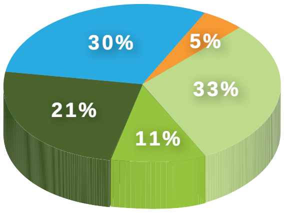
She is making regular contributions to her account. This is important because when the stock market is down, she may benefit long-term by being able to purchase new stock shares (through her mutual funds) at lower prices.

She is expecting a benefit from CalSTRS in retirement, but knows she will not receive any Social Security benefit based on her teaching job. She understands that supplemental retirement savings, such as her 403(b) account, will be an important contributor to her income in retirement.

Mid-career – intermediate time (10 to 25 years) until retirement; balanced growth portfolio

Victor





Mid-Career: Historical Risk / Return (1926-2014)	
Average Annual Return	9.7%
Best Year (1933)	39.2%
Worst Year (1931)	-29.9%
Years with a loss	19 of 89
Years with a gain	70 of 89

Primary objective: balanced growth

It seems like only yesterday that Victor got into teaching. Now a veteran educator, he is thinking about how to best prepare for retirement. Victor has been increasing his contributions to his 403(b) account over the years, and he has accumulated a moderate account balance. Though retirement is still many years away for Victor, he enjoys receiving his 403(b) statements and seeing his hard work reflected in the totals. Victor chose the balanced growth Model Portfolio because:

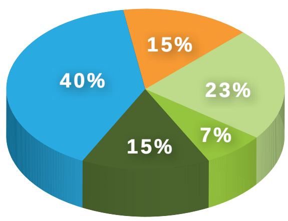
He knows he still has a long time horizon until retirement, and hopefully a long and healthy retirement after that. As such, growth potential remains his primary investment objective.

He has worked hard, saved and invested wisely, and now has a much more substantial account balance than when he first started out. Although he still has a reasonably long time horizon, and growth remains his most important objective, he wants to stabilize what he has to protect his account balance better.

He is expecting a benefit from CalSTRS in retirement, but knows he will not receive any Social Security benefit based on his teaching job. He understands that supplemental retirement savings, such as his 403(b) account, will be an important contributor to his income in retirement.

Near retirement – less than 10 years until retirement; stability and moderate growth portfolio

Maria



Near Retirement: Historical Risk/Return (1926-2014)	
Average Annual Return	8.4%
Best Year (1985)	29.6%
Worst Year (1931)	-21.7%
Years with a loss	16 of 89
Years with a gain	73 of 89

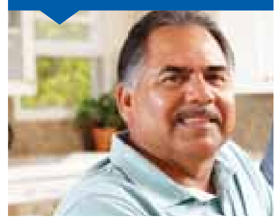
Primary objective: stability plus moderate growth
Now only a few years from retirement, Maria is thinking hard about how to best position her supplemental retirement savings. She knows that it is important to maintain what she has spent much of her life accumulating, and ensure it lasts through retirement. Maria chose the stability and moderate growth Model Portfolio because:

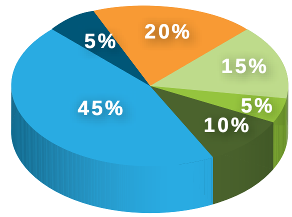
She only has a few more years until retirement, at which point she will stop making account contributions and may begin taking distributions. A portfolio with a more substantial allocation to bonds may provide her with better stability and predictability.

She understands that will still need to pursue some growth, through stocks, to keep pace with inflation during her retirement years. She likes that her portfolio still has a meaningful allocation to stocks, as well as inflation-linked bonds.

Retirement – stability and income portfolio

Carlos





Retirement: Historical Risk/Return (1926-2014)	
Average Annual Return	7.4%
Best Year (1985)	26.1%
Worst Year (1931)	-15.3%
Years with a loss	11 of 89
Years with a gain	78 of 89

Primary objective: stability plus income
After his career in education, Carlos is now a few years into retirement. He receives a monthly CalSTRS benefit, and also draws a small amount from his 403(b) account to supplement his income. Carlos chose the stability and income Model Portfolio because:

He hopes to enjoy several years if not decades of retirement, and understands that he still needs some level of growth and protection from inflation. He also understands that he cannot afford to become too conservative with his retirement savings, or his portfolio may not be able to keep pace with the cost of living in retirement.

As he is making withdrawals from his retirement account, he understands that he must be careful about taking on too much investment risk.

All you need to do is choose the Model Portfolio that is most suited to your personal situation.

* Source: "Mutual Funds," May 2014, Investor.gov, *http://investor.gov/investing-basics/investment-products/mutual-funds#Why%20buy.*

Making it happen – next steps to use the CTA Model Portfolios

Just as students build on the basics of reading, writing and arithmetic with the help of their educators, educators can build on their investment knowledge by taking small steps with the help of CTA resources.

All it takes, initially, is to journey to your nearest computer and visit **CTAinvest.org** to begin learning more about 403(b) or 457 plans. In fact, CTA has divided your task into six simple steps:

1) Contact your district – Your district is your best initial source of information about your 403(b) or 457 plan option(s). Most districts have hired Third Party Administrators (TPAs) to handle the administration of the district’s 403(b) program, and your district or its TPA should be able to provide you with the plan information you need, including a summary of provisions such as loans, transfers, exchanges and any fees. Be sure to get a list of approved vendors for both ongoing contributions and exchanges (sometimes these can be different) as well as enrollment forms and any associated paperwork. You can find this information at *403bCompare.com*, too.

2) Learn more – On the **CTAinvest.org** home page, click the link marked “Videos” to learn more about investing in a 403(b) or 457 plan; in particular, watch “Why Participate in a 403(b) or 457 Plan?” Also consider reviewing the full 403(b)/457 Plans section of the **CTAinvest.org** site for a variety of articles and fact sheets on these plan options. Another excellent and comprehensive resource is CTA’s retirement guide, “Closing the Gap: Saving for Your Retirement with a 403(b) or 457 Plan,” which you can read online or download.

3) Decide how much to save – First, estimate your projected CalSTRS or CalPERS benefit, which will only replace a portion of your prior salary at retirement. Based on the difference between that figure and the total sum you believe you will need in retirement, you'll be able to determine how much you may want to contribute from each paycheck to your 403(b) or 457 plan.

Two excellent calculators at **CTAinvest.org** are "How Much Can I Save in My 403(b) or 457 Plan?" and "Projected Retirement Expenses."

4) Choose the Model Portfolio that best fits your situation and number of years to retirement. Choose your vendor(s) and product(s) – Review the vendor(s) and investment option(s) offered by your district's plan. Determine which product(s) best match your retirement timeline, your financial goals and your risk tolerance. Also important: review all fees and expenses.

If you have questions about a potential 403(b) vendor, a great resource is the 403bCompare website at **403bCompare.com**. It contains a wealth of free and objective information about 403(b) vendors for California school districts, including the products they offer, their fees and services provided.

5) Use this information to select mutual funds that mirror the style and percentages included in the Model Portfolio you've chosen. For example, if you've chosen the Mid-Career Model Portfolio, 30 percent is allocated to large-company U.S. stocks. For larger allocations (such as 15% or more), consider diversifying your portfolio across multiple mutual funds in the same asset class. Choose a large-company U.S. stock fund from among your district's options and allocate a total of 30 percent of your investment to that funds. Do that for each type of investment and percentage allocation.

An exception to dividing up larger allocations can be made if you are investing in index funds that track the entire market. For example, with large company U.S. stocks, you do not necessarily need to diversify larger allocations among multiple mutual funds if you are investing in a large company U.S. stock index fund, such as an S&P 500 index fund.

6) Sign up. Complete and submit plan enrollment forms, indicating the investments you want in your plan, as well as a salary withdrawal form, indicating the amount you wish to contribute to your plan from each paycheck. That's it!

Use Model Portfolios to help monitor your portfolio

The reality is that from year to year, month to month, and even day to day, the investment markets change. Investment needs may also change with market shifts, just as the time horizon to retirement changes. The secret is not to focus on these short-term fluctuations, but instead on long-term results, especially if you have many years until retirement.

Potentially profit from rebalancing

Investment rebalancing, like regularly changing your car's oil or periodically getting your teeth checked, is not glitzy or glamorous. You likely won't be bragging about it at your next social event. Rebalancing is, however, an often amazingly powerful way to potentially boost your investment returns and reduce risk.

Rebalancing your portfolio simply means returning your current investment allocations back to your original, targeted investment allocations. This is necessary because over time, due to the variability of returns among the primary types of investment options (stocks, bonds and cash investments), your original investment allocations can get a bit out of whack, like your car's alignment can get after driving 15,000 sometimes bumpy miles. Rebalancing can put you back on track.

How and when to rebalance

How and when should you rebalance your portfolio? The timing part is easy, as most financial advisors and experts recommend reviewing a retirement portfolio once annually. Based on that review, consider rebalancing if your original investment allocations have changed significantly (i.e., by more than 2 or 3 points). Your 403(b) vendor or record keeper may be able to set up your account with automatic rebalancing, which makes this step effortless.

Another option: target-date retirement funds

If you want an even simpler method than using the Model Portfolios to put together investments that are appropriate for your 403(b) or 457 plan, you might want to consider a target-date retirement fund (if offered in your plan). Target-date retirement funds are intended as an all-in-one solution to retirement investing. You just choose a fund whose name contains a year around the year you want to retire.

A target-date retirement fund invests in an array of mutual funds, with specific percentages invested in categories such as large company stocks, high-quality bonds, etc., just as the Model Portfolios do. However, in a target-date retirement fund, those percentages change at regular intervals, starting out more growth-oriented and becoming more conservative, with an increasing emphasis on stability and income. You don't need to rebalance or change the way funds are allocated over time as you do with the Model Portfolios. Target-date retirement funds do it for you, automatically.

It's important to note that if you combine target-date retirement funds with other investments in your plan, you may be defeating the purpose of the target-date retirement fund's strategy. Also, as always, be sure to check fees.

Rebalancing is also relatively easy, if you follow this simple four-step checklist:

❑ **Step 1: Recall your original target portfolio allocations.** If you based your investment allocations on one of CTA's Model Portfolios, simply reference your designated Model Portfolio for comparison. Or, get a copy of your account statement indicating your original asset allocations (your vendor should easily be able to provide this to you).

❑ **Step 2: Compare your current investment allocations with your original target allocations.** Consult your current portfolio statement or use your online tracking tool.

❑ **Step 3: Determine where, if at all, your investments are not aligned with your target allocations.** Most often, your bond and cash positions will have shifted relative to your stock investments, because stock investments frequently have more price volatility than bonds and cash investments.

❑ **Step 4: Rebalance if needed.** If necessary, pare back the parts of your portfolio that have grown and direct those funds to the parts that have not grown to return to your original target allocations.

Using the Model Portfolios as a guide can help keep your 403(b) or 457 portfolio on track. Simply review to make sure the percentage of each investment type in your current plan account matches the percentage indicated in the Model Portfolio. You can do this on your own or with the help of a financial advisor. Once you rebalance your portfolio, and gain confidence in what you are doing, future rebalancing will be easier for you.

Canceling your current 403(b) or 457 plan annuity

If, for whatever reason, you wish to cancel your current 403(b) or 457 plan annuity, proceed carefully before cancelling to ensure you do not pay any surrender fees you might otherwise have avoided.

Most 403(b) or 457 annuities assess surrender fees, which are essentially deferred sales charges, when you cancel the annuity early. The schedule for such fees should be spelled out in your annuity contract. Annuities that assess a surrender fee often charge a 6 percent or 7 percent fee over a 6- or 7-year schedule, with the fee decreasing one point for each of the first 6 or 7 years of the contract. Thus, if you have $10,000 in your annuity contract with a surrender schedule that starts at 7 percent in year one and drops to 6 percent in year two, and you surrender the annuity in year two, you would pay 6 percent x $10,000, or $600 to cancel the contract.

While it seems logical that surrender fee schedules are based on the initial date of the annuity contract, some annuities re-set their surrender fee schedule during each year of the surrender period. Let's say you bought an annuity in 2015 that comes with a 7 percent surrender fee that drops a percentage point each year. Your first-year premium payments would be subject to surrender charges for seven years, until 2022. Your second-year premium payments (in 2016) would be subject to surrender charges for seven years, until 2023. And so on, for the first seven years of your contract.

If you wish to minimize or avoid surrender charges, your options include:

Wait a few years – Don't cancel your contract until the surrender charge reaches 0 percent, or at least until it is a lower amount, before canceling the contract.

Pay the surrender fee – You may find it worthwhile to simply pay the fee in order to get out of an investment that is not appropriate for you.

Switch – Exchange your contract for a new contract with the same vendor; however, not all annuity vendors offer this option.

Redirect new contributions – keep the existing annuity but do not add any new money to it. Instead, direct all future contributions to a mutual fund.

Match your investments to a Model Portfolio

Asset Class	Percentage in Model Portfolio*	Name of fund(s) in your district's options
Large-Company U.S. Stocks	___________%	________________
Small and Medium Size Company U.S. Stocks	___________%	________________
Non-U.S. Stocks	___________%	________________
High-Quality Bonds	___________%	________________
Inflation-Linked Bonds	___________%	________________
Money Markets / Cash	___________%	________________

* Copy from the CTA Model Portfolio you've chosen.

Look Out for Loads on Mutual Funds

Load funds are mutual funds purchased from your advisor or broker that have a sales charge or commission attached . The charge goes to pay the intermediary for their time and expertise in selection the appropriate mutual fund.

- A **back-end load** means the fee is charged when you redeem the mutual fund. A **front-end load** is the opposite of a back-end load and means the fee is charged up front. The particular load included usually depends on the share class purchased.
- In addition, a load fund can also have a **12b-1 fee** that can be as high as 1% of a fund's net asset value.

No-load funds are mutual funds sold without a sales charge or commission. These shares are typically purchased directly from a mutual fund company or indirectly through a mutual fund supermarket.

- No-load funds may have a small **12b-1 fee** (up to 0.25%), also known as the cost of distribution, which is incorporated into the fund's expense ratio. However, there are plenty of no-load funds available that don't charge 12b-1 fees when purchased directly from a mutual fund company.

Whether a fund contains a load or not, it is important to note that it can still be subject to a redemption fee. A **redemption fee** is a charge by a mutual fund company to discourage short-term trading. Unlike sales charges, redemption fees typically operate only in short, specific time periods (ex: 30,180, or 365 days). However, some redemption fees can exist for up to five years.

Now that you are aware of them, how can you determine if your mutual fund includes these fees? If you are working with an advisor, don't hesitate to be direct in asking questions about fees. The advisor should have a fiduciary duty to you, and an obligation to disclose all fees that could be associated with recommended investments. If you are purchasing directly from a mutual fund company, the company website or fund prospectus document are good sources to obtain fee information.

CTA Investment Glossary

A

Annuity
A contract between an insurance company and an individual that generally guarantees a lifetime income option, usually at retirement, in return for either a lump sum premium or periodic premium payments. See fixed annuity and variable annuity.

Asset Allocation
The strategy of dividing your money among the three major asset classes. This helps manage risk while you pursue growth, because the three classes tend to react differently to economic conditions.

Asset Class
The main categories of investments at the most basic level, generally stocks (also called equities), bonds and cash or cash equivalents. When participating in a 403(b) or 457 plan, you will generally invest in mutual funds (should you choose) that incorporate the risk/return profiles of one or more of these asset classes.

B

Back-End Load
A sales fee that is charged when you redeem shares of a mutual fund or sell a variable annuity contract.

Bonds
Bonds are a form of loan between investors who purchase the bond and a government, agency, institution or corporation that issues the bond. Typically, in return for the loan, the bond issuers agree to pay interest to the bondholder and pay back the principal (the amount paid for the bond) by the end of the bond's term (maturity). See inflation-linked bonds.

C

Capital Gain
The amount of profit on an investment resulting when the sale price is greater than the original purchase price.

Capital Loss
The amount that results when the sale price of an investment is lower than the original cost of purchase; opposite of capital gain.

Cash Equivalents
Liquid investments (easily sold and converted to cash) that generally have little or no change in underlying price. Examples are money market or stable value funds.

Compounding
With compounding, earnings on an investment (which can be any combination of interest, dividends and capital gains) are used to purchase more of the investment asset, increasing the base upon which subsequent returns are earned.

Contribution
The amount of money, or percentage of your pay, that you put toward your 403(b) or 457 plan through a salary reduction agreement. The contribution is also sometimes called a deferral.

D

Diversification
This investment strategy is a step beyond asset allocation. It means to spread your investments among not only the three major asset classes, but also among different investments within those classes. For example, within the stock portion of your portfolio you may want to include large-company stocks, small-company stocks and foreign (non-U.S.) stocks.

Dollar-cost averaging
Also called systematic investing. With this investment strategy, you invest the same amount of money on a regular basis, regardless of what the market is doing. By contributing regularly to your 403(b) or 457 plan, you are taking advantage of dollar-cost averaging.

E

Emerging Market Funds
These mutual funds may invest within a single country or a larger region, but typically only invest in countries and / or regions considered to be emerging economically. Examples include Brazil and India.

Equity Fund
A mutual fund that invests in equities (stocks of companies).

Equity-Indexed Annuity
This type of annuity's return is based on changes in an equity index such as the Standard & Poor's 500 Index. It is considered a form of fixed annuity but is generally complex and comes with high fees.

F

FINRA
The Financial Industry Regulatory Authority regulates securities firms doing business in the United States.

Fixed Annuity
An annuity that guarantees a minimum return for a specific period, as specified in the contract with the insurance company.

Foreign Funds
These are funds that invest in non-U.S. stocks.

Front-End Load
A sales fee that is charged as of the date when you purchase a mutual fund or annuity.

G

Global Fund
These mutual funds invest in companies around the world, including those which are based in the United States.

I

Index Funds
Index funds are mutual funds that seek to duplicate the performance of a particular benchmark index. The fund may hold all of the same securities that are in the index, in proportion to their weight in the index, or it may include a statistical sampling of the securities in the index.

Inflation
The increase in the cost of living over time, as measured by the U.S. Department of Labor's Consumer Price Index.

Inflation Linked Bonds
Bonds which are designed to help eliminate inflation risk (the risk that the return will not keep up with inflation) by adjusting the principal amount over time.

L

Large Cap U.S. Stocks
Stocks of larger U.S. companies, often represented by the S& P 500 Index.

Liquidity
The ability to convert an asset into cash quickly and easily for a common market price, without substantial cost for the identification of a purchaser.

Longevity Risk
In retirement savings, this is the risk that an individual will have a longer life than anticipated and run out of savings before he or she dies.

M

Management Company
The company that manages and administers a mutual fund.

Market Timing
Market timing is an attempt to predict the future direction of the market and make investment decisions based on those predictions.

Municipal Bonds
Bonds issued by state, city or local governments.

Mutual Fund
A mutual fund pools money from many investors to purchase stocks, bonds, cash equivalents or some combination that is consistent with the fund's investment objective.

P

Portfolio
Your 403(b) or 457 plan portfolio is the collection of investments you have in your account. You may also

have an investment portfolio outside your employer-sponsored retirement plan.

Principal
The amount of money you invest, before earning any interest or dividends.

Prospectus
The legal document that describes a mutual fund's objectives, types of investments and major holdings, risks and management style.

R

Re-allocation
Re-allocation occurs when you change your contribution strategy based on a change in your goals, timeline or risk tolerance.

Rebalancing
The act of returning your investments to your original asset allocation if it has changed due to market performance.

S

SEC
The Securities and Exchange Commission is a government agency that regulates securities markets and protects investors.

Small and (Mid) Medium Cap U.S. Stocks
Stocks of small and medium sized US companies. Mutual funds investing in these securities may be labeled as some variation of small-cap, mid-cap or small/mid-cap. These stocks may have higher growth potential and also higher risk than large company stocks.

Stable Value Investments
An investment contract that guarantees a certain rate of return through an insurance contract, typically backed by high-quality, low-maturity bonds.

Stocks
Shares in the ownership of a company are called stocks or equities. You invest in stocks by buying shares of stock in an individual company or through investment in a stock mutual fund.

T

Tax Deferral
The major benefit of traditional 403(b) and 457 plans, it provides for tax-free contributions to the plan and allows funds within the plan to grow without being reduced each year by taxes. Taxes are paid at ordinary income tax rates when distributions begin at retirement.

V

Variable Annuity
An annuity (contract with an insurance company) in which the performance of investments in a subaccount (typically, a mutual fund) determines the return.

Volatility
The fluctuation in prices of an investment over short periods of time.

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