Your Arizona University System Voluntary 403(b) Plan

HR Benefits Design & Management
ASU Office of Human Resources
Who’s Eligible?

All ASU Employees who contribute a minimum of $5 per pay period

- Tenured and part-time faculty
- Full-time and part-time staff and academic personnel
- Temporary faculty and staff
- Student employees (including non-FICA paying students)
Why a Supplemental Plan?

- Retirees are having to work, because they have not saved enough for retirement

- Individuals are living longer in retirement and may outlive their money

- You should have 8 to 12 times your final salary in retirement assets
## Why a Supplemental Plan?

### Retiree Healthcare Costs Continue to Rise

#### 2014 Monthly Retiree Premiums

<table>
<thead>
<tr>
<th>Plan Description</th>
<th>EPO Medical</th>
<th>PPO Medical</th>
<th>Prepaid Dental</th>
<th>Delta Dental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retiree Only</td>
<td>$593.00</td>
<td>$943.00</td>
<td>$8.99</td>
<td>$35.94</td>
</tr>
<tr>
<td>Retiree &amp; Spouse</td>
<td>$1,387.00</td>
<td>$2,219.00</td>
<td>$17.98</td>
<td>$75.63</td>
</tr>
<tr>
<td>Retiree w/ Medicare</td>
<td>$442.00</td>
<td>$789.00</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Retiree &amp; Spouse (One w/ Medicare)</td>
<td>$1,024.00</td>
<td>$1,740.00</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Retiree &amp; Spouse (Both Medicare)</td>
<td>$878.00</td>
<td>$1,576.00</td>
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</tr>
</tbody>
</table>

PLUS additional costs for Medicare and Dependent Children Coverage

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**U.S. Health Spending Growth (impacts premiums)**
Projected To Average 5.8 Percent Annually Through 2022
What is Your Retirement Readiness?

Retirees spend 71 – 95% of their final after-tax earnings annually in retirement.

<table>
<thead>
<tr>
<th>Final Pre-retirement Income</th>
<th>Estimated Income Replacement Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $50,000</td>
<td>95%</td>
</tr>
<tr>
<td>$50,000 – $80,000</td>
<td>85%</td>
</tr>
<tr>
<td>$80,000 – $120,000</td>
<td>77%</td>
</tr>
<tr>
<td>More than $120,000</td>
<td>71%</td>
</tr>
</tbody>
</table>

Schedule a one-on-one meeting with an investment consultant to plan for retirement.

ASU
Voluntary 403(b) Plan Enhancements

Effective July 2014

To Assist With
Your Retirement Readiness
What’s Happening?

Streamlined Investment Options

- **Tier I Target Date Funds**
  Managed funds with risks targeted toward age 65 retirement

- **Tier II Core Funds**
  Monitored quarterly with the goal to offer the best investment returns with lower expenses to you

- **Tier III Annuities**
  Select annuity options for your portfolio

- **Tier IV Self-Directed Brokerage Account**
  Additional mutual funds beyond the core funds; fees might apply

**WHY?**

- To simplify and facilitate portfolio management for you
- For every 10 options added, participation falls by 2 percent
- Most pick 3-4 funds and allocate evenly among them
Your Investment Philosophy

How do you like to make investment decisions?

- Do it for me
- Help me do it
- Let me do it
- Or a combination of approaches

What is your risk tolerance?

- Conservative
- Aggressive
- Or Balanced?
New Fund Lineup by Investment Philosophy

**TIER I Target Date Funds = Do it for me**
- T. Rowe Price Retirement Funds *NEW!

**TIER II Core Funds = Help me do it**
- Conservative to Aggressive Mutual Funds

### Money Market
- Vanguard Prime Money Market Fund (Institutional Shares)

### Fixed Income Index
- Vanguard Total Bond Fund *NEW*
  (Institutional Class)
- Core Plus Fixed Income
  PIMCO Total Return Fund
  (Institutional Class)

### Diversified Inflation Option
- Principal Diversified Real Asset Fund (Institutional Class)

### Large Cap Stock Index
- Vanguard Institutional Index Fund
  (Institutional Shares)
- American Beacon Large Cap Value Fund
  (Class Institutional)
- Large Cap Growth
  Fidelity Contrafund (Class K)
  Fidelity Growth Company Fund (Class K)
- Neuberger Berman Socially Responsive Fund *NEW!
  (Institutional Class)
New Fund Lineup by Investment Philosophy

TIER II Core Funds Cont’d = Help me do it
Aggressive

<table>
<thead>
<tr>
<th>International Equity Index</th>
<th>International Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanguard Total International Stock Index Fund</td>
<td>Fidelity Diversified International Fund (Class K)</td>
</tr>
<tr>
<td>NEW! (Admiral Shares)</td>
<td>GMO International Equity Allocation Series Fund NEW!</td>
</tr>
<tr>
<td>(Class R6)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Small/Mid Cap Equity Index</th>
<th>Small/Mid Cap Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanguard Extended Market Index Fund NEW!</td>
<td>Eaton Vance Atlanta Capital SMID-Cap Fund (Class I)</td>
</tr>
<tr>
<td>(Institutional Shares)</td>
<td></td>
</tr>
</tbody>
</table>

TIER III Annuities = Help me do it

<table>
<thead>
<tr>
<th>Fixed Annuity</th>
<th>Variable Annuities</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIAA Traditional</td>
<td>CREF Stock Account</td>
</tr>
<tr>
<td>TIAA Real Estate Account</td>
<td></td>
</tr>
</tbody>
</table>

TIER IV Self-directed Brokerage Account = Let me do it

- Fidelity BrokerageLink with thousands of mutual funds; additional fees may apply
What’s Happening?

Reduced Fees and Expenses

- Associated with investing will be lower
  - Tier I – Target Date Funds
  - Tier II – Core Funds

- Can potentially increase the return on your investment
  - Combines assets in larger funds (vs. three providers) for better buying power
  - Reduces recordkeeping expenses paid by you

WHY? To help faculty, staff and other employees build retirement savings
Roth 403(b) Contribution Option

- Allows you to contribute after-tax dollars
- Gives you potentially tax-free withdrawals at retirement

WHY?

- Potentially lower taxable income in retirement
- Contributions beyond Roth IRA limits or eligibility
- May pass a portion of your retirement assets tax-free to heirs

WHY NOT?

- Behind on savings and expect Social Security to be your primary retirement income
- Have children and family income between $20k and $50k and receive additional earned income or additional child tax credits
What’s Happening?

Self-directed Brokerage Account

- Select from thousands of mutual funds
- No annual brokerage account fees (certain funds might have transaction fees)
- No restrictions on new contributions or account balances that can be invested in self-directed brokerage account

WHY? To offer experienced investors more options

REMEMBER: You should carefully consider your investment objectives, risks, charges and expenses before making changes. We encourage you to seek free investment guidance from our investment providers.
Self-directed Brokerage Account

Fidelity BrokerageLink provides more flexibility for experienced investors who:

- Are willing to take on the potential for more risk
- Are prepared to assume responsibility of more closely monitoring a portion of their portfolio
- Understand that additional fees may apply
  (Check for the Fidelity funds with no transaction fees.)

REMEMBER: It is always your responsibility to ensure that the options you select are consistent with your particular situation, including your goals, time horizon, and risk tolerance. We encourage you to seek guidance from an investment consultant.
What’s Happening?

Approved Investment Provider Changes

- Fidelity for core investment lineup and self-directed brokerage account
- TIAA for the top three annuities selected by participants
- VALIC will no longer be an approved investment provider
  - Based on review of investments, fees and expenses, and services

WHY? To reduce your fees and expenses

- Combines assets in larger funds (vs. among three investment providers) for better buying power = reducing your fees
- Reduces recordkeeping expenses paid by you
What’s Happening?

Leading-edge Service Provider

Fidelity will provide the primary administrative recordkeeping services, replacing Retirement Manager, for enrollment, investment selections and making or changing your contribution amounts.

WHY?

• Improved recordkeeping system for lower expenses
• To help you diversify your account for the best returns on your investment, on-site investment counselors with specialized training on:
  – Target Date Funds
  – Core Mutual Funds
  – Annuities
  – Self-directed Brokerage Account
  – And educational services and tools on their website
Key Events

• Current **Fidelity** participants with funds to transfer in kind
  - June 20 – Open **Fidelity** Brokerage Link account before this date

• Last day to submit loan, withdrawal & distribution requests
  - June 25 – **TIAA** & **VALIC**
  - June 30 – **Fidelity**

Blackout Period

• No future contribution amount or investment changes
• No account balance transfers between investment options
• No loans, withdrawals or distributions
  - July 1 – Week of July 27 for:
    - **Fidelity**, **TIAA**, **VALIC** & legacy vendors
Key Events

• Transfer mutual funds
  - July 10 – Liquidate Fidelity, TIAA & VALIC mutual funds
  - July 11 – Fidelity & TIAA funds transfer to new investments
  - July 14 – VALIC funds transfer to new investments

• Remaining balance on Fidelity mutual funds (held to avoid short-term trading fees)
  - October 1 – Transferred automatically; no action required

• New account statements available
  - Early October – No action required
Making the Most of the Plan Enhancements

• Seek advice from a Fidelity or TIAA investment counselor
  – Determine your Retirement Readiness. Should you start or increase your Voluntary 403(b) Plan contributions?
  – Is your portfolio diversified to maximize return and minimize risk?
  – Are the cost for your funds the lowest you can receive? Or should you take advantage of the buying power in Tier II?

• Review the Transition Guide/Be aware of key dates and activities

• Carefully consider the investment objectives, risks, charges and expenses of the new investment lineup

• Prepare to take advantage of all the new services
You should carefully consider your investment objectives, risks, charges and expenses before making changes. We encourage you to seek guidance from our investment providers or an independent investment consultant.

<table>
<thead>
<tr>
<th></th>
<th>Fidelity Investments</th>
<th>TIAA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.800.642.7131</td>
<td>1.800.842.2776</td>
</tr>
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Schedule a one-on-one consultation