

**Washtenaw Intermediate School District
in cooperation with the
Washtenaw ISD and Wayne RESA 403(b) Plan Consortium**

403(b) Plan Question and Answer Information

This document was prepared to help staff better understand what to expect regarding the new 403(b) plan that was implemented January 1, 2009. Some information has been updated to reflect updates to the plan. This is not a legally binding document but merely a guide to understanding the 403(b) plan.

1) Why are we changing our 403(b) plan?

It is the law, and while the law has undergone many changes over the years, no comprehensive changes had been made to the 403(b) regulations since the 1960s. The IRS intended to make the 403(b) regulations more consistent with other similarly defined contribution plans, such as 401(k) plans offered by businesses and corporations. These new regulations will simplify the body of existing rules and guidelines for both participating employees and plan employers. Additionally, the IRS found many deficiencies during 403(b) plan audits and felt that this is the best approach to rectify those deficiencies.

2) How did the District go about evaluating which option was best?

In the fall of 2007, we began looking at the changes that would be necessary to bring our 403(b) retirement plans into compliance with the new regulations issued by the IRS. Stepping back from the onslaught of training and informational material we received, we asked ourselves, "If we were to design a 403(b) plan with a blank slate, what would it look like?"

A consortium that included Washtenaw County Intermediate School District (WISD), Wayne County Regional Educational Service Agency (Wayne County RESA) and 38 constituent K-12 public schools in southeast Michigan was formed to study the issue. The consortium jointly issued a request for proposal (RFP).

The consortium received 28 proposals. A memo authored by the representatives of the 403(b) consortium "Recommendation of new 403(b) plan" provides information on the process. If you would be interested to read this memo, please contact your plan administrator (currently Brian Marcel).

3) What criteria were used?

The new 403(b) solution was expected to provide:

- #1 Compliance with new IRS regulations and IRS expectations
- #2 Maximize participant retirement savings with the selection of investments and by minimizing erosion caused by high vendor fees
- * Low cost: mutual funds with low internal fees; low cost plan administration; and, efficient structure
- * Total disclosure of fees charged and return of revenue sharing to offset fees
- * The plan provider to accept fiduciary responsibility for fund selection

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- * Independent: no proprietary mutual funds or other insurance products to sell to participants
- * Large enough vendor with solid established history of managing retirement plans; our plan should not make up the majority of their funds under management
- * Structured fund selection process by a team of professionals, not one or two salespeople
- * As much structure as before for those who need it, i.e. “I don’t know, just pick what I should do.”
- * More flexibility than before: virtually unlimited access to legal 403b mutual fund investments
- * Ability to work with a personal or previous financial advisor: Participant would continue to pay for the financial advice, just in a different way; if you don’t use advice you don’t have to pay for it
- * Improved/consistent education on saving for retirement

4) Who is the new vendor?

The Standard. The Standard is a publicly traded company on the New York Stock Exchange (ticker symbol: SFG). You can further acquaint yourself with The Standard by visiting their web site at www.standard.com

5) When will the new 403(b) plan become effective?

The new 403(b) plan will become effective January 1, 2009. All new contributions made after this date will go into the investment options you have selected at The Standard.

6) What does the new 403(b) plan look like?

The new 403(b) plan is a single vendor model concept that is fairly unique in school districts right now. The core of the plan is very common in 403(b) ERISA plans for non-profit institutions, like hospitals and universities, and 401(k) plans for corporations. We have supplemented the core plan with an open brokerage window that, in our opinion, makes this a far superior retirement plan for our participants than was previously available to you.

The new 403(b) plan will utilize a four (4) bucket approach that allows you to choose how much or how little involvement you have in your investment choices.

Bucket 1: Core Line-up – This bucket contains a core line-up of 29 mutual funds across broad investment categories and provides a mix of actively and passively managed mutual funds. This bucket would be for the participants that would like to select their own investment portfolio, knowing that all options have been reviewed by investment professionals and determined to be the best in its investment class.

Bucket 2: Guided Portfolios - This bucket contains five custom asset allocation portfolios that are created out of the underlying core fund line-up (Bucket 1) and range from conservative to aggressive. This bucket will help you through the process of choosing and managing your retirement assets by providing information and tools. After answering a few questions about your future goals and current retirement income sources, the tools discuss risk tolerance, diversification and possible investment options. An investor profile questionnaire leads you to one of the five portfolios that show how you

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may want to diversify your assets. Most participants will likely choose a Guided Portfolio.

Bucket 3: Mainspring Managed - This bucket is for the complete “please actively manage my money for me” approach. The Standard will do everything for you. Create a savings plan to help you meet your retirement needs, manage your investments and contributions to match your needs, provide access to a call center staffed with professional investment advisors, and provide ongoing statements to show your progress along the way. All investments will be created out of the underlying core fund line-up (Bucket 1). The cost is \$10/month.

Bucket 4: Open Brokerage Window - This bucket offers access to over 5,500 mutual funds, all without loads/sales commissions. This is a self-directed brokerage account through the Schwab Personal Choice Retirement Account (PCRA). Please note that the purchase of individual stocks in 403(b) retirement plans is not legal and is therefore not available through the Schwab PCRA. A complete list of investment products available can be accessed www.schwab.com/pcra. The cost is \$35/year.

7) How were the mutual funds selected for the Core Line-up in Bucket 1 and the Guided Portfolios in Bucket 2?

The funds were, and continue to be, selected by The Standard in accordance with our plan’s Investment Policy Statement (IPS). The IPS outlines the criteria used and includes items such as fund expense ratios, manager tenure, style fund purity, and historical performance. The IPS can be found on the WISD network in the Groups/All Agency/Benefits/403B/Plan Documents folder.

The Standard is a Registered Investment Advisor (RIA) and is regulated by the Securities and Exchange Commission. A RIA is required to provide independent, unbiased advice to clients, and their compensation cannot be determined as a result of the investment choice recommended (i.e. commission-based).

An Investment Committee was established for the purpose of meeting quarterly with The Standard to review the fund selection and performance. The Investment Committee for the Washtenaw/Wayne 403(b) Consortium includes the four original consortium representatives and other consortium district representatives.

8) What are my investment choices in Bucket 1?

As mentioned above, there are 29 different mutual funds available to select from in Bucket 1. A current list of funds is available once you log onto The Standard in your Personal Savings Center, or you can obtain the list from your plan administrator. The funds will be spread amongst various investment styles to allow for a diversified portfolio (large-, mid-, small-cap; growth vs. value; etc.).

9) What are the investments in the Guided Portfolios in Bucket 2?

The Guided Portfolios in Bucket 2 are custom asset allocation portfolios that are created out of the underlying core fund line-up (Bucket 1) and include portfolios for conservative, moderately conservative, moderate, moderately aggressive, and aggressive risk tolerance styles. After answering a few questions about your future goals and current retirement income sources, the

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tools discuss risk tolerance, diversification and possible investment options. An investor profile questionnaire leads you to one of the five portfolios that show how you may want to diversify your assets. Most participants will likely choose a Guided Portfolio.

10) Why are there no Target Date or Lifecycle funds in either Bucket 1 or Bucket 2?

Target Date and Lifecycle funds are available in Bucket 4. The Schwab PCRA provides you access to target date/lifecycle funds.

With The Standard, Bucket 2 is a combination of the 29 funds from Bucket 1 that make up allocations for "conservative", "moderately-conservative", "moderate", "moderately-aggressive" and "aggressive" risk tolerances. Some of the firms that submitted proposals were actually creating Bucket 2 from Target Date funds. With the Standard, we could have put Target Date funds in Bucket 1, but it would have taken up 10 or so of the 29 available slots. We felt it was more important to offer an active and passive option in each investment category. The Standard has an elaborate "Guided Portfolio" for Bucket 2 that determines your appropriate allocation for your risk tolerance. We felt that the Guided Portfolio was better than set Target Date funds. For example, if you are going to retire in 2020, that does not necessarily mean you want access to or plan to begin taking money out in 2020, yet your allocations would automatically be invested based on that assumption.

11) How does The Standard get paid for handling our 403(b) plan?

The Standard will assess a fee to each participant. At the inception of the plan, the fees will be \$40/year plus an annualized asset fee of 0.73% (as of July 2015, this rate has been reduced to 0.53%); you will see this on your quarterly statement. The annualized asset fee will continue to be reduced as plan assets grow. The Standard has provided a tiered fee structure that combines all assets from all school district participants in the entire consortium. As assets grow and new tiers are reached, the fee will be reduced. Once all assets in the consortium reach \$250 million, the annualized asset fee will reach the lowest level of 0.26%. By combining many districts into this program we were able to attain a fee structure that would not be available to individual school districts.

The Standard is paid to handle the plan, provide compliance with the regulations, to serve as the registered investment advisor to recommend the investments, keep plan records in accordance with the regulations, provide a secure web site, provide a call center, provide participant education, develop plan documents, and monitor investment performance.

12) During the evaluation and selection process, a lot of emphasis was placed on the costs and fees associated with various plan structures. Since there is an additional fee charged by The Standard, how does that result in lower costs to plan participants?

Our ultimate goal was to provide you with a retirement plan with all annual fees combined totaling less than 1% of your assets. In the RFP, the 40 individual districts were given the option to either accept or reject the recommendation of the consortium. We anticipated 80% participation; 16 of the 40 districts elected the plan. The actively managed moderate portfolio, including all of The Standard's fees, is starting at 1.22% total annual costs. However, for

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example, we are able to offer you a passive portfolio that has 0.92% total annual costs. And, the total annual fees will reduce over time:

	<u>1/1/09</u>	<u>at \$250m consortium tier</u>
Moderate portfolio	1.22%	0.75%
100% index moderate portfolio	0.92%	0.45%

Prior to 2009, total costs paid by plan participants were comprised of several different types of fees: flat dollar (\$), annual asset-based (%), and sales loads as a % of your investment. It is important to understand due to the changes in regulations, there is not an option for the current 403(b) plans to operate after January 1, 2009 in the same way they operate now. There would be some sort of administration fee to manage the plan after 1/1/09. However, the following chart created in 2008 provides a sample comparison between the plans available pre-2009 (without the additional compliance requirements) and the new 403(b) plan (that is compliant with the new regulations).

	Retail Mutual Fund 403(b) *	Annuity 403(b) **	New 403(b) plan *** Actively Managed Funds	New 403(b) plan *** Passively Managed Funds
Administration Fee	-	-	\$40 + 0.73% in 2009 (top tier will be 0.26%)	\$40 + 0.73% in 2009 (top tier will be 0.26%)
Internal Fund Management Fees	1.30%	0.75%	0.67%	0.19%
Revenue Sharing Credited	-	-	(0.18%)	-
Sales Load (front-end)	0.84%	-	-	-
Sales Load (back-end)	0.72%	-	-	-
Insurance/M&E	-	1.35%	-	-
Annuity riders and options	-	0.65%	-	-
Average annual costs and fees	2.86%	2.95%	1.22%	0.92%

* Average retail fund expense, can be more or less; *source: Morningstar*

** Typical of annuity products, can be more or less; *source: CNNMoney.com*

***New 403(b) plan based on the moderate guided portfolio with \$60,000 portfolio assets

13) Will any of the funds have a front-end load, back-end load, sales charge, or surrender charge?

No. There is no front end-end load, back-end load, sales charge, or surrender charge. Also, if a fund offers multiple share classes, we will offer the least expensive share class available. Most of the funds will be in share classes only available to institutional investors, like The Standard.

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They will be using their buying power, paired with our combined assets, to purchase the lowest cost share classes available to us.

14) What other entities are getting paid for the development of this plan or on an ongoing basis from this plan?

None. No other entities are getting paid from the plan. There are no broker fees being paid from the plan or plan assets. This 403(b) plan was created with 100 % fee transparency where all fees are identified and all fund revenue, if any, will reduce The Standard's fees charged to run the program.

15) Will participants be able to transfer their money from one fund to another fund (daily if they want) and will there be any fees for the transfers?

Yes, the participant will be able to transfer their money from one fund to another fund as often as they wish with some limitations by The Standard. If you would like more information on The Standard's limitations, please see your plan administrator. There may also be fund restrictions or short term trading fees that are applicable, the specific fund companies impose those restrictions or fees.

16) Can I continue to work with my current advisor/sales rep?

You can ask your advisor to help you with your asset allocation and savings strategy and pay them on a fee-for-service basis independent from the plan. They may advise you on any of your decisions regarding any of the four buckets. Current advisors/sales reps have been made aware of the new plan. Any arrangement you have to work with an outside advisor is between you and the advisor.

17) Can I continue to invest in the same investments that I am now?

The new plan is a 403(b) Trust arrangement. All mutual funds that are legal investments in 403(b) retirement plans are available to you, either through the core line-up in Bucket 1 or the Schwab PCRA in Bucket 4. You now have access to over 5,500 mutual funds.

Fixed or variable annuities are not available investments in a 403(b) Trust arrangement.

If you currently invest in an annuity, you will not be able to invest in the identical investment product. Many of the annuities are actually sub-advised by other mutual fund advisors. If you invest in annuities, your investment prospectus or advisor can provide sub-advisor information.

18) Why did the consortium decide not to allow annuities in the new 403(b) plan?

In reviewing options for the plan along with research into those options (i.e. investment earnings, performance comparisons, fees, etc.) it was determined that mutual funds would provide participants with safe and solid performing investment choices at a lower cost so that retirement earnings could be maximized. In addition, it better met the requirements of the new IRS regulations and expectations with regards to overall plan sponsor responsibility.

Earnings potential depends, in part, on the fees associated with the investment. The higher the fees, the less remains for your retirement. Annuities have four types of fees:

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- Insurance charges (also known as the mortality and expense fee, or the M&E fee), which you pay for various insurance, sales commissions, and marketing costs. The typical insurance charge in an annuity in 2008 was 1.35%.
- Management fees on the subaccounts are the same as an investment manager's fee in a mutual fund. The typical management fee in 2008 for an annuity is 0.95%.
- Options and riders promise future income or guarantee that your heirs will get back at least as much as you invested. The typical options and riders fee in an annuity is 0.65%.
- Surrender charges are assessed if the annuity is cashed in before a specific period of time. That period averages 8 years in a typical annuity. If your annuity is cashed in early, then you are assessed a charge that averages 7% and generally declines a percentage per year thereafter until it reaches 0%.

Source: CNNMoney.com

In addition, in the investment industry, there are some questions regarding the safety and earnings potential of annuities. For instance, annuities are contracts with insurance providers. Should an insurance provider end up filing bankruptcy, and if the investment was held by the insurance companies as part of its own portfolio, then your investment would become a lien on the company and you (unfortunately) would be standing in line with all of the other creditors of the insurance company in order to get your money back. Every annuity provider is different; you need to check with yours (if you are currently in an annuity product) to see how your investment is held.

19) I have heard other providers say that they can offer the same structure and fees as will be offered with The Standard and that we could keep our current structure and access to our current vendors. Is this true?

As we evaluated the original proposals, The Standard stood out amongst the other providers based on the criteria we had identified.

Now that other vendors have seen what has been offered by The Standard, the chosen plan, they are modifying their proposals to be more competitive. For example, some vendors proposed using Class A mutual fund investment options, which include front-end sales load charges. They are now saying that they would offer Class A shares and waive the sales loads. Unfortunately, this undermines the integrity of the proposal process. It would be like vendors submitting bids for materials or a construction process, and then having them come back after the bid is awarded and revising their pricing. It would be like allowing a student to change his/her answers on a test once they knew their classmate put down a different response. This type of undermining of a bidding or proposal process just ends up making those who put forth their best efforts in the first place to not want to participate in the long run.

In addition, one criterion was that the selected vendor would need to accept fiduciary liability for the 403(b) plan. Most vendors would not, and possibly could not, sign off as having a fiduciary responsibility to our plans, but The Standard can. The reason is because the funds most vendors are picking to offer to participants include the compensation (12b-1 fees, sub transfer agent fees) they plan to receive for their services; the compensation for the firm is built into the fees paid to the mutual fund. First, this automatically eliminates a whole set of funds, which might have

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better investment performance, because they do not contain a compensation component in the mutual fund cost. If there is no compensation component, the firm does not get paid, so they would not offer many, if any, of this type of fund. Additionally, this method of compensation would tend to skew the offerings to be those that rendered enough compensation to offset the firm's costs, again, thereby eliminating fund options that would not render as much. The Standard, however, charges a separately stated fee; it is not built into the mutual fund cost. Any compensation/12b-1 fee built into any fund that is chosen by The Standard is returned to our participants. This methodology allows for the registered investment advisors at The Standard to choose funds that are best-suited for our participants and our plan without the potential bias that might enter their decision-making if their compensation was related to which funds are offered.

Most vendors insisted that their own products be in the fund line-up, which would result in additional revenues for the vendor, and then they could not meet the independent fiduciary requirement in our criteria.

Finally, some of the most persistent vendors actually have no experience providing recordkeeping or compliance for 403(b) retirement plans.

20) What is the minimum contribution that I can make into the new plan?

There is a 1% minimum to participate in the 403(b) program offered through The Standard. However, keep in mind that the fees, particularly the \$40 annual fee per participant, will have a tendency to erode small investment balances. This is also true of most mutual funds or annuity investments in the current 403(b) plan.

21) Can I contribute a flat dollar (\$) amount per paycheck or a percentage (%) of my pay?

This plan and most retirement plans do deferrals based on a percentage of salary, capped at the annual IRS limits. This is better especially for employees whose paycheck fluctuates during periods of school break. However, school districts have traditionally done elective deferrals based on a flat dollar election. The Standard can do either. However, if you intend to do your elections through the website or if you participate in the Mainspring Managed account (Bucket 3), then you must make your election by percentage. Elections by flat dollar amount must be done by filing a paper form.

22) With regards to contribution limits, which catch-up provisions will be available to me through the new 403(b) plan?

The IRS contribution limit for employee elective deferrals is \$18,000 for 2015. In addition, you may elect to contribute up to \$6,000 as a 414(v) catch-up provision if you are over age 50. The IRS adjusts these limits each calendar year.

The 402(g) special 15-year catch-up for qualified organization will still be available despite the complexity it adds to the plan. The 15-year special catch-up election can cause problems because of the "ordering" rule under the new regulations. The ordering rule requires that the special catch-up calculation be utilized first, even if a participant is eligible for age 50 catch-up, and requires a complete salary and deferral history since the beginning of the participant's employment.

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As an alternative, participants might also consider using the 457(b) plan if they are wanting to exceed the 403(b) salary deferral limits. Using the 403(b) and 457 plans in combination would enable a participant to contribute up to \$36,000 in 2015 (\$18,000 in 403(b) and \$18,000 in 457).

23) What about our 457 plan?

During this evaluation process, we found that our 457 plan already functions somewhat like our new 403(b) plan from a compliance perspective. Modifications regarding the investment options will be made to the 457 plan in 2014. However, the fees for the 457 plan will be higher since there is a specified individual providing service to the investors.

24) Will the new 403(b) plan allow loans?

Yes. We will allow loans on any money held in the new 403(b) plan at The Standard. The Standard will be doing all the necessary compliance work. The participant who initiates a loan will pay a loan-processing fee of \$125. Repayment of the loan will be done through payroll deduction on an after-tax basis.

For compliance reasons, it is being recommended that loans no longer be allowed on any 403(b) assets held outside The Standard. If you would like loan access to your other 403(b) assets through loans, you should consider rolling over your existing 403(b) assets into The Standard.

25) Will the new 403(b) plan allow hardship withdrawals?

Yes. We will allow hardship withdrawals on any money held in the new 403(b) plan at The Standard. The Standard will be doing all the necessary compliance work. The participant who initiates a hardship withdrawal will pay a processing fee of \$150, if the hardship is actually approved and a distribution takes place. There is no repayment of hardship withdrawals.

For compliance reasons, it is being recommended that hardship withdrawals no longer be allowed on any 403(b) assets held outside The Standard. If you would like access to your other 403(b) assets through hardship withdrawals, you should consider rolling over your existing 403(b) assets into The Standard.

26) Will the new 403(b) offer a Roth option?

Not at this time. There are other avenues that offer Roth investments, such as Roth IRA's. The elective deferral limits are totaled by all 403(b) contributions, so there is little advantage to the average investor. Generally only highly compensated individuals take advantage of Roth 403(b) options and that could be problematic should testing become required for 403(b) non-ERISA Plans.

27) How do I enroll in the new 403(b) plan?

In early December, every employee, regardless of whether or not you currently invest in the 403(b) plan, will receive a letter in the mail at your residence address of district record. The letter will provide you a login and PIN number for the new 403(b) plan. You may go online and enroll at any time.

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On **December 11 at 3:30 pm or 5:00 pm in the WISD Teaching and Learning Center Tech Lab**, The Standard will be hosting an educational and enrollment meeting. The Standard will also provide a printed enrollment booklet for each participant.

Bring your PIN letter, and your spouse if you want, to the meeting. The Standard will present the new plan, answer questions, and help you enroll. The PowerPoint presentation will be available on our website after the meeting. If you cannot attend the meeting held in our District, other local districts will also be hosting meetings on other days in mid-December. You may enroll in the new plan at that time after receiving your PIN letter. If you prefer, you may submit a paper enrollment form, which will be available at the meeting or by contacting the payroll office after the meeting.

28) What if I don't enroll in the new 403(b) plan with The Standard?

If you do not enroll either on line or by paper form to establish a new account with The Standard, your 403(b) contributions will stop. Your previous 403(b) election becomes null and void because your current vendor is no longer an approved vendor in the new 403(b) plan. All contributions made after January 1, 2009 must go to The Standard.

29) What happens to all the money I currently have in my existing 403(b) plan?

You can leave it where it is or you can transfer/exchange it into the new 403(b) plan. If you are considering transferring it into the new 403(b) plan, we have developed information that may help you with that process <http://www.wash.k12.mi.us/files/business/403btransferchecklist.pdf> Consider your choice carefully.

The advantages of transferring your assets into the new 403(b) are potentially lower overall fees and a single statement for all of your 403(b) retirement assets, as well as having your investment choices selected by an independent Registered Investment Advisor.

30) Can I transfer my assets into the new 403(b) plan without selling my shares?

If you have assets in mutual funds that are either listed in the core line-up in Bucket 1 or the Schwab PCRA in Bucket 4, you may be able to transfer your shares of mutual funds using an "in-kind transfer" if allowed by your current provider.

31) Can I put money into The Standard then do an in-service distribution and transfer it to another 403(b) vendor or roll it into an IRA?

No. You can access your 403(b) investments at The Standard through a loan, hardship withdrawal, or termination from service. There is no other way to access to your assets while you are actively employed with out IRS penalties. The Standard is the only approved vendor after January 1, 2009.

32) What happens to my money/assets when I retire or otherwise terminate employment?

When you terminate employment you can: 1) leave your assets in the plan if your assets are over \$5,000; 2) take a lump sum distribution (subject to 10% IRS penalty unless you are over 55 years old); 3) take a substantially equal periodic payment (SEPP); or 4) roll over your assets into a

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rollover IRA account with a vendor of your choice. The participant who initiates a distribution or periodic distribution will pay a one-time processing fee of \$50.

33) Are my investments safe with The Standard? What will happen if the company declares bankruptcy?

All assets contributed through The Standard are held in the mutual funds purchased; The Standard holds no cash or investments. Each individual's investment in the mutual funds is done on an individual basis within the 403(b) plan. The Standard is the company that facilitates mutual fund transactions and performs recordkeeping for each account.

34) When will my contributions stop to my current vendor?

Recent communications from current 403(b) vendors are indicating that they will be returning any contributions RECEIVED after December 31, 2008 (and earlier dates in some cases). Our last payroll for 2008 is December 21st (paid on the 19th); this will be the final contribution to your current vendor. Disbursements will be made to the current vendors on the 19th, so there should be no reason your contribution would not be there by December 31.

35) Who do I contact if I have other questions?

Contact Brian Marcel at bmarcel@washtenawisd.org or (734) 994-8100 x1402.

Once you have established a new 403(b) account with The Standard, the Info-line telephone number is (800)858-5420.