RETIREMENT PLANS REDESIGN – FREQUENTLY ASKED QUESTIONS

Why are changes being made to the retirement plans?
- The IRS issued retirement 403(b) regulation changes that affect the MSU retirement plan.
- While technically the University is exempt from some of these regulations and those governed under the Employee Retirement Income Security Act (ERISA), including fiduciary responsibilities, best practice implies we should follow them.

How do the new IRS regulations and ERISA impact MSU’s plans?
- They impose significant “oversight responsibilities” on employers similar to what private sector employers have to follow with 401(k) retirement plans
  - Employers need to monitor all costs for employees in the administration of these plans and make sure they are reasonable.
  - Employers need to have processes in place to monitor on a regular basis the funds offered to employees so they are solid investment choices.
  - Employers can provide unbiased retirement education and advice to help employees reach their retirement goals.

What specifically are the changes and why?
- Reduce the number of retirement vendors from six to two with Fidelity and TIAA-CREF remaining
  - By reducing the number of vendors, TIAA-CREF and Fidelity will reduce the administrative costs that are charged to employees.
  - TIAA-CREF and Fidelity are the only Base vendors that would allow non TIAA-CREF and Fidelity mutual funds to be offered by each of the two vendors. For example, TIAA-CREF and Fidelity will allow some Vanguard funds to be offered.
  - Several of the current vendors only offer retail investments that include sales commissions and high fees. These investments are relatively expensive choices.
- Reduce the number of investment choices offered today from over 550 to 20
  - MSU is responsible for regularly monitoring the funds offered to employees. To monitor 550 funds is very complex and costly.
  - By limiting the number of choices available to employees, the funds selected represent some of the best investment choices available.
  - There is much redundancy and overlap in the investments offered today.
- Move to group annuity contracts/custodial agreements and institutional investments
  - The current individual annuity contracts/custodial agreements allow vendors to offer retail investments that can be excessively expensive to employees.
  - Group annuity contracts/custodial agreements provide employers a way to pool the retirement plans’ assets together to help reduce employee costs, offer lower-cost institutional investments, and provide high-quality services to all employees.
• Provide a self-directed brokerage account that offer thousands of investment choices
  o A brokerage account with Fidelity or TIAA-CREF can offer over 4,500 mutual funds from hundreds of fund families that are not available in our current list of investment choices.
• Continue to offer StraightLine’s expertise as our retirement investment advisory service
  o StraightLine provides unbiased and independent investment advice and account management to assist employees on the right investment mix for their goals.

How did the University decide on these changes?
• MSU contracted with Hewitt Ennis Knupp, the world’s largest institutional investment consulting firm, to assist the University in a comprehensive review of our current vendors and investment choices.
• In their recommendation for the new investment menu of 20 choices, Hewitt Ennis Knupp used an extensive screening process, including evaluating an investment manager’s:
  o Investment process, personnel and organizational structure.
  o Fees, operation and any legal or regulatory issues.
  o Past performance. However, Hewitt Ennis Knupp puts greater focus on those factors that tend to impact future performance, including trading expertise, organizational stability, perceived skill and fees.
• The MSU Retirement Investment Advisory Committee, with support from Human Resources, reviewed Hewitt Ennis Knupp’s findings and recommendations.

When will these changes take place, who will be affected and how will it be communicated?
• The changes are scheduled to be effective no earlier than December 1, 2011 and will only affect contributions made to the retirement plans on and after that date.
• All changes are for contributions to the University’s 403(b) Base Retirement Program, the 403(b) Supplemental Retirement Program, and the 457(b) Deferred Compensation Plan.
• All account balances prior to the effective date will not be affected by these changes.
• Retirees will not be affected, unless they choose to transfer to the new investments.
• All employees will receive a series of communications explaining the reasons for the changes, what the changes are, and what steps they will need to take.
• There will be numerous educational group seminars and individual counseling sessions that will be available for employees to learn more about the changes.