TIAA CREF
Financial Services

ASHHRA Annual Conference
The Need for Transparency: How It Impacts Your Role as Fiduciary

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Agenda

Considerations

Menu Construction Goals and Considerations

Fiduciary Best Practices

Menu Construction in Practice

Menu construction goals

Reduce your fiduciary, compliance, and personal risk while simultaneously increasing the likelihood of successful outcomes for your participants

If you remember anything from today's session…

- **Process** is more important than investment performance
- Focus on **Outcomes**
- There is **Risk** in doing nothing

What is the primary objective for your retirement plans?

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A.

Wealth accumulation?

B.

Replacing preretirement income in retirement?

C.

An investment menu with all 4 and 5 star funds?

Participants clearly underestimate life expectancy

Social Security mortality tables	TIAA mortality tables
65-year-old male: Life Expectancy = 82	2 married, 65-year-old TIAA annuitants
65-year-old female: Life Expectancy = 85	

What percentage chance that one individual will reach age 90? 95?

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A. 40%

B. 50%

C. 60%

D. 75%

Behavioral implications

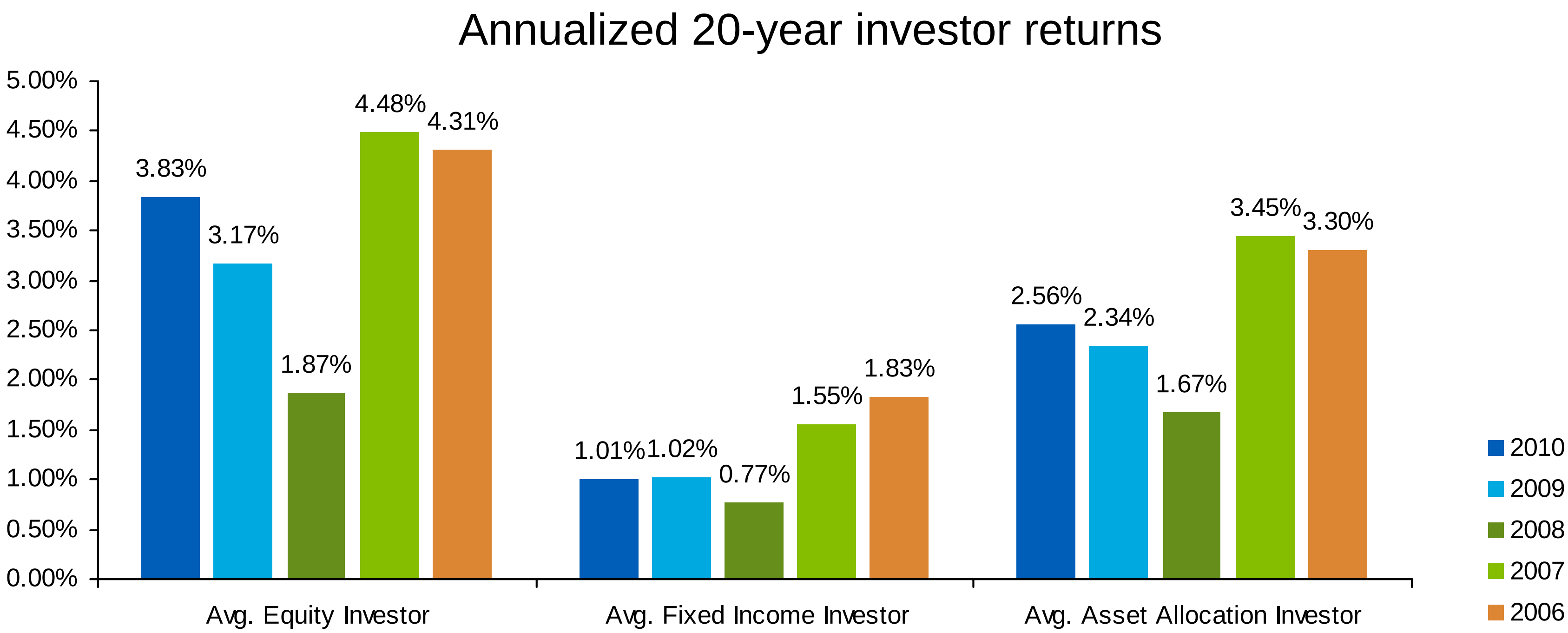
Participants who invest in an annuity during the accumulation phase are 2x more than likely to elect lifetime income*

Too much choice can be counterproductive**

- Less participation
- Less savings
- Less than an appropriate allocation to equities
- Portfolio turnover

* TIAA-CREF Institute: Trends and Issues. Retirees, Annuitization and Defined Contribution Plans, April 2010
** TIAA CREF Institute: Trends and Issues. The Effects of Choice Proliferation on Retirement Savings Behavior, May 2008

Investors continue to fare negatively versus broad market indexes



Benchmark Returns	20-year
S&P 500	9.14%
Barclays Agg	6.89%

Source: Dalbar, 2011 QAIB, returns through 12/31/10.
Past performance is no guarantee of future results.

Mind the gap 2011

In 2010, the average domestic equity fund earned a return of 18.7% compared with 16.7% for the average fund investor (2% gap).

For the trailing 3 years, that gap was 1.28% per year.

For the past 5 years it was .98% and
for the past 10 years it was .47%.

Source: Mind the Gap, Fund Spy 4-18-11
Past performance is no guarantee of future results.

Fiduciary process

A prudent process for choosing investments should consider:

- Exclusive Benefit Rule:
  A fiduciary is obligated to carry out his or her fiduciary functions solely in the interests of plan participants and beneficiaries

- Prudent Person Standard:
  A fiduciary is obligated to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

- Comply with Plan Documents:
  Acting in accordance with the terms of the plan document is a fiduciary duty. That is why we focus on complying with the terms of the document. Fiduciaries should be familiar with the terms of their plan. And the fiduciary should ensure that the plan is administered in accordance with those terms.

- Selection of Appropriate Investments for Participants:
  ERISA requires the fiduciary to diversify plan investments to minimize the risk of large losses, unless it is prudent not to do so. An Investment Policy Statement can be an effective tool and best practice.

- Selection of Service Providers and the Duty to Monitor:
  A fiduciary must exercise prudence in the selection of service providers and continue to monitor the service providers selected. Prudence focuses on process; it does not require success.

Fiduciary process (continued)

- Clear processes and full documentation are critical to protect the fiduciary
- Your plan can allocate fiduciary roles under ERISA
  - Does yours? If so, have you allocated these duties?
- Plan fiduciaries must understand their role
  - Do they have periodic education or training?
  - Are they actively engaged?
- Document meetings through detailed minutes – in greater detail than corporate minutes
  - Minutes and materials circulated to fiduciaries should be retained, and approved and signed by each fiduciary

Seven basic steps to meeting your investment-related fiduciary responsibilities

1. Understand your fiduciary & compliance responsibilities
2. Create or review your investment policy statement
3. Update your investment menu
4. Monitor & review the investment options in your Plan
5. Properly document your fiduciary activities
6. Provide appropriate & effective participant education & advice
7. Communicate with your participants going forward

Menu construction

We believe effective retirement programs should include investment menus with:

Menu Design – Meeting the needs of all investors

Choices suitable for all employees

- Majority of employees are advice-dependent or want a simple solution
- Some customize but seek affirmation
- Others will build their own portfolio

Competent fiduciary mechanisms

- Benefits and investment policy should address process, prudence and documentation
- Effective process should facilitate and not sacrifice participant outcomes

Offerings designed to accumulate wealth and generate lifetime income*

- A diversified, low-cost menu based on structured risk and fully invested asset class exposure is the best strategy for long-term retirement investing

* Based upon the issuer's claims paying ability.

Menu design – a full range of choices designed to serve all employees' needs

A tiered menu:

- Offers flexibility and choices for ALL employees
- Helps to increase enrollment and participation

Tier I	**"One decision"**	**Target-date mutual funds**
Tier II	**Open architecture**	**Proprietary and nonproprietary mutual funds**
Tier III	**Lifetime income options**	**Guaranteed and variable annuities***

* Guarantees are subject to the issuer's claims-paying ability.

DOL disclosure regulations

Three-Pronged Department of Labor Initiative

Form 5500 Schedule C

- Reporting requirements that may impact certain ERISA plans –
- effective for 2009 plan year. **COMPLETE √**
- Service providers to provide plan sponsors an annual disclosure of revenue for retirement plan services.

§408(b)(2) (Plan Sponsor Disclosure)

- Regulations announced 7/16/2010
- Service providers must provide disclosure on fees and certain other information to plan fiduciaries.
- **Effective Date: Originally 7/16/2011, but then extended to January 1, 2012, and then extended again to April 1, 2012.**

§404(a) (Participant Disclosure)

- Regulations announced 10/14/2010
- ERISA plan sponsors must provide disclosures on plan-related and investment-related information to participants.
- **Effective Date: Recently extended to the later of: (a) 60 days after the first day of the first plan year beginning on or after November 1, 2011, or (b) May 31, 2012. (For example, for calendar year plans the effective date is May 31, 2012.)**

Plan Sponsor Disclosure Requirements – §408(b)(2)

- Service providers are required to provide disclosures enabling plan sponsors to assess the reasonableness of fees.
  - Details on contracted services, direct and indirect compensation, and additional fees.
  - All services and aggregate compensation if services are bundled.
- Plan Sponsor disclosures must be provided for existing business no later than April 1, 2012.
  - Changes must be updated within 60 days.
  - Disclosures must be made in advance of the date the service contract or arrangement is entered into, extended, or renewed.

Participant disclosure

Participant Fee Disclosure Requirements – §404(a)

- The regulations interpret ERISA provisions requiring fiduciaries to act prudently and solely in the interest of plan participants and beneficiaries.
  - Information to allow participants to make informed decisions about investments in their accounts.

§404(a) disclosure requirements include two key components

1. Plan-related information

- Plan structure, investment options, administrative and individual expenses, and quarterly statements of fees deducted from participant accounts.

2. Investment-related information

- Comprehensive data about plan investment options, including historical performance, comparable benchmark performance, expense charges, and investment restrictions.
- Data format must allow participants to easily compare all plan investment options.

- Information must be provided to participants and beneficiaries before they invest in the plan and at least annually.
- Participant disclosure requirements apply to plan years after November 1, 2011 (May 31, 2012 for calendar year plans).

Top ten fiduciary mistakes

1. Failure to follow plan documents
2. Improper selection of investment alternatives
3. Improper monitoring of plan investment alternatives
4. Selection of plan fiduciaries
5. Improper delegation of fiduciary functions
6. Inadequate investment education and disclosure of fees
7. Undue reliance on an “expert”
8. Fidelity bonds and fiduciary liability insurance
9. Failure to understand and follow restrictions in plan’s funding vehicles
10. Failure to disclose plan changes to participants

Begin your own fiduciary journey

Know and understand all fiduciary and compliance requirements

Build organizational awareness and urgency

Adopt best practices

Establish compliance as a top priority

This is an ongoing journey

Continue to monitor and refine your plan tiaa-cref.org

You should consider the investment objectives, risks, charges and expenses carefully before investing. Go to tiaa-cref.org for a prospectus that contains this and other information. Please read the prospectus carefully before investing.

There are risks associated with investing in securities including loss of principal.

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Questions