

ASHHRA 48th Annual Conference & Exposition

Investment Menu Construction

*A Prudent Process Should Facilitate,
Not Sacrifice Participant Outcomes*

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HEALTH CARE HR:
**Fulfilling
Our Promise**
Preparing for a New
Decade of Success
Tampa, Florida
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Agenda

- Menu Construction Goals and Considerations
- Fiduciary Best Practices
- Menu Construction
- Questions

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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*

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What is the primary objective for your retirement plans?

- A. Wealth Accumulation
- B. Replacing Pre-Retirement Income in Retirement
- C. Both

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Longevity Risk

Participants clearly underestimate life expectancy

- Social Security mortality tables:
 - 65-year-old male: Life Expectancy = 82
 - 65-year-old female: Life Expectancy = 85



Longevity Risk (continued)

- TIAA mortality tables:
 - 2 married, 65-year-old TIAA annuitants:



Question:

What Percentage chance will one individual reach age 90?

- A. 40%
- B. 50%
- C. 60%
- D. 75%



What Percentage chance will one individual reach age 90?

- A. 40%
- B. 50%
- C. 60%
- ✓ D. 75%



Question:

What percentage chance will one individual reach age 95?

- A. 30%
- B. 40%
- C. 50%
- D. 60%



Question:

What percentage chance will one individual reach age 95?

- A. 30%
- B. 40%
- C. 50%
- D. 60%



Plan Design/Behavioral Studies

- Annuities
 - Participants who invest in an annuity during the accumulation phase are 2x more than likely to elect lifetime income*
- Investment Choice
 - Too much choice can be counter productive**
 - Less participation
 - Less savings
 - Less than an appropriate allocation to equities
 - Portfolio turnover

*TIAA-CREF Institute, Yakoboski, March 2010
 ** Sheena Iyengar, Columbia University, TIAA-CREF Institute

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Participants Rely on Defined Contribution Plans

- **75%*** of workers report they will rely on employer sponsored defined contribution plans for retirement income
- **46%*** say they are very or somewhat likely to choose a retirement plan option that pays them guaranteed income for life

*EBRI 2010 Retirement Confidence Survey

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Lifetime Income?

- Annuitization rates: policy issue with DOL and Administration
 - 1% in general DC market
 - 30% at TIAA-CREF (at least partially); 17% in full
 - Partial annuity for basic living needs



Fiduciary Best Practices



Primary Concerns

1. Are you a fiduciary of your retirement plan(s)? Do you know who all of the fiduciaries of your plan(s) are?
2. Do you know what it means to be a fiduciary? Are you adequately protected?
3. Does your institution have procedures that allocate duties among your fiduciaries and guide them about how to make decisions?
4. Do you know what an ERISA 404(c) plan is? Do you have one?
5. Can you delegate or outsource your fiduciary obligations? Do you?

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Our Regulatory Environment is Evolving Rapidly

New regulations place more fiduciary and compliance responsibilities on every plan administrator.

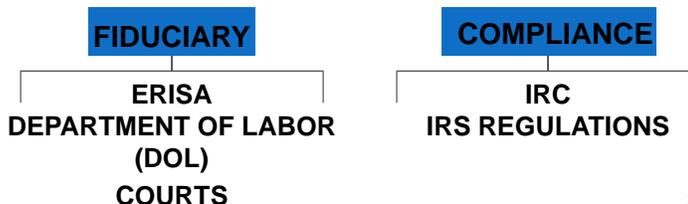
- There is heightened regulatory and judicial focus on administrators' fiduciary responsibilities
- The final 403(b) regulations have imposed new compliance responsibilities on plan administrators.
- Data tells us there is a general lack of understanding of how to meet these new responsibilities.
- The risks associated with the failure to operate your plan in a compliant manner have increased significantly.
- These risks are manageable with appropriate attention and clear definition of roles and responsibilities.

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ashhra There is a Lot of Interest in Your Plan

Understanding the regulations can be challenging, and the courts and regulatory agencies are actively engaged.

- Fiduciary obligations create compliance requirements
- Some requirements overlap
- Primary agency enforcer varies
- Penalties vary



ashhra There is a Lot of Interest in Your Plan

EXAMPLES *	ERISA	IRC
Written Plan Document	✓	✓
Diversification of Investments	✓	
Eligibility/Universal Availability	✓	✓
Limits Monitoring		✓
5500 Financial Reporting	✓	✓
Disclosure & Notification	✓	
Timely remittance of contributions	✓	✓

* This is a representative sample of requirements, not a complete listing.



Who is a Fiduciary?

You are a fiduciary if you:

- Are named as a fiduciary by the plan; or
- Exercise discretion over the investment of plan assets; or
- Exercise discretion about the administration of the plan; or
- Provide investment advice for a fee

Titles commonly associated with fiduciary status are "named fiduciary," "trustee," or "plan administrator." A fiduciary has the highest duty to others known under the law. These standards are found in ERISA, the IRC, and state law, and the common law of trusts.



Fiduciary Processes

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.



Fiduciary Processes (continued)

A prudent process for choosing investments should consider:

- **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.



Investments – Best Practice Process

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

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Question?

On average, how many investment funds does the typical participant use?

- A. 2
- B. 7
- C. 12
- D. 50

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Menu Design – Meeting the needs of ALL investors

Effective retirement programs should include investment menus

Choices suitable for all employees	Competent fiduciary mechanisms	Offerings designed to accumulate wealth and generate lifetime income
-------------------------------------------	---------------------------------------	-----------------------------------------------------------------------------

- Majority of employees are advice-dependent or want a simple solution
- Some customize but seek affirmation
- Others will build their own portfolio
- Benefits and investment policy should address process, prudence and documentation
- Effective process should facilitate and not sacrifice participant outcomes
- A diversified, low-cost menu based on structured risk and fully invested asset class exposure is the best strategy for long-term retirement investing



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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 & nonproprietary mutual funds
Tier III	Lifetime income options	Guaranteed and variable annuities*
Tier IV	Brokerage window	Third-party mutual funds

*Guarantees are subject to the issuer's claims-paying ability. TIAA-CREF products may be subject to market and other risk factors. See the applicable product literature or visit tiaa-cref.org for details.



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Fiduciary Liability

Scope of potential liability for breaches of fiduciary responsibility

- Personal liability
- Civil action by participants or DOL
- Profits obtained by fiduciary restored to plan – or – losses incurred by plan restored to plan
- Penalty assessed by DOL of up to 20% of amount payable by fiduciary



Fiduciary Liability (continued)

- Additional penalties and excise taxes for prohibited transactions
- Criminal penalties – for certain willful violations
- Audit exposure with the IRS for plan operational mistakes



Top Ten Fiduciary Mistakes

1. Failure to follow plan documents
2. Failure to disclose plan changes to participants
3. Improper delegation of fiduciary functions
4. Failure to monitor plan investment alternatives
5. Undue reliance on an “expert”

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Top Ten Fiduciary Mistakes (continued)

6. Lack of investment policy statement/guidelines
7. Inadequate investment education/disclosure of fees
8. Improper use of plan assets (settlor functions)
9. Lack of fidelity bonds
10. Improper selection of investment alternatives

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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

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Thank You

You should consider the investment objectives, risks, charges and expenses carefully before investing. Call 877 518-9161 or log on to tiaa-cref.org for a prospectus that contains this and other information. Read the prospectus carefully before investing. There are risks associated with investing in securities including loss of principal.

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Questions & Answers

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