

IRS 403(b) Final Regulations

The new IRS 403(b) regulations that took effect January 1, 2009, have generated changes to the 403(b) landscape. Some *providers*—like the Wisconsin Retirement System—have decided they could no longer accept 403(b) contributions because of the increased accounting and reporting requirements. Some *employers*—like the State Historical Society, the Department of Public Instruction, and others—have decided they could no longer offer 403(b) plans to their employees. Virtually all employers with multi-provider 403(b) plans have decided to reduce the number of investment companies that participate in their plans.

Generally, the IRS regulations no longer permit the individual participant to self-certify that he or she is eligible for a loan or any kind of distribution. This puts an added burden on the employer to approve these transactions.

Although many providers have decided that because of the administration, they can no longer offer loans to participants, the UW TSA Review Committee felt that it was important to provide participants with some access to their funds, especially in these hard economic times. Therefore, even with the added administrative burden, loans are still available in our UW TSA program.

No Hardship Withdrawals

The UW Tax-Sheltered Annuity 403(b) Program, along with others, has had to make some changes in order to be compliant with the federal regulations, however. Beginning in 2009, we have no longer been able to offer hardship withdrawals in our program.

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Should you borrow from your 403(b)?

You never expected this to happen. You have been saving for retirement diligently in your UW TSA 403(b) account, but you are facing an emergency and you need money.

You can borrow from your TSA account, but is it a good idea? The terms may seem attractive compared with other alternatives.

However, consider these downsides.

- 1. There may be fees** – including initial setup and ongoing fees (depending on your provider).
- 2. You pay back your loan with after-tax dollars.** Your contributions are made from your salary before taxes. You pay off your 403(b) loan from your bank account after-tax. Money you withdraw from your 403(b) account at retirement will be taxed again as income to you. Although the contributions are just taxed once, any earnings or interest used for your loan are taxed twice.
- 3. Interest on a 403(b) loan is not tax-deductible** – even if you borrow to purchase your home. If your loan is for a home purchase, your fees may be lower than those for a mortgage, but you won't be able to refinance if rates drop, and you won't be

able to take a mortgage interest deduction on your income taxes. You may be better off taking out a mortgage or home equity loan or getting a HELOC.

- 4. The money you borrow can't grow for retirement.** When you take money out of your account, even for a limited amount of time, it simply isn't there to collect potential interest or dividends, or to benefit from a rising market. Compounded growth potential—or the ability to build potential earnings on top of previous earnings—is a key advantage of tax-deferred investments. By leaving your account untouched, you improve your opportunities for this type of growth.
- 5. You may need to make smaller contributions.** Because you now have a loan payment, you may be tempted to reduce the amount you are contributing to the plan and thus reduce your long-term retirement account balance even more.
- 6. You have no flexibility in changing the payment terms of your loan.**
- 7. If you default on your loan, the IRS considers the outstanding balance a distribution.** The distribution is subject to

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Fidelity Institutional K Class Shares

Great News! The UW TSA plan is now able to offer institutional or “K” class funds for our top 5 Fidelity funds plus all the Fidelity Target Retirement Date funds.

K class shares of mutual funds are also sometimes known as “institutional” shares. Institutional or K shares are a class of shares made available by mutual funds only to institutional investors. Because of the size of our aggregated investments—made by the many individuals in our plan, our UW 403(b) TSA plan qualifies to purchase these types of shares and our employees benefit from their typically lower expense ratios.

K share funds have the same management team and investment objectives as other share classes—the expense ratios are just lower. For example, Fidelity Contrafund normally has an expense ratio of .95%; the K share expense ratio is .82%. Having lower expenses generally means that returns

may be higher. An individual investor cannot invest in K shares—only those employees in a retirement plan that is large enough to qualify may invest in them.

UW employees have access to the institutional class K shares for all the Fidelity Freedom Funds (pre-diversified target retirement date funds) and the following 5 Fidelity funds: Fidelity Balanced Fund, Fidelity Contrafund®, Fidelity Low-Priced Stock Fund, Fidelity Magellan® Fund, and Fidelity Puritan® Fund.

For a mutual fund, the expense ratio is the total annual fund or class operating expenses (before waivers or reimbursements) paid by the fund and stated as a percent of the fund's total net assets. Expenses are subtracted from fund assets before returns are calculated.

Just as a reminder, none of the mutual funds in our plan have any loads or 12b-1 fees. ■

The **TSA Inve\$tor** is published semiannually in the spring and fall to provide information on investing, retirement planning, and University of Wisconsin retirement benefits. Contact your staff benefits office on how to participate in the TSA program.

Information, investment options, and returns are listed at the TSA Web site: www.uwsa.edu/hr/benefits/retsav/tsa.htm



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Socially Responsible Investing, May 6, 11:00 am

Scott J. Budde, CFA and Managing Director in TIAA-CREF's Asset Management Division, will present a **Socially Responsible Investing** workshop on May 6 at 11:00 at the Pyle Center in Madison, WI. Registration is required. A link to online registration is on our website at www.uwsa.edu/hr/counsel.htm.

The presentation will also be available via interactive video at UW-Green Bay, La Crosse, Milwaukee, Stevens Point, Oshkosh, Parkside, Platteville, and Superior. Information is available on the website above and from your campus benefits office; contact info at www.uwsa.edu/hr/benefits/contacts.htm.

The presentation will focus on understanding the three main socially responsible investing

strategies of Social Screening, Community or Pro-Active Investing and Corporate Governance. Investors can get both competitive investment returns and positive impact at the same time. The presentation will last one hour with plenty of time for questions and answers.

Mr. Budde is the author of **Compelling Returns: A Practical Guide to Socially Responsible Investing Strategies** published by Wiley and Sons of New York City. As Managing Director of the Asset Management Division, Mr. Budde heads TIAA-CREF's Global Social and Community Investing Department which is responsible for the organization's community investing programs and overseeing its socially screened funds. ■

T. Rowe Price wins Lipper Fund Award

T. Rowe Price funds won the most individual honors in the 2010 Lipper Fund Awards, with 21 funds placing first in their respective categories based on their risk-adjusted performance for the three-, five-, or 10-year period ended December 31, 2009. The firm is also the 2010 recipient of Lipper's "Best Overall Large Company Award."

Also, *Pension and Investments* reported that T. Rowe Price's target-date fund family was the best-performing in 2009 according to Russell

Investments research. Russell used a complex analysis of companies' entire target-date fund families rather than of individual funds.

T. Rowe Price is also happy to relate that Morningstar tools are once again available free of charge to its participants. Go to rps.troweprice.com for details. The tax preparation software TurboTax® is again available at 25–30% off. Go to turbotax.intuit.com/affiliate/trowep4 for information. ■

Frequently asked questions

I will be 70 ½ this year, and I'm still working for the University. Must I take a Required Minimum Distribution this year?

No, as long as you are still working for the UW – even as a rehired annuitant, you do not need to take a Required Minimum Distribution (RMD) until after you terminate your UW employment.

If you have accumulations from previous employers or IRAs though, you should begin taking distributions on those accounts by April 1 of the year after you turn 70 ½. If you neglect to take an RMD when you should, you will incur a 50% penalty from the IRS on the minimum amount you should have received.

The IRS waived the RMD requirement for 2009 so that participants were not forced to take distributions when their account values were down, but RMDs are back in place for 2010.

How do I change my address on my TSA account?

Contact your investment company(ies). They will accept address changes over the phone or in writing. There is often a waiting period before distributions can be taken after an address change. The UW has no way to provide updates to companies.

Does the UW TSA Plan accept roll-ins?

Yes. If you are permitted to withdraw your money from your old plan, you can roll it over into your 403(b) account with your UW TSA investment company, as long as it is tax-deferred. The UW TSA Program accepts tax-deferred money from 401(a) "qualified" plans, 401(k), 403(a), 403(b), and 457 governmental deferred compensation plans, as well as from traditional IRAs.

If you decide to roll over a retirement account, be sure to elect a direct rollover, in which the money is paid directly to the new plan. ■

Final 403(b) Regs *continued from page 1*

These withdrawals must stand up to scrutiny to fit the IRS definition of immediate financial need and to satisfy the immediate financial hardship and nothing more. In addition, all other avenues of satisfying the hardship – including taking a loan – must be exhausted first. Since we allow loans in our plan, this meant that virtually no one would have been

able to take a hardship withdrawal anyway – the participant would have to take a loan first.

The UW TSA plan is a long-term retirement savings vehicle. IRS regulations limit the access you have to your savings. You may withdraw your contributions only when you leave employment with the UW System, reach age 59 ½, or become disabled. However, in the event of an emergency, you can still borrow against your TSA funds. ■

Loans

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ordinary federal and state income taxes, and possibly to a 10% early withdrawal penalty if you're younger than age 59½.

When you are in need of cash and have no other means to get the required amount, a loan from your 403(b) account can be an option.

Here are some of the basics:

- Loans are available from all of our providers, except Dreyfus. If you invest with Dreyfus, you can get a loan by first transferring your money to one of the other TSA companies.
- IRS regulations allow you to borrow up to 50% of your account balance or \$50,000, whichever is less. If you had an outstanding loan balance within the last 12 months, that balance may reduce the amount you can subsequently borrow.
- To comply with IRS regulations, the University must verify that the loan meets IRS requirements.
- You can only have one loan outstanding at any time, even if you have accounts with more than one investment company.
- Interest rates are competitive, often the prime rate plus 1% or similar.
- You must begin to repay your loan right away and it must be repaid within 5 years of taking it, unless it is used to purchase a home – in that case terms are from 10 to 30 years.
- Unlike many plan sponsors, the UW does not require you to pay off your loan immediately if you terminate employment.
- To initiate the loan process, contact your TSA investment company.** Each company has its own procedure, and the fees and interest rates vary from company to company (see box). The company will confirm how much you can borrow.

In spite of all the negatives, a loan from your 403(b) provider offers some advantages, as well.

- 1. You borrow from yourself**, because principal and interest payments generally go straight back into your account. Since you are borrowing from yourself, your loan has no effect on your credit rating and does not get reported.
- 2. Loans in our plan are relatively easy to get.** Although you do have to complete an application, it is not extensive and your credit history does not have to be checked. Thus, if your credit is not exactly golden, it might be easier and cheaper to borrow from your 403(b) plan than from a bank or commercial lender.
- 3. You basically pay interest to yourself on the loan** – which is much better than paying interest to a commercial lender, bank, S&L, or credit union; however, you should realize you are not making a real gain. You are just moving your own money from one bucket to another. Under certain market conditions, paying interest on your retirement savings plan loan could provide a better return than your plan investments—at least for a while. Keep in mind, though, that you are the one making those interest payments, in after-tax dollars.
- 4. The interest rates charged on loans in our plan are comparatively low**, so you can pay off the balance more quickly.

In a [working paper on retirement plan loans](#) from the Federal Reserve Board, economists Geng Li and Paul A. Smith suggest

that you ask yourself these questions before you request a loan from your account.

1. “If you did not borrow from your 403(b), would you borrow that money from some other source, such as a credit card, auto loan, bank loan or home-equity loan?” That is, it is really an emergency? Don't just borrow because you can.

2. “Would the after-tax interest rate on the alternative, non-403(b) loan exceed the rate of return you can reasonably expect on your 403(b) account over the loan period?” For example, perhaps the only funds available to you are from a cash advance on your credit card at 18% interest or higher. If your 403(b) investments are returning 6%, it may be reasonable to take a loan from your 403(b) account.

3. “Would you be able to make your 403(b) loan payments without reducing your regular 403(b) contributions?”

Remember, by taking money out of your 403(b) account, you reduce the benefits of tax-free compounding that are key to building up a substantial balance. Experts recommend trying other alternatives first, including lifestyle changes to reduce your spending. If your problem is that you are living beyond your means, taking a loan from your account intended for retirement will only compound your problems, rather than alleviate them. If

you face a real emergency and have no other safety net, financial planners say it may be all right to tap your 403(b) account.

Find out about the fees and rules from your TSA investment company and make an informed borrowing decision.

An account for emergencies

A closing word: In order to deal with life's financial curve balls, you should have an emergency account that you can access when you need to. If you don't have one, start building one today. Having a safety net provides peace of mind and can ease other parts of your life. Your 403(b) retirement account should be the last resort in times of an emergency. But it may also be reassuring to know – if you do need it, it is there for you. ■

TSA Program 2010 limits

You can participate in the 403(b) Program and contribute as little as \$8 bi-weekly or \$20 per month. Since inflation has been very low this past year, the maximum contribution limits for 2010 have remained the same as in 2009: \$16,500 – plus and additional \$5,500 if you are 50 or older for a total of \$22,000. If you have worked for the University for 15 years or more you may be eligible for a special service catch-up. Check with your benefits office to see if you qualify.

To change your deferrals, simply fill out a new Salary Reduction Agreement, available from your benefits office or online at www.uwsa.edu/hr/sra.htm and submit it to your benefits office. Contact information is on page 2 of the form. You can start, stop, or change your contribution amount at any time. Remember to confirm that the change has been accurately made by looking at your wage statement.

Even small savings can add up over time! If you're already in the program – think about increasing your contributions and make sure to tell a friend about the program. If you are not yet contributing to the UW 403(b) plan, take advantage of tax-deferred investing and sign up today! ■

Fees

Fidelity – \$35 initial fee plus \$3.75 per quarter for life of loan (\$15/year) Interest: Prime + 1% (currently 4.25%) All interest goes to your account.

T. Rowe Price – \$50 initial fee. Interest: Prime + 1% (currently 4.25%) All interest goes to your account.

TIAA-CREF – No fee. Funds equal to 110% of your loan moved to TIAA-CREF traditional account. Interest tied to the Moody's Corporate Bond Yield Average, currently 5.78%; All interest goes to your account.

Lincoln – \$35 initial fee. Interest: 7%; 4.5% goes to your account, 2.5% to Lincoln, as interest on your loan.

RiverSource/Ameriprise – No fee. Interest: 6–7.4% depending on contract; All interest goes to your account.

TSA Inve\$tor

Human Resources

780 Regent St., Suite 305

Madison, WI 53715

Individual Counseling

Would you like to sign up for the program or make some adjustments in your investments but aren't sure how? **Free** sessions are here for you! Other sessions will be scheduled.

Check our web site for updates – www.uwsa.edu/hr/counsel.htm.

Dreyfus – To schedule an appointment call 1-877-482-6058 or e-mail retirement@dreyfus.com. Dreyfus will also be presenting the workshop, *Investing Now for your Future*.

Green Bay – April 19 Milwaukee – April 21
Madison – April 22 Oshkosh – April 20

Fidelity – To schedule an appointment sign up online at www.fidelity.com/atwork/reservations or call 1-800-642-7131.

Eau Claire – April 23 River Falls – April 5
La Crosse – April 26 Stout – April 13
Madison – April 8–9, May 10–11, June 10–11

T. Rowe Price – Links to registration at www.uwsa.edu/hr/counsel.htm under T. Rowe Price.

Savings Checkup workshops at La Crosse, Oshkosh, and Stout

Eau Claire – April 27 Oshkosh – May 5
La Crosse – April 8 Stout – May 7
Madison – April 6–7

TIAA-CREF – To schedule an appointment, call 1-800-732-8353.

Madison – April 14–16, May 12–14 Oshkosh – April 29–30
Milwaukee – April 29 Stevens Point – April 27–28

TSA events are free and open to all UW employees and their families.

UW TSA 403(b) workshops

Getting Started in the TSA Program: Cut Taxes Today & Invest for the Long-term!

Learn about the TSA 403(b) Program—your voluntary retirement savings plan—and the basics of investing from TSA staff.

Madison – **April 14, 3:00 pm** **June 4, 11:00 am**
August 3, 1:00 pm 21 N. Park St., Room 5045.
Registration required. Free campus bus #85 drops you right at the door. For information call 262-5650 or 262-5564 or e-mail benefits@ohr.wisc.edu.

Socially Responsible Investing

with TIAA-CREF Investment Manager Scott Budde

May 6, 11:00 am, Madison Pyle Center

Registration required: www.uwsa.edu/hr/counsel.htm
Additional sites via interactive video. See page 2 for details.

UW TSA 403(b) Investment Company Contacts & Program Fees

	UNIVERSITY FEE	\$9.00 per year, deducted from payroll when you join the Program and in early March each year thereafter.		
	COMPANY	ANNUAL FEE	SURRENDER/REDEMPTION CHARGE	MORTALITY/RISK CHARGE
Mutual Fund Cos.	Dreyfus 800-358-0910 www.dreyfus.com	None	No surrender charge. Certain funds have a short-term trading fee – a redemption charge on shares held less than a minimum period. See prospectus for details.	n/a
	Fidelity 800-343-0860 www.fidelity.com/atwork	None	No surrender charge. Certain funds have a short-term trading fee – a redemption charge on shares held less than a minimum period. Fidelity Select Funds have a standard short-term redemption fee. See prospectus for details.	n/a
	T. Rowe Price 800-922-9945 rps.troweprice.com/wisconsin	None	No surrender charge. Certain funds have a short-term trading fee – a redemption charge on shares held less than a minimum period. See prospectus for details.	n/a
Insurance Cos.	TIAA-CREF 800-842-2776 www.tiaa-cref.org/uwsa	None	No surrender charge. Certain funds have a short-term trading fee – a redemption charge on shares held less than a minimum period. See prospectus for details.	.005% (Included in the expense ratio)
	Ameriprise/RiverSource* 877-640-6894 www.ameriprise.com	\$30 New contract only: Waived for accounts over \$50,000	CRA Select contract: 7% years 1-3; declining to 0% in year 9 RAVA contracts: 7% years 1-3, thereafter 0%. Contracts issued after 1-1-2008 have no surrender charge.	Old contract 1.00% New contract 1.10% ----- 2008 contract 1.25%
	Lincoln National Life* 608-231-2231 or 800-967-2046 www.lfg.com	None	Old Contract: 8% for 5 years; then 4% for 3 yrs; then 0% New Contract: 6% yrs 1-3, declining 1% per year to 0% in yr 9. Contracts issued after 1-1-2008 have no surrender charge.	1.002%

*No new contracts are currently permitted with Ameriprise/RiverSource and Lincoln National Life Insurance Companies.