

# Allegheny College

## 403(b) Plan Update

April 2019



C O R N E R S T O N E

*Independent Asset Management*

**Cornerstone Advisors Asset Management, LLC**  
74 W. Broad Street, Suite 340, Bethlehem, PA 18018

# Background and Process

**In 2009, the Department of Labor (“DOL”) passed and began enforcing a new set of rules for 403(b) plans:**

- Requires Allegheny College (Allegheny) to serve as the **plan fiduciary** – this means that Allegheny has financial and compliance responsibility for the Plan
- Requires the Plan to have a written document, formal fund review and monitoring, an annual audit of administrative procedures, and fee monitoring

**Plan progress to date:**

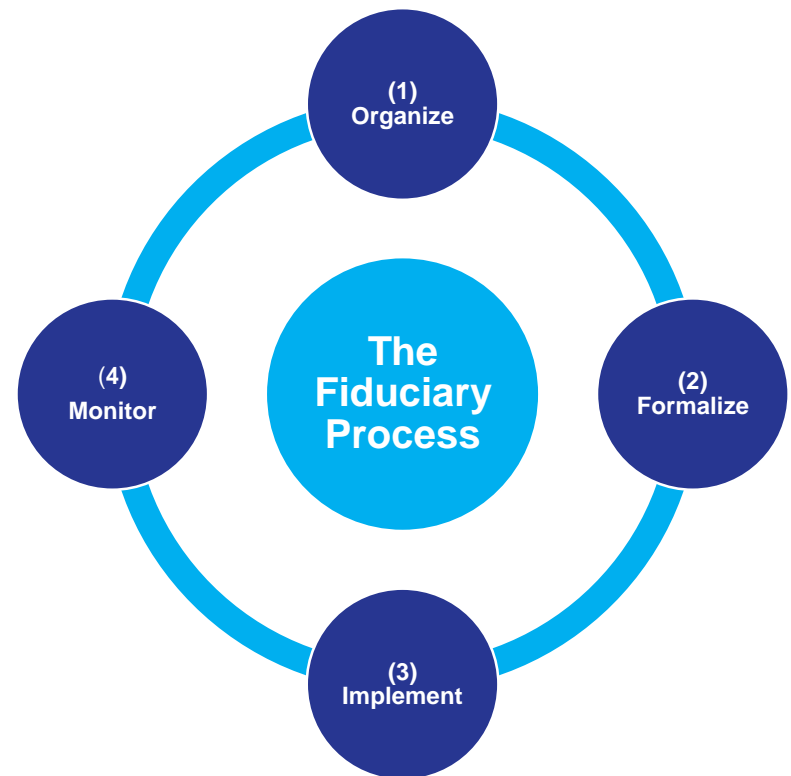
- 403(b) Plan Fiduciary Committee (subcommittee of FFC) formed in 2009 to **formalize the governance process**
- Current Committee Members:
  - Jennifer Mangus
  - Linda Wetsell
  - Eileen Petula
  - Ruth Dunton
  - Cliff Willis
  - Sueann Mercier
  - Amelia Finaret
  - Adele Poynor

# What is a Fiduciary?

Someone who is managing the assets of another and stands in a **special relationship of trust, confidence, and/or legal responsibility**.

The Department of Labor lists **six main responsibilities**:

- 1) Acting solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them.
- 2) Carrying out their duties prudently.
- 3) Following the plan documents (unless inconsistent with ERISA).
- 4) Diversifying plan investments.
- 5) Paying only reasonable plan expenses.



# Background and Process

- Cornerstone is an **independent investment advisory firm** that is a fiduciary to the Allegheny College Retirement Plan.
  - Hired by the College because of their expertise in the Collegiate and not-for-profit 403(b) market
- Emphasis on **meeting the highest fiduciary standards**, responsibly managing risk, controlling cost, and driving performance.
- Allegheny studied ways to **improve the plan's overall effectiveness**.
  - Included an analysis of the plan design, contracts, investments, fees, and education program
- Allegheny has added **new features** to the Plan, including a Roth Deferral Option

**As a result of these efforts, the Plan will be transitioning to the TIAA Retirement Choice Platform effective April 17, 2019**

# TIAA's Retirement Choice Platform (RC)

- TIAA-CREF's RC contract is a **group contract**, not an individual contract.
- Larger universe of available mutual funds, giving Allegheny **significant flexibility and choice** to offer non-proprietary funds.
  - Enables Committee to fulfill fiduciary responsibility for investment selection, monitoring, and replacement
  - Using non-proprietary funds and streamlining the core fund menu is a **fiduciary best practice**
  - The average higher education DC plan offers **26 investment options**<sup>1</sup>
- Offers **more flexible provisions** including:
  - Reduction of TIAA Traditional withdrawal restriction from 9 years to 7 years
  - More responsive TIAA Traditional crediting rate

**More than 1,800 other plans around the country have already migrated to this platform**

- This represents more than 25% of Plans with TIAA
- More than 1,100 Plans have moved in the last 2-3 years

# Investments, Transfers, and Expenses

- A **new list of investment options** is available for all contributions after April 17, 2019
  - After that date, no new money can be contributed to legacy contracts.
- You can keep your legacy contracts on TIAA's legacy platforms **OR** transfer them to the new platform
  - There are **numerous benefits to consolidation**, but the choice is ultimately yours
  - All new contributions will go to the Allegheny College Defined Contribution Retirement Plan with **Plan Number 407773**
- New mutual funds will use **institutional pricing** with **lower costs** and **lower administrative expenses**
  - There will be a **0.15%** wrap fee to cover plan costs – **these are not new fees**; they have always been built into the plan's expense ratio.
    - Negotiated **administrative expense reduction of 12%** (from 0.17% to 0.15%)
  - Provides **greater transparency** and **lower plan expenses**.

# Administrative Wrap Fee

Effective April 1, 2019, an **annual plan servicing fee of 0.15%**, \$1.50 per \$1,000 invested, will be deducted proportionally from each of your investments on a quarterly basis

This amount will be realized by assessing a **fee or credit** to each investment you choose within the plan

This amount will be assessed on a **level basis** regardless of your investment election or platform

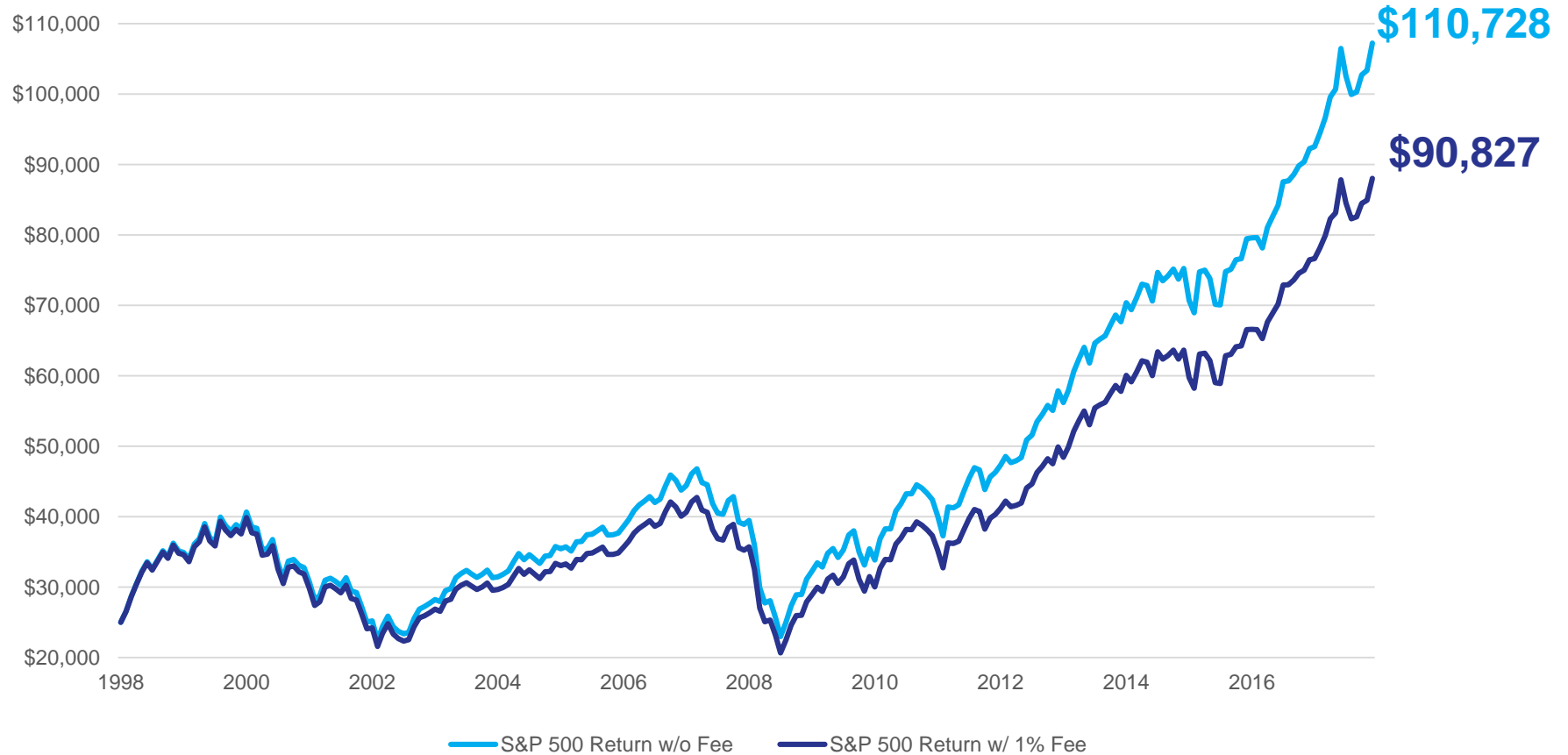
## Plan Servicing Fee Calculation (A+B=C)

Platform	Account or Fund	A. Revenue Sharing (%)	B. Plan Servicing Fee/(Credit) (%)	C. Total Administrative Fee (%)
Retirement Choice (RC)	Vanguard 500 Index Admiral	0.00	0.15	0.15
Legacy	CREF Equity Index R2	0.20	(0.05)	0.15

*NOTE: Each of the plan's investment options has a fee for investment management and associated services which is separate from the administrative wrap fee*

# The Impact of Fees

Growth of \$25,000



***Over the last 20 years, a 1% fee could have eroded the account balance by \$20,000.***

*S&P 500 monthly return data from Callan Associates as of 08/2018, spanning 09/1998-08/2018. Fee assumed to be a 1% effective annual rate, compounded monthly.*



# What Happens Next?

- Educational meeting introducing the program occurring on **March 29, 2019**
- Any time after enrollment on **April 17, 2019**, you may transfer your assets from individual contracts into the group contract
- Any time after enrollment on **April 17, 2019**, you may make an investment election
- If no investment election is made before **April 26, 2019**, new contributions will **automatically be made** into the appropriate **TIAA-CREF Lifecycle Target Date Fund** based on date of birth.
  - Industry best practice supported by the DOL
  - Designed to put you in an **age-appropriate mix of investments**.

# What Are Target Date Funds?

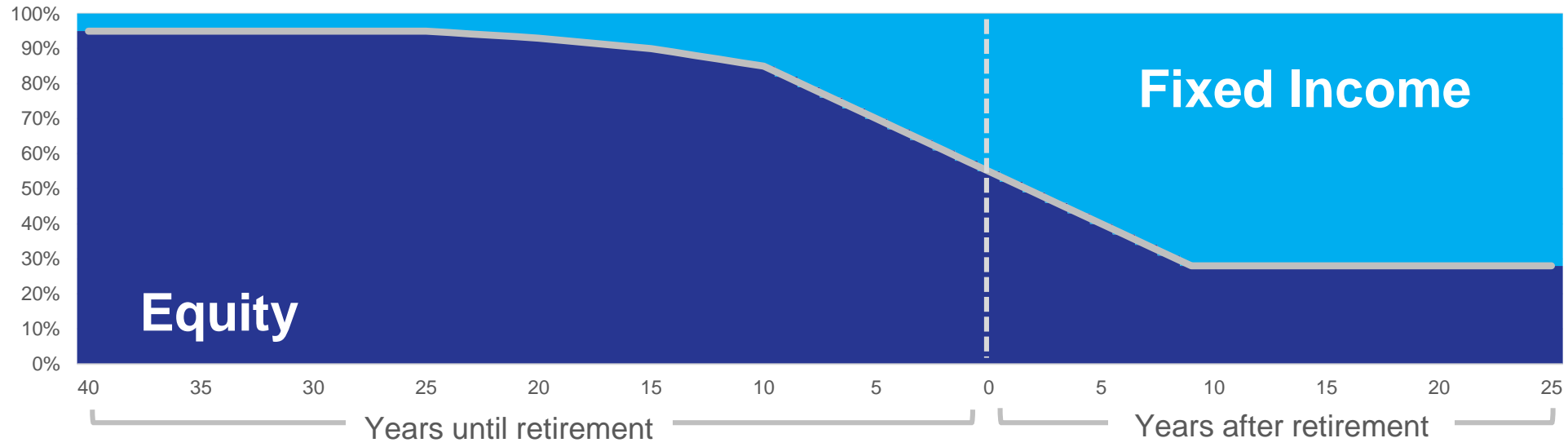
A lifetime “set it and forget it” investment solution.

One-step **diversification** across asset classes.

**Age-appropriate** asset allocations based on years until retirement.

**Automatic** risk (equity) reduction as you near retirement.

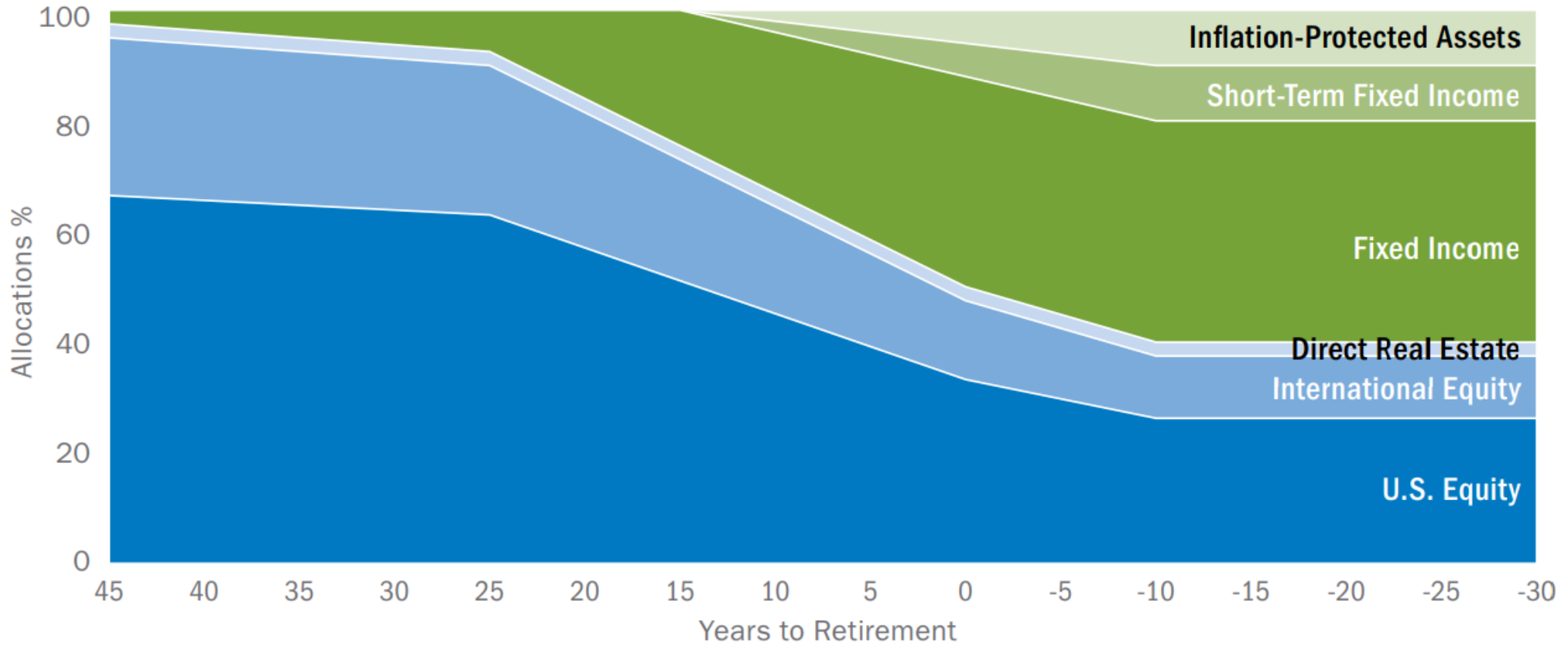
Target date portfolios **simplify investment decisions** and **mitigate emotional reactions** to market performance.



# TIAA-CREF Target Date Funds

<b>Birth Year</b>	<b>Portfolio</b>
1993 or later	Target Date 2060
1988-1992	Target Date 2055
1983-1987	Target Date 2050
1978-1982	Target Date 2045
1973-1977	Target Date 2040
1968-1972	Target Date 2035
1963-1967	Target Date 2030
1958-1962	Target Date 2025
1953-1957	Target Date 2020
1948-1952	Target Date 2015
1943-1947	Target Date 2010
1943 or earlier	Target Retirement Income

# TIAA-CREF Target Date Glidepath



Source: TIAA. Target date is the year stated in the fund name and assumes retirement at age 65.

# TIAA-CREF Target Date 2030

Asset Allocation



■ Domestic Equities ■ International Equities ■ Fixed Income ■ Cash & Equivalents

Asset allocation from TIAA as of 12/31/2018.

<b>Asset Category</b>	<b>Allocation</b>
Domestic Equities	47.0%
International Equities	20.6%
Fixed Income	30.9%
Cash & Equivalents	1.5%
<b>Total</b>	<b>100.0%</b>

# New RC Investment Platform



<b>Asset Allocation Funds</b>	TIAA-CREF Target Date Funds											
	Retirement Income	2010	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060

<b>Passive Core Options</b>	Cash & Equivalents	Cash & Equivalents	Core Bond	Large Cap Core	International Core Plus	Mid Cap Core	Small Cap Core
	TIAA Traditional (RC)	TIAA Stable Value	Vanguard Total Bond Market	Vanguard 500 Index	Vanguard Total Intl Stock Index	Vanguard Mid Cap Index	Vanguard Small Cap Index

<b>Active Core Options</b>	Core Plus Bond	Large Cap Value	Large Cap Growth	International Core Plus	Small Cap Value	Small Cap Growth
	Baird Core Plus Bond	American Funds Washington Mutual	T. Rowe Price Growth Stock	American Funds Europacific Growth	Victory Sycamore Small Company Opportunities	PGIM Jennison Small Company

# Core Fund Menu Philosophy



## Streamlined Construction

Active and passive investments are available in a **comprehensive range of asset classes**.

“**Core plus**” approach utilizes passive core investments with active satellite funds.



## Cheapest Share Class

Choosing the cheapest share class enables participants to put more of their money **towards savings, not fees**.



## Mapping Strategy

Mapping strategy illustrates the investment option on the new platform that is **most similar** to each option on the old platform.

Mapping is based on the option’s **asset category** and **investment style**.

# Hypothetical Mapping

The assets in these Current Funds will automatically be transferred to the RC Platform.

If you do not want those assets to be transferred to the age appropriate Target Date Fund, you may make an alternative election.

Current Fund	Fund Category	to	New Fund	Fund Category
TIAA-CREF Large-Cap Value Premier	Large Cap Value		American Funds Washington Mutual R6	Large Cap Value
<b>NEW ASSET CLASS</b>			TIAA-CREF Social Choice Eq Instl	Large Cap Core
TIAA-CREF Mid-Cap Value Premier	Mid Cap Value		Vanguard Mid Cap Index Admiral	Mid Cap Broad
TIAA-CREF Mid-Cap Growth Premier	Mid Cap Growth			
<b>NEW ASSET CLASS</b>			Victory Sycamore Small Company Opp I	Small Cap Value
TIAA-CREF Small-Cap Equity Premier	Small Cap Broad		Vanguard Small Cap Index Adm	Small Cap Broad
<b>NEW ASSET CLASS</b>			PGIM Jennison Small Company R6	Small Cap Growth
TIAA-CREF International Eq Premier	Intl Large Cap Core		Vanguard Total Intl Stock Index Admiral	International Large Cap Core
<b>NEW ASSET CLASS</b>			American Funds Europacific Growth R6	International Large Cap Growth
TIAA-CREF Lifecycle 2060 Premier	Target 2060		TIAA-CREF Lifecycle 2060 Institutional	Target 2060
TIAA-CREF Lifecycle 2055 Premier	Target 2055		TIAA-CREF Lifecycle 2055 Institutional	Target 2055
TIAA-CREF Lifecycle 2050 Premier	Target Date 2050		TIAA-CREF Lifecycle 2050 Institutional	Target Date 2050
TIAA-CREF Lifecycle 2045 Premier	Target Date 2045		TIAA-CREF Lifecycle 2045 Institutional	Target Date 2045
TIAA-CREF Lifecycle 2040 Premier	Target Date 2040		TIAA-CREF Lifecycle 2040 Institutional	Target Date 2040
TIAA-CREF Lifecycle 2035 Premier	Target Date 2035		TIAA-CREF Lifecycle 2035 Institutional	Target Date 2035
TIAA-CREF Lifecycle 2030 Premier	Target Date 2030		TIAA-CREF Lifecycle 2030 Institutional	Target Date 2030
TIAA-CREF Lifecycle 2025 Premier	Target Date 2025		TIAA-CREF Lifecycle 2025 Institutional	Target Date 2025
TIAA-CREF Lifecycle 2020 Premier	Target Date 2020		TIAA-CREF Lifecycle 2020 Institutional	Target Date 2020
TIAA-CREF Lifecycle 2015 Premier	Target Date 2015		TIAA-CREF Lifecycle 2015 Institutional	Target Date 2015
TIAA-CREF Lifecycle 2010 Premier	Target Date 2010		TIAA-CREF Lifecycle 2010 Institutional	Target Date 2010
TIAA-CREF Lifecycle Retire Income Prem	Retirement Income		TIAA-CREF Lifecycle Retire Income Instl	Retirement Income
<b>NEW ASSET CLASS</b>			Baird Core Plus Bond Inst	Core Plus Bond
TIAA-CREF Money Market Premier	Cash & Equivalents		TIAA Stable Value	Stable Value



# Hypothetical Mapping

The assets in these Current Funds will NOT automatically be transferred to the RC Platform.

Old Fund	Fund Category	to New Fund	Fund Category
TIAA RASRA-CREF:Eq Idx R2	Large Cap Core	Vanguard 500 Index Admiral	Large Cap Core
TIAA RASRA-CREF:Growth R2	Large Cap Growth	T. Rowe Price Growth Stock I	Large Cap Growth
TIAA RASRA-CREF:Gbl Eq R2	Global Equities	60% to Vanguard 500 Index Admiral 40% to Vanguard Total Intl Stock Index Adm	Large Cap Core Intl Large Cap Core
TIAA RASRA-CREF:Stock R2	Global Equities	70% to Vanguard 500 Index Admiral 30% to Vanguard Total Intl Stock Index Adm	Large Cap Core Intl Large Cap Core
TIAA RASRA-CREF:Social Choice R2	Balanced Allocation	Map to appropriate target date.	Target Date
TIAA RASRA-CREF:Bond Mkt R2	Core Bond	Vanguard Total Bond Market Index Adm	Core Bond
TIAA RASRA-CREF:Infl-Lkd Bond R2	TIPS		
TIAA RASRA-CREF:Real Estate Acct	Real Estate	TIAA RASRA-CREF:Real Estate Acct	Real Estate
TIAA Traditional Account (GSRA)	Cash & Equivalents		
TIAA Traditional Account (RA)	Cash & Equivalents	TIAA Traditional Account (RC)	Cash & Equivalents
TIAA Traditional Account (SRA)	Cash & Equivalents		
TIAA RASRA-CREF:Money Mkt R2	Cash & Equivalents	TIAA Stable Value	Stable Value

# 2019 Key Dates

Date	Milestone
March 1	Participant Communication mailed
March 29	Information sessions for Faculty & Staff presented by Cornerstone and TIAA
April 12	Final payroll contribution directed to existing contracts
April 17	New Retirement Choice contracts established for all Plan participants in preparation for contributions
April 18	Assets in former contracts are eligible for transfer to the new Retirement choice contracts AND able to make active elections on TIAA website and TIAA customer service number
April 18	Confirmation packets mailed to home address
April 26	First payroll contribution directed to updated investment lineup in Retirement Choice contracts
May 3	Notices mailed to participants who need new instructions for Transfer Payout Annuities and Minimum Distribution Options
May 17	Transfer of legacy Mutual Fund assets to new contracts



# Plan Highlights


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## Eligibility

- No minimum age requirement
- 12 months (1,000 hours) service requirement to receive employer contributions
- Plan Entry first day of each month upon meeting eligibility
- Excluded Employees
  - Employees who normally work less than 20 hours per week
  - Student Employees
  - Collective Bargaining (Union) employees
  - Adjunct faculty
  - Athletic interns
  - Leased employees
  - Independent contractors
- All employees other than disabled participants are excluded from non-elective contributions

# Plan Highlights

## Contribution Types

- Employer Match of 7% of compensation if a participant deferral equals or exceeds 4% of compensation
- Employer Match of 9% of compensation if a participant deferral equals or exceeds 6% of compensation
- Non-elective for disabled participants only
- Pre-Tax Elective Deferrals
- **Roth Elective Deferrals**  *NEW OPTION*
- Age 50 Catch-up Contributions
- Rollovers

# Plan Highlights

## In-Service Distribution Options

- Hardship
- Age 59 ½
- Disability
- Qualified Reservist
- Rollovers
- Loans

# Roth Contribution FAQs

What is the **basic difference** between pre-tax and Roth contributions?

- With pre-tax contributions, tax is paid on your contributions and the earnings **when you withdraw them**.
- With Roth contributions, you pay the tax on the contributions now but the **earnings can be withdrawn tax-free**.

Who does this **strategy benefit**?

- **Younger savers** hopeful to **capitalize on many years of tax-deferred growth**, potentially resulting in tax-free income.
- **Mature employees** interested in **tax diversification** in retirement.

Can I **defer into both** the Pre-Tax and Roth portions of my retirement plan?

- Yes, **you may contribute into any combination of the two sources** as long as the dollar amount does not exceed IRS limits.

# Saver or Spender

## Which type of contribution may be right for you?

Our three savers are 45, plan to use their savings at age 75, but have different personalities.

Here's what their \$5,000 contribution may be worth, after tax, in 30 years.

	Saver or Spender?	Type of 401(k)	Tax Refund	Contribution value after 30 years
Pat	Relentless saver	Traditional, pretax	\$1,400 Invests the refund	<b>\$35,445*</b>
Alex	Shopaholic	Traditional, pretax	\$1,400 Spends on vacations	<b>\$27,404*</b>
Sam	Spends debit card money	Roth, after tax	<i>No refund</i>	<b>\$38,061*</b>

\*After paying taxes at the time of withdrawal.

Marginal income tax rate: 28% (assumed current rate)

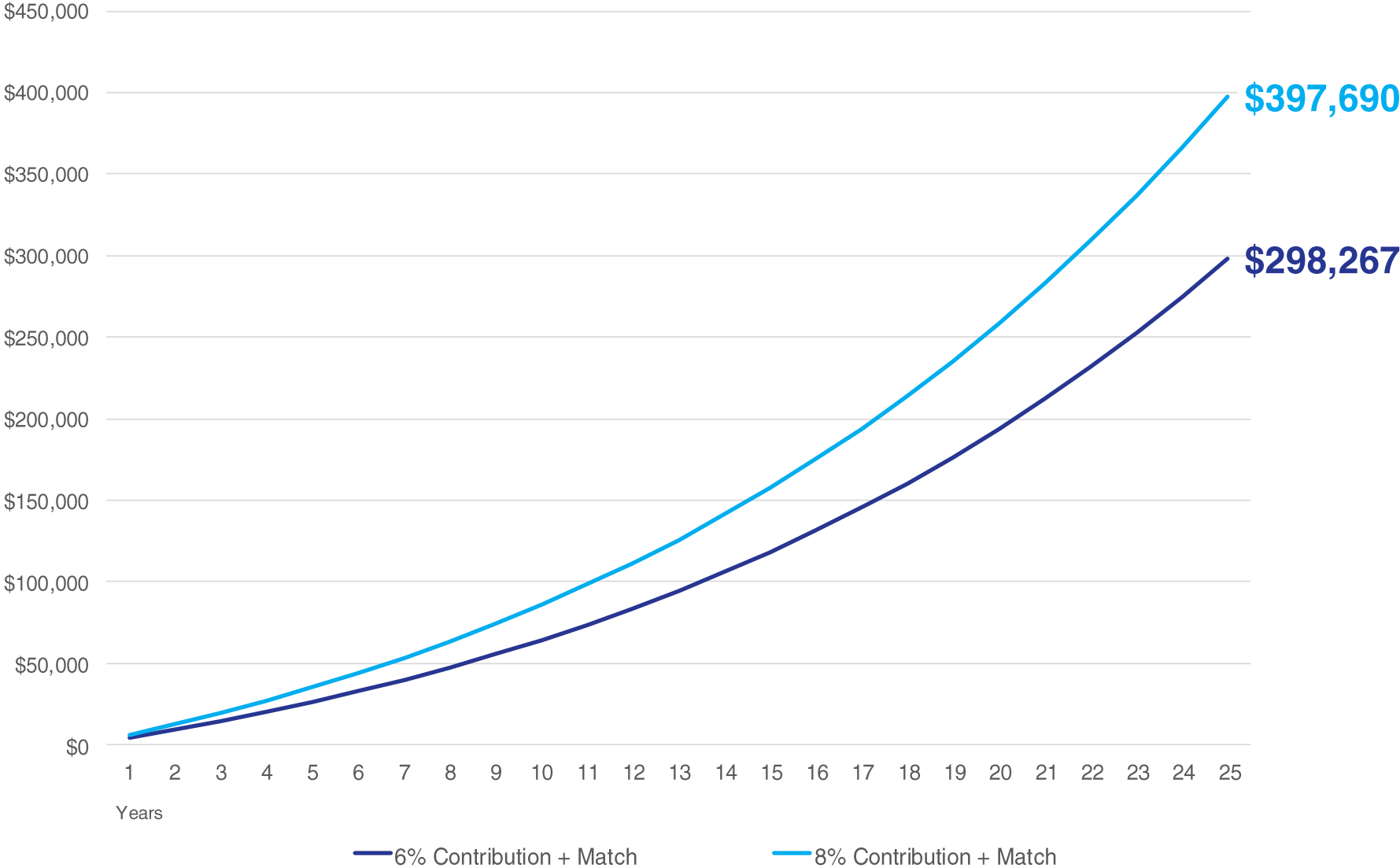
Expected marginal income tax rate in retirement: 28%

Hypothetical pretax return on investments: 7%

Hypothetical after-tax return on investments: 6%



# Impact of Contribution Increase



Assumes \$50k base salary with 2% salary growth per year, 6% annual rate of return, and 50% match on contributions.

# Contact Information

## TIAA



[TIAA.org/allegheeny](https://TIAA.org/allegheeny)



1-800-842-2252

## Cornerstone



[www.cornerstone-companies.com](http://www.cornerstone-companies.com)



1-800-923-0900



### **Participant Services Representatives:**

Michael Zambelli: [mzambelli@cornerstone-companies.com](mailto:mzambelli@cornerstone-companies.com)

Evan Cowen: [ecowen@cornerstone-companies.com](mailto:ecowen@cornerstone-companies.com)

# TIAA Instruction for Employee Initiated Changes

## [TIAA.org/allegheeny](https://TIAA.org/allegheeny)

- Log in to the secure website
- Learn more about your plan
- Update your retirement portfolio
- Change the direction of future contributions
- Update your beneficiary election

## [1-800-842-2252](tel:1-800-842-2252)

- Call TIAA weekdays from 8am to 10pm and Saturday 9am to 6pm
- Learn more about your plan
- Update your retirement portfolio
- Change the direction of future contributions
- Review your beneficiary election
- **Transfer assets from legacy contracts to the Retirement Choice contract**



# Evan J. Cowen, AIF®

*Participant Services Specialist*

## EXPERTISE

- Business Development
- Private Wealth
- Life and Long Term Care Insurance
- Retirement Planning

## Experience

Evan joined Cornerstone in 2017 after working as a financial planner for Guardian in Wall, New Jersey. As a consultant, Evan works on the firms Retirement Planning and Private Wealth teams as well as in client service and business development roles. Evan enjoys meeting with clients and assisting them by navigating them through the financial planning and risk management process.

Since Evan's start in financial services, he has worked extensively with business owners and private wealth clients. His client-first approach makes the process of financial planning and risk management enjoyable and educational.

## Education

BA Business Management, Monmouth University, 2016

## Accreditations

- FINRA Series 7, 6, 63 and 65 Licenses
- Life, Accident and Health Insurance License
- AIF® (Accredited Investment Fiduciary), The Center for Fiduciary Studies, University of Pittsburgh, 2014



# Michael J. Zambelli Jr., AIF<sup>®</sup>, CFP<sup>®</sup>

*Senior Consultant & Director of Participant Services*

## EXPERTISE

- Educational Workshops
- Private Wealth Solutions
- Financial Wellness Programs
- Estate Planning
- Defined Benefit Plans
  - Traditional
  - Cash Balance
- Defined Contribution Plans
  - 401(k) Plans
  - 403(b) Plans
- Executive Reward and Retention Strategies

## Experience

Mike has been in the financial services industry for more than 15 years, working in a variety of roles with both corporate and individual clients. As the Director of Participant Services, Mike is responsible for ensuring participants are comfortable with all aspects of their retirement plan. As a Senior Consultant, his responsibilities include strategic planning and creating best-fit solutions for individual and institutional clients, in areas of retirement planning, executive benefits, insurance analysis, charitable giving programs, and personal and institutional wealth management.

Mike effectively works through a prudent investment process to ensure that the highest level of fiduciary standards and insulation is met. He has a well-informed process to ensure positive outcomes and his client-centric approach allows him to create sound solutions for highly complex financial situations.

## Education

BS, Business Administration, Kutztown University 2001

## Accreditations

- CFP<sup>®</sup>, Kaplan University, CFP<sup>®</sup> Board of Standards
- AIF<sup>®</sup>, (Accredited Investment Fiduciary), The Center for Fiduciary Studies, University of Pittsburgh, 2015
- FINRA Series 7, 66 Licenses
- Life and Fixed Annuities, Variable Life/Variable Annuity

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