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*Produced for CTA members by CTA's Member Benefits Department.*

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## How Does Your Retirement Investment Stack Up?

A very important decision you can make as a member is whether to participate in a 403(b) plan. Most 403(b) plans allow you to put aside funds on a tax deferred basis that can supplement your CalSTRS or CalPERS retirement. *And, the earlier you invest the faster your investment dollars will grow.*

Many members aren't sure how to go about that, or even what sorts of investments they ought to be making. Thanks to CTA and CalSTRS, a new website can help you make better decisions about your future.

On November 30, 2004, the California State Teachers' Retirement System (CalSTRS) launched a website that will allow you to compare approximately 100 different vendors and 300 different 403(b) retirement investment products. Called 403bCompare, this website is a free retirement planning tool for all California educators and school employees. The new website, [www.403bCompare.com](http://www.403bCompare.com), will assist you in selecting retirement savings investment options. You can go online free of charge to search 403(b) products, and compare product features, including fund descriptions, fees and returns.

## CTA Co-sponsored Legislation Requiring Creation of the Website

CTA co-sponsored state Assembly Bill (AB) 2506, which was enacted in 2002, required that CalSTRS create and administer the 403bCompare website containing 403(b) vendors and investment products. 403bCompare includes fixed annuities, equity indexed annuities, variable annuities, mutual funds and Roth 403(b) products. The site gives clear explanations of all investment options, including an educational section with basic facts about retirement planning, as well as instructions about how to use the website and navigation tips. The website also offers links to resources that provide more in-depth information.

Individual product information is continuously updated by the 403(b) vendors. Vendor registration fees cover all costs and there is no cost to the site users. Only vendors who are registered with 403bCompare may establish new 403(b) accounts or contracts with employees of California's local school districts, community college districts or county offices of education. All 403(b) products offered for new accounts must be registered with the site, and all fees must be disclosed. CalSTRS will be responsible for the ongoing maintenance of 403bCompare as required by California Education Code sections 25100 et seq.

### How Does This New Website Help You Plan?

The website, [www.403bCompare.com](http://www.403bCompare.com), is an online tool that displays all 403(b) product information clearly. It allows viewers to easily identify companies, products, funds, features and fees with the option to do side-by-side comparisons.

Choosing the right 403(b) plan can be difficult and confusing, and 403bCompare can assist you with this process.

 <b>Custodial Account/Mutual Fund Product Comparison</b>	
ABC 403(b) Program	
<b>Product Information</b>	
<b>Vendor:</b>	ABC
<b>Description:</b>	403(b) Plan offering comprehensive retirement plan services, including diversified investment options, advisory services, and self managed brokerage account.
<b>Purchase Method:</b>	Direct purchase from the vendor (customer makes own investment decisions).
<b>A prospectus or general information for this product may be obtained from:</b>	Web Address: Phone: Email:
<b>Product Features</b>	
<b>Features:</b>	Loans Portfolio Rebalancing Supermarket Window Other: Financial Planning
<b>Fees and Charges</b>	
<b>Fee:</b>	Wrap Fee
<b>Fee Amount:</b>	0.70%
<b>When the Fee Applies:</b>	Annually, charged in monthly increments.
<b>How the Fee is Computed:</b>	Percent of Amount Invested
<b>Fee Waiver:</b>	No Data
<b>Breakpoint:</b>	No Data
<b>Capped:</b>	No

Source: [www.403bCompare.com](http://www.403bCompare.com)

## When Should I Start Investing in a Tax-Deferred Annuity?

Researching and planning for your retirement early can make a difference in the money you will have when you retire. By using this website, you can view and compare the available 403(b) products and fees, and get a better understanding of what a tax-deferred retirement plan can do for you.

## What Kind of Retirement Plan is a 403(b), TSA or TDA?

A tax-deferred 403(b) retirement plan is also known as a tax-sheltered annuity (TSA) or tax-deferred annuity (TDA). Investment earnings in a tax-deferred 403(b) grow tax deferred until they are withdrawn, at which time they are taxed as ordinary income. The 403(b) plans are supplemental to the current CalSTRS or CalPERS defined benefit pension plan and not a replacement for them. A 403(b) plan can provide an additional source of retirement income. In addition to tax-deferred 403(b) annuity plans, there are also tax-deferred 403(b)(7) mutual fund plans available to members. Contributions to 403(b) annuities or 403(b)(7) mutual funds are pre-tax.

## What are the Different Investment Options Available to You?

Annuities and mutual funds are the two different tax-deferred investment options available to you. As of January 2006, a Roth 403(b) plan may be offered as an optional employer-sponsored benefit to participants. 403bCompare's "Education" section explains the differences between *fixed annuities*, *equity indexed annuities*, *variable annuities*, *mutual funds* and *Roth 403(b) products*. 403bCompare assists you with your research and answers your questions to allow you to make an educated choice as to which product may suit your own risk factors and investment goals.

An annuity is a contract with an insurance company which may guarantee payments upon maturity or retirement. It also may guarantee a death benefit to your spouse or dependent(s) after your death. The disadvantage of annuities is that it tends to have surrender charges, contract and administrative fees, and also incorporate expensive mortality and expense fees to cover the death benefits.

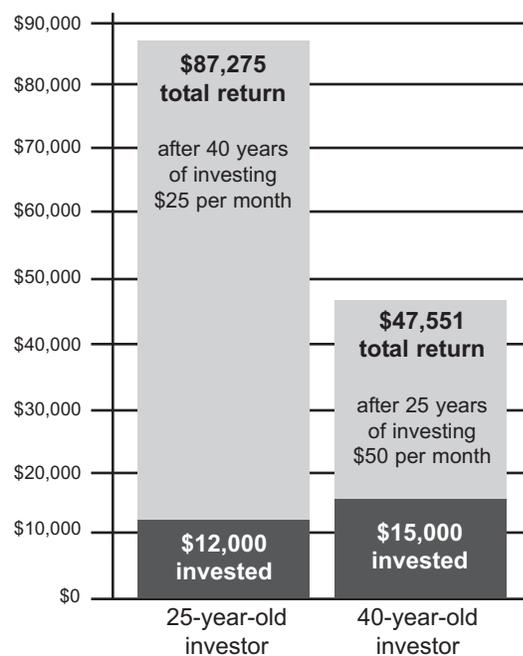
A mutual fund or 403(b)(7) plan generally does not offer guaranteed death benefits. A mutual fund is operated by an investment company which raises money from shareholders and invests in a group of assets. A mutual fund's performance is tied to the investment market with no guarantees; investors are subject to market risk.

A Roth 403(b) plan is an after-tax retirement plan that may provide tax-free distributions. The interest and earnings withdrawn from a Roth 403(b) are tax-free if the distribution is considered qualified (plans must be held for at least five years and after the participant has reached age 59½, or upon the participant's death or qualifying disability).

Vendors may offer one or more varieties of fixed annuities, equity index annuities, variable annuities, mutual funds and/or Roth 403(b) products. Most companies' sales literature will show projections for returns and rates, but these rates are only projections and not guarantees. Even a company showing consistently high historical returns can not guarantee their projections. On 403bCompare you can find individual fund information such as "Average Annual Total Returns" and "Fee Impact Tables" for most variable and mutual fund types.

### Early Start Advantage

One investor starts at age 25. Another investor waits until age 40. The figures below assume an 8% return.



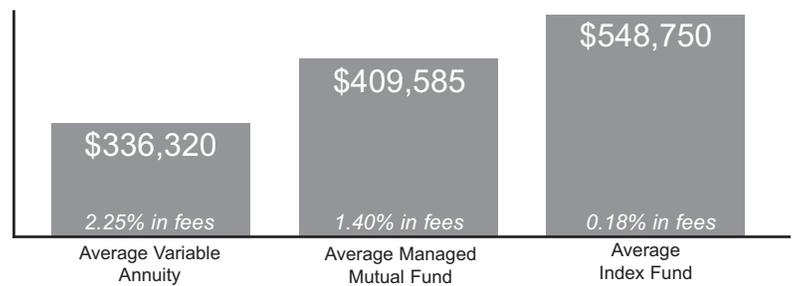
Source: www.403bCompare.com

## How Do Fees for Each Product Affect Your Investment?

What are the costs? All investment products include fees that the investor pays the company that offers the product. California Education Code, section 25101 et seq., requires all companies selling 403(b) products to California public school employees to disclose all fees for each of their products on the 403bCompare website.

### HOW FEES IMPACT RETURN

Value after 35 years, assuming \$250 contributed monthly with an 8% average annual return.



NOTE: This chart is presented for illustrative purposes only and does not reflect actual performance, or predict future results, of any investment account.

Source: Meridian Wealth Management ([www.meridianwealth.com](http://www.meridianwealth.com))

What are the fees? Product fees may include one or more of the fees listed below.

- **Contract Fee** - Flat dollar amount charged either once at the time of issue, or charged once each year
- **Wrap Fee** - Single fee based on the value of assets under management, often tied to an advice component
- **Administrative Fee** - Charges to cover record-keeping and other administrative expenses (flat dollar amount or a percentage of account value)
- **Distribution Fee (12b-1)** - Fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature to prospective investors
- **Advisory Fee** - Investment management and service fees
- **Mortality and Expense Fee** - Percentage of account value to compensate the insurance company for insurance risks it assumes under the annuity contract
- **Sales Load** - Some funds use brokers to sell their products and must pay compensation to the broker. The fund may charge a fee known as a “sales load” to cover this cost
- **Back-end Load** - A sales charge to redeem (or sell) mutual fund shares
- **Loan Fee** - A fee charged annually when funds are borrowed (typically a flat dollar amount or a percentage charged annually)
- **Loan Origination Fee** - A fee charged to start a loan
- **Custodial Fee** - Charges to cover record-keeping and other administrative expenses (flat dollar amount or a percentage of account value)
- **Surrender Charge or Contingent Deferred Sales Charge** - Percentage of the amount withdrawn; the percentage may decline to zero over a specific period of years

#### Administrative Fee

<b>Amount:</b>	0.23%
<b>When the Fee Applies:</b>	Annually
<b>How the Fee is Computed:</b>	Percent of Amount Invested
<b>Fee Waiver:</b>	The Administrative fee is 0.225%, the 403bCompare website rounds up to 0.23%.
<b>Breakpoint:</b>	
<b>Capped:</b>	No

#### Distribution fee (12b-1)

<b>Amount:</b>	0.05%
<b>When the Fee Applies:</b>	Annually
<b>How the Fee is Computed:</b>	Percent of Amount Invested
<b>Fee Waiver:</b>	
<b>Breakpoint:</b>	
<b>Capped:</b>	No

#### Mortality and Expense

<b>Amount:</b>	0.01%
<b>When the Fee Applies:</b>	Daily
<b>How the Fee is Computed:</b>	Percent of Amount Invested

Source: [www.403bcompare.com](http://www.403bcompare.com)

## What are the Important Features of 403bCompare?

**My Employer:** Employees of California’s 1,200 local school districts, county offices of education and community college districts can use the “My Employer” feature to see which registered vendors have been approved by their specific employer and are thus available to them for investing. (Some districts have not approved any vendors at this time. Please contact your school district for a list of approved vendors and/or products.)

**Browse Vendors:** Employees can access a list of all vendors registered with 403bCompare and may view information about the vendors and the products they offer.

**My Compare:** Employees may browse the site and add products to the “My Compare” cart. This feature retains the products added and allows employees to perform side-by-side comparison of like products. This quickly enables employees to see differences in the features and fees of products.

**403b Compare**  
Your California School Employee Retirement Product Information Bank

Home  
My Employer  
Browse Vendors  
My Compare  
Education  
Glossary  
User Guide  
Contact Us

Search

MY COMPARE: 4 products

### My Compare

You have selected the following products to compare. A maximum of 3 products within the same category can be compared at a time.

[Email me a link to My Compare](#)  
Save your My Compare choices so you can view your selections later. If you do not request a link, your work will be deleted when you exit this Web site.

Fixed Annuities		COMPARE
Product	Vendor	
<input type="checkbox"/> ABC Traditional Annuity	ABC	<input type="button" value="REMOVE"/>
<input type="checkbox"/> DEF Fixed Annuity	DEF	<input type="button" value="REMOVE"/>

Mutual Funds		COMPARE
Product	Vendor	
<input type="checkbox"/> GHI 403(b) Program	GHI	<input type="button" value="REMOVE"/>

Variable Annuities		COMPARE
Product	Vendor	
<input type="checkbox"/> JKL Bond Market Account	JKL	<input type="button" value="REMOVE"/>

Source: www.403bCompare.com

The site also gives employees the ability to e-mail a link to their personal e-mail account showing their selections from the “My Compare” cart, thus enabling them to retain their research without having to log in, which allows them to view their search results at a later time.

You must carefully assess your risk and investment habits. Evaluate each product and calculate the fees charged. The “My Compare” section in 403bCompare makes this process easier.

The 403bCompare website is designed so that users can select and compare specific products and fees that are of interest to them. Up to three products can be displayed on the screen at one time (for example, the site can be used to compare the features of three mutual funds or three annuity contracts).

The ability to compare vendors' fees will likely be one of the most widely used features of the site - as fees often have a great, but unrealized, impact on retirement benefits. In some cases, vendor fees actually offset the benefits of investing. It pays to find out about those fees to see which plans will give you the best return.

**Search:** Employees can perform a word search on the products and vendors contained in the site. The search system returns vendors and products that match all words entered into the search box. Employees have the ability to narrow their search results based on product type and may designate how many results they wish to see on the screen.

403bCompare Offers:

- An employer's approved vendor list
- A browse function for registered vendors
- A product comparison tool
- An advanced education section with a link to a helpful "frequently asked questions" page
- A glossary section to help you understand all the technical language
- An easy-to-follow user's guide
- A contact page with the address, phone number and e-mail address of the 403bCompare Administrator to assist with any questions
- Easy comparison of fees

## Disclaimer

This article is designed to provide general information in regard to the subject matter covered as accurately and authoritatively as possible. It is published with the understanding that the California Teachers Association (CTA) is not engaged in rendering legal, accounting or other professional services to the reader. We strongly recommend that any person using the information provided in this article seek counsel from their own professional advisors to determine its applicability to their own personal situation.

## Glossary

**12b-1 Fee** - Funds may charge a 12b-1 fee to compensate broker/dealers for selling mutual funds (distribution fee). This may apply to sub-accounts in variable annuity 403(b) plans and also to mutual fund 403(b)(7) plans. Fees are disclosed in a fund's prospectus and also, 12b-1 fees are included in a fund's overall expense ratio.

**Account Fee** - A fee for the maintenance of the funds and accounts

**Annuitization** - Payout option other than a lump sum payment (some payout options guarantee you an income for as long as you or you and your spouse live, while other options spread your distribution over a specified number of years)

**Annuity** - a contract or agreement with an insurance company to provide payment after maturity

**Back-end Load (Deferred Sales Charge)** - A sales charge to redeem (or sell) mutual fund shares

**Bond Funds (Fixed Income Funds)** - A mutual fund that buys interest-bearing debt securities (corporate, U.S. Treasury, municipal, etc.)

**Cash Funds** - Assets that can be converted to cash immediately

**Contract Loans** - A loan option that can give some liquid features to an annuity, but subject to current taxes

**Death Benefit** - Beneficiary (such as your spouse or child) may receive the money in your account or some guaranteed minimum

**Deferred Sales Charge (Load)** - Sales load

**Dollar Cost Averaging** - Investing a fixed dollar amount at regular intervals

**Equity Funds (Stock Fund)** - An equity or stock fund is a type of mutual fund

**Equity Index Annuities** - These annuities guarantee a minimum return to the investor by the insurer if the contract is held to maturity and return is based on changes in an equity index such as the S&P 500 Index. There may be a cap on interest earned. Equity Index Annuities are not considered securities and can be sold by non-securities licensed representatives.

**Exchange Fee (Transfer, Switch)** - A fee when funds are exchanged (transferred) to another fund

**Fixed Annuities** - These annuities offer a guaranteed minimum specified rate of interest and are invested in an insurance company's general investment account (bonds and mortgages). Fixed annuities provide a minimum fixed return on the investment (usually, interest paid will be greater than the guaranteed interest amount).

**Fund Class** - Mutual funds offer more than one class of shares (Class A, B, etc.) invested in the same investment portfolio of securities and will have the same investment objectives and policies, but offer different shareholder services and/or distribution arrangements with different fees and expenses (each class will likely have different performance results)

Government Bonds - Treasury Bills, Saving Bonds, Treasury Notes, and Treasury Bonds

Income Funds - Investment in stocks that pay regular dividends

Lapse - The discontinuation when the required premium is not paid (If a cash value exists, a non-forfeiture provision may allow the continuation of the policy)

Life Annuity - An annuity from which the insurance company will pay you an income for as long as you live

Life Insurance - A policy that will pay a specified sum to beneficiaries upon death of the insured

Load (Sales Charge) - The amount that investors pay when they purchase (front-end load) or redeem/sell (back-end load) shares in a mutual fund

Lump Sum - A single cash payment to the participant

Management Fee - An advisory fee for the management of the money in the fund

Mutual Fund - Tax-deferred mutual funds are the investment vehicles of 403(b)(7) and investments are pooled into a diversified group of securities of corporations. Mutual funds are a common investment, but offer no guarantees of return. There are two types of mutual funds, loaded or no-load mutual funds, and there are a variety of share classes, A, B, C, D, etc. Each share class represents different load structures. A load is a commission fee charged to the investor to purchase or sell a fund. These fees are necessary to cover advisory, sales and services of the products. What does all this mean? Loaded mutual funds will charge per transaction, while no-load mutual funds do not charge up-front commissions, but will charge through management fees with distribution or 12b-1 fees, wrap fees, custodial fees, etc. No-load mutual funds tend to be more popular with investors due to the simple set fee structures (usually annual percentage or dollar amount).

No-load Fund - A fund that does not charge any type of sales charge, but may charge operating expenses

Prospectus - A prospectus is a document with a written statement of all relevant information about a company's history, operations, financial condition and key personnel and product pricing

Roth 403(b) - An after-tax retirement plan and provides qualifying tax-free distributions

Variable Annuities - These annuities distribute money among several different accounts and the accumulated funds reflect the experience of those accounts. If the value of the accounts increases or decreases, the amount accumulated will increase or decrease. This provides potential for greater return and diversification, but at a higher cost. Insurance companies offering variable annuities will cover their expenses with explicit charges like administrative fee, mortality and expense fee, advisory fee, etc.

Withdrawal Charge - A fee charged by some annuities and funds when an investor takes money out of his or her account