

## **MOSERS Message to State of Missouri Deferred Compensation Plan Participants on the Plan Transition**

### **Description of Plan**

The State of Missouri Deferred Compensation Plan is a tax deferred employer sponsored plan with assets held in a trust for the benefit of employees. MOSERS has oversight responsibility for this plan and the fiduciary responsibility to select the investment options available within the plan.

ING is the Third Party Administrator for the Plan and they provide call center support, administrative services, and enrollment and education services based on the Plan design decisions made by MOSERS. ING does not choose the plan's investment options.

### **Research/Due Diligence**

MOSERS assumed responsibility for oversight of the Plan in September of 2007, and using plan facts, surveys and focus groups, we have been researching the type of investment options currently offered, average investment option fees, average participant investment knowledge, and how the plan assets are invested. We have discovered that:

- Participants are experts in their own fields of endeavor but most lack the time, knowledge, and experience to personally manage a deferred compensation account. Over 90% of participants claim that they have little knowledge of investments, while the remainder consists of those who claim to have some knowledge -- fewer than 10% of the participants are actually hands-on investors and those who are have had little opportunity for portfolio diversification given the choices that have historically been available.
- 60% of the Plan assets are invested by participants who use just one fund.
- Over 50% of Plan assets are in the Stable Income Fund.
- 32% of Plan assets are concentrated in large-capitalization stock funds, lacking diversification by company size.
- The average investment option expense ratio is 0.90% which is over 80% higher than the average of comparable plans elsewhere.

### **The Solution**

MOSERS Plan research led to the conclusion that State of Missouri employees would be benefited by a *Smart, Simple, Savings Solution*. This solution is a series of target date funds specifically designed for State of Missouri employees that invest in a variety of assets including U.S. stocks, international stocks, core bonds, high yield bonds, real estate investment trusts (REITs), commodities, and Treasury Inflation Protected Securities (TIPS). Offering these assets in a series of target date funds will provide participants with a lower risk, simple, yet diversified investment program. These funds start out aggressively in an employee's younger years and become increasingly conservative as the employee approaches retirement eligibility and enters retirement. The target date

assets will be invested using a passive approach; that is, each portfolio is constructed to match or track the components of a broad market index providing broad market exposure, low operating expenses and low portfolio turnover when invested in a manner corresponding to indexes of the asset classes mentioned earlier. The fees associated with these funds will average 0.25% compared with the historic average of 0.90% producing an average fee savings of 0.65% per year.

The Plan will continue to offer the ING Stable Income fund and will also offer the Self-Directed Brokerage (SDB) window for hands-on investors at no annual fee for participation. Those wishing to be hands-on investors will have access to over 9,000 mutual funds, of which 1,000 are funds carrying no-load and no transaction fee and over 3,600 that are no-load funds.

### **Why the Change Now?**

The change to the Plan investment design is a result of careful research and evaluation and not a reaction to recent market volatility. You may be concerned that by implementing the changes at this time you will be selling shares of your funds at lower prices, but it is important to understand that you will also be buying shares at a lower price. If we waited until the markets recovered you would be selling fund shares at higher prices, and buying shares at a higher price. As fiduciaries of the plan and investment professionals, we are confident that the timing of this transition will not work to the disadvantage of the plan participants.

The decision to make significant changes to the Plan were reached after extensive due diligence by investment professionals who have nothing but your best interest in mind -- those decisions were not made lightly. This is firmly believed to be a positive change for State of Missouri employees that will provide them with a smart, simple, savings solution requiring very little, if any, personal involvement or maintenance going forward.