MULTNOMAH GROUP

Understanding Your Supplemental Retirement Savings Plans

A Retirement Planning Session for Employees of The University of Houston

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Introduction to Multnomah Group

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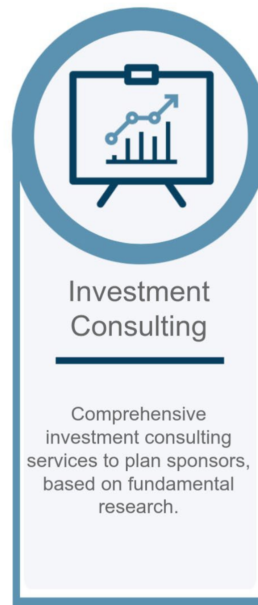
Multnomah Group is a 100% fee-for-service independent retirement plan consulting and fiduciary investment advisory firm.

Across the U.S., we serve our investment consulting clients as fiduciaries to their plan. Our focus within the retirement plan marketplace, and our conflict-free structure, enable us to serve as a trusted partner for our clients. Within this partnership, we seek to learn about each client, their culture, and their goals.

We provide:

- Clear Focus
- Independence
- Total Plan Health Approach
- Breadth of Experience
- Proprietary and Independent Investment Research



About Multnomah Group

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Multnomah Group is an institutional retirement plan advisory firm located in Portland, Oregon. We work with our clients to assist them in making informed and prudent decisions surrounding their retirement plan investments, governance, and vendor management. Our ultimate goal is to help your employer enable you, the participant, to achieve a successful retirement outcome.

About Your Presenter

David Imhoff, Financial Planner
David is responsible for providing support to Multnomah Group's personal financial planning clients, including data management, client reporting and billing, and account establishment/maintenance. He is also leads Multnomah Group's participant group education and one-on-one sessions. David earned an M.A. in Political Science and Economics from Miami University and a B.A. in Political Science from the Ohio State University.

Today's Objectives…

To assist you with the following topics:

- Reviewing general retirement planning and asset allocation
- Navigating contract changes to your retirement plan with The University of Houston
- Understanding your plan's investment options
- Utilizing educational outreach from your plan's vendors

Today's Retirements Last Longer Than Ever Before

Your retirement could last longer than you realize:

- According to the National Center for Health Statistics*, a 65 year-old man can expect to live, on average, for another 20 years and a 65 year-old woman for 22 years.
- According to the SSA**, 1 out of 4 retirees will live past age 90 and 1 out of 10 will live past age 95.

**NCHS Data Brief No. 168, October 2014*

***SSA website, www.socialsecurity.gov, November 2014*

How Much Will You Need?

You should have enough set aside to provide 70% to 100% of your final year's salary each year during retirement.

Example: Salary at retirement = $60,000

- 70% = $42,000
- 80% = $48,000
- 90% = $54,000

Inflation Keeps on Going— Your Income Needs to Keep Up

	Cost Today	Cost in 20 Years
Gallon of milk	$3.50	$6.32
Haircut	$30	$54.18
Running Shoes	$85	$153.52
New Car	$20,000	$36,122

Note: Assumes a 3% annual inflation rate, which cannot be guaranteed.

Retirement: Start Now

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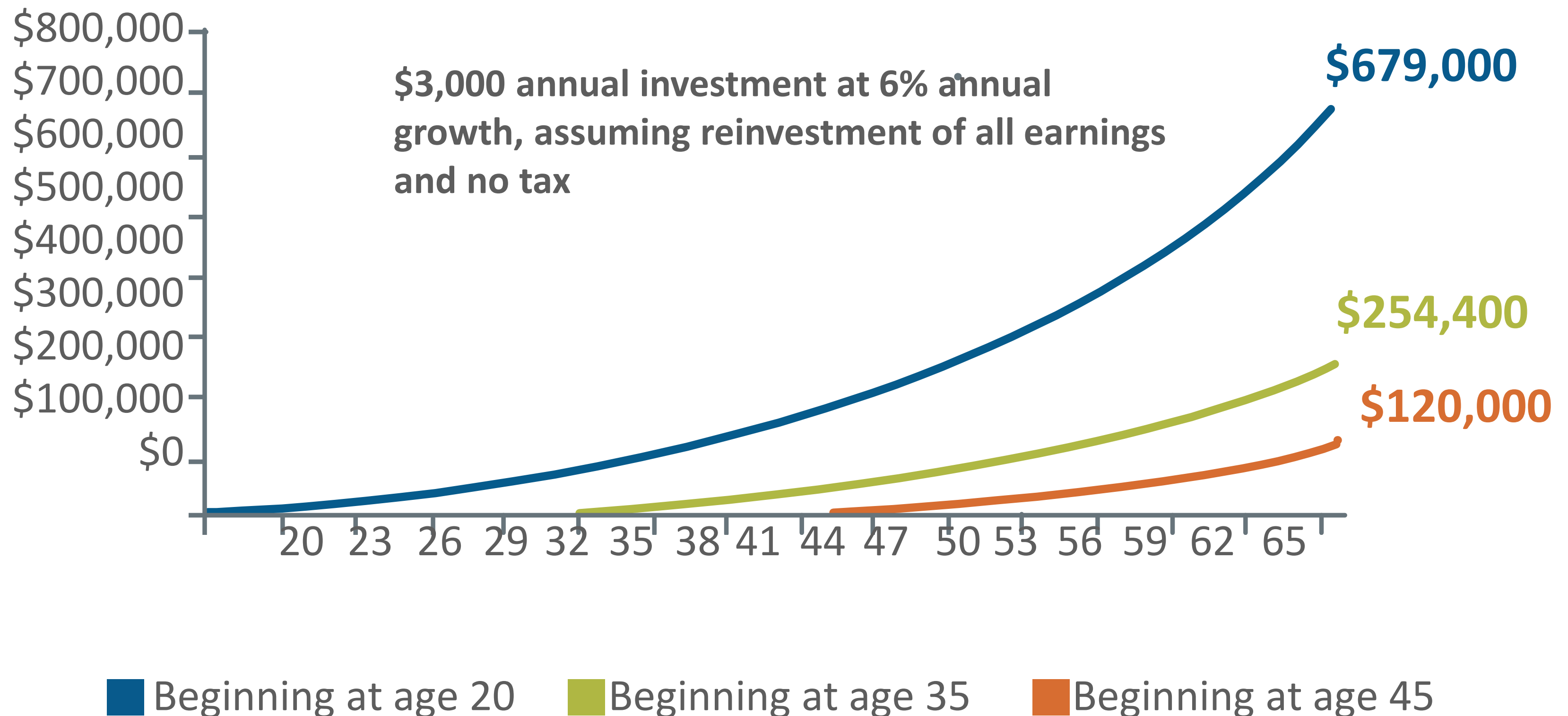
- Don't put off planning and investing for retirement
- The sooner you start, the longer your investments have to grow
- Playing "catch-up" later can be difficult and expensive



This is a hypothetical example and is not intended to reflect the actual performance of any investment. This illustration assumes a fixed annual rate of return; the rate of return on your actual investment portfolio will be different and will vary over time, according to actual market performance. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

Types of Investments

- Diversification: putting together a mix of investments
- Investments can typically fit into one of three asset classes:

All investment strategies involve risk, including the possible loss of principal.

What is Your Investment Profile?

- Saving as early and as much as possible are the most important goals
- Unless you are fairly close to retirement age, how you invest should be based on long-term considerations, despite our natural tendency to focus on short-term economic news
- Time in the market is usually more effective than timing the market
- Ultimately, how you choose to invest will be the result of many personal factors

Asset Allocation – Considerations

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- **Diversification**—Are you broadly or narrowly invested in the market?

Are all of your assets in one sector of the market (real estate, for example) or one asset class (bonds, for example)?

- **Risk tolerance**—What is your personal tolerance to absorb some losses?

What is your ability to suffer some short-term losses to your investments? Can you take short-term losses if it means possible long-term gains?

- **Time horizon**—How far away are you from retirement?

As you get closer to retirement age, your investments may need to become less risky. The longer you have until retirement, the more risk you can afford to take.

- **Personal financial situation**—How much can you comfortably save?

Assess your long-term retirement needs versus short-term personal financial needs.

- **Liquidity needs**—If necessary, how quickly do you need access to your assets?

At different stages of your life, accessibility to your retirement assets may become more important.

Asset Allocation – Sample Allocation Model

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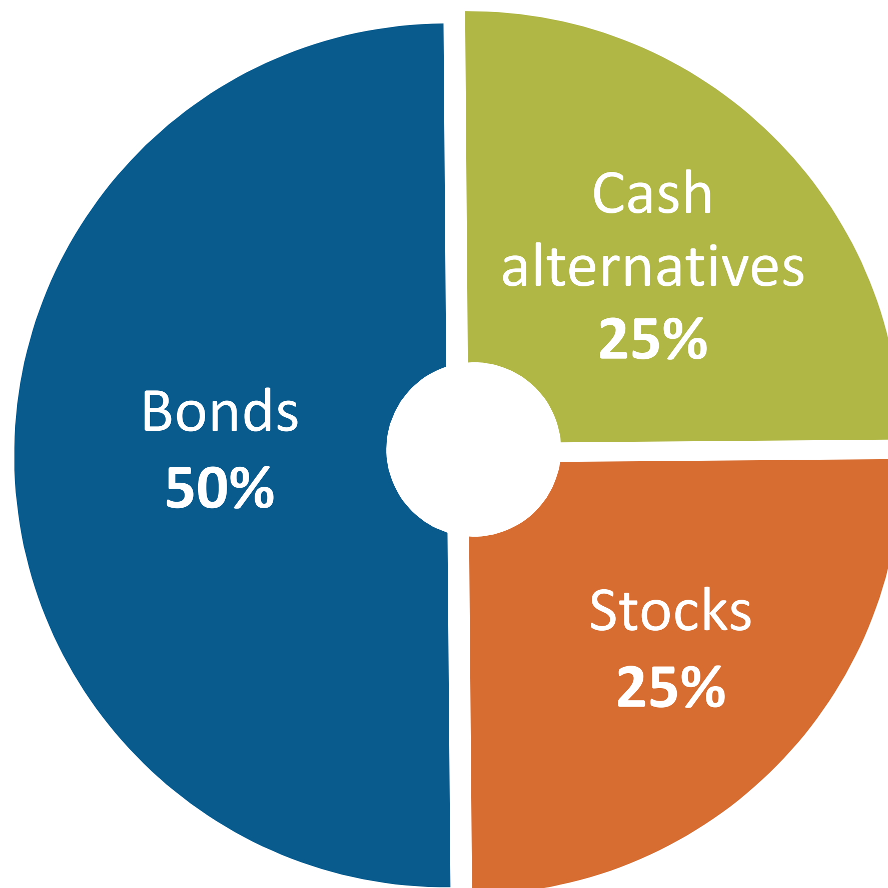
Conservative

A conservative asset allocation model will tend to focus on preserving principal

Preceding a market downturn (bear market), investors often prefer a more conservative portfolio, as bonds and cash are seen as safer investment options

As you get closer to your retirement age, your portfolio should trend towards a more conservative allocation



These asset allocation suggestions should be used as a guide only and are not intended as financial advice. They should not be relied upon. Past performance is not a guarantee of future results.

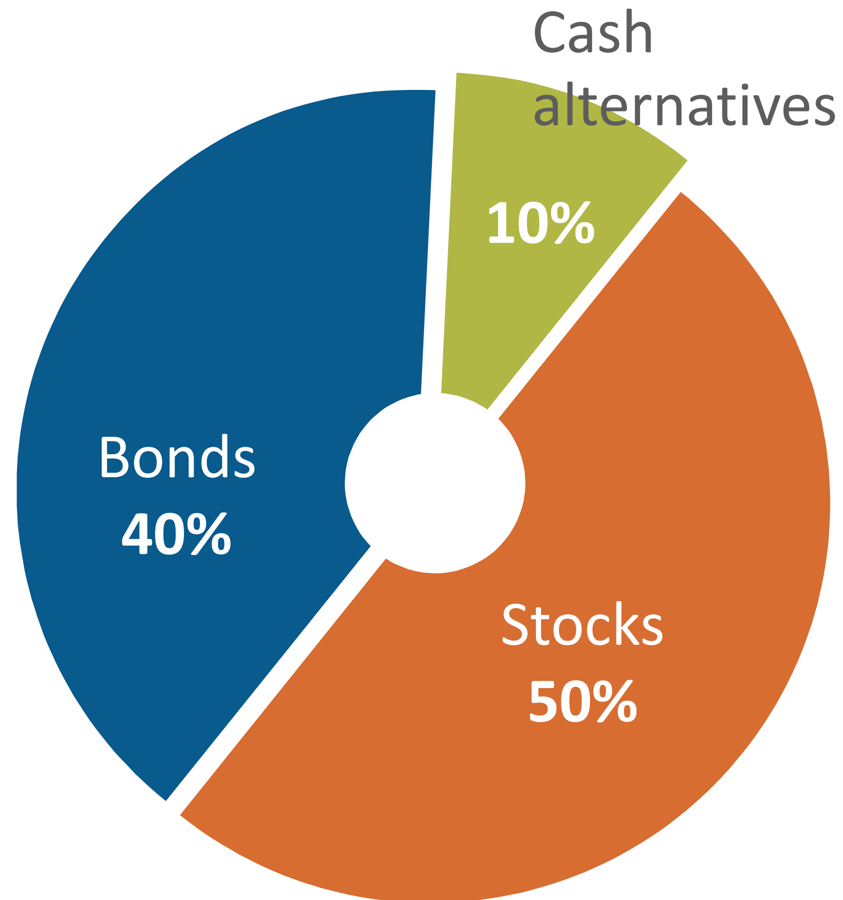
Asset Allocation – Sample Allocation Model

Moderate

A moderate asset allocation model will tend to balance predictable income with potential growth

In the middle of a business cycle, investors often prefer a balanced portfolio

Around the midpoint of your career, moderate portfolios are generally suitable



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Asset Allocation – Sample Allocation Model

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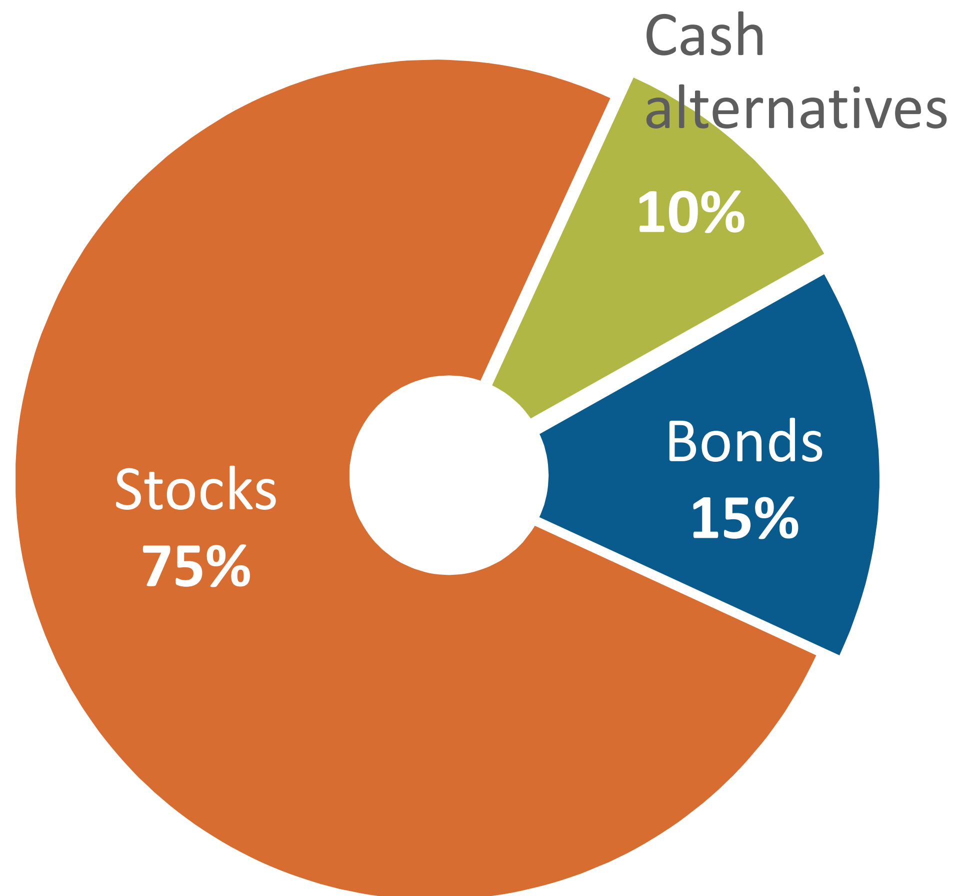

Aggressive

An aggressive asset allocation model will tend to focus primarily on potential growth

In a market upturn (bull market), investors tend to hold more stocks to generate better returns

The younger you are, the more risk you can afford to take, and the more aggressive your portfolio tends to be

These asset allocation suggestions should be used as a guide only and are not intended as financial advice. They should not be relied upon. Past performance is not a guarantee of future results.

Understanding Your Supplemental Retirement Plans With The University of Houston

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- What are the benefits of your supplemental retirement plans?
- How will the contract conversion affect your Tax Deferred Annuity plan?
- What are your investment options?
  - mutual funds
  - target-date funds
  - self-directed brokerage account (Fidelity and TIAA)

Benefits of a Supplemental Plan

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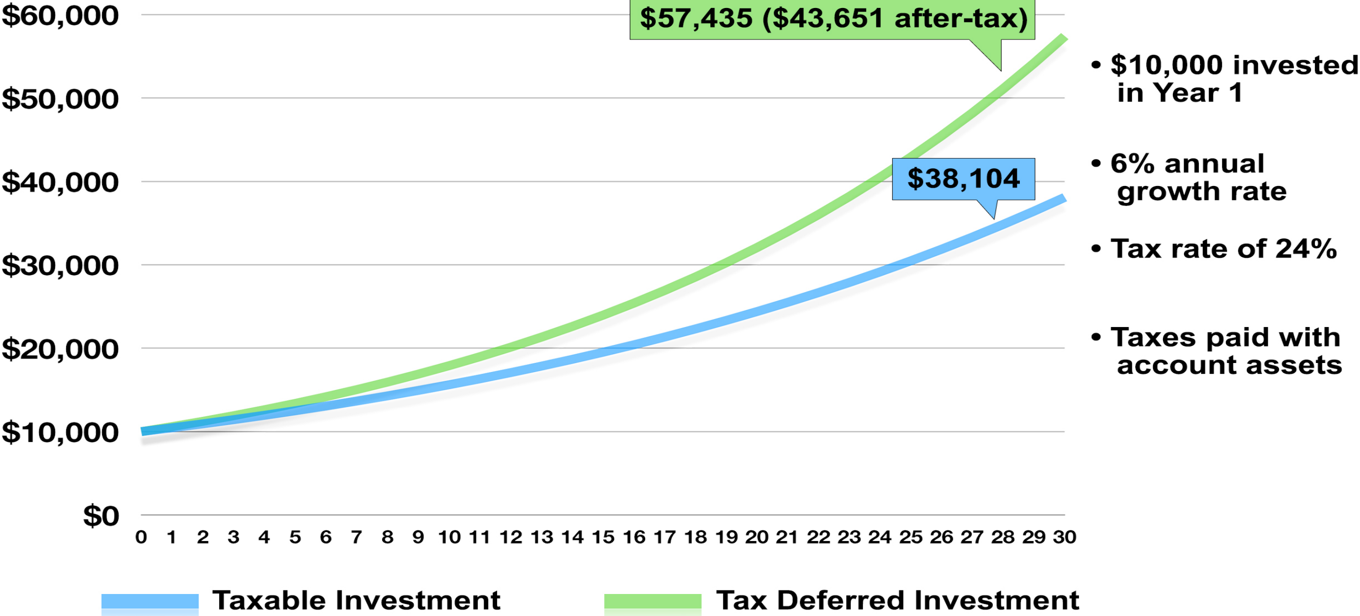
- Whether through a *403(b)* (the TDA plan) or a *457(b)* (the Texa$aver program), you can save and invest more for retirement to supplement pension income

- All employee contributions are excluded from your taxable income until distributions are taken

The Value of Tax Deferral



This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual results will vary. The taxable account balance assumes that earnings are taxed as ordinary income and does not reflect possible lower maximum tax rates on capital gains and dividends which would make the taxable investment return more favorable thereby reducing the difference in performance between the accounts shown. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. This illustration assumes a fixed annual rate of return; the rate of return on your actual investment portfolio will be different and will vary over time, according to actual market performance. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

Old vs. New TDA Contracts: Factors to Consider

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- Regardless of your chosen provider, balances in your existing contracts will remain there unless you choose to move them

- No contributions can be made into funds within the old contract

- Fund fees and performance under the old contract are not monitored by the UHS Retirement Plan Investment Oversight Committee (RPIOC)

- Even if you have made your contribution and investment provider selections within the Retirement@Work online portal, you still need to open a new account or access your existing account *with each provider* you have chosen to select your specific investments

- There are no fees to transfer your account balances to the new investment menu

Benefits of Your New Investment Menus

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- **Simplified menu and tiers:** Investment “tiers” provide you with help in making your investment choices

- **Diversification:** The investments offered on the menu provide an array of investments across multiple asset classes

- **Lower fees:** Since index funds are passively-managed, their expenses tend to be much lower than other types of funds

- **Brokerage:** These options (TIAA and Fidelity only) offer thousands of additional mutual find investment options for experienced investors

The Impact of Lower Fees

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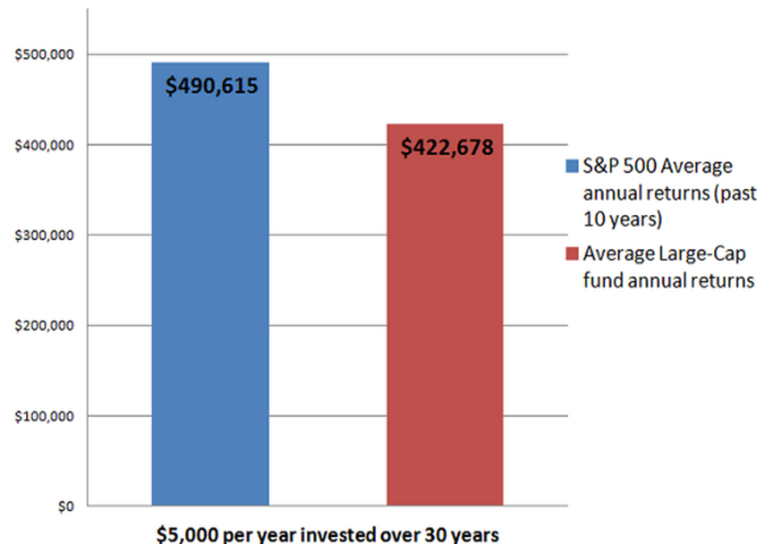
- An expense ratio is an ongoing fee you pay to invest in a mutual fund and is expressed as an annual fixed percentage of your invested assets
- Unlike normal fees, you are not presented with a bill each year that states how much is due
- Instead, the fee is taken directly from the fund, which can make the fee easy to miss, and it can have an impact on your investment performance

0.1% vs. 1%



403(b)/TDA Contribution Rules, Limits, and Penalties

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- For 2019, the IRS allows you to defer up to $19,000
- Additional $6,000 “catch-up” contributions are allowed for employees over the age of 50
- Your contributions reduce your annual taxable income
- 10% “early withdrawal” penalties prior to age 59 ½

About Mutual Funds

- Brings together the money of many different investors
- Hold a mix of individual stocks, bonds, and/or cash
- Automatic diversification
- Choose investments based on objective

No investment strategy, including diversification, can ensure a profit or guarantee protection against a loss in declining markets. Before investing in a mutual fund, make sure you understand the fund's objectives, risks, fees, and expenses. This information can be found in the fund's prospectus, which should be read carefully before investing.

Understanding Investment "Tiers"

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Tier 1: Target Date Retirement Funds—Using target date retirement funds, UHS provides you with access to diversified portfolios to meet your investment goals within a single fund. If you choose to invest using target date retirement funds, you will be placed into the fund with the year that most closely matches the year you turn age 65. The investment within the funds automatically adjust to become more conservative as you move closer to retirement.

Tier 2: Core Array—This tier offers passive – or index – funds, which mimic a particular market index such as the S&P 500. If you'd like to build a portfolio with a focus on diversification and indexing at a lower cost, you can use the funds in this level to accomplish that. You should account for changes to your personal circumstances and adjust your portfolio as you approach retirement.

Tier 3: Extended Array—The investments in this array provide a wide range of mutual funds, socially responsible investment alternatives, and some guaranteed annuities. Investors who want access to specific asset classes and plan to actively manage their own portfolios may fit into this group. Their array focuses on choice and relies on investors to determine the risk and asset allocation that will meet their goals.

Tier 4: Brokerage—This tier is for the experienced investor who wants access to thousands of additional mutual fund investment options. These options are not monitored by the UHS Retirement Plan Investment Oversight Committee (RPIOC) and therefore participants are responsible to conduct their own diligence and screening.

Tier 5: Variable Annuities—Variable Annuities provide additional investment options providing market returns, and you can shift money among your investments as needed. Once you retire, you can receive income payments for life, or the period you select, that change based on market performance. And, there are no penalties or surrender charges on withdrawals or transfers.

Understanding the Texa$aver 457(b) Plan

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- A 457(b) plan is a type of deferred compensation retirement plan offered to certain state and local government employees

- 457(b) and 403(b) plans offer similar investment choices, allow your investments to grow tax-deferred, but there are a few differences related to rules, penalties, and eligibility requirements

- ***If eligible, you may contribute to both the 457(b) and 403(b) plans***

Note: the Texa$aver 457(b) plan's vendor is *Empower Retirement,* which offers different investment products with associated fees than those offered under the Tax Deferred Annuity plan. These products have not been selected under the advisement of Multnomah Group.

What Are the Differences Between the TDA and 457(b) Plans?

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403(b)	457(b)
Contribution limit is $19,000/year for an employee	Contribution limit is $19,000/year for an employee
“Catch-up” contributions are allowed after age 50 up to an additional $6,000/year	“Catch-up” contributions are allowed after age 50 up to an additional $6,000/year. A “three-year rule” allows for a total of $38,000/year for employees within three years of normal retirement age
10% penalty for early withdrawals before age 59 ½	NO penalty for early withdrawals before age 59 ½, but you must no longer be employed with the plan sponsor
Part-time and full-time state employees are eligible	Part-time and full-time state and higher education employees are eligible

Education and Outreach With Your Plan's Vendors

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- For individual consultations regarding your Tax Deferred Annuity plan, be sure to meet with representatives from your plan's vendors.
- Vendor representatives with us today:

  - Fidelity https://nb.fidelity.com/public/nb/uofh/home
  - TIAA www.tiaa-cref.org
  - VALIC (AIG) www.VALIC.com
  - Voya http://www.voya.com

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