



## ***Exciting Changes Coming to the State of Missouri Deferred Compensation Plan***

During the past year, MOSERS worked diligently with ING, the record keeper for the State of Missouri Deferred Compensation Plan (the “Plan”), to review all aspects of the Plan. A primary goal of that review was to gain a better understanding of the overall knowledge that Plan participants have regarding their investments and investing behaviors.

What we learned from state employees and participant focus groups is that when faced with too many choices participants tend to become confused. Our research showed that:

- over 60% of Plan participants have assets in just one fund,
- over 50% of Plan participants are invested in the stable income fund,
- and 32% of the Plan’s assets are invested in large-cap stock mutual funds.

### **Introducing a smart, simple, savings solution**

We are now implementing the steps necessary to help participants become better investors. By streamlining the current line-up of 31 funds to a series of 12 target date funds, one cash-like fixed-income investment, and a brokerage window we will now offer an investment design that provides a smart, simple, savings solution for Plan participants.

Target date funds provide professionally-managed broadly diversified portfolios that adjust allocations in various assets over time, automatically.

- Each target date fund invests more aggressively in its early years and becomes more conservative in the later years as its investment horizon shortens and gets closer to its target date.
- Each fund is a mix of global stocks, bonds, diversifying investments, and cash which offers a variety of assets that are not highly correlated to one another, thereby reducing the overall risk of the portfolio.
- The funds are spaced five years apart and each fund is named with an expected retirement year.

The Plan will continue to offer the ING Stable Income Fund as a fixed-income, cash-like, investment option for those with a low tolerance for risk. The Self-Directed Brokerage Account will remain as an option for those who want to take an active, hands-on approach to managing their investments.

### **An added bonus – lower fees**

With the new plan investment design, the average investment option fee will be 0.25% of account balances per year compared to the current Plan average of 0.90%. We anticipate an overall reduction in fees paid by participants of approximately 0.65%.

### **The transition of plan accounts will occur on April 10, 2009**

Participants’ account assets will transfer from their current investment options (excluding assets in the ING Stable Income fund) to the appropriate target date fund corresponding to the year they turn 65 through a process called “mapping.” The transition will happen automatically; participants will not need to take any action.

Effective communication is a major factor to achieving a successful transition as this kind of change touches many levels of our organization. To ensure a smooth transition we are committed to maintaining open and ongoing communications. It will be important for us to consistently communicate the benefits of this initiative to participants to ensure their confidence in the direction we are taking.

Please Note: All employees will receive a packet of information concerning these changes at the beginning of February that will outline the new investment design and the key transition dates. The call center will be prepared to begin taking participant calls the first week of February. We request your cooperation in allowing staff to attend an open meeting during the period between February 18 and April 9 to learn about these exciting plan changes. A schedule of these open meetings is attached.

The decisions about the new investment design were reached after extensive research and due diligence. We believe the target date funds to be a **smart, simple, savings solution** for participants on the whole.

The following table summarizes our research, present plan observations and the structure of the future plan design:

<p><b>Present Plan Design</b></p> <ul style="list-style-type: none"> <li>▪ <b>Low savings rate:</b> 52% of active participants contribute \$50 or less a month while 75% contribute \$100 or less.</li> <li>▪ <b>Too many fund choices:</b> the present plan has 31 choices compared to an average of 17 amongst our peers. Too many fund choices is over whelming to participants as they are unsure which funds to choose.</li> <li>▪ <b>Poor diversification ability:</b> investments are limited to traditional stocks and bonds. All 20 stock funds (from large-cap, small-cap to international equity) are highly correlated to one another – meaning that all of these fund choices act alike as their risk and return patterns are similar. Currently a participant may choose two or more of these funds and assume that they are diversified, when in fact they are not.</li> <li>▪ <b>Poor Asset Allocation:</b> most participants lack the time and knowledge that it takes to invest wisely. That is apparent through the asset allocation of the entire plan. 83% of the plans assets are invested in Stable Income (58%) and large-cap stocks (25%) proving that there is poor diversification demonstrated by participants. With 58% of the plan dollars allocated to a cash-like investment such as stable income, this shows that our participants are heavily weighted toward fixed income/bond investments considering that MOSERS and Social Security fixed income - like benefits are such a large part of their retirement income.</li> <li>▪ <b>High fees:</b> The average fee across the available fund choices is 0.90% compared to an average of 0.49% amongst our peers.</li> </ul>	<p><b>Future Plan Design – Smart ~ Simple ~ Savings ~ Solution</b></p> <ul style="list-style-type: none"> <li>▪ <b>Smart Simple Investment choices (a complete savings solution):</b> Participants will automatically be placed into a Target Date retirement strategy (TDS) based on their date of birth or chosen date of retirement. A TDS will provide professionally managed, broadly diversified portfolios that adjust allocations in various assets automatically (more aggressive in the early years to more conservative in the later years) as participants’ investment horizons shorten. Each TDS is a mix of global stocks, bonds, diversifying investments, and cash (a variety of assets that are not highly correlated to one another). Each TDS is named with an expected retirement year, and the funds are spaced five years apart (e.g., 2010, 2015, 2020, etc.). A participant invests in a TDS with the target date closest to his or her own anticipated retirement date. A participant does not need to have extensive investment knowledge or receive investment counseling to make this decision. A participant only needs to learn, for example, that if he or she plans to retire in 2040, the 2040 portfolio would be the logical choice.</li> <li>▪ <b>Additional Plan Investment Options:</b> The ING Stable Income fund option will remain as a fixed income cash like investment option and participants can also sign up for Self Directed Brokerage Account at no annual fee to access over 9,000 mutual funds with over 1,000 funds featuring no load or transaction fees.</li> <li>▪ <b>Lower Fees:</b> the average fee of the future plan fund options would be approximately 0.25%. This means significant savings for participants because higher fees will impact a participant’s ability to save more for the future.</li> <li>▪ The future plan design will accomplish the Deferred Compensation program Mission: <i>Provide a customer-focused deferred compensation plan with high-quality, well-diversified, cost-conscious investment products that will encourage state employees to save for their retirement years.</i></li> </ul>
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**Questions?**

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