Simply Put
The Financial Guidance Edition

First Quarter 2015
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What is in a name?

The number of designations in the financial advice market is almost dizzying. For simplification, this newsletter most often uses the generic term "financial professional," but be advised that not all financial designations are created equal. Here's a sampling of the titles and designations you may encounter as you seek financial guidance:

- Financial Professional
- Financial Advisor
- Investment Advisor
- Registered Investment Advisor
- Investment Professional
- Broker Dealer
- Certified Financial Planner®
- Financial Planner

Turn to the back page to learn how these designations may differ.

CALENDAR

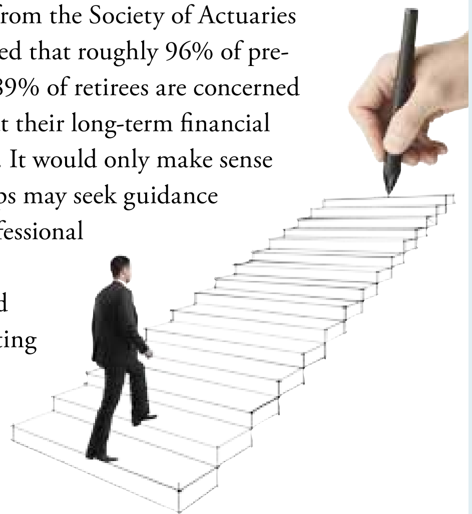
The New York Stock Exchange is closed:

Friday, April 3, 2015

Monday, May 25, 2015

STATE OF MISSOURI DEFERRED COMPENSATION PLAN

Raising the Standard



A 2014 report from the Society of Actuaries (SOA) revealed that roughly 96% of pre-retirees and 89% of retirees are concerned to some degree about their long-term financial future in retirement. It would only make sense then that both groups may seek guidance from a financial professional to ease their anxiety about retirement and ensure they are meeting financial goals. After all, if you were worried about something different, like maybe that funny noise your car is making, wouldn't you take it to an auto mechanic? Interestingly enough, only 52% of pre-retirees and 44% of retirees from the very same SOA report actually consult a financial planner or advisor. In today's financial environment the reason is clear: Choosing the right financial advisor is extremely confusing. Even more, choosing the wrong planner could be a costly decision.

Currently, some investment professionals follow a **"suitability standard,"** which means investment recommendations must only be "suitable" for a client based on age, wealth, and other factors. This standard gives financial professionals a great deal of flexibility when choosing investment options for their clients. In some instances, this standard opens the door for professionals to "sell" certain funds that will produce higher commissions for the "advisor" or "broker dealer" at the expense of the retirement saver. Other financial professionals (like a Certified Financial Planner professional, or CFP®) are bound by a **"fiduciary standard,"** which declares that a financial advisor must act solely in a client's best interest. As of this newsletter's printing, lawmakers are pushing for a measure that would place ALL financial professionals under the fiduciary standard. This special edition of *Simply Put* aims to educate you, the retirement saver, on the many kinds of financial professionals that exist, how they may charge for their services, and certain products they may sell you.

The Cost of Bad Advice

Financial advisors and planners have been in the news a lot lately, as Washington aims to simplify the standards by which these professionals operate. Why the need for change? According to the White House Council of Economic Advisors (CEA):

An estimated

$1.7 TRILLION

of IRA assets are invested in products that generally provide payments that generate conflicts of interest.

AS A RESULT

Savers lose more than

$17 BILLION

each year because of unsuitable investments and bad advice.

Your Information is Public Record

How do financial professionals find you? As a state of Missouri employee, some of your employment information is available to the public via an "open records" request. Under the Missouri Sunshine Law, a third-party financial service provider can request:

- Your name
- Agency of employment
- Years of service
- Retirement eligibility

Further, for those retired from the state, monthly benefit amounts received from MOSERS or MPERS are also considered an "open record".

Using that information, financial professionals can develop a detailed database of state employees who are: retired, eligible to retire, or soon to be eligible to retire. What does this mean for you? It's not uncommon for state employees to receive targeted solicitations from financial professionals who have requested this information. Many times these service providers will try to convince state emaployees to roll over a BackDROP payment (if eligible) or deferred compensation plan balance at retirement.

"As a state of Missouri employee, some of your employment information is available to the public via an "open records" request."

When might a financial professional approach you?

There are several times throughout your career and in retirement when you may be approached by someone offering financial advice.

When you begin working.

Let's face it, when you start working you also start earning a paycheck. Financial professionals will often reach out to first-time employees in hopes they can help them manage a piece of that money. If you're new to the workforce, keep in mind that employer-sponsored retirement plans, like the deferred compensation plan, are often the simplest and most convenient and cost efficient ways to start saving for retirement. The Plan does not charge sales commissions like consumers might find in some retail individual retirement accounts (IRAs) or annuity structures.

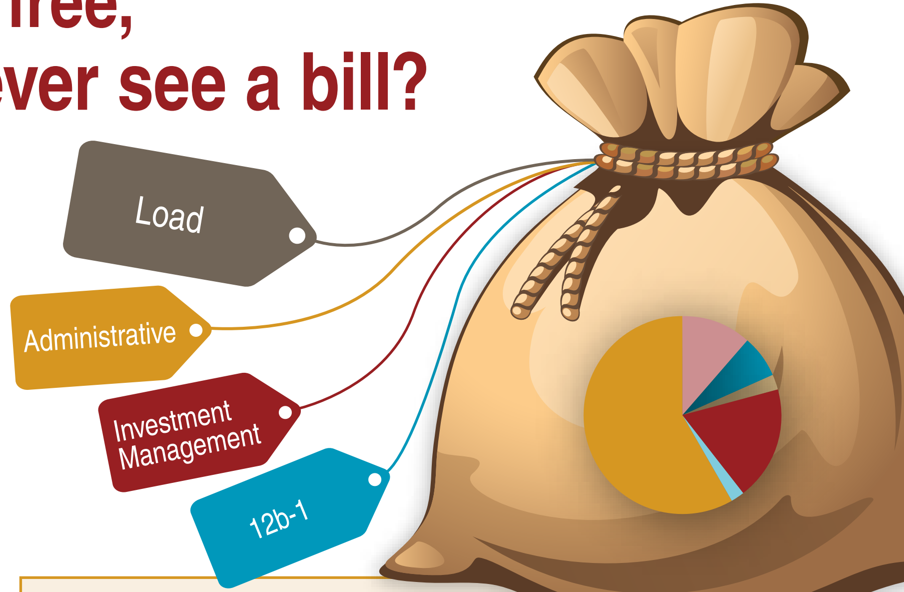
If you are eligible for BackDROP.

If you're eligible to receive BackDROP, which is a lump sum distribution some state employees choose to receive at retirement, then chances are you may be contacted by a financial professional interested in helping you manage that sum of money. While that decision is entirely yours, remember you can roll that money into a deferred compensation plan account at retirement, even if you've never participated in the Plan.

After you retire.

If you were a dedicated saver throughout your working career, chances are you accumulated some money in a retirement savings account like the State of Missouri Deferred Compensation Plan. While you can certainly keep your money in the deferred compensation plan throughout retirement, there's a strong possibility that a financial professional will be interested in helping you manage that balance in retirement. Again, the decision is yours, but keep in mind that the deferred compensation plan is a low-cost, custom retirement account built specifically for state of Missouri retirees. Rolling money out of the plan means you lose access to these valuable features.

If financial advice isn't free, then how come you never see a bill?



There is often confusion about the fees and expenses a saver pays to invest in the market. To be clear, even if you don't work with a financial professional, you're paying expenses when you participate in a retirement savings plan or even a taxable brokerage account. For instance, the administration fee to participate in the State of Missouri Deferred Compensation Plan is $1 per month, and the expense ratio on the Plan's most popular investment options — the Missouri Target Date Funds — is approximately .22%. An expense ratio is simply the percentage you pay to invest in a fund. In the case of the Missouri Target Date Funds, you'll pay $2.20 for every $1,000 you have invested in that fund. That .22% expense ratio is deducted from your fund's overall performance, so if your final annual performance is 9.70%, then in reality your fund returned 9.92% before expenses. Certain types of financial professionals may charge for their services in a similar manner. Those fees are in addition to the expenses on the investment options they recommend to you. This means it may not be immediately clear how much you are paying for financial advice. This is not the case for fee-based financial professionals who *will* provide you with a bill for their services. Like their name suggests, fee-based financial professionals charge a separate fee for their services — much like you would pay at a hair salon or auto shop. This practice is a much more transparent way to pay for financial advice.

Fees — What to Watch For

A popular practice among some broker dealers or financial professionals may be to place you in an investment option share class that not only charges an annual investment management expense, but also an up-front or back-ended sales charge sometimes amounting up to 5.75%. These fees are sometimes called "loads" and can make your investment extremely expensive.

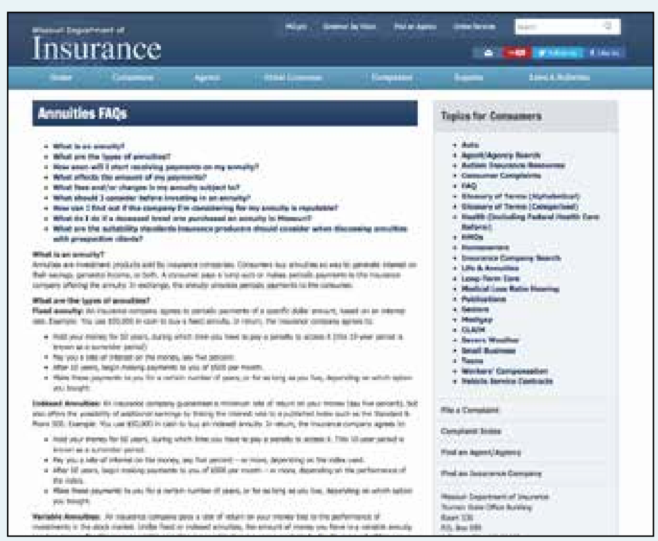
As a reminder, the State of Missouri Deferred Compensation Plan does not charge sales commissions. The plan is a valuable employee benefit and education specialists are available for "education" purposes only.

Guaranteed Solutions

Do Your Homework Before Buying an Annuity

In recent years, annuities have become a popular product sold by financial professionals because they promise a guaranteed stream of income throughout retirement. Unfortunately, purchasing an annuity (converting all or a portion of your savings balance to lifetime income) carries with it a price tag, a loss of flexibility, and a lot of confusion. The Missouri Department of Insurance maintains a valuable Annuity FAQ page at **insurance.mo.gov/consumers/life-annuities/AnnuitiesFAQ.php** that helps consumers better understand the:

- types of annuities available in the market,
- how much they cost,
- things to consider before purchasing an annuity,
- a consumer complaint index, and much more.



If you're a retired state of Missouri employee, you will have access to two forms of guaranteed lifetime income in the form of a pension benefit and, eventually, social security. You need to ask yourself if it's necessary to also convert your personal retirement savings into a guaranteed form of income as well, especially if doing so can be costly and confusing. **If you do decide to purchase an annuity, Missouri law allows consumers a "free look" period. If you are unsatisfied with the product within 10 days of receiving your policy or contract, you can cancel the policy and get a return of all premium payments.**

For annuity information visit **insurance.mo.gov/consumers/life-annuities/AnnuitiesFAQ.php**

Final Verdict:
Should you use a financial advisor?

Truthfully, financial professionals can be valuable. A 2013 Morningstar report found that financial professionals help individuals generate roughly 1.82% in excess returns each year versus savers who don't utilize a financial professional. But it's important to keep in mind that you are paying for that excess return. As a consumer, it's a must that you evaluate what you're paying your financial professional. This will require you to ask important questions at the onset of your relationship with the professional. While investment performance is certainly one measuring stick you can use to evaluate a financial professional, keep in mind that they can also help savers navigate complex tax issues, estate planning questions, and other possibly confusing financial matters. As a consumer, you must weigh the expenses you pay for financial services with the peace of mind such professionals might provide.

For important news, savings tips and more:

What questions should you ask?

If you've been approached by a financial professional offering his or her services, it's crucial that you ask a number of important questions before you turn over the keys to your money. The State of Missouri Deferred Compensation Plan provides a couple of resources to help participants out. For general guidance, they offer the *Investment & Financial Advisor Checklist*, while the *Considering a Rollover? Questions You Should Ask* publication is designed for employees considering a rollover out of the deferred compensation plan. Both of these publications highlight the benefits of the deferred compensation plan and the many important questions you should ask financial professionals prior to doing business with them. If a prospective financial professional can't clearly answer the questions contained in these publications, then it may not be in your best interest to move forward with the relationship. If you're still unsure about a potential relationship with a financial professional, don't hesitate to contact the Plan with additional questions at 800-392-0925.

All Financial Professionals are Not Created Equal

	Investment Advisors	Brokers/Broker Dealers
Standards	Bound by Fiduciary standard: requires them to put their client's interests above their own. Required to disclose conflicts of interest	Bound by Suitability Standard: making recommendations that are consistent with the best interests of the underlying customer. Sometimes discloses conflicts of interest, though not required
Duty of Loyalty	"Duty of Loyalty" is to client first and foremost	"Duty of Loyalty" to the broker-dealer he or she works for, not necessarily the client
How They Get Paid	Services typically fee-based (either a flat fee or as a percentage of assets)	Services are typically commission-based
Certifications/Titles/ Designations	Certified Financial Planning CFP® professionals, Registered Investment Advisors (RIAs)	Broker dealers, registered representatives, insurance agents, financial advisors
Regulatory Body	Regulated by the SEC	Regulated by FINRA

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