Baylor Retirement Plan: Frequently Asked Questions

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Participant Note

To Baylor Retirement Plan Participants,

In October 2018, planned changes to the Baylor Retirement Plan (the “Plan”) were announced. By now, employees should have received a Transition Guide mailed to their home explaining these changes. Weekly on-campus education sessions led by TIAA are underway to help address any questions you may have about these important issues. To help you prepare for a session, answers to Frequently Asked Questions follow:

Topics

- What Will Not Be Changing
- Strategic Review Process
- Simplified Recordkeeping
- Simplified Investments
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- Plan Design
- My Planning

Questions

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22. What do I need to do?

FAQs

What Will Not Be Changing

1. Is the benefit level Baylor gives me today changing?

No, your benefits under the Plan do not change, and the Plan design does not change. For instance, the following items remain the same:

- Baylor’s contribution of 10.8% of your annual salary on your behalf
- Contribution and distribution rules
- Eligibility and vesting provisions

Strategic Review Process

2. Who oversees the Plan?

The Administrative Committee for the Baylor Retirement Plan (“the Committee”), which is composed solely of Faculty and Staff members appointed by the President of the Baylor, all of whom belong to churches in the Baptist General Convention of Texas, is responsible for the administration and oversight of the Plan. The Committee is currently made up of the following Faculty and Staff members: Susan Anz, Blair Browning, Dawn Carlson, Hank Steen, and Betsy Willis. As your peers and fellow Participants in the Plan, the members of the Committee are tasked with acting solely in the best interest of you and other Participants.

In fulfilling its duty as Plan Administrator, the Committee regularly reviews the Plan and its administrative structure to ensure the Plan continues to provide a high-quality retirement for Participants. As part of its ongoing mission, the Committee hired CAPTRUST, a best-in-class, independent financial consultant to obtain unbiased, expert advice on the Plan’s
3. What process guided changes to the Plan?

With the assistance of CAPTRUST, the Committee kicked off a strategic project in mid-2017 to modernize and enhance the Plan’s existing recordkeeper and investment structure with TIAA, Vanguard, and GuideStone, which culminated in the changes and new structure announced in mid-October. This project was initiated for several major reasons:

- To continue to provide a world-class retirement plan to Faculty and Staff, ensure transparent and reasonable fees, and provide customized and personalized communication materials.

- To further contain or reduce administrative recordkeeping and investment option expenses paid by Participants.

- To offer “best-in-class” investments and improve the Participant experience through a streamlined investment structure and a self-directed brokerage window.

- To offer more unbiased and independent retirement advice and investment education, better preparing Faculty and Staff for a secure retirement.

4. Why did the Committee hire CAPTRUST to advise it in the process?

Employer sponsored retirement plans can be complex. The Committee determined that a third party independent consultant would help it to find the best possible Plan administrative and investment structure for Participants. CAPTRUST knows and understands the many challenges and significant opportunities facing the higher education marketplace and is not affiliated with any investment company. Most importantly, CAPTRUST brings unbiased perspective and expertise to the process.

After a request for proposals (RFP) and interviewing the finalist consulting firms, the Committee chose CAPTRUST. CAPTRUST’s first assignment was to review the Plan’s structure and compare it to industry best practices, identifying potential areas for improvement. Their findings led the Committee to determine that certain Plan changes would serve the best interest of Participants.

5. What did the Committee learn from the strategic review?

While not everyone has the same investment objectives, knowledge, retirement time horizon or tolerance for risk, Plan changes are designed to benefit all Participants by:

- Simplifying the recordkeeping process so Participants receive the greatest benefit from tax-deferral of contributions and earnings before retirement
- Leveraging the Plan’s combined retirement assets to lower the administrative and investment management costs Participants pay, maximizing their investment earnings potential (One of the Committee’s goals is to ensure Participants always pay competitive fees for the investments and services provided.)

- Simplifying the investment process and encouraging participation by offering an improved investment menu with a wide variety of competitively priced funds

- Providing unbiased, independent investment education and advice

**Simplified Recordkeeping**

6. **What prompted changes to the Plan? I like the current providers and don’t want or need changes.**

We know that any change can be disruptive, especially when it involves the money you’ve saved for retirement. However, there are several reasons for undertaking these enhancements:

On January 1, 2009, IRS rules created new requirements for recordkeepers to maintain the tax-favored status of any 403(b) retirement plan. Since the Plan uses more than one recordkeeper, these new IRS rules require more elaborate coordination among the recordkeepers than in the past. There are significant challenges to ensuring compliance with regulations when working with three different recordkeepers, especially when they have different technology and processes. Using a single recordkeeper will help the Plan comply with IRS requirements, provide the best service to Faculty and Staff, and reduce fees.

In addition, Faculty and Staff have said choosing from among three recordkeepers can be confusing. A redesigned investment lineup offering a core group of closely monitored funds means the Plan will offer a range of investments to allow you to diversify your investments among the different asset classes. It will also allow the Committee to more closely evaluate each investment to ensure it is a sound investment option offering good returns and reasonable fees compared to other funds in the same asset class.

7. **What are the advantages of changes to the multiple service provider structure?**

For many years, the Plan has been administered by multiple service providers – TIAA, Vanguard and GuideStone. While the multiple service provider structure has been common in higher education, it is rarely seen in the corporate sector and other non-profit organizations. In recent years, there has been a trend in higher education toward consolidating recordkeepers as a means of reducing costs and enhancing outcomes for Faculty and Staff. Consolidating recordkeepers can provide the Plan and its Participants with the following advantages:
1. **Improved Participant Communication and Education**
   Effective communication becomes overly complicated with multiple recordkeepers. With one recordkeeper, Participant enrollment and employee education will become more efficient. Participants will benefit from customized and consistent enrollment, education and ongoing communication materials. Moreover, this enhanced benefit will give Baylor a competitive edge in attracting and retaining employees.

2. **Efficiencies of Administration and Monitoring**
   A single recordkeeper can meet the vast majority of the administrative monitoring requirements necessary under the current IRS rules. A single recordkeeper offers a centralized way for the Committee to receive accurate and timely reporting on Plan activities in addition to regular monitoring and reporting on the investment funds available to Participants.

   Moreover, with most recordkeepers now allowing investment funds from a variety of unaffiliated investment firms to be offered through their system, the Committee no longer needs to enlist multiple recordkeepers to offer a broad, cost-effective lineup of investment funds to Participants.

3. **Cost Efficiencies**
   A multiple recordkeeper structure that allocates Participant assets into individual accounts held at separate recordkeepers can result in higher costs. The Committee can maximize the Plan’s “purchasing power” and negotiate lower, more transparent administrative and investment fees through a single recordkeeper. This simpler approach leverages aggregate plan assets and allows Participants to benefit from lower asset management costs.

4. **Clear, Effective Participant Communication**
   Research has shown that communications to Participants are not as effective in a multi-recordkeeper structure because the communications are often a by-product of a sales pitch from recordkeepers competing for Participant accounts. A structure that eliminates ambiguity for Participants and focuses on a consistent effort of engagement and active planning is ideal. A single recordkeeper structure does just that.

8. **What was the recordkeeper selection process?**

   CAPTRUST regularly collects and evaluates information from industry-leading recordkeepers to identify appropriate candidates for its clients.

   Most large, private higher educational institutions, such as Baylor, work with one of several industry leaders: Fidelity, TIAA, Vanguard, and, to a lesser degree, Transamerica. Studying all options, the Committee learned that Fidelity and TIAA do not allow reciprocity of investment options: Fidelity cannot record-keep TIAA annuities, and TIAA cannot
record-keep Fidelity investment products. Further, Vanguard cannot record-keep TIAA annuities.

This means that if an institution desires to offer TIAA investment products, TIAA must be the recordkeeper. While Fidelity and Vanguard do not record-keep TIAA annuities, TIAA has the capability to record-keep Vanguard and Guidestone investment products, as well as products from many other investment firms.

A guiding principle of the Committee is to ensure very competitive recordkeeping fees. Using a single recordkeeper allows the Plan to secure competitive recordkeeping fees and provide optimal share classes of the most desirable investment options.

CAPTRUST recommended soliciting competitive bids from Fidelity, Transamerica and TIAA. After many months of reviewing and negotiating fees, CAPTRUST recommended, and the Committee agreed to select, TIAA as the single recordkeeper for the Plan. This approach minimizes disruption by allowing continued use of Guidestone, TIAA and Vanguard investment products and the inclusion of other top-tier investment funds through the most cost-efficient recordkeeping arrangement.

**Simplified Investments**

**9. What are the benefits of simplifying the investment process?**

Streamlining the investment funds will reduce fund overlap, improve investment quality, and further minimize fees. The more investment options available under the Plan, the more difficult it is for the Committee to closely review the performance and fees of each fund. In addition, Participants can have difficulty understanding all the investment choices and making their investment decisions. While additional fund choices may be perceived as a benefit, ample research has concluded that more fund alternatives can lead to confusion and adverse portfolio choices. More importantly, evidence has shown that extensive choices do not help participants form better portfolios or save for retirement.

**10. Does investment process simplification mean I will have fewer investment choices?**

Yes and no. The proposed tiered investment structure will have a select number of diversified “core” investment funds, which the Committee will closely monitor for their continued viability and integrity. These “best-in-class” funds will be selected in an “open investment architecture” environment, meaning the Committee has the ability to choose from the entire universe of options when deciding on its list of investment funds — not just those provided by the recordkeeper.

Additionally, the Plan includes a self-directed brokerage window that gives Participants access to a universe of thousands of mutual funds from hundreds
of mutual fund companies. This feature will appeal to Participants who want the flexibility to invest outside of the “core” line-up of funds and believe they have the level of investment sophistication necessary to do so. As described below, a Participant may experience additional costs when using the self-directed brokerage window.

11. How will the “tiered” investment structure be beneficial to Participants?

The tiered investment structure provides Participants with a broad range of distinctive investment options but not so many that, when faced with choices, they will have a difficult time structuring an investment portfolio. A tiered investment structure packages or categorizes investment options in a manner that helps Participants make decisions and select a path that is appropriate for them given their:

- Investment knowledge
- Time for managing their own investment portfolios
- Tolerance for risk
- Interest in making asset allocation decisions and selecting investment options

Each tier’s investment options and Participant education materials are tailored to meet Participants’ needs. For example, a Participant without the time or desire to make investment decisions may select a pre-mixed asset allocation in the Allocation Tier, such as a Target Date Retirement Fund based primarily on his or her time horizon and/or risk tolerance.

By limiting the number of choices available to Participants in the “core” lineup of funds, the Committee will be able to closely monitor the funds offered to Participants to ensure their continued viability and integrity, increasing the likelihood that Participants will earn better long-term performance.

12. Will I continue to have a guaranteed interest annuity option?

Yes, the Committee recognizes the importance of providing a guaranteed investment option to Participants, and TIAA will continue to offer an annuity option with a guaranteed 1-3.0% minimum interest crediting rate for future investments.

13. Will I be able to continue to invest in Christian screened funds?

Yes, Tier 4 of the investment menu is designated as the Christian-Screened Tier. This tier will contain all of the investment options currently offered through Guidestone, with the exception of the GuideStone Financial Resources Capital Preservation Fund.
14. Will the self-directed brokerage window have extra costs?
Yes, there will be fees for executing transactions under the brokerage account. However, these fees are waived until March 29, 2019. Additionally, some funds may have fund-specific transaction fees or sales loads. You will have the option to search for funds that do not have fund-specific transaction fees or sales loads. However, it is important to remember that Participants can avoid these extra charges by utilizing the funds in the “core” investment lineup, many of which will have low, institutional expense ratios.

15. What happens if my favorite investment fund is not available?
The new investment lineup will continue to offer a sufficient range of choice to allow Participants to form well-diversified portfolios. Many of the mutual funds offered by the current recordkeepers will be available on the redesigned investment lineup, and most or all will be available through the self-directed brokerage window. Since annuities are proprietary investment products offered by insurance companies, they will not be available through the brokerage window. However, it is likely that a similar mutual fund product will be available.

16. How are retirees affected?
Current retirees with investments in the Plan will be affected the same as all Participants. Investments in TIAA annuity products such as TIAA Traditional and CREF Stock will remain in place unless the Participant moves them into the new investment lineup. This movement can take place now or in the future as desired by the Participant. TIAA mutual funds will be automatically transferred or “mapped” to the new investment menu based on the mapping strategy in the “Transfer Insert” that was provided with the Transition Guide. Investments in Guidestone and Vanguard mutual funds will be transferred into the new lineup according to the mapping strategy in the Transfer Insert.

If you are receiving recurring payments from GuideStone or Vanguard, these payments will continue without interruption, even if your investments change. However, if you receive your funds through direct deposit, once your account balances at GuideStone or Vanguard are transferred to TIAA, your future payments will be mailed from TIAA to your home address on file with Baylor after February 8, 2019, unless you contact TIAA at 800-842-2252 after the blackout period has ended to provide TIAA with your banking information to resume direct deposit.

Reduce Plan Costs

17. One of the Committee’s goals is to ensure Faculty and Staff pay competitive fees for the investments and services provided. How are service fees being paid today?

For Participants with investments at TIAA and Guidestone, administrative and investment management fees are currently paid by Participants through the
expense ratios of the investment options they have selected. Fees are taken before earnings are credited to Participants’ statements, reducing the return on their investments. Participants with investments at Vanguard currently pay a flat annual recordkeeping fee.

Lower fees allow for more retirement earnings to accumulate for Participants. Even small differences in fees can translate into large differences over time. For example:

- If a Participant invests $10,000 in an investment option that produces an 8% annual rate of return before expenses and has annual operating expenses of 1.5%, then after 20 years the Participant would have roughly $35,236.

- However, if the investment option has expenses of only 0.5%, then the Participant would end up with $42,479 – a 21% difference.

18. I thought I only paid the investment management expense ratio for my funds. Am I paying for Plan administration too?

Yes, in the existing “bundled” arrangements at GuideStone and TIAA, administration and investment management expenses are built into the expense ratio for each investment option — a fee structure that is less transparent to Participants and can make it more difficult for the Committee to continue to ensure that administrative expenses are competitive.

The Transition Guide you received explains how recordkeeping expenses will be imposed on Participants’ accounts on a prospective basis. If you think that the new $70 TIAA recordkeeping fee adversely impacts your Plan account, you should evaluate all of your current investment options against the new offerings, perhaps with the assistance of one of the financial advisors of CAPTRUST, and decide if there is a better investment mix that will suit your long-term retirement needs at a lower overall cost.

19. Is the restructured fee arrangement fairer to Participants?

Yes. Moving to a set administrative fee for all Participants has merits beyond simple fee transparency. Under an asset-based fee structure where administrative costs are built into the expense ratio of each fund, Participants with higher average balances are effectively subsidizing lower balance Participants’ cost to participate in the Plan. In other words, as a Participant’s account balance goes up, his or her fees go up — even though the level of service remains the same.

Structuring the Plan so each Participant pays a fixed amount for administrative recordkeeping will be more equitable. And, experience has shown that the fee transparency gained through an “unbundled” recordkeeping arrangement with little or no revenue sharing, will result in meaningful Participant fee savings.
Plan Design

20. Am I able to withdrawal my retirement account balance from the plan?

If you are no longer employed with Baylor University, you are eligible to request a withdrawal of your entire account balance from the plan at any time.

If you are still employed with Baylor University, there are restrictions on taking a withdrawal from your retirement account. The Baylor Retirement Plan has an In-Service Withdrawal provision that allows a plan participant who has reached the age of 59 ½ to request a withdrawal from their account balance that is attributed to contributions they have made to the plan. These balances include the Participant’s Pre-Tax Deferred Contributions and Roth Elective Deferred Contributions.

While you are still employed, account balances attributed to the contributions made by Baylor University are not eligible to be withdrawn under the In Service Withdrawal provision.

Before requesting a withdrawal from your Baylor Retirement Plan account, you are encouraged to speak with a financial advisor so you understand any applicable penalties, taxes and fees associated with any withdrawal.

CAPTRUST Participant Advisory Services is an independent financial advice service made available to plan participants at no cost to you. CAPTRUST can assist you in determining if requesting a withdrawal from your retirement plan account is in your best interest.

CAPTRUST Participant Advisory Services
800-967-9948
www.captrustadvice.com

21. Will the Ministerial Housing Allowance tax benefit be affected by the changes?

No. The move to TIAA as the single recordkeeper will not impact the minister’s housing allowance and Participants do not have to be invested in Guidestone funds to take advantage of the allowance tax benefit.

My Planning

22. What do I need to do?

The Transition Guide mailed to your home address contains detailed information about what you should do. Each Faculty and Staff member will need to review their new accounts at TIAA and make any updates to their beneficiaries and allocations for future contributions.

To assist in this process, the Committee has arranged for CAPTRUST to
provide one-on-one independent investment advice through its Participant Advisory Services. The costs for this significant new benefit are paid exclusively by Baylor.

The Transition Guide also details the dates and times TIAA will be on campus for group seminars and one-on-one sessions to help you understand these changes and assist you with decisions about your retirement account. Participants may also call TIAA at any time for help with their questions. See below for the contact information for TIAA and CAPTRUST.

**Baylor Retirement Plan Contacts**

CAPTRUST Participant Advisory Services: 800-967-9948, [www.captrustadvice.com](http://www.captrustadvice.com)

TIAA: 800-842-2252, [www.tiaa.org/baylor](http://www.tiaa.org/baylor)

Baylor Human Resources: 254-710-2000, [www.baylor.edu/hr](http://www.baylor.edu/hr)