

CSD 403(b)/457 Retirement Trust Common misconceptions, questions and answers

Q1: I hear that there are other options available that will be no charge to the District, easy to administer, and will not cause disruption to the employees.

A: Districts have been struggling with complying with new IRS regulations. Because of this, about 15 months ago Districts began to approach CSD to see if an alternative program could be designed. There are other options available to Districts such as self-administration, outsourcing to a TPA, etc. The new CSD Co-op program is designed to be a bundled solution providing cost savings to both participants and Districts. In addition, the new program is “participant focused” to provide access to advisors at no additional cost, "state of the art" technology, “retirement education” vs. “sales,” "best in class" investment offerings, compliance and recordkeeping improvements and reduced fees and expenses. Part of the mission of Co-operating School Districts of Greater St. Louis, Inc. is to provide member school districts with high-quality and cost-effective services. Ultimately, CSD stands on its reputation of offering past services to Co-op members and providing the due diligence process and ongoing oversight needed for a retirement plan such as this.

Q2: I have heard that CSD has not actually finalized or staffed their program and that there are currently no Districts signed up for the plan. CSD is asking Districts to consider moving and disrupting hundred of employees’ retirement accounts based on a hypothetical platform and investment product.

A: This is simply not true. In fact, CSD has established the CSD Retirement Trust with the oversight of an attorney that specializes in plan design and is in the process of finishing the specifications for the 403(b)/457 plan document that will be effective 12/31/09. CSD has also created an adoption agreement that is ready for execution by interested Districts. It is true that employee deferrals will not begin until 1/1/2010 for those Districts that adopt the CSD program. There are currently more than 20 Districts that have indicated a desire to adopt the plan. These Districts currently are going through the Board approval process. Many Districts have already had their Board approve participation. The CSD program does not require participants to disturb their current account(s) and only establishes a new account for future contributions. The platform is not hypothetical and the investment offerings have been set in place including the investment options which are from leading fund managers (i.e. Vanguard, American Funds, T Rowe Price, etc.). These investment options will be offered to participants at the share class with the lowest possible expense ratio.

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Q3: The NEA and ASBO are against a one vendor platform.

A: CSD is not in a position to say whether this is true or not. If in fact this statement is true, we expect the NEA and ASBO to be clear in the specific reasons why they are against a one vendor platform and to communicate that openly to their members. We do know that the NEA currently offers a similar type of retirement program for their members called the NEA Valuebuilder® program. This program includes a 403(b) and a 457 program. The NEA currently engages the services and products of Security Benefit Corporation for this program. The new single vendor program offered by CSD provides greater competition for this program. During the RFP process, the Task Force included Security Benefit and took additional steps to ensure a fair evaluation of their product and service offerings for the new platform. Unfortunately, the firm did not meet all of the vendor selection criteria set forth by the task force.

Q4: Has the IRS really made significant changes in 403(b) regulations requiring this kind of change?

A: In July 2007, the IRS proposed sweeping changes in the 403(b) landscape requiring Districts to take a more active role in the administration, oversight and governance of their plan(s). Although going to a single vendor platform is not required under the new laws, many Districts are recognizing the merits of a single provider platform. Namely, a single vendor platform offers greater administrative & compliance efficiencies for Districts and also can offer lower fees and expenses for participants. This reduction in participant-paid expenses helps them improve their retirement outcomes.

Q5: I understand that CSD is understaffed and has only 2 employees that will be available for participants that need help.

A: CSD has created the CSD Retirement Trust which has engaged VALIC to assist participants with their 403(b) & 457 retirement needs. VALIC has committed to provide at least one salaried financial advisor for each school District that joins the Co-op. This was an important evaluation criteria during the RFP process and the Task Force made sure that the chosen vendor was able to provide service with sufficient human resources in and around the greater St. Louis area. Each participant in the program will have adequate opportunities to sit down face to face with an advisor each year at no out of pocket cost.

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Q6: Going to a single provider platform will increase the fiduciary exposures for a District.

A: Going to a single provider platform helps Districts manage their compliance and administrative responsibilities under the new regulations. The CSD program was created through an objective, open, transparent process that demonstrates a strong due diligence process. By adopting the plan, a District does not assume ERISA fiduciary standards.

Q7: I currently have an annuity product in my current 403(b) platform and understand that if I die, I can't pass my account to my beneficiary under the new program.

A: The new CSD plan will allow each participant to name primary and contingent beneficiaries just as in the past. Both annuities and custodial accounts include beneficiary provisions which pass the assets directly to the designated beneficiary or beneficiaries, and both types of arrangements are also included in the value of the estate for tax purposes. Most retirement plan arrangements, including the arrangement VALIC offers under the (school District) plan as well as many annuity contracts, include provisions for passing remaining assets directly to one or more designated beneficiaries upon the death of the plan participant. This can cause confusion regarding estate taxes, since we understand that those same account values are included in the participant's estate for purposes of valuing the estate as well as determining the application of estate taxes. However, it is very important to underscore that neither VALIC, CBIZ or CSD nor its employees or agents provide tax or legal advice to plan sponsors or plan participants, and employees with questions about estate taxes or other tax matters should consult with their personal legal or tax adviser.

Q8: I understand that I currently have a death benefit associated with my current annuity product and that I will not have this with the new program.

A: That is true. In the new program, annuities will not be offered during the accumulation phase before retirement. Tax deferred annuities currently being used in many Districts charge an annual Mortality & Expense Fee (M&E) which can run as high as a 1.5% per year against participant asset values. Participants are encouraged to talk with their current provider(s) and advisor to identify the actual cost and benefit of this feature. The cost for the annuity's "downside protection," which provides a guaranteed return of contributions, often is quite expensive. Participants are reminded that they are not required to surrender their current annuity product and can keep their annuities in place with their existing provider(s) and advisor. Only new contributions will go into the CSD program. Under the new program, participants can apply their accumulated proceeds at retirement to purchase an

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immediate annuity from VALIC or any other reputable insurance company in the marketplace. Participants will need to make informed decisions if and when they surrender a current annuity product.

Q9: My current 403(b) account is owned by me, unlike a 401(k) which is owned by the employer. Therefore, I have a right to choose where I want to invest my money.

A: In the current 403(b) marketplace, most accounts are individually owned and are written on a one-to-one basis with the participant's vendor. This does not allow the participant to take advantage of the buying power of a Co-op program such as the CSD Retirement Trust. In the new 403(b) program, individual accounts will be placed in a collective trust. Each participant will be an account holder in that trust. The employer or trust DOES NOT own the participant accounts. The participant will still have the right to choose where to invest their money (self-direct) but will now be offered investments that no longer have commissions, M&E expenses, surrender charges or maintenance fees. The mutual funds in the investment line-up have investment management fees ranging from a low of 0.18% to 0.99% with an average investment management fee of 0.35%. In addition to the average 0.35% investment management fee, an additional asset charge for VALIC, CSD and CBIZ's services (estimated to be a maximum of 1.20% per year with an automatically declining schedule as total program assets increase), will result in a total estimated 1.55% "all-in" expense for the average participant. The total expense paid by each participant will vary based on how they allocate their assets amongst the various investment choices in the plan and may be lower or higher than 1.55%.

Regarding investment choice, VALIC's platform is classified as "open architecture" and offers access to any mutual fund that is publicly traded (roughly 10,000). From this open universe, CSD and CBIZ will construct a menu of roughly 30 "best in class" active and passive (index) investment options for participant choice. This menu of funds will include investment options in all generally accepted asset classes considered suitable for retirement plan investing. The investment options will be monitored quarterly for overall suitability and, if necessary, new investment options will be added and current options replaced to ensure ongoing competitiveness. The mutual funds in the investment line-up have investment management fees ranging from a low of 0.18% to 0.99% with an average investment expense of 0.35% for the line-up.

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Q10: VALIC has promised to provide Districts with “enrollers” to sign employees up for the new plan. So, all current clients/participants will be moving from “advisors” to “enrollers”

A: This is simply not true. VALIC Advisors meet all national and state licensing requirements. In fact, all of the advisors working on the CSD program are Series 65 or 66 licensed investment advisor representatives. In the current environment, many “advisors” operating in the Districts are not currently licensed at that level and cannot provide “advice” but instead focus on product sales. Each participant will have the opportunity to sit down with a VALIC advisor to discuss their retirement needs with no additional fees or commissions. Participants have the option of maintaining their existing advisor relationship(s) with their current accounts. Only new salary deferrals will be submitted to the new plan. Participants can voluntarily rollover their current funds to the new program on a case by case basis and... ONLY if it is in the best interest of the participant.

Q11: I have heard that I will have to rollover my existing funds to the new plan.

A: As mentioned above, participants are not required to rollover their existing funds to this program. Let’s call those funds your “old money.” Your “new money” or future salary deferrals will be directed to the CSD program if adopted by your District. Some participants may want to voluntarily roll over their current funds to the new program based on the investment choices and competitive fees. Each participant should review their circumstances carefully and take into consideration the difference in products (annuity products vs. a NAV mutual fund platform) and the impact of surrender charges on a participant’s account. VALIC has agreed to reimburse participants who incur a surrender charge of up to 3% of the funds rolled over in the first 180 days (by June 30, 2010).

Q12: The new plan will cost significantly more in new fees

A: That is simply not true. In fact, many fees that are currently being paid by participants will be eliminated under this new program. There will be no front-end sales loads (commissions), no mortality & expense charges (M&E), no surrender charges and no annual maintenance fees. The investment management fees have been negotiated to be offered at the share class with the lowest possible cost. The pricing will be more “institutional” for this new program as compared to the current “retail” pricing currently being paid by most participants. This is due to the buying power of CSD in the aggregate.

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Q13: Access to different mutual funds inside of VALIC’s platform is not the same as access to different companies, different products (i.e. mutual funds or annuities), and or different advisors of those companies.

A: The new program is certainly a departure from the past. In the past, participants have struggled with understanding the differences between multiple vendors, multiple products, multiple investments and multiple pricing structures. Although many participants have experienced excellent advisor assistance in the past, many others have experienced confusion and anxiety. Under the new program, the due diligence for vendors, product, investments and pricing has been performed by the CSD task force made up of representatives from school Districts and the NEA. The task force was assisted in this process by CBIZ Financial Solutions. The new program is a “best in class” offering that is undeniably different than the current model.

Q14: Many employees do not agree with AIG’s recent business practices and should not be forced to do business in any form with the company if they do not choose to.

A: VALIC is a wholly owned subsidiary of AIG. In fact, this link to AIG was critically evaluated by CSD’s task force that recommended VALIC for the new program. The task force took great care in evaluating the relationship of VALIC with AIG and came to the conclusion that VALIC is a totally separate entity governed by the laws of Texas where it is domiciled, and is admitted into the state of Missouri and like current vendors in your Districts, is monitored closely by the Missouri Department of Insurance. The firm is financially strong with high ratings from the independent rating services. AIG has no control over the day to day operations of VALIC. Employees will not be forced to do business with VALIC if they do not want to. The 403(b) and 457 plans are voluntary programs. CSD has released a series of communication pieces that provide all of the information a participant might need to make an informed decision regarding the AIG/VALIC relationship.

Q15: Participants will possibly be losing access to their guaranteed interest accounts.

A: Participants will be able to maintain their current guaranteed interest accounts at their current vendors if they so choose. Under the new program there will be a Fixed Account that will guarantee principal and interest.

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Q16: Most 403(b) accounts are held in some sort of an annuity and have a death benefit that provides beneficiaries with the greater of the market value or the amount contributed to the account if the account holder dies. If participants are convinced to move these accounts to VALIC, they will lose this death benefit.

A: Every participant should evaluate the death benefit provision and the cost of the insurance in their current annuity contract before deciding to terminate a contract and transfer money to the new plan. VALIC advisors will take extra precautions to discuss these benefits with participants at the time they meet. Annuities have certain costs associated with them that an NAV mutual fund platform does not. Participants need to evaluate their own unique circumstances and retirement needs before making a decision. We suggest that participants ask their current advisors to quantify their current death benefit and their annual insurance costs (Mortality & Expense), so that participants can properly evaluate their needs and make an informed decision.

Q17: I have heard of lawsuits filed against VALIC related to their 403(b) practices.

A: Most providers that have historically operated in the 403(b) market have had isolated lawsuits filed against them for various reasons. Some of these lawsuits are related to aggressive or misleading sales tactics that were in part driven by a fiercely competitive environment (i.e., competing with other vendors within a District for market penetration) and heavily commissioned products. The new 403(b) model that CSD will be operating under will not have these inherent challenges and will offer institutional approach that is focused on pure retirement education and not on sales of a particular product. Advisors will be salaried and not incentivized to aggressively market any particular product or investment option.

Q18: If my District decides to join the program, they will incur responsibilities that they currently do not have. Is this true?

A: The final 403(b) regulations impose new responsibilities on Districts for the 403(b) plans offered to their employees. This is true whether a District decides to maintain its own stand-alone plan or chooses to join the CSD Retirement Trust. Either way, the District has new responsibilities it did not have before. A section 403(b) plan is defined in the regulations as "the plan of the employer under which the section 403(b) contracts for its employees are maintained." The employer has ultimate responsibility for compliance of the plan for its employees and cannot totally avoid responsibility. However, the regulations allow a plan to allocate responsibility to perform administrative functions and specifically provide that the duties may be assigned to parties other than the employer. That is why the CSD Trust documents will spell out the responsibilities of the Districts, the Trust and the

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contracted service providers such as VALIC and CBIZ. The question for a District is whether it wants to manage the new responsibilities on its own or whether it wants to take advantage of the economies of scale and administrative structure provided by the Trust and the due diligence performed by the Trust to assist it in performing the responsibilities imposed by the regulations.