



choices

The Newsletter of the Montana University System's Flexible Benefits Program

Classified Employees' Retirement Choices - Part I

Some time ago almost all of us asked for more choices in our benefits plans and for the freedom to tailor our program to our own individual needs and situations. The InterUnits Benefit Committee accommodated us by offering a number of options in our medical, dental, disability, and life insurance programs. The *Choices* annual re-enrollment deadline is now upon us (sometime at the end of May on most campuses), and since we have just filled out or are about to fill out our *Choices* form, we understand full well that there are now an increasing number of options available to us and that the decisions are becoming increasingly complex. The pressure to educate ourselves about these options and to "get it right" are considerable, but if we make a mistake, we will be forced to live with it only for a year. We can correct our "errors" during the next re-enrollment period.

No such freedom will be granted our classified staff facing what has to be one the most difficult and complex set of choices ever asked any of our employees: whether to remain in the Montana Public Employees Defined Benefits Retirement Plan (DBRP) or to move to one of the Defined Contributions (DC) plans? If the classified employee decides on a DC plan, then he or she faces another complicated choice: participating in the Defined Contribution Retirement Plan (DCRP) administered by the Montana Public Employees Retirement Administration (MPERA) or going with the Optional Retirement Program (ORP) administered by TIAA-CREF? What makes these decisions especially complicated and difficult are that both are irrevocable; once made, both employees and their beneficiaries must live with the consequences of their decisions for the rest of their lives.

By now most classified employees have been inundated by a flood of print information, videos, newsletters, personal statements, and Web site information. In addition, many of you have attended one or more of the on-campus workshops put on by Educational Technologies, Inc. and/or TIAA-CREF. There can be no doubt that MPERA is doing everything possible to help you make informed choices on these very difficult decisions. Yet the sheer volume of the information and the complexity of the issues have no doubt let many of you still feeling overwhelmed and confused. The good news is that most of you can take a good deal of time to analyze your choices, educate yourself, and apply the information to your own personal circumstances. The election period runs from July 1, 2002 to June 30, 2003, giving you a full year to make your decisions. Unless you are fast approaching a 5, 10, 15, or 20 year anniversary date from your first hire (more below), there is really no reason to rush. You should study the material, assess your situation, and seek answers to all of your questions before you decide. While nobody should wait to the very end only to make a rushed decision, you still should take the time to inform yourself fully and be reasonably comfortable and certain about the decisions that you ultimately make.

The next several issues of the *Choices Newsletter* will have a series of articles focusing on the retirement plan decisions that all of our classified employees face. We will try not to simply rehash the excellent material that you have already been given. Rather we will attempt to lead you through the decision making process and the factors that you should weigh in making your choices. This first article will deal with the timing of your decision and the information resources available to you. We make the assumption that while most of you understand the broad outline of your existing PERS defined benefits plan, few of you know the details. We will outline those aspects of the DBRP most pertinent to your forthcoming decisions and the basic differences between DB and DC plans. Subsequent articles will focus on financial and personal factors to consider in deciding whether to stay in the DBRP or leave for the potentially greener pastures of a DC plan. A final article will help those of you abandoning the DBRP choose between the DCRP and the ORP and will give you guidelines in managing your investments when you get there. In retirement plans like so many things in life, one size never fits all. Two employees in similar circumstances might well come to opposite conclusions about their programs and both might well have made the best decision for themselves. The goals are to maximize your retirement benefits, reach financial security in your golden years, and still be able to sleep at night. There are now many different paths that will lead you there.

The Choices Newsletter

is designed to help

promote a sense

of our ownership

and responsibilities

within the program.

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Anniversary Dates - The first piece of critical information that you require is your exact date of hire. If you are uncertain about this date, call your payroll/benefits office and inquire. Note that the "Years of Membership Service" may be different than the number of years elapsed since your first hire if there have been any breaks in service. Part-time employment or service credit purchases do not effect your "Years of Membership Service," but the length of your breaks in service must be subtracted from the time elapsed since your first hire in order to get an accurate figure. Next, see if sometime in the next fiscal year (July 1, 2002 - June 30, 2003; the election period) you will be coming up on a 5, 10, 15, or 20 service year anniversary date. That information may be important to you in timing your decision. If you are uncertain about your "Years of Membership Service" or your anniversary date, call MPERA.

If you do not have a 5, 10, 15, or 20 year anniversary date in the coming fiscal year, you can relax and take the full time until June 30, 2003, if need be, to make your decision. In fact, it may even be in your best interest to wait. The reason for this is that you will be paid a guaranteed 8% annualized rate up until your "Date of Transfer" on the full amount transferred should you decide to go with a DC plan. In the present investment market environment, you would be very hard pressed to make 8% on your money in any of the DC funds offered and you would likely have to take a considerable amount of investment risk to do so. In the post-Enron, post-market-decline environment, a **guaranteed 8%** looks very generous indeed.

If, however, you have an anniversary date sometime during FY 2003, and if you are considering moving to one of the DC plans, it may be in your best interest to make your decision and sign your election **well before or possibly after** your anniversary date. The reason has to do with how the employer contribution is handled during the transfer. If you go with one of the DC plans, all of your own contributions will be transferred, but only a portion of the employer's contributions. That portion depends upon your "Years of Membership Service":

Less than 5 Years	- 65.53%
5 Years but less than 10	- 58.59%
10 Years but less than 15	- 55.26%
15 Years but less than 20	- 55.42%
20 Years or more	- 57.53%

Remember that you will be paid 8% annualized interest on the full amount transferred. It

is also important to realize that the "Date of Transfer" is different than the date that you sign your election form and file it. MPERA estimates that it may take several weeks to process your request and transfer funds. It would be wise to submit your election form 3-4 weeks before your desired transfer date.

First Scenario - Some examples will make this clearer. John is a classified employee hired on March 1, 1998 and has worked at the University continuously since that time. Because his spouse is a faculty member at the same University and participates in the ORP, John is thinking of switching to the TIAA-CREF DC program in order to consolidate the couple's retirement plans. This would also give the family complete portability should his wife decide to take a position at another university. John has made or will make a total of \$150,000 in salary (\$30,000 per year average) by his 5 year anniversary date on March 1, 2003. If John submits his election just after that date, he will receive the employer contribution of \$120,000 x 6.9% or \$8,280 x the 58.59% transfer rate (for 5 to 10 year employees) for a total of \$4,851 plus 8% annual interest. Had John submitted his election form one month earlier on February 1, 2002, he would be under 5 years of service and 65.53% of that same \$8,280 would yield \$5,426 plus 8% annual interest. By simply filing the election form one month sooner, John would have transferred an additional \$575 (\$5,426 - \$4,851). The actual difference would be somewhat greater than this as the 8% annual accrual would somewhat magnify these differences. Obviously, anniversary dates and timing are important.

Second Scenario - Let's take a second quite different scenario. Mary is approaching her 20th year anniversary date on April 1, 2003. She has weighed her options carefully and decided that it is her best interest to transfer to the new PERS DC plan. In the course of her 20 years of service she has been paid a total of \$400,000 (\$20,000 per year average). The employer contributions amount to 6.9% of \$400,000 or \$27,600. If she signs her election form in March and transfers her funds before her anniversary date, she will receive 55.42% x \$27,600 or \$15,296 plus 8% interest. Were she to wait an additional month until she had reached 20 years of service, she would be entitled to 57.53% of \$27,600 or \$15,878 plus 8% annual accruals. The \$582 difference may not seem significant, but the actual difference will be greatly magnified by the 8% compounding over a period of 20 years. In this case it might pay to wait.

One other consideration is your anticipated years to retirement. If you are many years away from retirement (as is likely in the first scenario), even small differences in transfer amounts will be greatly magnified by many years of compounding. However, if you are only a few years from retirement (likely in the second case), the compounding effect on your investments will be much less.

Please note that both of these cases are hypothetical and may not apply to you. The employer contribution rate has varied over the years, for example, and may be different than the assumed 6.9%. However, there are some general guidelines that can be given. If you are not considering moving the one of the DC plans, none of the following suggestions apply. If you are thinking about one of the DC plans and have a 5, 10, 15, or 20 year anniversary date during the election period (July 1, 2002 - June 30, 2003), consider the following suggestions:

5 Year Anniversary - Try to make your decision and election **before** you reach 5 years.

10 Year Anniversary - Try to make your election **before** you reach your 10th year.

15 Year Anniversary - The differences between the 10 year and 15 year rates are so small (.16%) that election timing is really not an important consideration for you.

20 Year Anniversary - Try to make your election **after** you reach your 20th year.

If you do not face one of these anniversary dates, you can take as much time as you need to make choices that you are reasonably certain are the correct ones for you and your personal circumstances. **The retirement plan election you face is certainly one of the most important financial decisions of your life and there is no need to hurry.** In fact, it may even be in your best interest to wait. The enabling legislations guarantees you an 8% annual return on the total amount transferred to a DC plan, if that should be your decision. Do not forget that as soon as you make the transfer to a DC plan, you are on your own. An 8% return regardless of the funds you choose to invest in would be very difficult to achieve and a **guaranteed 8%** virtually impossible. This is not to suggest that you wait until the very end to take action. If you were to fail to make the June 30, 2003 deadline, the results could be very adverse for you. **You will default to the PERS DB plan and never again have an opportunity to enroll in a DC plan.** If you

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should decide to wait until you approach the June 30, 2002 in order to maximize your 8% return, be absolutely certain that you file your election form on time. It is far better to miss out on a little bit of interest than on a once-in-a-lifetime opportunity.

What to Do Next - For the vast majority of you under no pressure to make a quick decision, you would be very wise to use the time to educate yourself about your existing PERS DB plan and about the options available to you. MPERA is making every effort to help you with your decisions and there are a variety of sources of information available to you. The following list of resources will provide you with a good beginning:

1. Financial Software - If you have never used financial software to track your expenses, now may be the perfect time to begin. Programs such as *MS Money* and *Quicken* allow you to establish budgets, record expenditures, and calculate returns on savings and investments. Most have sophisticated financial calculators to run projections based on various assumptions and retirement planners to help you figure out your financial needs after you stop working.

2. MPERS Handbook - You should make no moves until you fully understand your current DB plan. So obtain a copy of the most recent handbook (dated October 2001) from your payroll/benefits office and study it thoroughly. You may well find that your current plan provides you with advantages that you were unaware of.

3. MPERA Newsletters - The Fall 2001 and March 2002 issues have already been sent to you and provide excellent information in easy to follow language. Additional copies can be obtained from your payroll/benefits office or from MPERA. Future issues of the Newsletter will be distributed during the course of the election year.

4. The Video Book Pack - You should already have received this book/video combination. Please review both carefully.

5. Personal Comparison Statement - All active PERS members are about to receive a personal statement of their PERS account that includes years of service, employer and employee contributions to date, and projected retirement benefits following various assumptions. Study this statement carefully and save it for use in any personal consultations or software modeling you may do.

6. Group Workshops - Educational Technol-

gies, Inc. and TIAA-CREF have prepared a series of on-campus educational workshops. The Educational Technologies, Inc. presentations will deal with the overall choices that you face and the TIAA-CREF presentations will focus specifically on the ORP option. These workshops began last month and will continue through the election year. Visit the MPERA Web Site for the schedules on the various campuses. If you have not yet attended both workshops, you should really take the time to do so.

7. MPERA Web Site - There is a wealth of information on the MPERA Web site at www.MPERAchoice.com including key definitions, plan descriptions and comparisons, and links to other resources.

8. Modeling Software - Coming soon at the MPERA Web site is modeling software that will enable you to enter your own personal data and create various retirement scenarios. This should prove to be a very useful tool in projecting the long term consequences of your various options.

9. Phone or Personal Consultations - After you have reviewed your personal statement and made use of all of the resources listed above, you may still have questions or wish to have a personal phone or on-campus consultation with experts before you make your final decision. The following are the toll free phone numbers for the three basic options that you have:

PERS Defined Benefit Retirement Plan (DBRP) - Call MPERA at 1-877-275-7372;

PERS Defined Contribution Plan (DCRP) - Call Ed Tech., Inc. at 1-800-227-0559;

Optional Retirement Program (ORP) - Call TIAA-CREF at 1-800-842-2888.

10. Workbook and Election Form - By now you have received your Workbook and Election Form. The workbook guides you through your final decision and the filling out and filing of the election form. This is the last step you should take after reviewing all of the available resources. Remember that except for those facing one of the anniversary dates described above, there is no need to take this final and irrevocable action with any kind of haste.

Editor Note - Part II of this series in the September 2002 Choices Newsletter will describe the current PERS DB plan in detail and the fundamental differences between a DB plan and a DC plan. ■

Flexible Spending Accounts

Most of you received an enrollment form for a Medical or Childcare Flexible Spending Account with your *Choices* packet. If you decided not to use this option, there is still time to reconsider. Flexible spending accounts are probably one of the most under-utilized and yet potentially useful benefits available to us. If you have earned income and predictable medical and/or childcare expenses, you can save a great deal of money by "flexing" the money into one of these savings accounts and paying the bills with pre-tax dollars. Depending on your Federal and State income tax brackets, you can potentially save 25% to 40% on all of your legitimate medical and childcare expenses.

The qualified expenses are based on the Tax Code. Any legitimate medical or childcare expenses that meet the IRS standards for deductibility are eligible for "flexing." On the medical side these include anticipated copayments and deductibles; out-of-pocket fees for the prescription and mail order drug plans; uncovered routine medical and preventative care; orthodontic and uncovered dental care; eyeglasses, contact lenses, and solutions; hearing aids; orthotics; and a host of other medical services.

To meet childcare eligibility requirements the care can be given inside or outside the home, but the provider must not be, from a tax standpoint, an eligible dependent. Other complex IRS provisions apply to both the medical and childcare expenses. Employee Benefit Resources manages our flexible spending accounts and their Web site at www.ebrworld.com/caferiapians/qualifyingexpense.html has an extensive list of qualifying and non-qualifying expenses and links to the appropriate IRS publications.

Remember that when it comes to these flexible spending accounts it is a case of "use it or lose it." You must calculate your anticipated expenses with great care. Any money left in your account after June 30th will be forfeited. Remember also that a \$33.12 annual administrative fee applies to all flexible spending accounts. All must file their Savings Accounts Election Form as soon as possible.

Retirees Note - One of the least known provisions of this program is that retirees are sometimes eligible to participate. If you have MUS earned income under a post-retirement contract or continue to work part-time, you may be able to "flex" your health insurance premiums and medical expenses even in retirement. Visit the Web site for forms and more information or call EBR at 1-800-765-9429.

Ellen Feaver, CPA, EBR ■

Questions & Answers

Q In the March issue of the Choices Newsletter you introduced the new Direct Contracting with hospitals program. The explanation left me totally confused. I live in Billings and participate in the New West HMO plan. Which hospital should I use? J. R., MSU - Billings

A. The Newsletter perhaps did not make this as clear as it should have: **the Direct Contracting with Hospitals Program applies only to the \$400 and \$575 deductible indemnity plans and not to any of the HMO programs.** Each HMO provider has already made special arrangements with local hospitals for services. As long as your gatekeeper physician or an assigned specialist admits you to a facility, you have nothing to worry about. Just follow your doctor's advice. For more information on this and on the rules you need to follow when out-of-area, call your HMO provider or review your plan document. ■

Q I have my Roth IRA with Vanguard. Why can't I use Vanguard for my deferred compensation plan as well? This would greatly simplify my bookkeeping. G. V. Havre

A. The choice of the 403 (b) deferred compensation vendors must be determined by a bidding process. In the last go around Vanguard failed to submit a bid. The selection of the 403 (b) vendors is scheduled for rebidding in this coming plan year. A subcommittee has been formed and will be drawing up a Request for Proposals

(RFP) and sending it out for bid. Whether or not Vanguard will choose to submit a bid this time, let alone whether or not they will be one of the vendors selected cannot, of course, be determined at this point. Stay posted. ■

Q I just filled out my Choices enrollment form for next year and I noticed that I was unable to switch from the Basic to the Premium Dental Plan. If I am willing to pay the higher premium rate, I do not understand why I was not allowed to make this change. T. S., UM - Missoula

A. Every choice that you make each Spring can only be changed annually unless you have a "change in family circumstances" (such as a birth, death, marriage, divorce, etc.) in which cases, changes can be made immediately. The choice between the Premium and the Basic Dental Plan is the one exception to this rule and requires a two year commitment. The reasons for this are basically financial. If an annual change were allowed, members might sign up for the Premium Plan, get all of their dental work during that year, and then switch to the Basic Plan the next year to save themselves money. In the insurance industry this is known as "adverse selection" and would, if allowed, be unfair to those paying the full fare all along and it would tend to inflate the premiums for everyone. A two-year election minimizes the impacts of this "adverse selection" and keeps the dental plans affordable. You are allowed to make this switch, therefore, only in odd numbered years. ■

CHOICES NEWSLETTER

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Since each individual and family situation is unique, you should always consult your family physician before taking action on any medical advice given here and you should consult your personal financial advisor before acting on any financial advice in the Newsletter. Consult plan documents for complete information.

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