

# Memorandum



## Metropolitan Transportation Authority

State of New York

Date **January 21, 2005**

To **MTA Deferred Compensation Program Participants**

From **Michael J. Jaszcar, Chairman, Deferred Compensation Committee**

A handwritten signature in black ink, appearing to read "MJJ", written over the word "Committee" in the "From" line.

Re **MTA Deferred Compensation Report – 4<sup>th</sup> Quarter, 2004**

### Remarks Related to the Chief Article

On behalf of the MTA Deferred Compensation Committee, I am responding to an article by Joel L. Frank which appeared in the January 7, 2005, issue of The Chief, entitled, "MTA '457' Plan Too Costly."

First, I want to assure you that all of the Committee members take very seriously the responsibilities regarding the MTA Deferred Compensation Program, for both the 457 and 401(k) Plans. We recently completed a competitive bid process in which 11 of the most experienced record keeping firms in the country submitted proposals. The Committee selected Great West Retirement Services/FASCorp to provide plan administrative services (the same third party administrator for the City of New York's Plan).

Moreover, the article was at best inaccurate and at worst misleading in its description of the 457 Plan and the investment management fees paid by you as a member participant. Let me explain. There are two separate and distinct types of fees paid by Plan participants, the per participant administrative fee 0.29% of your account up to \$100,000 that is \$290 paid to FASCorp and the various investment manager fees charged by the mutual funds and for the Stable Value Fund. As to the administrative fee, the article did not recognize the different services, separate from investment management services, which the fee supports.

For example, FASCorp provides five full-time educators dedicated to communicating the Plans to the member employees. The Committee felt that it was critical that these services be available to you. In other plans, there are no field personnel to meet employees, communicate the program and enroll participants, as there are in your Plans. With other plans, one can only enroll by the web whereas in the MTA plans you can enroll by phone or through the web and receive assistance from one of the full-time educators.

The MTA Plans also have a custom designed investment lineup. When we switched from Prudential to FASCorp, we retained funds that had performed well and were popular with participants, such as the Jennison Equity Opportunity Z Fund. Our Plans include the Stable Value Fund, a separate account. Despite the Article's suggestion to the contrary, the cost for record keeping is the same for separate or institutional account funds as it is for retail mutual funds.

The following are some of the major services provided by FASCorp:

- Comprehensive employee education program, including the advantages of tax deferred savings through participating in the Plans; how to determine an appropriate level of savings; investment principals, including the importance of diversification; retirement planning and other areas relevant to the employee's ultimate retirement security.
- Fifteen investment options, including five custom-designed target date lifecycle portfolios and a stable value option that provides a competitive interest rate.
- Next day investment of your contributions.
- Maintaining a daily account balance for each participant.
- Providing a loan feature for both MTA plans.

In addition, unlike many other defined contribution plan arrangements, any revenue sharing received by FASCorp from any of the investment funds (for example, as a rebate for record keeping and marketing services) is returned to those of you who have an investment in that fund.

Further, the Committee negotiated a competitive contract with FASCorp which caps the maximum fee. For the year ending June 30, 2004, our Plans received a refund due to this cap, a total of \$460,000 and was credited to the Plans and prorated to your accounts on the 3rd quarter statement.

In regard to the investment management fees, where available, the MTA plans use lower cost institutionally priced funds, such as the Vanguard Institutional Index, Strategic Partners International Value Z, William Blair International Growth I, AIM Small Cap Growth I. The article ignored this important difference. In addition, any revenue sharing which is paid by many of the mutual funds is credited directly to your account balances, further reducing the costs to you.

Mr. Frank based his analysis on the more expensive retail versions of the funds, ignored the revenue sharing, and misstated the expense ratios of our funds. The MTA plans' expense ratios are: Jennison Equity 0.82%, not 1.19%, Jennison Growth 0.80%, not 1.21%, Royce 1.49%, not 1.78%, Strategic Partners 1.47%, not 1.76%, Turner MC 1.16%, not 1.44%, Target 2015 0.57%, Target 2025 0.58%, Target 3035 0.73%, not 1.01%, Target 2045 0.77%, not 1.07%, Aim Small Cap 0.80%, not 1.09, Smith Barney 0.78%, not 1.10%, Blair 1.25%, not 1.54%.

The Plans' overall fund expense ratios average 0.75% before revenue sharing, and, with revenue sharing, drop to a lower average of 0.62%. For plans of similar size and type, this is a very economical expense ratio. Add to that the significant educational and other services offered to participants, the MTA plans are low cost and efficient.

Moreover, comparing the investment costs of the City of New York plans with the MTA plans, as the author did, is unfair. The City Plans have almost 4 times the number of participants and 5 times the assets as the MTA Plans, allowing the City better buying power for investment services. The larger asset base also makes the resulting costs smaller as a percentage of assets.

While Mr. Frank's article contained several factual errors and failed to recognize the specialized services offered by the MTA plans to you, I believe that this simply was due to a lack of information. Many of us have read Mr. Frank's column with interest for many years and find them both interesting and beneficial. Therefore, I extend an invitation to him to contact the Committee if there are any questions pertaining to the MTA Plans.

**Procedures for Reviewing and Changing Funds:**

The Deferred Compensation Committee, with the assistance of its independent investment consultant, Mercer, continuously monitors the performance and management of the Program's investment funds, including whether to replace a fund or add a new fund. This monitoring process includes:

**Investment Strategy:** The fund lineup is designed to provide each participant with the opportunity to create a diversified portfolio customized the members investment objectives and risk tolerance. Each Plan fund serves a specific role within the lineup. If a fund's investment style changes to an extent that it no longer fits its intended role, it will be considered for replacement. For example, if one of the Plan's small cap funds begins investing in mid cap stocks, it may be considered for replacement if the Committee determines that participants no longer have sufficient opportunity to invest in small cap stocks.

**Management:** Organizational and fund management changes are common within the investment management industry. A change, such as the sale of a fund company or a change in the management team, may cause the Committee to become concerned with the likelihood of a fund meeting its performance objectives going forward. If this occurs, the Committee may place such a fund on watch for a period of time long enough to gauge its performance following the change. However, depending on the degree of the Committee's concern, it may consider replacing the fund without a watch period.

**Performance:** Each fund's returns are monitored versus a style-specific market benchmark. For example, the large cap growth funds are compared to indices comprised primarily of large cap growth stocks, the small cap funds are compared to small cap indices, and a bond fund is compared to an index comprised of similar investment-grade bonds. In addition, most of the funds are also compared to a peer group of similarly managed funds. If a fund's performance has been consistently below its benchmarks and the Committee is not confident that the fund will outperform going forward, it will be considered for placing on watch or replacement. Funds will not normally be considered for replacement until their three-year performance has consistently lagged its benchmarks. However, the Committee may act sooner if other circumstances cause it to become concerned with the fund's ability to outperform going forward.

**Expenses:** Investment fund companies deduct their fees from fund returns. Thus, the returns you see reflect the actual investment performance minus fund expenses. The Committee's performance evaluations consider both investment returns and investment expenses. The Committee separately monitors fund expenses and strives to minimize fund expenses without sacrificing performance. Some relatively high expense funds consistently outperform their benchmarks. Thus, the Committee considers performance in evaluating expenses.

### **Stable Value Fund**

The annualized rate of return range for the MTA Stable Value Fund for the quarter, ending December 31, 2004 was 4.84%. The projected (annualized) yield range for the MTA Stable Value Fund for the first quarter, 2005 is 4.65% - 4.90%.

### **Informational Meetings & Marketing Campaign**

The Deferred Compensation Program, through FASCorp, the Program's Administrator, is continuing to conduct an informational and marketing campaign to keep you and your co-workers informed of the benefits of participation in the Program and any changes in the Program. FASCorp will be holding meetings throughout the MTA's service area over the course of the year and you are encouraged to attend. For a complete listing of the meeting locations and schedule currently offered, you can visit the Deferred Compensation web site at [www.mtadefcomp.com](http://www.mtadefcomp.com) for a schedule of at a particular location.

### **Member Services**

You can obtain Plan and investment information, change your investment options, and deferral amounts through the MTA Deferred Compensation Program web site at, or by calling 1-866-MTA-PLNS (682-7567). You will need a Personal Identification Number (PIN) to [www.mtadefcomp.com](http://www.mtadefcomp.com) be able to access your account via the web site. If you do not have your PIN, you can get one by calling 1-866-MTA-PLNS (682-7567). Select option zero "0" and again option zero "0", a customer service representative will immediately mail you your PIN.

As always, if you have any questions concerning any aspect of the program, please feel free to call the FASCorp representatives at 1-866-MTA-PLNS (682-7567).