PENOBSCOT
FINANCIAL ADVISORS

THE UNOFFICIAL

UMS EMPLOYEES' GUIDE TO BENEFITS

ABOUT THIS GUIDE

This book is the result of two decades of working with employees and retirees of the University of Maine System. Our objective is to provide you with a convenient place to find information and insights on all facets of your UMS benefits.

While we feel this is a great overview, please keep in mind that this is not an official document provided to you by the University of Maine System. We are an independent firm providing a look at UMS benefits from the outside. If you have questions where you need a definitive answer, please contact the UMS Employee Benefits Center online or at (207) 973-3373. They are an excellent resource, and they work hard for you.

WE WANT YOUR FEEDBACK!

As you utilize this guide, please feel free to reach out to us if you have additional topics or questions you would like to see covered. This is meant to be an educational resource for YOU – and we want it to cover all of your concerns. Additionally, we will update this guide periodically and distribute it annually with a summary of changes and updates.

ABOUT PENOBSCOT FINANCIAL ADVISORS (PFA)

PFA is an independent, Maine-owned and operated, investment adviser registered with the SEC. We have specialized in working with employees and retirees of the University of Maine System for over two decades. We provide Financial Planning and Asset Management services as an independent, Fee-Only, fiduciary for our clients.
Visit www.penobscotfa.com/faq/#howdoyouUMS or www.penobscotfa.com to learn more..

Bangor Office
74 Hamond Street
Bangor, ME 04401

Portland Office
One Monument Square, Suite 501
Portland, ME 04101

Contact Information
207-990-1901
info@penobscotfa.com
Click Here to Schedule a Meeting

TABLE OF CONTENTS

BENEFITS ELIGIBILITY

The content of this guide covers the ins and outs, and planning considerations, of a robust benefits package offered to University of Maine System Employees. All of the benefits we discuss require you to be eligible for benefits, so don't waste your time moving further if you are not!

As a UMS employee, you are eligible for benefits on your date of hire, or on the date of status change that makes you eligible for benefits. You must enroll within 31 days of your eligibility date. Eligible employees include:

- Full-Time and Part-Time employees who work at least 50% of full-time.
- Part-Time, temporary, faculty who meet eligibility and current workload criteria.

Additionally, depending on your classification and bargaining unit, you may be eligible for some or all of the benefits discussed. We try to highlight those areas throughout this guide.

If you have questions on your eligibility status, we encourage you to contact the Employee Benefits Center a **207-973-3373** to request information.

THE RETIREMENT PLAN

PLAN HISTORY

Start

The University of Maine System (UMS) began its defined contribution plan in 1961. This was administered by TIAA-CREF, and was primarily for faculty and professional staff. Hourly paid employees participated in a defined benefit pension plan until 1998, when they changed to a defined contribution plan through TIAA-CREF.

Multi-Vendor ORP

In 1999, UMS sought proposals from alternate vendors with the target of having as many as five alternate vendors in addition to the ‘main’ vendor TIAA-CREF. A handful of people at the time were already using Aetna, Fidelity and T. Rowe Price for their new contributions. This process resulted in the addition of VALIC, and also created a policy of allowing up to 60 percent of the assets in TIAA to be moved to alternate vendors. In 2002 or 2003, the ’60 percent’ restriction was repealed. Employees could put 100 percent of their retirement with whichever provider they wanted. There were also around 50 providers used for voluntary plans. Pretty much anywhere an employee wanted to send their voluntary money (provided it was a 403(b) plan) was okay by the university. In 2007, though, new IRS regulations placed a fiduciary responsibility on 403(b) sponsors like UMS. As a result of that, the university system limited voluntary contributions to the five Optional Retirement Plan vendors (TIAA, Fidelity, Aetna (ING), VALIC and T. Rowe Price). Shortly thereafter, they de-selected T. Rowe Price as a vendor because they wouldn’t participate in Information Sharing Agreements that were now required with multi-vendor plans.

Single Record Keeper

In 2012, UMS conducted an RFP for a consultant to help them with the selection of a single company to set up and administer a new 403(b) plan. The primary issues included employee confusion with over 285 investment options spread across multiple providers, and the system's difficulty in monitoring and assessing all these choices. They selected CAPTRUST, based in North Carolina – and this continues to be what is called a '3(21) Fiduciary' to UMS, sharing in their fiduciary duties.

In 2013, working with CAPTRUST, UMS selected TIAA as the Sole Record Keeper (SRK) for the new 403(b) plan. After months of negotiation with a wide array of collective bargaining units, the new plan was settled upon, and it rolled out in the university system in 2014. Participants, for the most part, had new group retirement annuities set up with TIAA, although they were not required to transfer assets from the 'de-selected vendors' to TIAA.

How the Plan is Managed Today

Today, the plan continues to be offered and reviewed by UMS with the assistance of CAPTRUST as its 3(21) Fiduciary and TIAA as its recordkeeper. Under the Employee Retirement Income Security Act (ERISA), UMS, as the trustee, has a fiduciary duty to act solely in the interest of plan participants and their beneficiaries. This includes several responsibilities of monitoring and changing components of the plan over time. One of those items is appropriately diversifying and monitoring investment options available to the participants. This is where CAPRTUST comes in. They are an independent consultant tasked with monitoring and recommending changes in the investment lineup. As a 3(21) Fiduciary they are a co-fiduciary to the plan, but do not manage the plan's assets with discretion. If you're interested in more information on the fiduciary obligations to plan participants, see this resource: DOL Fiduciary Responsibilities.

Why All That History?

The UMS retirement plan history makes understanding and efficiently utilizing your benefits incredibly complex! Every employee has a unique set of circumstance that are often determined by this history. It also demonstrates the system's ongoing commitment to offer a highly valuable benefit to employees. Our hope is this guide will help you to understand your unique circumstance and the resources that are available to assist you.

PLAN TYPES & CONTRACTS

Employee Groups at UMS

There are three primary classifications of employees at the University of Maine. This classification has several downstream impacts on the benefits you receive. Here are the basic descriptions of these groups, and we will refer to which groups are eligible for specific benefits throughout this guide.

- **Classified Employees (Represented by ACSUM/COLT)**
  Generally, these employees are paid hourly and on a bi-weekly schedule. They cannot participate in partial-phased retirement or the incentive retirement program, and may have other impacted benefits such as matching retirement contributions.

- **Professional Employees (Represented by UMPSA)**
  Generally, these employees are paid salary and on a monthly schedule, but are not faculty members. They are eligible for most benefits, and will only have some minor differences in benefits vs. a Faculty Employee.

- **Faculty Employees (Represented by AFUM)**
  This is straightforward: these employees are full-time represented faculty. They are paid salary and on a monthly schedule as well. Eligible for most benefits as well, one item to pay attention to would be the short-term disability benefits (discussed later).

- **Other Classifications**
  While the above covers the majority of University of Maine employees, there are several other groups of employees. Examples: Part-time, Confidential, Non Represented, etc… Generally, part-time employees are not benefits eligible. If you fall into another classification and are interested in individualized support, feel free to reach out!

The Various Plans

The UMS Retirement Plan is nothing if not complex! Due to variations in employee classifications, plan changes over the years, etc… there are SEVEN (7) different plan offered to University of Maine employees. Here is a good resource for an overview of each plan: TIAA UMS Plans. We have provided a summary of each plan below, and it is important to know that each plan may have different rules regarding features and benefits. We try to cover them all in the content of this guide!

Basic Retirement Plans

These plans receive the funds that are matched by the UMS system – refer to our information on matching and mandatory contributions later on. There are three basic retirement plans:

- **Basic 403(b) Plan for Faculty and Professional Employees**
  This plan receives both the employee contributions and the employer matching contributions, and is used for all salaried faculty/professional employees.

- **Basic 403(b) Plan for Hourly Employees**
  This plan receives ONLY the employee contributions and is used for all hourly paid employees.

- **Basic 401(a) Plan for Hourly Employees**
  This plan receives ONLY the employer contributions and is used for all hourly paid employees.

Optional Retirement Plans

These plans receive voluntary contributions that are made above and beyond the basic contributions required to get matching dollars. Any contributions to these plans are unmatched. There are four Optional Retirement Plans in total, but two of them are inactive. UMS is able to offer BOTH a voluntary 403(b) plan and a voluntary 457(b) plan. This is quite unique, and can be an extremely valuable benefit as employees with the resources to do so can max out BOTH plans, allowing them to shelter a lot of taxable income into long-term retirement savings!

Voluntary 403(b) Tax-Deferred Annuity Plan for All Employees

This plan receives additional, voluntary contributions for all employees.

Voluntary 457(b) Deferred Compensation Plan for All Employees

This plan receives additional, voluntary contributions for all employees.

Optional 403(b) Plan for Hourly Employees (Inactive)

This plan received voluntary employee contributions for classified staff that formerly participated in the Defined Benefit Plan. Employees hired after 7/1/1998 are no eligible for this plan.

Optional 401(a) Plan for Hourly Employees (Inactive)

This plan received voluntary employer contributions for classified staff that formerly participated in the Defined Benefit Plan. Employees hired after 7/1/1998 are no eligible for this plan.

403(b), or 457(b), That Is the Question!

When making additional contributions to your retirement plan you'll need to choose among a few options:

- Do you want to contribute to a 403(b) or a 457(b) plan?
- If you are to contribute to a 403(b) plan, do you contribute to a supplemental 403(b) RCP plan, or to your basic 403(b) RC plan (the one that you and UMS are currently contributing to)?

Since there are NO 'unforeseen withdrawals' from the UMS 457(b) plan, you cannot take any distributions from these plans while you are still working. If you are concerned that you might need to have access to retirement funds in an emergency, you should likely use a 403(b) plan instead of a 457(b) plan to make additional contributions.

On the other hand, if the concern is having access to your money after you leave the university, the 457(b) plan may be slightly LESS restrictive. With the 403(b) plan, there can be 10% penalties for early withdrawal if you take money from your plan prior to age 59 ½. Some exceptions apply, such as separation from service after age 55 or a qualifying disability. However, there is no such penalty for distributions from a 457(b) plan at any age.

So, if your concern is about access to funds during your working years, contributing to a 403(b) is probably appropriate. If you are looking for the most flexibility if and when you leave UMS, you might want to choose the 457(b) plan.

To complicate things a little more, if you DO choose a 403(b) plan for your additional contributions, you should consider which investments you're wanting to put the money in. While all of the variable funds in 403(b) and 457(b) accounts are exactly the same across UMS plans, be aware that the TIAA Traditional choices are different. If your objective is to contribute extra money to TIAA Traditional, you'll make your choice based upon whether you want the less-liquid, but likely higher interest, TIAA Traditional in the RC contract, or whether you want the liquid, but likely lower interest, version that exists in the RCP contracts.

PUTTING MONEY IN

How to Contribute

Most UMS employees are enrolled in the appropriate Basic retirement plan when they are hired. With few exceptions (see below), enrollment is mandatory. Even if it is not mandatory, most employees recognize the value of the retirement plan and the potential matching dollars.

Enrollment

The first step is to enroll in the appropriate plan. If you are not enrolled in the appropriate basic plan (hourly or Faculty/Professional, depending on your classification), you would always do that first so you are in line for matching dollars. If you are looking to add additional, voluntary, dollars you would select one of the voluntary plans (403b or 457b) OR you can choose to add the additional contributions to your already existing 403(b) plan. See our section above on 403(b) vs. 457(b) for some consideration when making this choice. If opening a new plan/contract, this can be done online by going here: Online Enrollment. You can also enroll by contacting the employee benefits center (EBC) at 207-973-3373, or by working with your Independent Financial Advisor.

Salary Reduction

The next step is to choose your contribution amount. This can be done using the following Salary Reduction Agreements:

- Faculty/Professional: Faculty/Professional SRA
- Hourly Employees: Hourly Paid SRA

Once filled out, these can be submitted to the Employee Benefits Center by email a benefits@maine.edu or fax at 207-561-3454.

While these forms must be used for any changes to your basic contribution amount, changes to voluntary deductions can be made online through MaineStreet. Instructions for doing this can be found here: Voluntary Deductions Instructions. You cannot make changes to your basic plans online.

As always, the Employee Benefits Center or your Independent Advisor can assist with these changes as well!

Rollovers

We are routinely asked if an employee can make lump sum contributions to their retirement plan – the answer is NO. The only way to make regular contributions that count towards annual limits is through payroll deduction. However, you can also add money to these plans by rolling over funds from other retirement plans or Individual Retirement Accounts (IRAs). You may choose to do this to consolidate assets, or to improve investment outcomes if the features of this plan are superior to another plan you have.

To perform a rollover into the plan, forms will be required and the process is unique for each plan or account. Please contact TIAA at 800-842-2252, or your Independent Advisor, for help with this process.

Pre-Tax, After-Tax or ROTH??

On the Salary Reduction Agreement, you may have noticed you need to select what type of contribution to make – before-tax, after-tax or (in some cases) ROTH. Depending on your income today, goals, income in the future and feelings on the future of tax rates in general each of these options could be appropriate. Generally, those individuals in higher tax brackets may want to consider pre-tax contributions today and paying taxes later. Those in lower tax brackets, and/or longer time horizons, may want to consider after-tax or ROTH contributions. As always, the appropriate selection varies by individual, and you should consult your financial advisor.

Pre-Tax & After-Tax

For the BASIC plans only, you need to choose between pre-tax and after-tax. Pre-tax means you get a tax deduction today, all growth over time is tax-deferred, and the funds are 100% taxable as income when you take money out in the future. After-tax means you get no tax deduction on contributions today, growth is tax-deferred, and only growth will be taxable when you take it out in the future.

*Note that once separated from service, you may be able to get the after-tax contributions into a ROTH IRA so they grow tax free moving forward. Please see our section on Taking Money Out and consult your tax & financial advisors.

**Also note that employer matching contributions are ALWAYS made on a pre-tax basis.

ROTH

The ROTH option shows up in your voluntary plans only. You may also note that there is no after-tax option in the voluntary plans – this is because the ROTH is always better than after-tax. ROTH contributions are made after-tax with no deduction today, but enjoy tax-free growth, meaning that nothing is taxed when you withdraw these assets down the road.

Mandatory vs. Voluntary

For some UMS Employees, participation in the Basic Retirement Plan is mandatory. All Faculty and Professional Employees age 30 or over must participate in the basic plan at a minimum contribution level of 4%. If you are under age 30, you can participate in the basic plan on a voluntary basis. For Hourly Paid employees hired after 7/1/1998, a 1% contribution level is mandatory. If hired before that date, participation in the basic retirement plan is completely voluntary.

Obviously, participation in any of the additional, voluntary, plans are always voluntary for all employees.

Matching Contributions

UMS offers a very generous matching program, however it varies depending on your employee classification

Faculty & Professional Employees

These employees receive a 10% employer contribution when they contribute 4% of their pay. As indicated above, this is mandatory for any employee age 30 or over. The match still applies if an individual under 30 chooses to participate. Matching dollars are always made on a pre-tax basis. Additional contributions to voluntary plans are never matched.

Hourly Paid Employees

These employees have a choice of contributing between 1-4% in their basic plan. UMS will match 100% of that contribution up to the 4% level. After these employees have completed four years of service, UMS will make an additional contribution to the plan of 6% - regardless of the amount the employee is contributing. Matching dollars are always made on a pre-tax basis. Additional contributions to voluntary plans are never matched.

Contribution Limits

Standard limits

The first thing to remember is that you can't contribute money to these plans other than through payroll deduction. So, the first limit to contributing is your salary. And, you still need to make contributions to other things like OASDI tax, health insurance premiums, maybe union dues, etc... making it unlikely that you can contribute all of your gross income to a plan. You can model your paycheck on Maine Street to figure out just how much of your pay you can get into a plan.

For 2020, the annual elective deferral limit for employee contributions to a 403(b) plan increased from $19,000 to $19,500. These same limits apply to the 457(b) plan. The IRS evaluates these limits annually and is consistently increasing them over time. Current limits can be found here: IRS Retirement Plan Limits.

One interesting item about the UMS retirement plan is that the basic contribution of up to 4% does NOT count towards an individual's elective deferral limits. So, only an employee's voluntary additional contributions are counted towards the limits. Additionally, employees are allowed to max out BOTH the 403(b) and 457(b) plans assuming that they do not exceed the Section 415 overall contribution limits listed below.

Catch-up

Individuals age 50 or older have catch-up provisions that allow them to defer more money into retirement plans. At UMS you can contribute up to $6,500 more per year, bringing your 403(b) AND 457(b) limits to $26,000. The IRS also evaluates these limits annually and is consistently increasing them over time. Current limits can be found here: IRS Retirement Plan Limits.

Don't be fooled: there are additional catch-up limits afforded to 457(b) participants who work for the government. Essentially, it allows individuals in these plans to double-up contributions in the last three years of employment prior to retirement. This catch up is NOT available to UMS employees.

Overall (Section 415) Limits

The total contribution limit for both employee and employer contributions to Defined Contribution plans under section 415(c)(1)(A) increased from $57,000 to $58,000 ($64,500 if age 50 or older) in 2021. This calculation includes all employee contributions (sheltered or not), employer matching contributions, and any additional Incentive Retirement Plan (IRP) contributions. The limit does NOT include contributions an employee makes to a 457(b).

TAKING MONEY OUT

Withdrawals

In-Service Withdrawals

There are a few ways that you can take withdrawals from your retirement accounts while still In-Service at the University:

- **Partial Phased Retirement Plan (PPRP)**

  Employees on an approved Partial Phased Retirement Plan are allowed to make withdrawals from the retirement plans to supplement their income. For more information on PPRPs, please see our Special Situations section later in this document.

- **Certain Voluntary Contributions**

  Withdrawals from your basic 403(b) contributions are limited to the "Hardship Rules" in the next section. However, at UMS employees can make additional contributions above the basic 4% into their retirement plans. When doing this, funds are either added to your existing basic 403(b) contract, or contributed to the Voluntary 403(b) or 457 (b) contracts. Funds contributed to the voluntary 457(b) plan can NEVER be withdrawn while still working for UMS – you must be separated from service. Additional contributions to the 403(b) plan can be withdrawn while still in service as long as you have reached age 59.5.

  *Note that employer matching contributions of any kind can NEVER be withdrawn while still working for UMS.

- **Hardship on 403(b) and lack of 'unforeseen' provisions in 457(b)**

  A hardship distribution is a withdrawal taken from your 403(b) plan because of an immediate and heavy financial need. This withdrawal will require documentation of the financial need and will need to be limited to the minimum amount required for that need. The money is taxed to the participant and is not paid back to their account.

Many 457(b) plans have a similar "Unforeseen Emergency Distribution" provision allowing withdrawals while still in service. However, the UMS 457(b) plan does NOT provide for this – distributions can NEVER be taken from the 457(b) plan while still working at UMS.

Out of Service Withdrawals

Accessing your funds once you separate service from UMS gets a lot easier. Generally, the system no longer places any restrictions on withdrawals (only your exposure to TIAA Traditional can do that), but careful consideration should be given to your options in order to maximize investment results and not pay unnecessary taxes!

Once you separate service (for any reason – retirement, changing jobs, lay-offs, etc..) you have three options:

- Leave your assets in the plan
- Make a Qualified Rollover to an IRA or new retirement plan
- Withdraw your assets as needed

There are some important considerations when making these decisions, and remember that the decision can be made at any time – there is no rush. UMS does not force you out of their retirement plan.

When contemplating leaving your assets in the plan vs. rolling them over to an IRA or a new plan you should consider items like costs, investment options, ease of management, stability of the custodian, access to education/advice and more. Generally, a rollover is made when an individual believes they can improve investment results by expanding their investment horizon, reducing costs, hiring a professional manager or a combination of those factors! A rollover also comes with the potential benefits of consolidation and control. Before you make a rollover, though, you want to weigh it against the benefits of remaining in the UMS plan. Here are some examples of important considerations:

- If you are 55 or older and leave your assets in your 403(b) you will be allowed to take withdrawals without a penalty. If you roll it to an IRA the age restriction becomes 59 ½ for a withdrawal without penalty.

- If you have voluntary assets in a 457(b) plan, these assets are NEVER subject to an early withdrawal penalty – only regular taxes if the funds are pre-tax. If you roll it to an IRA the age restriction becomes 59 ½ for a withdrawal without penalty.

- The UMS plan comes with some attractive investment options like TIAA Traditional, TIAA Real Estate and other low-cost versions of mutual funds. You should evaluate these investments against what you can obtain through an IRA and how they best match your goals/strategy.

- If you have contributed to the plan on an after-tax basis, you can roll the contributions only to a ROTH IRA, so that the assets will grow completely tax-free on a moving forward basis. Be careful with this one; it requires rolling over the earnings to a Traditional IRA at the same time. While this can provide a lot of value moving forward, it must be done correctly. Consult your advisor and see IRS Guidance here: After-Tax to ROTH.

- The Department of Labor does not allow 403(b) or 457(b) plans to have individual securities as investment options. For this reason, rolling to an IRA may be the only way to gain access to useful tools like ETF's, Individual Stocks and other attractive investment options.

- Any withdrawals from the UMS retirement plan are subject to mandatory 20% federal and 5% state tax withholding. If you roll over assets to an IRA there is no mandatory tax withholding. In addition to the increased flexibility, this can be very useful if needing to utilize funds and perform a 60-Day indirect rollover to avoid taxation.

When contemplating a withdrawal from your retirement assets, the biggest consideration is always taxes! Remember, any withdrawals from pre-tax money sources are 100% taxable as income in the year you receive it. Withdrawals from after-tax money sources create taxable income only on the amount of gains distributed. Gains are distributed on a pro-rata basis. Withdrawals from ROTH sources are completely tax-free. Additionally, withdrawals from any of these sources prior to age 59 1/2 are subject to an additional 10% tax penalty – with the exception of the 457(b) plan as referenced above and separation from service after age 55 in the 403(b) plan. It's important that withdrawals are made as part of an income distribution plan considering current and future tax situations to reduce liability over time.

Annuitization

While there are many flavors and features of annuities, an annuity at its core is simply a promise from an insurance company to pay you a specified sum of money, at specific regular intervals for a specified period of time (often, that period of time is your lifetime). It sounds great – so what's the hitch?? In consideration of the promise you need to turn over a pool of your savings to the insurance company.

As you get closer to retirement you may find yourself spending a little more time in your online TIAA account. You may notice a "Retirement Income Illustrator," which will give you an estimate of what TIAA thinks you may have at retirement (modeled with certain contribution and performance assumptions). It will also list a number of payout options ranging from Single Life Annuity, to a 10-year certain annuity. It will even let you model the type of annuity payout you may want and will list the monthly benefit that you would receive if you were to initiate it.

These are not the only options you have once you reach retirement, but instead are the annuity payout options available to you if you were to turn all of your assets over to TIAA for a certain type of income stream. While this may be a good option for some folks (especially if you think you may outlive your retirement assets), other retirees may enjoy the flexibility of not forfeiting their assets for a set monthly benefit (see out-of-service withdrawals above). Working with a financial advisor on a sustainable draw-down rate of your retirement portfolio may help in making this decision.

Standard vs. Graded Payout

There are a lot of different ways to set up lifetime income from your TIAA contracts. Most of the decisions you need to make revolve around whether you want to provide income for your life, or for the lives (or shorter-term needs) of other loved ones.

Choosing among these options will determine the amount you get paid. The more guarantees you want, the more TIAA is on the hook to pay over a potentially longer period of time, and the lower the amount they're going to pay you.

Thus, as a rule, when selecting lifetime income, the highest payout comes with simply arranging payments for the remainder of your own life.

But even if you go with that basic option, one question is still going to come up: Do you want that payout to be 'Standard' or 'Graded?' Making the correct choice here is important – albeit arguably not as important as it once was - and depends largely upon your TIAA portfolio and your objectives.

The Standard Method

First, the Standard method isn't really all that 'standard'... It's based on more factors than the typical annuity company uses in determining payouts. Generally, when you request an annuitization quote from an insurer, what you will receive is a reasonably simple monthly or annual number that the insurer is willing to pay you for the remainder of your life. The amount is fixed and there really isn't any uncertainty around it (as long as the insurer stays in business... Actually, even if they don't, the likelihood is that their obligations will be put into 'receivership' by another insurer.)

In fact, most people, when they receive payouts under the standard option, will receive payments based upon the following formula:

- The 'GUARANTEED' amount, plus
- The 'ADDITIONAL' amount, plus
- For some, the 'LOYALTY BONUS'

These three numbers combine to form the payout an annuitant receives from TIAA. This causes some degree of confusion for new 'pensioners' when they receive their distribution package. The only number referred to in the contract is their Guaranteed amount. The 'additional' amount can change over time (although historically, based upon the way TIAA creates 'vintages' for past contribution buckets, it has changed little for most annuitants).

The 'Loyalty Bonus' can be substantial, sometimes increasing payouts by over 20%. This bonus is available to people who have been investing in TIAA Traditional from 2002 and prior. It largely comes from reserves that have been deemed unnecessary being refunded to annuitants.

The Graded Method

In 1982, there was a significant risk factor at play that doesn't get nearly as much attention in the past 20 years. In the years 1974 to 1981, there were three years with double-digit inflation. The remainder of that period saw years with inflation ranging from 6.7 percent to 8.9 percent.[1]

In other words, a TIAA Traditional annuitant in 1982 had seen more than half of the purchasing power of their TIAA annuity payments 'evaporate' over an 8-year period. Necessity being the mother of invention, this factor led to TIAA developing a 'Graded' payout method and making it available to annuitants that year.

Understanding the Graded method requires an understanding of really basic actuarial math. Simply put, an annuity provider is calculating a rate of return on a pool of money, which makes up part of what they'll pay annually. On top of that, they're calculating the principal they can pay to the annuitant until their assumed mortality.

> *EXAMPLE: For someone who TIAA assumes will live another 20 years, for every $100,000 that person 'annuitizes', they'll pay $5,000 in principal plus that earlier calculation of interest (which, in the case of TIAA includes guaranteed, additional and loyalty bonus amounts).*

When the annuitant selects the Graded method, the portion of their interest that exceeds 4% isn't paid out. Rather, it gets added to the (now purely hypothetical) principal amount, which increases lifetime payments going into the future.

---

1. In these days of lower interest rates and lower inflation, the difference between Graded and Standard methods is much more nuanced than it was in the early 80s. Still, it makes sense to give careful thought to how you set up a lifetime of income. Plan thoughtfully!

Since the amount over 4% isn't paid out, the starting amount paid under the Graded method will be lower than the Standard method. However, depending upon the longevity of the participant, the annuity income may rise above what they would have received from using the Standard method.

Inflation Protection

Back in 1982, TIAA Traditional contracts paid out significantly more interest than the 4 percent threshold above which Graded-method payments are withheld to grow the future payments. As such, while the annuitant accepted a pretty steep reduction to their payments (compared with the Standard method), they also saw pretty large annual increases to their income in subsequent years. Without using an inflation indicator like the Consumer Price Index, TIAA was still able to provide some meaningful inflation protection in years where that was a big issue.

While TIAA doesn't guarantee any specific increase to Graded method payments, it's notable that in nearly every year since 1982, participants who selected the Graded method did see an increase in their payout.

But we aren't in 1982 now, and two things are substantially different. First, inflation isn't running at the levels we saw back then. As I write this, the Consumer Price Index has been solidly lower than 2 percent for some time. Second, TIAA credited rates are under 4 percent, and prior 'vintages' (or buckets) for longtime TIAA participants have been aggregated into buckets that may pay more than 4 percent, but not a lot more.

EXAMPLE: Here's a sample of TIAA 'vintages' for a participant who was active in the 80s and 90s. You can get your own report off the TIAA website by selecting "TIAA Interest Rates" under the Retirement tab.

TIAA Traditional

PRINT

PLAN NAME / CONTRACT NUMBER	TIAA ACCUMULATION	CREDITING RATE	GUARANTEED RATE	ADDITIONAL AMOUNT
TOTALS	$468,796.65	4.172% AVG	3.000% AVG	1.172% AVG
UNIV OF MAINE SYS 403(B) BASIC PL FOR FAC & PROF	$468,796.65	4.172 %	3.000 %	1.172 %
01/01/1989 - 12/31/2001	$187,623.29	4.450 %	3.000 %	1.450 %
01/01/2002 - 12/31/2011	$229,617.61	4.050 %	3.000 %	1.050 %
01/01/2012 - 12/31/2016	$29,965.98	3.650 %	3.000 %	0.650 %
01/01/2017 - 12/31/2018	$11,581.67	4.050 %	3.000 %	1.050 %
01/01/2019 - 04/30/2019	$1,846.51	4.150 %	3.000 %	1.150 %
05/01/2019 - 02/29/2020	$4,501.04	3.500 %	3.000 %	0.500 %
03/01/2020 - 03/31/2020	$448.97	3.250 %	3.000 %	0.250 %
04/01/2020 - 10/31/2020	$3,211.58	3.000 %	3.000 %	0.000 %

In general, the way the Graded method is structured, longer periods of high-interest rates and high inflation will result in steeper increases to payments for those using the Graded method. During periods of lower interest rates and lower inflation (like we see right now), the annuitant selecting the Graded method may not see much of a difference in payouts than someone taking the Standard method – and future increases to the annuitized payout will likely be lower.

In fact, if an annuitant doesn't have any vintage 'buckets' above 4%, they won't see a difference between Graded and Standard methods when projecting annuitized income.

There is always some risk that a sudden increase in inflation will result in declining purchasing power, even for someone taking payments using the Graded method, so it may be prudent for someone to offset the risk of 'sudden, sharp inflation' by holding other assets that are better suited to absorb such shocks.

Flexibility

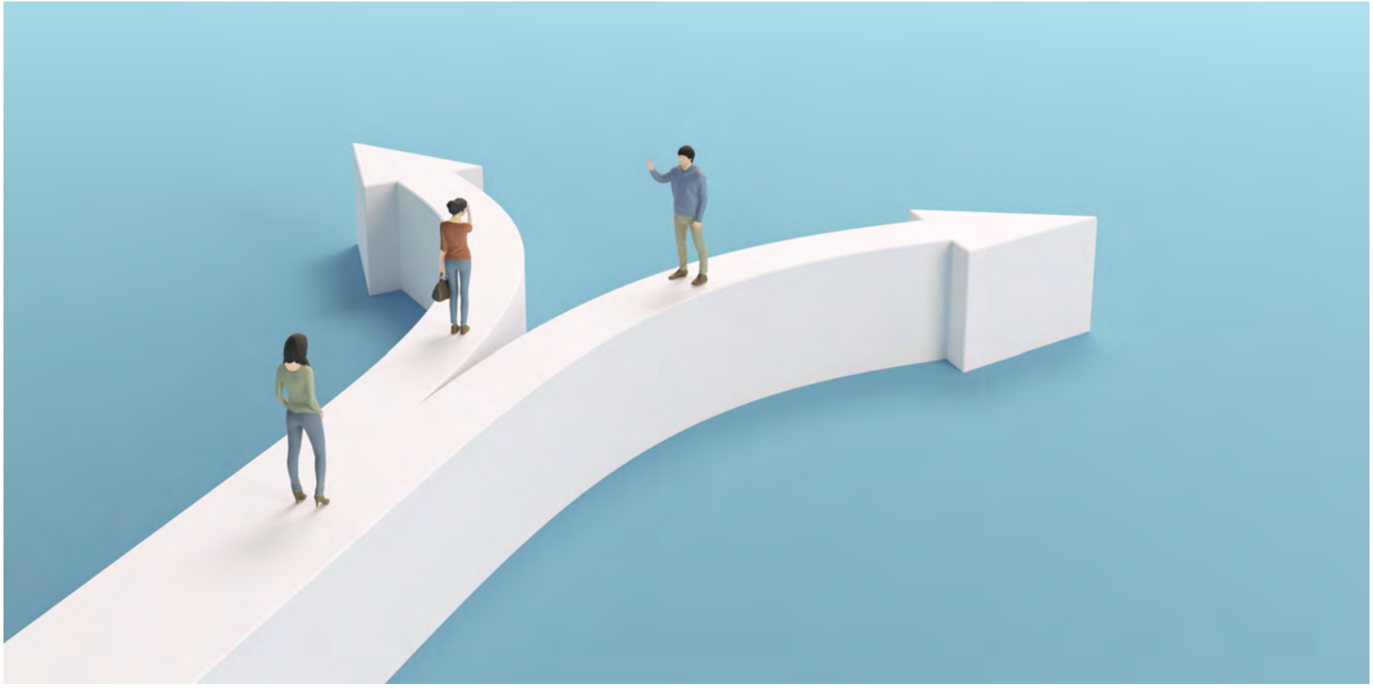
The decision whether to use 'Standard' method and 'Graded' method isn't an 'all-or-nothing' choice. Someone who wants to have some inflation protection but for whom the starting 'all-Graded' payment might be lower than they want can elect for payments to be, for example, 57% Graded and 43% Standard. Annuitizing a large chunk of assets is a significant and largely irreversible decision, so this flexibility is a welcome aspect for people planning retirement.

Not only can you choose the portion of your payout you want to be treated as 'Graded' vs. 'Standard', you can also change from the Graded method to the Standard method at any point in the future. This change can be in part or in full. You can change part now and another part later. You just can't go in the other direction – changes from 'Standard' to 'Graded' aren't allowed.

Which is better?

Each retiree should spend some time assessing their income needs and their approach to handling risks like longevity and inflation risk.

Someone who sees themselves as spending more in their early retirement years (one of our clients have dubbed these the ‘Go-Go Years’) might logically select a standard method of payout. On the other hand, an annuitant who will rely on their TIAA annuity for much of their support in the future should strongly consider the inflation protection the Graded method will provide.



Graded-method payouts are most favorable when real inflation stays low and when the participant has a long lifespan (thus affording them more years of increasing payments). Since the very objective of annuitizing your payouts is to protect against longevity risk, it probably makes a lot of sense to consider Graded-method payouts under the same lens. Also, the flexibility to move to the Standard Method later makes Graded Method payouts the winner in a coin-toss.

LOANS

How Loans Work in Retirement Plans

Usually, there are two flavors: One is a Retirement Plan Loan, and the other is a Collateralized Loan. The Retirement Plan loan is subject to IRS limitations and is the most commonly seen. In this case, assets are removed from the retirement plan account, and sent to the participant. As the participant pays herself back (generally with interest), these dollars go back into the investment. As such, the plan provider isn't on the hook for losses, since the assets are actually the participants. Usually there's a limit of $50,000 or half of the eligible assets for a loan. Generally, there's a 5-year payback limit, but some plans offer a longer payback for loans taken to purchase a primary residence.

401(k) Plans can't be pledged as collateral, but non-ERISA 403(b) plans can. In cases where TIAA offers this type of 'collateralized loan', the amount of the loan is moved from Variable accounts to TIAA Traditional (to prevent a situation where the borrower defaults and the market crashes, leaving TIAA on the hook)!

Provisions Specific to UMS

The minimum loan amount is $1,000 or an amount specified by your retirement plan.

The maximum loan amount is the lesser of 45% of the vested balance or $50,000 (less your highest outstanding loan amount in the past 12 months).

A charge of $75 for a personal use loan or $125 for a residential loan will be assessed against the loan proceeds. In other words, if you take out a $1,000 loan, you'll only receive $925.

- As of March 10, 2020, TIAA Loans on UMS plans are no longer ‘collateralized loans’ (loans that don’t appear to reduce the balance of your account, but instead use your assets as collateral). Instead, loans come out of the retirement plan and payments are credited with interest back to the retirement plan balance. Additionally, no longer can people who have separated services from the university system take out a loan. There is a maximum of two loans that can be taken at one time. In addition to the loan costs ($75 for a personal use loan and $125 for a residential loan), there is an annual fee assessed of $25 per year.

- The interest rate is based on the higher of either the Moody’s Average Monthly Corporate Bond Yield or the amount they are getting credited on the TIAA Traditional PLUS 1%. This means TIAA makes a really nice interest rate on a risk-free loan.

- People who already had loans as of 3/10/2020 are still under the old plan rules (collateralized and not restricted to current employees).

Which Assets are Eligible to Loan?

University of Maine does NOT allow loans on employer money (nor on the contract that holds the employer money and the required employee contribution). Only VOLUNTARY assets are available for loan. (Note that this is no longer the case once the employee separates service from the University System).

Are Loans a Good Idea?

Well, it depends. First, they may be the only source of funding for someone who needs capital and doesn’t have the ability to borrow otherwise. Since they don’t rely on credit ratings, someone in a pinch might have a 403(b) loan as their only option. Secondly, while they pay interest on the loan, this interest is paid to themselves. Thirdly, the loan isn’t reportable to credit rating agencies – so having a plan loan outstanding isn’t as likely to impair someone’s ability to get credit in the future.

Now for the downside…

The true cost of borrowing from the plan is really the 'opportunity cost'. Since borrowed assets aren't invested, the participant is losing out on the opportunity for those assets to appreciate in a growing market. Keep in mind; this can work both ways: If a participant borrows and markets drop while they had the loan, they may be happy they borrowed – but most five-year periods are 'UP' on the market, and missing out on a decent bull run can rob the account of much of its lifetime growth potential.

Also, when someone makes payments on their loan, the interest they're paying comes from income that has already been taxed. It's like an after-tax contribution to the plan. But unlike actual after-tax plan contributions, these aren't exempt from taxation when they come out. It's basically double-taxation.

If someone leaves their employer, the loan may become due and payable at that time. This could be a big problem; someone who just lost their job may very well not be able to pay off the loan, and if they can't, it goes into default. At any plan loan default, the un-paid loan balance becomes taxable income to the participant (and they will owe a 10% early withdrawal penalty if they are under age 59 ½). Note that UMS's plan allows for loans to continue beyond separation.

VESTING

Employee (EE) vs. Employer (ER) Money

You may have noticed in your TIAA retirement account that contributions going in are split between “Employee Contributions” and “Employer Contributions.” One of the reasons for the split is because, that generous contribution the University of Maine is making for you, isn’t really yours. Well, not until you put in a required amount of years of service. Once you have put in the required years, based on your classification at the University, you will become 100% vested and entitled to the full amount of your retirement account. If you were to leave service prior to the required years, you would forfeit any contributions made into your retirement by the University. You are always 100% vested in your own contributions.

Differences Between Classified, Professional, Faculty

Your classification at the University will have an impact on when you are 100% vested in your retirement accounts.

Represented and non-represented Classified employees hired between January 1, 2010 and December 31, 2012, must complete 4 years of service for the University. Classified employees hired after January 1, 2013, must complete 5 years of service for the University to be vested in the employer contributions.

Represented and non-represented Professional employees (including law faculty) hired after January 1, 2010 are subjected to the 5-year cliff for full vesting (complete 5 years of service).

Represented and non-represented Faculty employees (excluding Law Faculty) are immediately vested in the contributions made to their retirement account.

INVESTING YOUR MONEY

The Core Lineup

The core lineup refers to the base list of investment options participants can choose from when allocating their retirement funds. When a participant first establishes their investment elections, or when they log in to make changes, these are the investments immediately presented to them.

Core Lineup Options

While the core lineup can be different among the various University of Maine Plans, generally the options are the same among all active retirement plans. Sometimes you will notice that investments are "closed" which means that participants who own the investment can keep it, but no new dollars can be added. Within the core lineup you will find TIAA Traditional, TIAA's Fixed Annuity offering, several Qualified Default Investment Alternatives (QDIA) structured as Target-Date Funds and other options that allow participants to allocate to more specific asset classes. If an investor requires exposure to additional asset classes beyond what the core lineup offers, they must use the Self-Directed Brokerage window to do so.

To view the most current list of options available in the core lineup, see the dedicated University of Maine System TIAA Website here: [UMS Core Lineup Investments.]

CAPTRUST & Fiduciaries

You may be wondering, how does the system determine which investment options to make available? The answer: in 2013, UMS hired an independent fiduciary, CAPTRUST, to review and make changes to the retirement plan. After implementing these changes in 2014 they engaged the same firm to serve as a 3(21) fiduciary to the plan moving forward. In this capacity, CAPTRUST assists UMS in monitoring the investment options available to participants, ensuring they are appropriate and recommending changes when they deem necessary. This means that CAPTRUST serves as a co-fiduciary to the retirement plan itself.

While the plan level fiduciary monitors the options available to participants, this party does not assist individuals with selecting the investments that are most appropriate for their own unique goals and objectives. However, all participants have the ability to hire their own independent Financial Advisor to assist in managing their investments. In this capacity, the Financial Advisor serves as a fiduciary to the individual participant. Additionally, if the Financial Advisor requires access to alternative investment options not selected by the plan level fiduciary, they can use the Self-Directed Brokerage Account to do so.

Why are Options Changing?

Every now and then you may receive a notice indicating that one of the investment options is being removed, a new option is being added, or both! Why is this happening?!?!

Investment options will change for many reasons, but generally boil down into one of two broad themes:

1) CAPTRUST decided an investment was no longer appropriate, or
2) Cost

CAPTRUST routinely monitors the investment lineup and if they notice a fund underperforming, changing managers, drifting from desired asset allocation or a host of other reasons, they may determine that it is no longer in the best interest of participants to offer that fund. They may remove the option, or replace it with a new option. On occasion, they may even add an option to the list without removing an option.

Target Date Funds & QDIAs

Most modern Defined Contribution Retirement Plans offer the participant what is referred to as a Qualified Default Investment Alternative (QDIA). QDIAs began as a result of the Pension Protection Act in 2006, and give a retirement plan sponsor relief from liability from losses occurring in these investments. It also benefits participants as it serves as an appropriate investment selection for those participants who do not want to spend the time, or do not feel qualified, selecting their own investments.

QDIAs generally come in one of four flavors:

1) Lifecycle or Target Date Funds
2) Risk Targeted, or Balanced, Funds
3) Professionally Managed Funds
4) Stable Value Fund (only for 120 days)

In the University of Maine System Retirement Plans, they offer a series of Target Date Funds to serve as the Qualified Default Investment Alternative. These funds are offered in five-year increments and are automatically managed to an appropriate asset allocation for an individual retiring in the selected year. Example: Vanguard Target Retirement 2050 Fund (VFIFX) will always have an allocation appropriate for someone targeting retirement in 2050. This means the allocation will change over time to become more conservative as the year 2050 approaches. The fund can be manually selected by the participant to match the year they believe is most closely coordinated with their retirement or, if no investment election is made, new participants will automatically be placed in the fund most closely aligned to their turning age 65.

THE SELF-DIRECTED BROKERAGE ACCOUNT

What is it?

The Self-Directed Brokerage Account (SDBA) is a valuable tool that is rarely recognized or utilized among plan participants. Basically, the SDBA is a separate account allowing participants to purchase mutual funds not available in the "core" investment lineup. It is available in all plans and the separate account is linked to one of your core contracts at TIAA.

Why Use it?

The "core" investment lineup offers the ability to diversify/invest across basic investment categories, but for many investors their goals require access to additional categories and managers. The brokerage window provides this access, allowing participants to select from almost the entire universe of mutual funds. It provides more choice, control and flexibility in managing assets.

Pros and Cons of the Self-Directed Brokerage Account

PROS:

- Allows participants to access additional investment options outside of the core lineup.
- Any portion of your account balance can be moved to the brokerage account, it is not all or nothing.
- Independent Financial Advisors can assist in managing assets within the brokerage account. PFA is one of those advisors.
- Additional investment opportunities could lead to improved performance, or a portfolio that better matches goals.

CONS:

- Only mutual funds can be purchased within the SDBA – individual stocks, bonds and other securities cannot be purchased.
- For an inexperienced investor, too much choice may be a bad thing. Investments in the SDBA are not monitored by UMS's Fiduciary, CAPTRUST. It is up to the participant, or their advisor, to evaluate and select appropriate investments.
- Trading some of these mutual funds incurs trade costs which need to be considered for appropriateness.

Quirks & Caution

The SDBA certainly has its quirks. Namely, TIAA does not provide brokerage services directly – they outsource this to a firm called Pershing. While the online portal will not appear much different, participants who utilize the SDBA will begin receiving TWO statements each quarter. The TIAA statement will report all balances on their statement, including a line reflecting the balance in the SBDA. Pershing is also required to send a statement, but this one only reflects the balance of the SDBA. So, the brokerage balance is reported twice – do not add these two statements together and assume that is your total balance. Your total account value is reported on the TIAA Statement and then the brokerage is duplicated on the Pershing Statement.

It's also important to consider this note of caution about utilizing the SDBA. Inexperienced investors could find it daunting to evaluate the entire universe of mutual funds offered The list is VERY large; most funds have multiple share classes to evaluate with different cost structures, some funds have trade fees and minimum investment amounts to consider and the options are not monitored for you. It takes care and skill to use this tool effectively, and is often utilized by professional advisors when managing assets. If you are interested in the SDBA and want to learn more, you may choose to begin a conversation with an independent advisor. PFA can assist.

How to Establish a Brokerage Account

If working with an Independent Advisor, they will be able to assist you in setting up the SDBA.

If not working with an advisor, we recommend contacting TIAA for assistance in setting up your SDBA as their procedures and forms change regularly. You can reach the brokerage department by calling 800-927-3059.

As of 09/2020, you can establish a brokerage account online fairly easily. All you need to do is log in, click on “Manage Investments” and select an exchange. From there you just need to instruct at least $1,000 to be transferred from an existing holding into the self-directed brokerage account. The system will automatically collect the required information from you and establish that account. You can then make subsequent transfers into, or out of, brokerage by performing the same process.

How to Trade a Brokerage Account

If working with an Independent Advisor, they will be able to trade and manage the account on your behalf.

If self-directing trades, you will need to call the TIAA Brokerage Department at 800-927-3059 to place your trades.

Investment Options, Fees and Minimums

The list of available investments in the SDBA program changes frequently. You can contact TIAA for an updated list, or your independent advisor will be able to provide this to you.

As of 05/01/2020, the following spreadsheet identifies the investment options available through the SDBA: UMS TIAA Brokerage Investment Options.

We have highlighted one column identifying trade fees associated with each investment. Some investments incur a $35 trade fee any time you buy or sell. Others are “NTF” or “No Transaction Fee” eligible funds and incur no trade fees. These fees, as well as the expense ratio of each fund, must be carefully considered.

We have also highlighted columns indicating minimum initial purchase amounts and minimum subsequent purchase amounts. It is worth noting that we often find these numbers to be unreliable, and you should work with a representative at TIAA to determine the true minimum amounts and lowest cost share classes for the funds you are interested in.

TIAA TRADITIONAL

There is a lot of mystery about the Teachers Insurance and Annuity Association, or TIAA.

The History

TIAA traces its roots back to 1918, when Andrew Carnegie, concerned about the low compensation of teachers and their difficulty in saving for retirement, endowed a $1 Million grant to set up the Teachers Insurance and Annuity Association.

TIAA is still somewhat unique in the two major products it makes available under the TIAA brand: A unique Real Estate account and the TIAA Traditional Annuity. This section is devoted to the latter.

The most important thing to understand about the TIAA Traditional Annuity is this: Your TIAA Traditional Annuity may very well be DIFFERENT from your neighbor's TIAA Traditional Annuity. What it earns and how you can take your money from it is not the same from retirement plan to retirement plan, among contracts within a plan, and, often, across different participants in the same contract type.

The Similarities

But before we talk about the differences, let's first cover the similarities among TIAA Traditional Contracts. First, TIAA is a FIXED annuity. This means, simply, that shares retain a fixed value (although the interest may vary over time. Unlike when you invest in a stock fund or a bond fund, there isn't actually a bucket of money at TIAA that has your name on it. As is the case with most bank accounts, your balance is reflective of a promise that TIAA is making to pay you a certain amount in the future. In other words, if all TIAA participants added up their TIAA Traditional Balance from their statement, the resulting number would be much larger than all the assets at TIAA.

While that may sound sketchy, it's perfectly normal. If TIAA promises you that they'll pay you a certain amount of money, you can hold a pretty darn high level of trust that they'll be able to carry through on their promises. As is the case with all annuity companies, TIAA receives a 'rating' from several rating agencies. In pretty much every case, their ratings are among the best that a company can get. Simply put, rating analysts think highly of TIAA.

The General Account

There is a 'General Account' at TIAA whose purpose is to be able to pay people when they want to take money out of their TIAA Traditional account. This account is large; currently assets are a little under $300 billion. This account is invested relatively conservatively. Most assets are held in public and private bonds of medium to high quality, some mortgages, and a smattering of real estate, private equity and natural resources. Regardless of the type of TIAA account you have, the income you receive from it is paid from this account, and the interest credited to it may be impacted by the performance of this account.

Interest gets credited to TIAA accounts daily. Even on weekends. Even on "Leap Day".

Different Contracts, Different Rules

What makes TIAA so 'intriguing' and potentially confusing is that depending upon the contract you hold with TIAA, you may make more or less interest and your options to 'cash out' of your annuity – or to move it to other investments within your contract – may be different.

During the 'Accumulation Phase', which is the time before you take your benefits from your TIAA Annuity, the total interest you are credited is made up of two elements: Guaranteed Minimum Rate (1% – 3% depending upon the contract and Additional Amounts. Since 1948, TIAA has always paid additional amounts on top of their already impressive minimum rates. Every March 1, there is a new rate declared for each contract, which has been determined by the TIAA Board of Trustees. How do they figure the rate? Very few people know, but clearly they try to come up with a rate that combines competitiveness with profitability.

Within the University of Maine system, you'll find a number of different types of TIAA Traditional contracts. The type of contract you have will largely depend on when you made the contributions to the contract.

Supplemental Retirement Annuities (SRAs) and Group Supplemental Retirement Annuities (GSRAs) are usually plans that only receive voluntary contributions from plan participants. These are the easiest to understand. For the most part, investors in these plans earn a minimum of 3% interest. These are almost always 100% liquid, with participants being able to move money out of TIAA Traditional in these contracts at will, and to distribute from the plan without restriction at retirement. GSRAs were in place largely before 2004, when UMS had a group contract with TIAA. Since then, contracts were individually issued to participants and SRAs were issued instead of GSRAs.

In March of 2020, new contributions to the SRAs were discontinued, in favor of another type of TIAA contract, called “Retirement Choice Plus” (RCP). These contracts still have unrestricted liquidity, meaning that you can move from TIAA Traditional in an RCP to other investment choices without restriction. The primary difference between the RCP and the old SRAs and GSRAs is the level of guaranteed interest: While the older contracts had a floor of 3%, the RCP contracts have a floor of 1%.

Group Retirement Annuities (GRAs) are more restrictive. They generally allow participants to take them out as a lump sum upon separation from service, but they charge a 2.5% surrender charge for this privilege. The participant generally has 120 days from separation from service to take advantage of this option, after which it goes away forever. Some UMS employees who have been with the system for a long time may still have these.

Retirement Annuities (RAs) are the most restrictive, with no lump-sum distributions being allowed at all. The quickest speed with which someone can remove money from an RA is to elect a “Transfer Payout Annuity”, which distributes the money in 10 even payments over a 9-year period. Again, UMS employees who made contributions to TIAA Traditional before March of 2020 will likely have assets in an RA.

Since March 2020, all University contributions, plus the 4% required employee contribution, go into a “Retirement Choice (RC)” contract. This contract differs from the RA contract in two ways: First, its minimum interest rate is 1% instead of 3%. Second, liquidity is a little less restrictive… Whereas the quickest you can take a distribution from the RA is 10 annual payments, the RC allows for distributions over 84 monthly payments.

Importantly, this lack of liquidity is a key part of the reason that TIAA Traditional pays good interest. Restricting withdrawals from the accounts allows TIAA to make investments in less-liquid but higher-returning investments in the General Account.

In the GRA and RA accounts, interest credited is based largely upon when you put the money into the account. Assets put in back in the 1990s will continue to receive a 'vintage' rate of return that may very well be higher than contributions made today will receive. Participants can see this system of interest rate 'buckets' by going online and selecting TIAA Interest Rates when checking out their accounts. This is among the most misunderstood features of the Traditional product. Two faculty members can have the same type of contract and the same amount in TIAA, but unless they invested at exactly the same time, they will likely have different rates of interest.

This confusion sometimes leads people to be disappointed when they see a higher rate of return than the current rate, move a lot of money into TIAA Traditional, and are surprised to find that their rate goes down! This is simply because the big transfer they just made is being credited at the new rate, and if that's lower than some of their prior-year buckets, it will bring down their overall average rate.

TIAA Traditional can be a great tool. In a period like now (Late 2020), even though rates on things like 10-year government bonds are at near historical lows, the credited rate on RC contracts are still respectable and some may find it is worth 'locking the money up' for years in order to get this stable rate of return. As with everything else, it pays to look at the whole picture and understand what the implications are before making any large moves, especially when it comes to potentially illiquid assets.

TIAA REAL ESTATE

TIAA vs. Typical REITs

To explain why TIAA Real Estate might be a good way to get some real estate exposure into your portfolio, we should cover what a typical REIT fund is. A REIT, or Real Estate Investment Trust, is a company that owns, operates or finances Real Estate that produces income. The big thing here is you invest in a company that is investing in Real Estate. TIAA Real Estate is a bit different. The TIAA Real Estate fund invests 75%-85% of its assets directly into real estate or real estate-related investments, all while keeping your money liquid. The fund diversifies away risk within the real estate holdings by spreading them out geographically, by property type and by varying expiration dates of leases.

If diversification is your goal, TIAA Real Estate is a unique way to truly get exposure to Real Estate investments and not just other Companies who are profiting off Real Estate. This allows you to own an asset that has a negative correlation to the rest of the holdings in your portfolio (this helps lower the overall risk!). Additionally, since the Real estate holdings are directly held and based off of appraised values, it will help to create a more stable position. Working with an advisor on how much diversification would benefit your portfolio is always advised.

Oh, and if the diversification benefits are not enough to pique your interest, the TIAA Real Estate Fund owns more wineries than any other fund in this space... we will drink to that!

Holdings

75%-85% of the fund is directly invested into real estate or real estate-related investment. The key strategy is to purchase direct ownership in income producing real estate in office industrial, retail and multi-family properties. The other 15%-25% of the fund is invested into non-real estate liquid investments , including US Treasury Securities, corporate debt securities, and Money Markets.

Now I know what you are thinking, “Why is my Real Estate Fund investing in things other than Real Estate?” Well, there are a couple reasons for that. One is the promised liquidity of the investors’ money. This creates a pool for money to be freely bought and sold within the fund. The second is diversification in the fund, and it allows the fund managers to hold money in other places when there is a lack of attractive real estate-related investments available.

Restrictions

It's important to know that there are some restrictions because of the nature of the TIAA Real Estate fund. Transfers in or out of the fund can be executed at any time but they are limited to once per calendar quarter. Exceptions to this rule would be any systematic transfers or withdrawals that are in place, any automatic rebalancing of your portfolio, any Transfer Payout Annuity payments that must be made, and any transaction that comes from TIAA-sponsored advice.

What's up with the limitation to once a quarter? If the fund allowed daily in and out flows of money they would have a hard time keeping their target of 75%-85% of the account directly invested in Real Estate. It also discourages short-term investors from using the fund, as this type of asset generally looks to invest over the long term.

SPECIAL SITUATIONS

Classified employee DB plan (established 1961)

Although faculty and professional staff were moved to "Defined Contribution" plan like TIAA decades earlier, hourly paid employees ('Classified Employees' remained on a standard 'Pension Plan', called a Defined Benefit Pension, until July 1, 1998.

Up until that time, when a Classified employee retired, he or she would simply get a monthly payout based upon their earnings and years worked, for the remainder of their lives.

On July 1, 1998, these employees were given the one-time choice to either stay on the Defined Benefit Pension (with a benefit that would no longer grow, or they could receive a lump sum that would be deposited into one of two TIAA-CREF accounts: One to hold employee funds and one to hold funds moved in by the University.

All future employee and employer contributions would go into the TIAA-CREF accounts.

A number of classified employees opted NOT to convert their pension plans to cash balances, and the University has, to this day, continued to administer the Defined Benefit Pension plan for employees who were hired before it closed, and who decided to stay with it. Today, this plan has over $24 million in it (as of June 30, 2020, and divvies out millions of dollars per year to meet the obligation it made to Classified employees.

There aren't too many active classified employees left who still have this as a benefit, but there are some! If you are one of them and need updated information or are retiring and want to get a benefit estimate, you can contact the EBC at 207-973-3373.

Civil Services and FERS

Some University of Maine Employees are also employed by the US Government in areas like the Food and Drug Administration or the US Geological Service.

These employees often will have Federal retirement plans in place of (or in addition to) the University of Maine retirement plan.

For Federal employees hired before 1987, the Civil Service Retirement System (CSRS) was the retirement plan. This plan, started in 1920 (before Social Security), was designed to ensure a comfortable retirement for Federal Employees for a lifetime, all by itself. As a result, CSRS employees didn't participate in Social Security.

For Federal employees hired in 1987 and beyond, and for those hired before who decided to switch, the Federal Employees Retirement System was the plan. Unlike CSRS, FERS is not intended to be a sole source of retirement income for a Federal Employee. As such, these employees do participate in Social Security and in a 'Defined Contribution' plan called the Thrift Savings Plan (TSP), which can receive employer and employee contributions.

FERS employees only participate in the federal plans. The few remaining CSRS employees are provided a reduced employer contribution to the University of Maine Defined Benefit Plan (TIAA) in consideration for the fact that they don't receive the typical university contribution to their Social Security.

Partial Phased Retirement

A great option for certain eligible employees who want to ease their way into retirement could be to apply for a Partial Phased Retirement Plan (PPRP). Essentially, a PPRP allows a near retiree to negotiate a reduction in both work hours and compensation over a period of time immediately preceding their full retirement.

This is offered to employees who are either:

- Full time represented faculty (AFUM)
- Represented administrative and professional staff (UMPSA)
- Non-Represented faculty
- Non-Represented administrative and professional staff

And they have either:

- Worked at the university for 10 years or more and have reached the age of 55 **OR**
- Their age in years plus the length of their continued service at the university equals 73 years or more.

If an employee meets the requirements listed above, they can apply for partial phased retirement. This is done by a submitting a written individual application to be reviewed and approved by the Chancellor (or their designee). If approved the employee can start a partial retirement while continuing to take advantage of all the employee benefits of a fulltime employee!

Employees on PPRP are still eligible for all of their benefits, although the amount of those benefits is reduced in relation to the agreed upon salary reduction. While the premiums paid by the employee are the same as any other similarly situated full-time regular employee, the benefits are based on the new salary (e.g. life insurance, disability, contributions to SS, retirement, etc.). Sick (disability) leave and annual (vacation) leave accruals are adjusted to reflect the percent full-time. If unable to use the annual (vacation) leave prior to the PPRP agreement, the amount of the adjustment will be paid to the employee. There is no payment for adjusted sick (disability) leave.

This is a great opportunity for employees who are looking to retire earlier than the traditional 65 age but are worried about the cost of the benefits they would forfeit.

It's important to point out that while withdrawals from the UMS defined contribution plans are permitted during PPRP, rollovers to an IRA or another plan are not – those still require full retirement.

INCENTIVE RETIREMENT PLAN (IRP)

How it works

This is an additional, one-time, contribution made at retirement to the 403(b) plan and is based on years of service and income.

Who is Eligible

The Incentive Retirement plan is offered to non-represented salary employees and Professional Staff (including law faculty) who were hired on or before June 30th, 2006.

The Incentive Retirement Plan is also offered to represented and non-represented faculty (excluding law faculty) who were hired on or before June 30th, 1996.

Additionally, employees must be at least age 55 with at least 10 years of full-time regular equivalent continuous service immediately preceding retirement to be eligible.

How it is Calculated

If the retirement application is approved, a lump sum contribution will be made to the retiree's TIAA-CREF retirement plan equal to the following:

(1.5%) X (completed years of service (Up to 27 years maximum)) X (final years' FULL-TIME* equivalent base salary)

*retirees who are on PPRP at retirement will have IRP based on full-time equivalent base salary instead of the reduced PPRP salary.

What about 415 Limits?

If the incentive payment does bring an individual over the above referenced Section 415 Limits, UMS will hold onto the funds and deposit the remainder at the start of the following year.

HEALTHCARE

CHOOSING A HEALTH PLAN

All employee groups, with the exception of the Service & Maintenance bargaining unit, have a choice between two health plans offered through Cigna. These are the Cigna Copay Plan and the Cigna Choice Fund Plan.

- ### Cigna Copy Plan

  This is a low deductible ($250 single, $500 family in 2021) plan that applies copays for some services. It will have a larger premium than the Choice Fund Plan and reduce your take-home pay, but will reduce your out-of-pocket expense when you use the coverage and have medical needs. Additionally, it has a lower out-of-pocket maximum than the Choice Plan. Individuals and families who choose this plan are NOT eligible to fund a Health Savings Account (HSA), however they can use the Flexible Spending Account (FSA).

This type of plan usually benefits those who regularly use their health insurance to visit doctors, or specialists, and have higher overall annual health costs. It also helps to reduce out-of-pocket expenses for people who take medications that refill frequently throughout the year.

Cigna Choice Fund Plan (High-Deductible, HSA Eligible)

This is an IRS-Qualified High Deductible Plan ($1,500 single, $3,000 family in 2021. It will have a smaller premium than the Copay Plan, but will require you to cover a larger deductible before some benefits kick in. Individuals and families who choose this plan will be provided an HSA to set aside money tax-free to help pay for qualified healthcare expenses.

This type of plan usually benefits healthier individuals who don't visit the doctor frequently beyond preventive care or take ongoing medications. It can also benefit those who are willing to save and invest for their future health care needs.

Differences for Service & Maintenance

Service & Maintenance employees do NOT have the option to participate in the Choice Plan – they must participate in the Copay Plan. Additionally, for in-network services, there is NO deductible on this Copay plan. It has other differences in copay amounts that are generally better than the payments required for all other groups.

Lowering Your Premium Through Wellness Incentives

UMS offers a Wellness Incentive Program to all employee groups. By participating in the program, you can prevent increases and qualify for reduced health insurance premiums. We recommend you review the Wellness Guide available each year for details.

There are two levels. Level one must be completed within 90 days of your effective enrollment date, and then annually by April 30th each year, to avoid an increase in your premiums. Level two must be completed by November 30th each year and employees will receive a $100 taxable incentive payment – or $200 if the employee AND their spouse/ domestic partner both participate.

HEALTH SAVINGS ACCOUNT (HSA)

If you do opt into the High Deductible plan provided by the University, you can take advantage of a Health Savings Account (HSA).

Why It's Great

HSA's were born in 2003 and behave like no other account out there. Money contributed, up to annual IRS Maximums, is 100% tax-deductible. Additionally, if you spend the money in your HSA on "qualified medical expenses" including dental and vision, it is all spent tax free. If tax-deductible going in and tax-free coming out isn't cool enough, you can also invest the money within the account and help grow your money tax-deferred if taken out for non-qualified medical expenses, and tax-free if spent on medical expenses!

Additionally, unlike a Flexible Savings Account, the HSA is never forfeited at the end of the year, and will continue to grow tax-deferred. This type of account can be a great way to set some money aside for medical expenses or can be a powerful tool in retirement planning. Working with an independent financial planning professional could help you leverage this account to meet your long-term goals.

UMS will contribute $1,000 over the course of the year for someone with individual coverage (employee only) and $2,000 over the course of the year for someone with family coverage (employee plus 1 or more). You can view this contribution as a reduction of the deductible, in which case the two plans are much closer in terms of overall deductible.

FLEXIBLE SPENDING ACCOUNT (FSA)

The Flexible Spending Account works like a savings account and is offered in two fashions: the Healthcare FSA and the Dependent Day Care FSA. The primary benefit is that you can contribute to these FSA accounts directly out of your paycheck on a pre-tax basis. When used on qualifying expenses, the withdrawal is not taxable. Be careful, though, as only

$500 of unused FSA funds can roll over to the next year and be used – any remainder is forfeited! You want to plan your expenses carefully. Finally, for both the Healthcare and Dependent Day Care FSA there are minimum and maximum annual funding amounts that could change annually.

OTHER INSURANCE

DENTAL INSURANCE

New in 2021, employees have a choice of THREE dental plans also offered through Cigna. The "Traditional" Plan matches the plan you've been used to and will have no changes to costs or coverage in 2021. The two new plans allow you to increase or decrease your annual maximum coverage vs. the Traditional Plan, while adjusting your associated premium respectively. The idea behind these changes was to allow employees to better customize their dental plan to their unique needs.

VISION INSURANCE

Vision Benefits are offered through Eyemed, and employees can enroll themselves an their family. There is only one plan option available, and the premium for it is deducted on a pre-tax basis.

LIFE INSURANCE

University Paid Benefits

ALL benefits eligible employees at the University of Maine receive 100% of their salary in life insurance benefits, provided to them by the University. This amount is reduced to 65% of the employee's salary at age 65.

Supplemental Insurance

Employees have the option to purchase 1 to 5 times their salary in additional life insurance on their own life. This supplemental insurance, combined with the basic university provided benefit, is subject to a maximum of $1MM in coverage. Up to 3 times salary is available with no Evidence of Insurability (EOI) required if taken when first eligible. If not taken when first eligible an employee can move up one increment each year without EOI, but any increases beyond that require it. Any coverage beyond 3 times is always subject to EOI.

For an employee's spouse or domestic partner, insurance is available in $10,000 increments up to $50,000 maximum. Additionally, this amount cannot exceed 50% of the employee's combined Basic and Supplemental insurance amount.

Considerations in Financial Planning

Determining your needs for life insurance and finding the right product can be a daunting task. For a more comprehensive discussion of how to tackle it, visit our blogs on the topic here: The Three A's and How Much is Enough? In this guide, we will focus on the pros and cons of supplemental term through an employer vs. individually owned term insurance.

Employer Sponsored vs. Individually Owned Term Insurance

Younger individuals may find the UMS supplemental insurance benefits quite attractive the rates are really cheap! But – beware – employer sponsored supplemental life insurance (including UMS's offering typically becomes more expensive as you age. The premiums for the same amount of insurance get larger!

It's not uncommon for an employee to grab all the supplemental insurance they can when they are first hired, never review their coverage at open enrollment and find themselves years down the road paying a lot of money for insurance they do not need. At UMS, coverage gets more expensive in five-year bands (i.e. if you are 28, you will pay the same premium at age 29 and then "rate up" on January 1st following the year you turn 30. Premiums will get more expensive from there every five years, after turning 35, 4 , 45, etc...)

While this can catch people off guard, it's also a great benefit to annually have the flexibility to change your insurance coverage easily. With individually owned insurance policies, rates are typically level – meaning you pay the same premium every year for the length of your selected term. While this may seem like long commitment, an important item to remember about individual term policies is that you are not committed to keeping it – you can always cancel coverage and stop paying the premiums.

The most important item to take away from this is: Review your coverage at every open enrollment! Both, coverage through your employer and outside of it. Here are some pros and cons when considering which route to go. As always, an independent advisor would be able to assist in determining the right solution for you.

Employer Sponsored

PROS:

- Can obtain coverage without Evidence of Insurability.
- Easy to enroll in, and have premiums deducted from paycheck.
- Easy to make changes to coverage – especially if reducing. Increasing may require Evidence of Insurability.
- Very cost effective immediately.

CONS:

- Becomes more expensive every five years – may be more expensive over time than an individually owned level term.
- Coverage does not continue if you separate from UMS. It also terminates at age 70.

Individually Owned

PROS:

- Premiums are level over the life of the policy – and can be more cost effective over time
- Coverage is not dependent on your job – you keep it as long as you keep paying premiums.
- Can shop multiple carriers, features and benefits to customize policy for unique needs.

CONS:

- Requires Evidence of Insurability to issue the policy.
- Potentially more expensive to acquire in the early years of coverage.
- May have less flexibility in changing your coverage amount over time

ACCIDENTAL DEATH AND DISMEMBERMENT (AD&D)

AD&D policies provide additional financial protection for death, but only in the event of an accident, as well as protection against life-changing injuries such as loss of a limb, sight or paralysis. As a UMS employee you are provided with coverage equal to your base salary paid for by the University as a basic benefit.

You can also purchase supplemental coverage in $10,000 increments up to $350,000, but not exceeding ten times your annual salary. If you elect family coverage, your spouse/ domestic partner's coverage is 60% of your election and each child is 20% to a maximum of $50,000.

DISABILITY INSURANCE

Long-Term Disability (University Paid)

Long-term disability coverage provides income protection to employees who have an approved illness or injury that prevents them from working for more than six (6 months. After being out of work for that amount of time, it provides a benefit equal to 60% of your base pay, up to a maximum of $13,000/month and continues for the duration of your disability or attainment of your full Social Security retirement age, whichever occurs first.

The premium for LTD coverage is paid for by UMS for ALL benefits eligible employees. Therefore, any benefits received are taxable to the employee. The policies are issued by Liberty Mutual.

Retiring on Disability

If you retire on disability, you aren't eligible for the Incentive Retirement Plan (IRP. You can, however, announce your retirement and have it approved – and then apply for LTD… in which case you're still eligible for IRP. Who doesn't like a good work around, right?

Short-Term Disability

So, UMS has you covered after you're out for six months. But, what do you do for those six months?? That's where short-term disability comes into play. This insurance kicks in after a 14-calendar waiting period and replaces the same 60% of your base salary up to a weekly maximum of $1,000. Benefits can last up to 26 weeks when LTD can take over. These benefits are paid for by the employee on an after-tax basis and benefits received are NOT taxable.

Should I Buy It??

The short answer: it depends! It may or may not make sense to purchase short-term disability from UMS, and some of that relates to your employee classification.

Faculty Considerations

The primary consideration as a Faculty member is that you MUST exhaust any accumulated sick leave prior to receiving any STD benefits. So, depending on what you have accumulated there, it may be a waste of money to purchase STD.

Additionally, STD benefits are not payable in Worker's Compensation situations. It also has a pre-existing conditions provision. These items must be evaluated individually when deciding whether to purchase STD.

Finally, employees who have a sufficient emergency fund established may choose to pass on coverage – essentially choosing to accept the risk and self-insure in the event of a disability.

All Other Classifications

No other employee groups are required to exhaust accumulated sick leave. However, they do share the other considerations with faculty. STD benefits are not payable in Worker's Compensation situations. It also has a pre-existing conditions provision. These items must be evaluated individually when deciding whether to purchase STD.

Since you aren't required to exhaust your leave time while collecting STD, having this coverage can help you to keep/build reserves should your STD become an LTD and leave you with 60 percent of your normal income for a period of time.

OTHER BENEFITS

UMS offers a very generous benefits package to its employees! While this guide covered the benefits we believe to be most pertinent and complicated, there are many other benefits to consider when working for UMS. The following is a list of some of the other benefits offered. Please contact the Employee Benefits Center at 207-973-3373 to request information and learn more!

- Employee Assistance Plan (EAP)
- UNUM Supplemental Insurance
- Tuition Waiver
- Homeowners & Auto Insurance Discounts
- Wellness Health Coaching
- Pet Insurance
- Hearing Aids
- Diabetes Prevention
- Telehealth Connection
- And more....

Important Disclaimers

Registration does not imply a certain level of skill or training. All content is for information purposes only. Opinions expressed herein are solely those of PFA, unless otherwise specifically cited. Material presented is believed to be from reliable sources, but no representations are made by our firm as to another parties' informational accuracy or completeness. All information or ideas provided should be discussed in detail with an advisor, accountant or legal counsel prior to implementation. Investing involves risks, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.

PENOBSCOT

FINANCIAL ADVISORS