



**THE UNIVERSITY OF  
NORTH CAROLINA SYSTEM**

## Your Guide to Investing in the 2018 UNC System Retirement Programs



Appalachian State University

East Carolina University

Elizabeth City State University

Fayetteville State University

North Carolina Agricultural and  
Technical State University

North Carolina Central  
University

North Carolina State University

North Carolina School of  
Science and Mathematics

University of North Carolina  
at Asheville

University of North Carolina  
at Chapel Hill

University of North Carolina  
at Charlotte

University of North Carolina  
at Greensboro

University of North Carolina  
at Pembroke

University of North Carolina  
Wilmington

University of North Carolina  
School of the Arts

Western Carolina University

Winston-Salem State University

Other Affiliates:

- University of North Carolina  
Health Care
- University of North Carolina  
Press



At the University of North Carolina System (UNC System), we know how important it is to prepare for retirement. That's why we are proud to offer a retirement program that can help you save for your financial future. As a UNC System employee, you must enroll in either the Teachers' and State Employees' Retirement System (TSERS) or The University of North Carolina Optional Retirement Program (ORP), if eligible. Additionally, you may choose to participate in one or more of these supplemental retirement plans:

- UNC System 403(b) Plan
- UNC System 457(b) Plan
- State's 457 Deferred Compensation Plan
- State's 401(k) Plan

This guide introduces you to the basic principles of investing and provides you with the information you need to make investment decisions. Whether you are new to the world of investing or have some investment experience, read this guide carefully and become familiar with your plan's investment choices.

**Note:** If you participate in the TSERS, which is a defined benefit plan, the State controls the investments and assumes all of the investment risks, so you will not have any investment decisions to make associated with this plan.



# Developing a Retirement Savings Strategy

When you participate in the ORP or one of the supplemental retirement plans, you need to answer two key questions to develop and maintain your retirement savings strategy.

## How Much Should I Save?

According to financial experts, you will need between 70% and 90% of the annual income you earned just before retirement to maintain the same standard of living during retirement. Think carefully and realistically about specific plans you have made for your retirement, such as buying a home or traveling. Remember to consider your day-to-day living expenses that will continue, whether you are working or retired. Your retirement income needs will influence your required savings rate and your overall investment strategy.

Here are a few other factors you need to consider as you decide how much to save:

- The length of time before you retire,
- The rate at which your income grows prior to retirement,
- The value of the retirement savings you already have set aside for your retirement,
- The amount of risk you are willing to take in your investment strategy, and
- The rate at which you expect your investments to grow between now and when you retire.

## How Should I Invest My Savings?

Deciding how to invest your savings requires a great deal of thought and will depend on several factors — such as your age, risk tolerance and years until retirement, among others. While only you know all of the details of your personal situation, read on for important information that can help you understand your investment options and how to make investment decisions.

But, don't stop there. Review your investment strategy from time to time to make sure it's still in line with your retirement needs. The sooner you start making informed investment decisions, the better prepared you will be for retirement.

Before deciding to invest in any particular fund, learn as much as you can about it. Through the UNC ORP, 403(b) Plan and the 457(b) Plan, you must choose from our two carriers: Fidelity Investments and TIAA. Prudential Retirement is the approved carrier for the State's 457 Deferred Compensation Plan and the State's 401(k) Plan.

We encourage you to thoroughly review the detailed carrier information available at [www.northcarolina.edu/hr/ga/benefits/retirement/index.htm](http://www.northcarolina.edu/hr/ga/benefits/retirement/index.htm) before choosing a carrier.



# Savings 101 — The Basics of Investing

This section introduces you to basic investing concepts. It can serve as a starting point in establishing your investment strategy and help you understand your investment options. For more information, including helpful tools and resources, visit the website for your selected retirement carrier listed on page 10 of this guide.

## Diversification and Asset Allocation

An important investment principle is diversification. Most of us have heard the phrase “don’t put all your eggs in one basket,” and that is what diversification means. You spread your risk by spreading out your investments, so that losses in one investment might be offset by gains in another.

There are two key ways to diversify your investments:

- Diversify across asset classes, called “asset allocation.” You can diversify by choosing a mix of investments from all the three major asset classes — stocks, bonds and principal protection funds (defined on page 5). Doing so is one of the most effective investment techniques for improving future results.
- Diversify within each asset class. Primarily, this diversification deals with stocks and bonds, though you can diversify among principal protection investments as well. The more diversified your investment portfolio, the less likely you will be hurt by the poor performance of a single stock or bond.

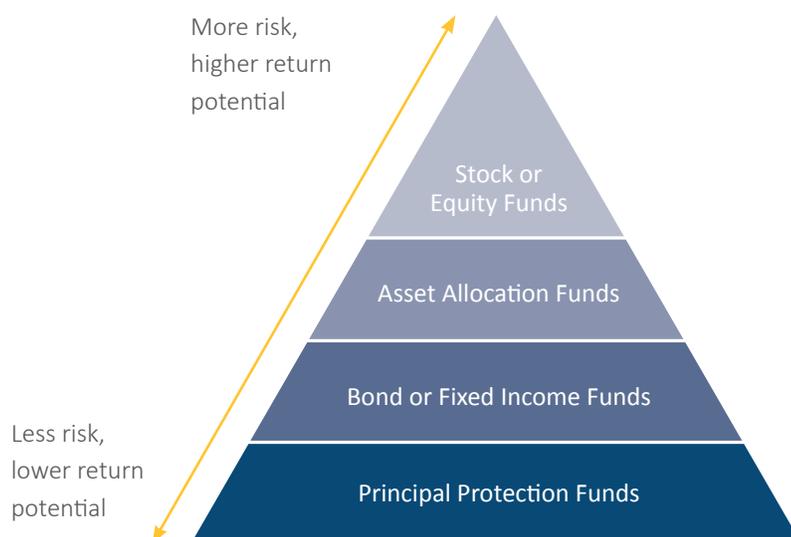
There is no one right way to diversify your assets. The mix of investments best suited for you depends on your personal circumstances and will change over time — for example, as you approach retirement or as your personal situation changes due to marriage, divorce, changing jobs, etc.

## Understanding Risk and Return

You invest to earn a return on your investment. Return can take many forms, including interest, dividends and capital appreciation (increase in value). At the same time, when you invest, you will have to accept some level of risk, which is the chance that your original investment will not grow as expected or will even decline in value. All investments carry some degree of risk, either a loss of value or a loss of purchasing power.

The returns you can expect your investment to earn generally reflect the level of risk that applies to the investments you choose. As a general rule, the greater the risk, the greater the potential reward. Alternatively, if you are investing only in very safe, low-risk investments, your return likely will be correspondingly low. This is the risk/return tradeoff.

When it comes to building your retirement nest egg, balancing a comfortable level of risk with the need to generate sufficient returns is key to your success.



## Investment Styles and Options

Understanding investment management style and stock fund categories are keys to successful investing because they dictate a fund’s investment approach. It is important to note that no one style is better than another — how you invest is a matter of personal circumstances and philosophy.

Funds can be grouped into two general categories on the basis of their investment style: passive and active.

**Passively managed funds** seek to match the returns of a given market index or benchmark. With passively managed funds, also called index funds, the fund managers “copy” a particular index by buying many of the same securities that make up the index. Proponents of passive management believe that, over the long term, it is difficult to “beat the market,” so instead they seek to match it while incurring lower investment management fees than they would with an active strategy.

**Actively managed funds** seek to exceed the returns of an index or benchmark. They buy and sell securities based on their investment judgment and market analysis. This management style typically has higher investment management fees in exchange for the fund manager’s expertise.

## Investment Options

Before you invest in any options offered in your plan, you should understand how each invests your money. In general, the options can be grouped into three major asset classes: stocks, bonds and principal protection funds.

### STOCK OR “EQUITY” FUNDS

Stock funds purchase ownership, called “equity,” in a variety of companies. They seek to make money by sharing in the different companies’ profits (in the form of cash dividends) or through capital appreciation (increase in stock prices). Stock portfolios can be U.S. funds (investing in stocks of U.S. companies), international funds (investing in the stocks of companies located outside the U.S.) or global funds (investing in both U.S. and international companies).

Most stock funds fall into one of two categories on the basis of their approach to investing: value funds or growth funds.

**Value funds.** Managers for value funds look for fundamentally strong companies that they believe are temporarily undervalued. They buy these companies’ stocks hoping their prices will go up when the rest of the market recognizes them as solid investments.



## What Is Rebalancing?

Because different types of investments gain and lose value at different rates, investment portfolios need to be rebalanced from time to time. Rebalancing means adjusting your investments to maintain your desired target mix (i.e., the relative proportion of stocks and bonds, conservative or high-growth investments).

You may want a mix of 50% stocks and 50% bonds, for example, but if the stock market performs well for a period, the value of the stocks in your portfolio might grow to represent more than 50% of your portfolio. You may want to rebalance your portfolio to get back to the 50/50 proportion. (In other words, move some of your money out of stocks and into bonds.) The bottom line is that there is more to investing than simply deciding on an investment strategy; you will need to make sure your strategy stays on track and rebalancing can help.

**(Note:** If you elect to invest in a Target Date Fund, your portfolio is regularly rebalanced and, automatically shifts to become more conservative over time.)

**Growth funds.** Managers for growth funds look for companies that have shown rapid earnings growth and that are expected to sustain that growth. Growth funds have the potential for higher returns, but since much of that potential is based on future earnings expectations, they also tend to be riskier investments.

There is a third category of stock funds called “blend funds” that include both value stocks and growth stocks.

With any kind of stock fund, the fund manager can further specialize by focusing on companies of a certain size, or market capitalization. Market capitalization is defined as the number of shares outstanding times market price. In terms of capitalization, companies can be classified as small-cap, mid-cap or large-cap.

Small-cap stock funds invest in smaller, more volatile companies, but the tradeoff for increased risk is the potential for greater return. Large-cap stock funds invest in larger, more established companies. The risk is not as great as with small-cap stocks, but neither is the return potential. Mid-cap stocks invest in medium-size companies, seeking more of a balance in the tradeoff between volatility and return potential.

### **BOND OR “FIXED INCOME” FUNDS**

Bonds are IOUs, usually issued by a company, government or government agency (the issuer). When you buy a bond, you essentially are loaning the issuer money in return for a promise that the issuer will repay the full amount on a specific date (the maturity date, anywhere from one to 30 years in the future) and, in the meantime, pay a stated rate of interest (the coupon rate). The type of bond fund and its return potential depend on the issuer.

Fixed or guaranteed funds invest solely in fixed income investments, such as certificates of deposit. These funds offer a guarantee of principle, while also paying competitive interest rates.

### **PRINCIPAL PROTECTION FUNDS**

Investment funds in this category aim to protect your initial principal investment. These funds purchase short-term investments such as money market instruments, bank certificates of deposit and U.S. Treasury bills.

### **ASSET ALLOCATION FUNDS**

Asset allocation funds are invested in two or more of the major asset classes (for example, stocks and bonds) and also may include investments that span the different types of investments within an asset class.

These funds may be risk-based, which means the mix of investments in the fund is designed to meet an investor’s preferences around the level of assumed investment risk. Or, these funds may be time-based, often called “target date funds.” In this type of investment, the mix of investments is designed for investors expecting to retire around a particular year, often included in the fund’s name. The fund’s asset allocation becomes increasingly conservative as it approaches the target date and beyond.

### **BROKERAGE ACCOUNTS**

For those desiring the most investment flexibility and choice, the UNC ORP, 403(b) and 457(b) Plans provide for a self-directed brokerage account with Fidelity and TIAA. A self-directed brokerage account gives you expanded investment choices and the opportunity to more actively manage your retirement contributions. This option provides you with the opportunity to select from thousands of mutual funds — beyond the fund options offered directly through the Plans.

A self-directed brokerage account is not for everyone. If you are an investor who is willing to take on the potential for more risk and are prepared to assume the responsibility of more closely monitoring this portion of your portfolio, a self-directed brokerage account may be appropriate for you. However, if you do not feel comfortable actively managing a portfolio beyond those offered through your plan’s standard investment options, then a self-directed brokerage account may not be appropriate for you. Additional fees apply to a brokerage account; please contact Fidelity and/or TIAA-CREF for a complete listing of brokerage fees. Remember, it is always your responsibility to ensure that the options you select are consistent with your particular situation, including your goals, time horizon and risk tolerance.

## Investment Structure Under the UNC ORP, 403(b) and 457(b) Plans

The fund lineup is structured into four tiers and is designed to offer you a wide array of investment options while providing simplified, yet diversified choices.

The four tiers are:

- Tier 1: Target Date Funds
- Tier 2: UNC System Risk-Based Models
- Tier 3: Core Lineup
- Tier 4: Self-Directed Brokerage Services (Mutual Fund Window for employee contributions and investments only; not available for employer contributions and investments)

Below is a description of each of the tiers.

<b>Tier 1: Target Date Funds</b>	<p>Target Date Funds are professionally managed funds designed for investors who prefer a single diversified fund. These options work by creating a complete investment portfolio within a single fund, based upon your expected date of retirement. The portfolio is regularly rebalanced and, as you move through your career toward retirement, automatically shifts to become more conservative over time. It is your responsibility to select the Target Date Fund based on your anticipated retirement age. UNC System has selected Vanguard as the Target Date Fund manager.</p>
<b>Tier 2: UNC System Risk-Based Models</b>	<p>For investors who wish to choose an investment strategy based upon their personal risk tolerance, UNC System offers five risk-based models. The five models include:</p> <ul style="list-style-type: none"> <li>• UNC System Capital Preservation Model</li> <li>• UNC System Conservative Model</li> <li>• UNC System Moderate Model</li> <li>• UNC System Growth Model</li> <li>• UNC System Aggressive Growth Model</li> </ul> <p>Each model represents a mix of investment options from the core investment lineup (see Tier 3), and can be set to automatically rebalance. Unlike Target Date Funds, the UNC System Risk-Based Models do not automatically adjust to become more conservative over time — it is your responsibility to select the model that best meets your objectives, and also to revisit your investment decisions from time to time and to make adjustments as needed if your risk tolerance or other factors change.</p>
<b>Tier 3: Core Lineup</b>	<p>The Core Lineup represents a diversified array of investment options, including both actively managed and passive (or, index) funds. The Core Lineup is designed for investors who wish to construct and manage their own investment portfolios to meet their specific objectives. The Core Lineup gives you a great degree of flexibility, and the responsibility to rebalance and manage the portfolio over time, and as your situation changes.</p>
<b>Tier 4: Self-Directed Brokerage Services</b>	<p>For experienced investors seeking maximum flexibility, the UNC System retirement programs offer a Self-Directed Brokerage “window” that allows you to select from a wide array of mutual funds for “employee contributions.” Investors may use this feature to add diversification above and beyond the Core Lineup. However, please note that some mutual funds offered through the self-directed brokerage window may have additional fees and/or expenses. It is your responsibility to determine if this option is appropriate for you. You will need to monitor these investments over time, and make adjustments to your portfolio when necessary. Investments through a brokerage window are not monitored by UNC System. <b>Note that only employee contributions and investments are eligible for the mutual fund window. Employer contributions and investments are not eligible.</b></p>

For a complete listing of funds available under the UNC System Retirement Programs, please contact Fidelity and/or TIAA directly or visit <http://old.northcarolina.edu/hr/ga/benefits/retirement>.

# Financial Planners

## How to Pick a Financial Professional

Are you the type of person who will read as much as possible about potential investments and ask questions about them? If so, maybe you don't need investment advice.

But if you're busy with your job, your children, or other responsibilities, or feel you don't know enough about investing on your own, then you may need professional investment advice.

Investment professionals offer a variety of services at a variety of prices. It pays to comparison shop.

You can obtain investment guidance from most of the financial institutions that sponsor the UNC System retirement program. Some of these vendors also provide investment advice, which is different from guidance. You can also hire an independent investment adviser, an accountant, a financial planner or other professional to help you make investment decisions.

In addition, all UNC System retirement program participants have access to independent financial advisers through CAPTRUST, the UNC System's investment adviser. These advisers can help you:

- Choose between enrolling in TSERS or the ORP,
- Provide detailed information about the investment options offered under the UNC System retirement program and help you choose the right options for you, and
- Plan for retirement.

For more information, visit [www.captrustadvice.com](http://www.captrustadvice.com) or call 800-967-9948.

## Investment Advisers and Financial Planners

Some financial planners and investment advisers offer a complete financial plan, assessing every aspect of your financial life and developing a detailed strategy for meeting your financial goals. They may charge you a fee for the plan, a percentage of your assets that they manage, or receive commissions from the companies whose products you buy, or a combination of these. You should know exactly what services you are getting and how much they will cost. Please note, the only plan that allows for investment adviser fees to be deducted from your account is the UNC System 403(b) Plan and the UNC System 457(b) Plan.

People or firms that get paid to give advice about investing in securities generally must register with either the U.S. Securities and Exchange Commission or the state securities agency where they have their principal place of business. To find out about advisers and whether they are properly registered, you can read their registration forms, called the "Form ADV." The Form ADV has two parts. Part 1 has information about the adviser's business and whether they've had problems with regulators or clients. Part 2 outlines the adviser's services, fees and strategies. Before you hire an investment adviser, always ask for and carefully read both parts of the Form ADV. You can view an adviser's most recent Form ADV online by visiting the Investment Adviser Public Disclosure (IAPD) website at <http://www.adviserinfo.sec.gov>.

Remember, there is no such thing as a free lunch. Professional financial advisers do not perform their services as an act of charity. If they are working for you, they are getting paid for their efforts. Some of their fees are easier to see immediately than are others. But, in all cases, you should always feel free to ask questions about how and how much your adviser is being paid. And if the fee is quoted to you as a percentage, make sure that you understand what that translates to in dollars.



# Your Investment Carriers

If you enroll in the UNC ORP, 403(b) or 457(b) Plan(s), you will need to choose an investment carrier. The two carriers you can choose from are Fidelity Investments and TIAA-CREF. Once you select your carrier, you must choose the appropriate investment fund(s) that meet your investment objectives and retirement goals. Contributions will then be directed into the investment options you choose. To learn more about the carriers and their investment options, contact them directly by phone or online:

- Fidelity: 800-343-0860 or [www.netbenefits.com/unc](http://www.netbenefits.com/unc)
- TIAA: 800-842-2252 or [www.tiaa-cref.org/unc](http://www.tiaa-cref.org/unc)

For the State's 457 Deferred Compensation Plan and the State's 401(k) Plan, Prudential Retirement is the approved carrier. You may contact Prudential by phone or online:

- Phone: 866-627-5267
- Online: [www.ncplans.prudential.com](http://www.ncplans.prudential.com)

Each approved carrier offers a full range of investment options, providing you with opportunity to build a diversified investment portfolio without having to spread your investments over multiple providers.

Remember, before you make any investment decisions, you may want to consult with a professional financial or tax adviser to determine which funds are appropriate for you and your retirement strategy.

## What's Next?

Once you decide on an investment strategy, you are on your way. But remember, between now and your retirement, you will want to periodically monitor and re-evaluate your investments, making changes if and when you think necessary.

Factors such as market fluctuations, changes in your personal circumstances and financial factors may lead you to re-examine the way you are allocating your balances and contributions among the investment options available to you. Your investment strategy should change to take these factors into consideration.

## Need Help?

For more information on investing in the UNC System retirement programs, review "Your Mandatory Retirement Plan Decision Guide" and "Your Supplemental Retirement Plan Decision Guide" available online at [www.northcarolina.edu/hr/unc/benefits/retirement/index.htm](http://www.northcarolina.edu/hr/unc/benefits/retirement/index.htm), or contact the approved carriers directly.

The information in this guide is general in nature and may be subject to change. Neither the University of North Carolina (UNC), Prudential, Fidelity Investments, TIAA, nor any of their agents/representatives, can give legal or tax advice. Applicable laws and regulations are complex and subject to change. For legal and tax advice concerning your situation, you should consult your attorney or tax adviser.

For more information about any of the authorized carriers or their products, including investment options, charges and expenses, please contact a company representative for a prospectus. Please read the prospectus carefully before selecting a carrier or investment option. In the event of a conflict between this guide and the Plan documents, the Plan documents will control. UNC reserves the right to amend the Plan documents.

March 2018