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Lifecycle Funds

What is a lifecycle fund and how does it work?
Lifecycle funds are “pre-mixed” funds that simplify retirement investing for you. They offer:
- “Built-in” diversification. A lifecycle fund invests in major asset classes—such as bonds, U.S. stocks, and international stocks. This diversification helps manage risk over time.
- Automatic asset allocation and rebalancing. As you get close to the target date, the investment manager gradually shifts the fund’s investment mix from higher-risk investments to lower-risk investments.
- A team of professional fund managers use their market insight to manage your investments. They allocate the lifecycle fund’s assets to create an appropriate mix of risk and return for each stage of your life, and adjust it based on the market performance of the different asset classes.
- Low investment fees/costs. Harvard chose lifecycle funds that offer lower fees/costs than many of our current funds, including, in some cases, our currently offered lifecycle funds. Lower fees mean you keep more of the earnings from your investments.

When is a lifecycle fund chosen as the new automatic (or “default”) investment, and what is the reasoning for choosing these funds?
The automatic, or “default,” investment is the fund automatically chosen for newly-eligible faculty and staff if they do not choose an investment for their retirement plan savings.

During this transition, a lifecycle fund will also be selected for faculty and staff who make no other investment election this fall, in most cases.

Unlike the current default investments (TIAA Traditional Account for HUCTW members and CREF Money Market Account for other faculty and staff) lifecycle funds satisfy the Department of Labor’s definition of a Qualified Default Investment Alternative (QDIA). Moving the “default” to a QDIA helps limit Harvard’s liability as a retirement plan sponsor. In addition, investment experts, including a Harvard economist who serves on the University’s Retirement Investment Committee, consider lifecycle funds a "best practice" for retirement savings. They are designed to simplify retirement investing, as they have “built-in” diversification, automatically adjust how retirement assets are invested to become less risky as you approach retirement, and are low-cost investment options.

What are passively (index) managed and actively managed funds?
Index funds are managed with the objective of matching the results of the funds benchmark index. For example, the Vanguard Institutional Index fund seeks to track the S&P 500® by investing in all 500 stocks within the Index. They typically have lower fees than actively managed funds.
Index funds are different from actively managed funds in the way that they are managed. An actively managed fund invests in specific securities based on the manager's research and experience. Actively managed funds are more expensive than index funds primarily because it is more expensive to pay a manager to identify specific securities in which to invest, rather than pay a manager to mirror a complete index.

**I see the lifecycle funds are tied to a retirement age of 65—what fund will I default to if I’m already over age 65?**

TIAA-CREF, Vanguard, and Fidelity all have lifecycle funds for investors in their retirement years. Typically, the lifecycle fund with the word “retirement income fund” in its name is the most conservative lifecycle fund. The age that you will automatically be placed in the “retirement income fund” lifecycle fund varies slightly by vendor. Your vendor communication includes this information.

**I just want a lifecycle fund. Do I have to do anything?**

Probably not. However, you might want to take action if:
- You have money with more than one vendor. Think about consolidating your investments with just one. This would mean less paperwork and fewer balances to keep track of. Your preferred retirement investment company can assist you with transferring assets from other companies, if you wish.
- You have money in other funds that will continue to be offered within the new lineup. In this situation, your money stays where it is currently invested. Lifecycle funds are designed to be your only investment, so you may want to consolidate your investments into one lifecycle fund.
- While the lifecycle funds may be the best investment options for your retirement needs and risk tolerance, you are encouraged to actively evaluate the fund lineup and take time to learn about your options. Your investment vendor will provide specific information about the funds available to you, and the funds to which your existing balances and new contributions will transfer if you do not move your assets into the new lineup of funds by Nov. 12, 2010, at 4 p.m. EST.

**What if I don’t want a lifecycle fund?**

If you choose not to invest in a lifecycle fund and would like to build your own investment portfolio, you have the opportunity to make changes to your investments during the open election period from 9 a.m. EST Oct. 6 through 4 p.m. EST on Nov. 12, 2010. Please note that redemption fees apply with some funds, and it may be beneficial for you to get mapped into a fund at the vendor, and then reallocate your assets. We encourage you to find out more from your investment vendor.

If you prefer to maintain some flexibility in your investment strategy, you can build your own portfolio by choosing from among a select group of core funds and managing them yourself.
For experienced investors seeking maximum flexibility, you can select from among thousands of fund choices within a brokerage account. The Fidelity and Vanguard brokerage accounts include most of the funds that will no longer be included in Harvard’s core fund lineup.

Core Fund Lineup

What is the core fund lineup and how does it work?
Our new core fund lineup includes money market, bond, U.S. stock, and international stock funds. You create your own asset mix from the selected, low-fee investment options, based on your long-term savings goals.

You can combine the core funds to create varying degrees of potential risk and return. How you divide your investments amongst the money market, bond, U.S. stock, and international stock funds will determine the risk and potential return of your account.

Because the core bond and stock funds are low-cost index funds, you enjoy the advantage of low fees, while having the flexibility to create your own mix.

Can I keep investing in funds that are not a part of the core lineup? Are there additional costs to do that?
You can continue to invest in most of the funds that will no longer be included in Harvard’s core lineup through a brokerage account. But you may incur additional transaction fees for trades and other fees for ongoing fund management through a brokerage account.

Are there fees for investing in funds in the core lineup? What are they? How do I select the funds with the lowest fees?
There are no transaction fees for investing in the funds in the core lineup. However, all funds have fees that are normally expressed as a percentage of assets, called an “expense ratio.” (You don’t see the expense ratio as a separate fee on your account statement, but they do reduce the return on your funds.) You should refer to the fund prospectus for details regarding all fund fees.
Why were certain funds, such as the TIAA-CREF Social Choice funds, discontinued? Are other socially conscious/responsible funds included in the core lineup?

Harvard selected a few core funds representing different asset classes per vendor to be included in the core lineup. It was important to limit the number of options in the core lineup to simplify the investment choices for employees. This also enables the University to more effectively oversee the investment options.

If you have specific investment objectives, such as social or environmental criteria, you could consider your Vanguard or Fidelity brokerage account options. They offer approximately 90 funds that invest according to social and/or environmental criteria. With the increased investment flexibility offered through the brokerage accounts, you can access funds that may be better aligned with your specific social and environmental convictions.
Brokerage Account

**What is a brokerage account and how does it work?**

A brokerage account provides the flexibility to invest in a broad menu of mutual funds. Currently, Vanguard and Fidelity each offer over 2,000 mutual funds through their brokerage account. The extensive menu of funds has a wide range of investment objectives and risks. Note that the funds offered through the brokerage accounts/window are not monitored by Harvard.

Due to the high risk potential of some of the mutual funds available, brokerage accounts are intended for sophisticated investors who are able to evaluate the mutual funds on their own (or with the guidance of a financial advisor), and accept the risks associated with their investment choices.

While the brokerage account offers expanded flexibility, it also comes with additional personal responsibility. It requires a lot of “homework,” and can be overwhelming for some investors.

Opening a brokerage account will allow you to remain invested, or reinvest in most of the funds that will no longer be included in Harvard’s core fund lineup.

You will need to establish a separate brokerage account with Fidelity or Vanguard, and in some cases instruct them each time you want to transfer money into the brokerage account or make a new investment. Talk to the vendor of your choice to learn more about the process and fees that may be associated with investing through a brokerage window.

**What costs are associated with the brokerage options? Will I pay a higher fee for the same funds I have today? Will I have to pay for things that are currently included as part of the plan?**

Currently, there is no annual fee to establish a Fidelity brokerage account. If you choose to establish a brokerage account with Vanguard, there is a $50 annual maintenance fee. There are no transaction fees to buy Vanguard funds through Vanguard’s brokerage account, or to buy Fidelity funds through Fidelity’s brokerage account. However, Fidelity and Vanguard charge transaction fees to buy or sell other vendors’ funds within their brokerage accounts—if they are not part of their no-transaction-fee fund programs.

You should carefully review the brokerage application, commission schedules, minimum purchase requirements by fund and any transaction fees associated with your fund choice.

A different share class of some TIAA-CREF mutual funds are available through the brokerage options; you may incur transaction fees and pay higher expense rations for the retail share classes offered through brokerage. Consult the fund prospectus for details.
**Will the vendors be able to help me buy specific funds in the brokerage option?**

The vendors will help you with the transaction of buying or selling funds in the brokerage account, but will not advise you as to which specific funds to buy or sell.

**What mutual funds have been discontinued, even if I open a brokerage account?**

A few mutual funds will be available in our current fund line-up will not be available in the brokerage window. The decision to close a fund is at the fund manager’s discretion and is generally driven by the manager’s desire to restrict the fund from becoming too large. Too much money can make it difficult for a manager to execute their investment process effectively.

As of August 24, 2010, the following funds from our current line-up are not available in the brokerage window*:

- Fidelity Short/Intermediate Term Government Bond Fund
- TIAA-CREF Large Cap Growth Index
- TIAA-CREF Large Cap Value Index
- T-C Small Cap blend index (with merged into small cap)
- TIAA-CREF S&P 500 Index
- TIAA Real Estate Account
- CREF Social Choice Account
- CREF Bond Account
- CREF Global Equities Account
- CREF Growth Account
- CREF Equity Index Account
- CREF Inflation Linked Account
- TIAA-CREF Mid Cap Value
- DWS Money Market Prime Series - DWS Cash Investment Trust
- DWS U.S. Treasury Money Fund
- Vanguard Capital Opportunity Fund Investor Shares
- Vanguard Capital Value Fund
- Vanguard Federal Money Market Fund
- Vanguard PRIMECAP Fund Investor Shares
- Vanguard Admiral Treasury Money Market Fund

*Funds that are available in a different share class have been considered as available for purposes of this question.