



Choosing a
RETIREMENT PROGRAM

THE UNIVERSITY OF NORTH CAROLINA

The University of North Carolina



The information in this brochure is general in nature and may be subject to change. Neither The University of North Carolina, AIG VALIC, Fidelity Investments, Lincoln Financial Group, TIAA-CREF, nor any of their agents, 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 ORP 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 an ORP carrier or investment option.

In the event of a conflict between this brochure and the Plan documents, the Plan documents will control. UNC reserves the right to amend the Plan documents.

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The University of North Carolina

Choosing A Retirement Program

The University of North Carolina Optional Retirement Program (ORP) is an option or alternative to the North Carolina Teachers' and State Employees' Retirement System (TSERS). This booklet is intended to acquaint you with these plans, provide a comparison between these two plans, and assist you in making an informed decision. Both ORP and TSERS are designed to provide retirement income along with Social Security benefits. Although you and the State share the cost of each plan, you control your investment choices, distribution methods, and retirement goals under the ORP, whereas the State controls the investments under TSERS.

The Board of Governors of The University of North Carolina is responsible for the administration of the ORP and designates the companies authorized to offer investment products. The Board has authorized the following carriers, which provide a variety of investments, services, and benefits:

- ◆ **AIG VALIC**
- ◆ **Fidelity Investments**
- ◆ **Lincoln Financial Group**
- ◆ **TIAA-CREF**

Under TSERS, a Board of Trustees is responsible for the administration and the State Treasurer serves as custodian of the plan assets.

The University cannot offer advice on retirement plans or guarantee investment returns, interest rates, dividends, or tax advantages. However, the University does recommend careful review of the ORP company fund prospectuses and sales literature along with the TSERS handbook, "Your Retirement Benefits." You may also wish to consult a qualified financial or tax professional for assistance in deciding which of these two plans better meets your retirement goals.

You have 60 days from commencing your employment to elect to enroll in ORP. This is an important decision because once you make your choice, it cannot be changed. Failure to make an election will result in automatic enrollment in TSERS.

Before you make a decision to enroll in either ORP or TSERS, you should carefully evaluate the distinct features and benefits of each plan. Your participation in either plan should lay the groundwork for establishing a financially secure retirement.

Brief Comparison

The University of North Carolina Optional Retirement Program (ORP)

North Carolina Teachers' and State Employees' Retirement System (TSERS)

Defined Contribution Plan

Defined Benefit Plan

Internal Revenue Codes 401(a) and 403(a)

Internal Revenue Code 401(a)

UNC Board of Governors oversees the ORP

TSERS Board of Trustees oversees TSERS

You control your investments

TSERS controls/monitors investments

Retirement benefit based on investment performance and payment option chosen

Retirement benefits based on years of service, salary, actuarial formula, and payment option chosen, including credit for any unused sick leave if applicable

Vested immediately in the value of your employee contributions; vested immediately in the value of your employer contributions if you leave before five years and continue participation in a core retirement plan at another institution of higher education with a like retirement plan; otherwise, vested after five years

Vested after five years. If you leave State employment before five years, you may request a refund of your contributions or leave your contributions in TSERS in anticipation of a return to State service in the future

Vested right to both employee and employer accumulations after five years of participation

Vested right to retirement benefit at retirement

Portability is nationwide

Portability is not available nationwide

No loans available

No loans available

State of North Carolina Disability Benefit automatically provides coverage once you meet certain ORP participation requirements and you may also purchase a voluntary supplemental disability plan through your employer

State of North Carolina Disability Benefit automatically provides coverage once you meet certain TSERS service requirements and, in some cases, you may purchase a voluntary supplemental disability plan through your employer

Death benefit includes both the employee and employer accumulations (contributions and earnings) in the account upon your death

Lump-sum Death Benefit is paid to your beneficiary if you die in active service after one year of creditable service, and either a refund of contributions is payable or a survivor monthly income if you die after meeting certain age and service requirements

Several payment options and methods of payment available at retirement

Several payment options available at retirement

State Health Insurance available at retirement if you have five years of participation and are receiving an ORP monthly retirement benefit

State Health Insurance available at retirement if you have five years of creditable service and are receiving a TSERS monthly retirement benefit

ORP

The University of North Carolina Optional Retirement Program (ORP), as its name implies, is an option or alternative to the North Carolina Teachers' and State Employees' Retirement System (TSERS). The ORP was authorized by the North Carolina General Assembly in 1971. Eligible employees have the option to select the TSERS, a defined benefit plan as qualified under Section 401(a) of the Internal Revenue Code (IRC), or the alternative ORP, a defined contribution plan as qualified under Sections 401(a) and 403(a) of the IRC. The ORP allows portability of accumulated contribution balances. In addition, it provides flexibility by offering participants a greater choice of investment and distribution options.

Defined Contribution Plan

With an ORP defined contribution plan, the value of your benefit is not based on a predetermined formula. Rather, contributions are made by you and your employer, resulting in a dollar accumulation that is used to provide a monthly income during retirement. The amount of your retirement income is primarily a function of the value of the account balances that you have accumulated throughout your years of employment. This, of course, is determined by the amount of contributions to your plan accounts and the performance of the investment funds you select.

Many employees prefer the features of a defined contribution plan to gain more control over the investment of their retirement assets. They believe that their ability to direct the investment of their retirement contributions into different types of investment funds provides a greater opportunity for growth and a higher overall benefit at retirement.

Eligibility

Faculty, with the rank of instructor or above, who are employed by the University of North Carolina; field faculty of the Cooperative Agriculture Extension Service; the President and senior academic and administrative officers of the University of North Carolina who are appointed by the Board of Governors on recommendation of the President pursuant to G.S. 116-11(4), 116-11(5), and 116-14 or who are appointed by the Board of Trustees of a constituent institution upon the recommendation by the Chancellor pursuant to G.S. 116-40.22(b); and non-faculty instructional and research staff who are exempt from the State Personnel Act are eligible to participate in the ORP if they are permanently employed at least three-fourths time for nine or more months per year on a recurring basis.

Enrollment

As an eligible employee you have 60 days from commencing employment to elect to enroll in the ORP. During this period, you will need to select an ORP carrier and complete certain enrollment forms that are available in your Human Resources/Benefits Office.

Failure to make an election will result in automatic membership in the Teachers' and State Employees' Retirement System (TSERS), the defined benefit plan. This consequence is irrevocable.

Contributions

Employer and employee contribution percentages are established by the General Assembly. (Refer to insert for current rates.)

Employee contributions to the ORP are made on a pre-tax basis as provided under Section 414(h) of the Internal Revenue Code. As a result, the University will deduct this contribution from your pay before calculating federal or state income tax withholding. This should slightly increase your after-tax pay when compared with what your pay would have been if your contributions were made on an after-tax basis.

The money you and the University contribute will be invested in an annuity contract or mutual fund offered among the approved carriers.

Allocation of Contributions

When you enroll in the ORP, you may elect to allocate both your contributions and the University's contributions to any one of the carriers or you may direct your contributions to one carrier and the University contributions to another. These allocations may be changed during any future month for which your payroll office can accommodate the change.

You must also decide what portion of your contributions and the University's will go into a fixed account and/or what portion will go into an investment account. You may change your allocation for future premiums at any time by contacting your ORP carrier.

Contract Features

On acquiring a thorough understanding of the ORP and electing to enroll in it, you will have several important decisions to make, such as, selecting the ORP carrier(s) that will invest your contributions, choosing among a large number of funds in which to invest, and redirecting your investments, as appropriate, in the future.

Selecting an ORP Carrier

Under the ORP, you have a number of choices to make regarding your retirement fund. First, you must choose from the four carriers – AIG-VALIC, Fidelity Investments, Lincoln Financial Group, and TIAA-CREF – and then select from the different investment funds, one or more, to meet your investment objectives and retirement goals.

Carrier and investment information can be found in the inserts, contract, sales literature, and, for variable investment accounts, the prospectus. These materials provide information such as:

- ◆ **Financial strength and stability of the ORP carrier**
- ◆ **Contract fees, charges, and operating expenses**
- ◆ **Explanations of annuity options**
- ◆ **Interest rate history, policies, and guarantees**
- ◆ **Descriptions and performance history of investment accounts, and**
- ◆ **Special features and services offered by the carrier.**

Selecting Your Investments

Before making your investment selections, you should analyze your ability to tolerate different types of risk, given your retirement time horizon. You may also wish to consider how you invest other retirement assets and diversify as appropriate.

Does your situation call for investments that generate returns primarily from growth (capital gains) or is seeking income (interest or dividends) a better strategy? How much stability or safety is needed or desired in your investment plan? Does your situation require a diversified approach, containing growth, income, and stability?

Diversification may reduce your investment risk. Although variable investment accounts provide diversification, you can have further protection against major losses by spreading your dollars among a variety of funds.

Types of Funds

Each ORP carrier offers a variety of investment funds, within a broad array of fund categories from which to choose, for each of which the carrier may have one or more funds. These include both fixed and variable account investment options and mutual funds. Some of these categories of funds and their objectives are:

Aggressive Growth Fund: Seeks rapid growth of capital by using investment techniques involving greater-than-average risk. Such investment techniques may include such things as heavy sector concentrations, leveraging, and short-selling.

Balanced Fund: Seeks both income and capital appreciation by investing in a generally fixed combination of stocks and bonds. These funds generally hold a minimum of 25% of their assets in fixed-income securities at all times.

Bond Fund: Seeks secure stream of income from investments in high grade bonds; capital appreciation may be a secondary objective. Investments are made primarily in fixed income securities.

Fixed or Guaranteed Account: Offers a guarantee of principal, while also paying highly competitive interest rates, which compare very favorably to those offered by banks and savings and loan institutions on similar interest-bearing accounts.

Inflation Protected Bond Funds: Invests primarily in fixed-income securities that increase coupon and/or principal payments at the rate of inflation.

International Funds: Invests primarily in equity securities of issuers located outside the United States.

Global Funds: Invests primarily in equity securities of issuers located throughout the world, while maintaining a percentage of assets (at least 20%) in the United States.

Growth Fund: Seeks capital appreciation by investing primarily in equity securities. Current income, if considered at all, is a secondary concern.

Growth and Income Fund: Growth of capital and current income are near-equal objectives for these funds. Investments are typically selected for both appreciation potential and dividend-paying ability.

Lifecycle Funds: Target investors in a certain age group or with a specific time horizon for investing. These funds tend to be well diversified portfolios containing assets from the three major asset classes (stocks, bonds, and short-term investments). Each fund has an investment strategy appropriate to the age group or stage it represents.

Money Market Fund: Seeks liquidity, protection of capital and high current income with investment in short-term money market instruments.

Real Estate Fund: Seeks favorable long-term rate of return through rental income and capital appreciation from a diversified portfolio of commercial real estate.

Social Criteria Fund: Seeks growth of capital through investment primarily in common stocks or bonds of companies that meet the social criteria established for the fund.

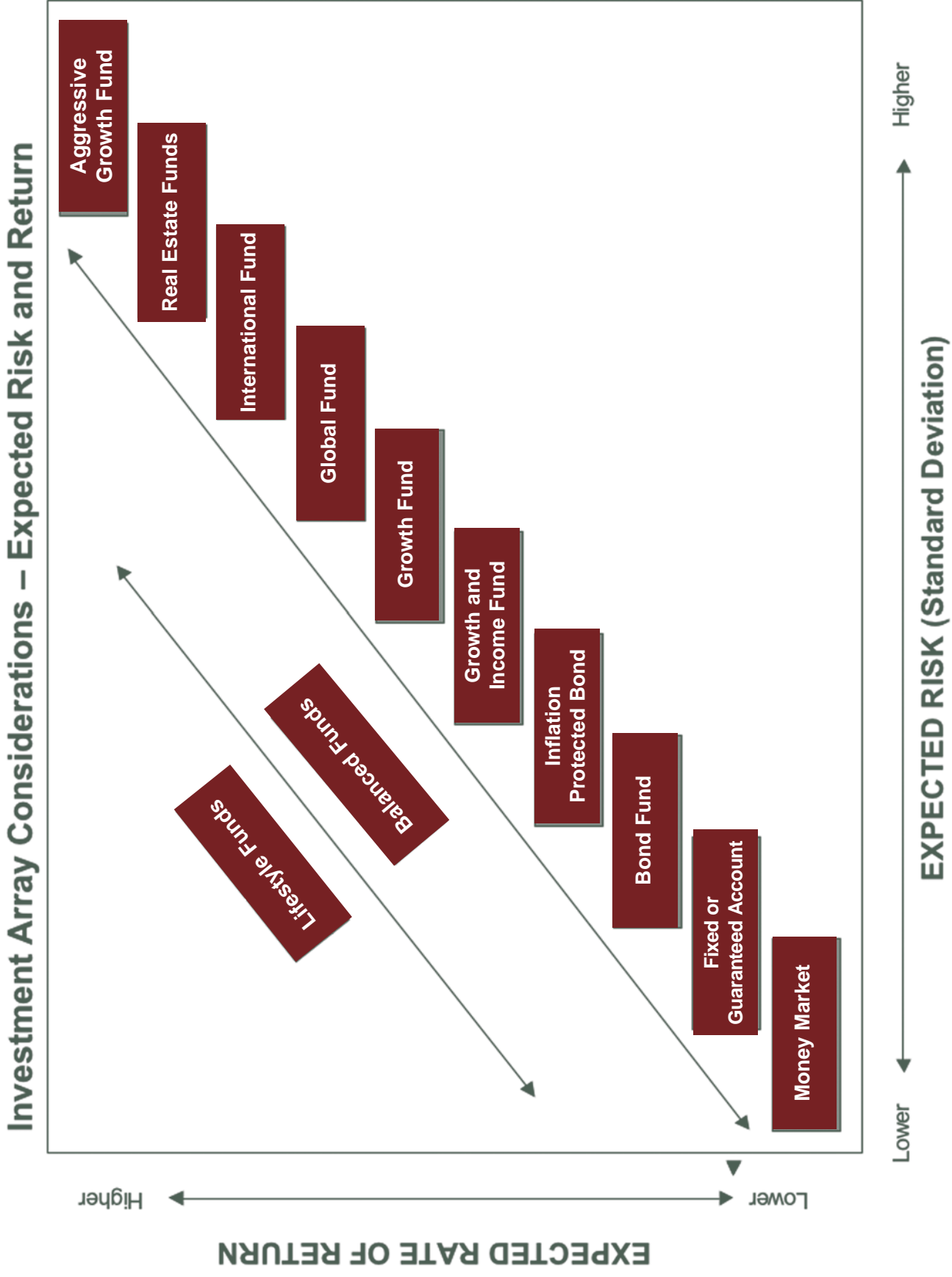
(Refer to inserts for a complete description of the investment funds offered by each ORP carrier.)

Default Fund

Once you select an ORP carrier, if you do not make a fund selection, then your contributions and the University contributions made on your behalf, will be automatically directed to the appropriate lifecycle fund offered by that carrier. A Lifecycle Fund is an investment that features an asset mix determined by the level of risk and return that is appropriate for an individual investor. Factors that determine this mix include an investor's age, appropriate level of risk, the investment's purpose and the length of time until the principal will be withdrawn. You may at any time change your fund allocation by contacting your ORP carrier.

Investment Array Considerations

On the next page is a chart that illustrates the risk and potential return of each fund objective. As you move upward toward the highest level, the investment options within each fund objective provides an increasing opportunity for higher returns; however, the greater the return potential, the greater the risk.



Vesting

Vesting means ownership of the assets held in your accounts, with the determination of vesting being controlled by Plan provisions. Vesting does not mean that you have an immediate right to these assets, but merely that you will not forfeit them upon termination of employment.

You are immediately 100% vested in the value of your employee contributions. The value of your employer contributions is 100% vested after five years of participation in the ORP.

If you terminate employment with less than five years of ORP participation, you will become 100% vested in the ORP employer contribution provided you meet all of the following requirements:

- ◆ **your new employer is a higher education institution that sponsors a substantially similar or “like” retirement plan,**
- ◆ **the successor plan offers a “like retirement plan” that is underwritten by one of the four carriers currently underwriting the ORP benefit, and**
- ◆ **you begin participation in that successor plan as your “core retirement plan” within 12 months following your termination of eligible service in the plan (usually your termination of employment) with The University of North Carolina.**

[Note: Whether or not, under the foregoing three requirements, you become vested in the University’s prior employer contributions to your ORP account(s) does not affect vesting of retirement plan contributions for you by a subsequent employer under its own retirement plan.]

Portability

Portability is the ability to change jobs or employers without loss of accumulated retirement benefits and either to continue using the same insurance annuity company or mutual fund carrier under your next employer’s retirement plan or to transfer your benefit to a retirement program sponsored by your new employer.

Contributions to the ORP remain in the annuity contract or mutual fund and continue to accumulate benefits, enabling you to continue participating at many institutions across the United States.

Account Distributions

You become eligible to receive distributions when you terminate employment or retire.

You decide when the benefit distributions begin. However, to continue your State Health Plan coverage in retirement, you must begin to receive an ORP benefit on a monthly basis at retirement.

Under the ORP, you may receive the employer and employee contribution balances in cash, as permitted by the carrier(s) or as annuity distributions; or you may leave the balance on deposit to accumulate earnings tax-deferred until you elect to receive them. Under IRS regulations, however, you must start to receive your benefit no later than the April 1 of the calendar year following the calendar year in which you either (1) become age 70 1/2 or (2) retire, whichever is later.

Distributions may be restricted by your chosen carrier and/or your new employer if you terminate from the University. (Refer to the carrier inserts for more detailed explanations.) There are many forms of annuity payments available from the ORP carriers.

Disability Benefits

If you become disabled, the total value of your ORP account is available for income benefits that will begin upon retirement.

In addition, as a participant in the ORP, you are covered under the North Carolina Disability Income Plan (DIPNC). This disability benefit provides a short-term benefit following one year of participation in the ORP and a long-term benefit following five years of participation.

The University system offers a voluntary supplemental disability benefit policy that eligible ORP participants may purchase. This benefit provides both a monthly income benefit and a monthly annuity premium benefit. It pays a monthly benefit for as long as the disability continues, up to age 65, or even longer if you become disabled after age 60. It also protects your retirement by continuing contributions to your ORP account while you are disabled, until retirement.

Death Benefits

In the event of your death, your total account value from both employee and employer contributions is 100% vested and available to your designated beneficiary. You designate your beneficiary when you complete your ORP enrollment application. If there is a need to change your beneficiary, you should contact your ORP authorized carrier or your institutional Human Resources/Benefits Office.

If your death occurs before annuity payments begin, your beneficiary can elect any distribution authorized under the Plan provisions. If your death occurs after annuity payments have begun, payments will continue according to the annuity option chosen.

Retirement Benefits

Under the ORP, the amount of the benefit is based on the total accumulation in the account(s) including any credited interest or dividends, your age, the age of your annuity partner, if applicable, and the income option selected. There are no age or service requirements to meet in order for a vested participant to begin receiving a benefit.

Retirement Payment Options

Each ORP carrier makes available optional forms of payments and a variety of retirement payment options designed to allow you to tailor-make your retirement program to meet your financial needs. These may be fixed annuity payments or payments on a variable basis, or a combination thereof. You may also elect to receive a lump sum distribution, as permitted by the ORP carrier(s). However, to continue your State Health Plan coverage in retirement, you must begin to receive an ORP benefit on a monthly basis at retirement.

Health Insurance Following Retirement

You are eligible to continue health insurance coverage under the State of North Carolina Comprehensive Major Medical Plan when you retire if you have at least five years of ORP participation and as long as you receive a monthly retirement benefit under the ORP.

At retirement, you may enroll in the retiree health insurance with coverage to become effective one month after the start of your monthly ORP annuity benefit. The State will pay 100% toward the cost of your contribution under the State Comprehensive Major Medical Plan if you were employed prior to October 1, 2006.

If you were first hired on or after October 1, 2006, and have 20 or more years of ORP participation, then the State will pay 100% toward the cost of your contribution under the State Comprehensive Major Medical Plan. If you have 10 but less than 20 years of ORP participation, the State will pay 50% of your contribution. If you have less than 10 years of ORP participation, then you must pay the full cost of coverage.

Income Tax

Federal Tax

When you begin receiving an ORP retirement benefit, any pre-tax contributions made by you and the University, as well as any investment earnings on these contributions, are taxed as ordinary income. If any of your contributions were made on an after-tax basis, the portion of the retirement benefit attributable to these after-tax contributions will not be taxed. (Note: ORP employee contributions made prior to July 1, 1982, were made on an after-tax basis.)

State Tax

The amount of retirement annuity income subject to State income tax is the same amount on which federal income tax must be paid, less an exclusion as large, in some cases, as \$4,000. If the taxable portion of your annual retirement annuity income is \$4,000 or less, you will not owe any State income tax on your retirement benefits.

[Exception: If you were enrolled in the ORP on or before August 12, 1989, your ORP retirement benefits, no matter what amount, are exempt from State income tax.]

Change in Tax Laws

Prior to receiving a distribution, it is important that you contact your ORP carrier(s) to obtain additional information concerning the taxation of your benefits. Since tax laws often change, you should also consult your tax adviser to receive expert advice about your personal tax situation under current law.

ORP Authorized Carriers

AIG VALIC

Fidelity Investments

Lincoln Financial Group

TIAA-CREF

(See insert sheets for more information about the ORP authorized carriers.)

TSERS

The Teachers' and State Employees' Retirement System (TSERS) was created by the North Carolina General Assembly in 1941. TSERS, a defined benefit plan, was established to provide retirement benefits for teachers and state employees in North Carolina.

The plan's Board of Trustees serves as administrator of the Retirement System. The Retirement System Division of the Department of State Treasurer, located in Raleigh, NC, manages TSERS as well as other related programs for all public employees of the State. You and the State share the cost but the State controls the investments under TSERS.

Defined Benefit Plan

Under TSERS, as a defined benefit plan, the benefit you receive at retirement is based on a formula. This formula considers your years and months of creditable service, your age, and your "average final compensation," which is the average of your salary during your four highest paid consecutive years. Neither the investment experience of the plan assets nor the amount contributed by you and your institution, on your behalf, directly determines the amount of the guaranteed benefit you will receive at retirement.

Eligibility

You become a member of TSERS on your date of hire if you are a permanent University employee and work at least 30 hours per week for nine months or more per year on a recurring basis. However, faculty, with the rank of instructor or above, who are employed by the University of North Carolina; field faculty of the Cooperative Agriculture Extension Service; the President and senior academic and administrative officers of the University of North Carolina who are appointed by the Board of Governors on recommendation of the President pursuant to G.S. 116-11(4), 116-11(5), and 116-14 or who are appointed by the Board of Trustees of a constituent institution upon the recommendation by the Chancellor pursuant to G.S. 116-40.22(b); and non-faculty instructional and research staff who are exempt from the State Personnel Act may elect to enroll in the ORP instead of TSERS.

Enrollment

Eligible employees have 60 days from commencing employment to elect to enroll in the ORP. Enrollment forms are available in your Human Resources/Benefits Office. Failure to make an election will result in automatic membership in TSERS. This election, or the consequence of the failure to elect, is irrevocable.

Contributions

Employer and employee contribution percentages are established by the North Carolina General Assembly. (Refer to insert for current rates.) Your contribution is automatically deducted from your paycheck. As provided under Section 414(h) of the Internal Revenue Code, these contributions are tax-sheltered from federal and state income tax, that is, deductions are made on a pre-tax basis. This should slightly increase your after-tax pay when compared with what your pay would have been if your contributions were made on an after-tax basis.

Vesting

Vesting means ownership of benefit in the assets held in your retirement account. Vesting does not mean that you have immediate access to these assets, but merely that you will not forfeit them upon termination of employment.

Retirement benefits are fully vested after you complete five years of membership service. If you leave State employment before completing five years of creditable service, you may:

- ◆ **request a refund of only your contributions, with such amount subject to any income taxes and early withdrawal penalties, unless you request a trustee-to-trustee transfer (direct rollover) of your refund to an IRA or another qualified retirement plan that will accept your transfer, or**
- ◆ **leave your contributions in TSERS in anticipation of a return to State service in the future.**

Upon receipt of a refund of contributions, you waive any rights to the employer contributions or any other benefit from TSERS and the North Carolina Disability Income Plan.

A vested employee who terminates employment may elect to leave his or her contributions with TSERS and receive a retirement benefit starting at age 50 with at least 20 years of creditable service or, otherwise, at age 60.

Transfers Between Agencies/Systems

Transferability of TSERS membership is statewide. Participating employers include:

- ◆ the sixteen constituent institutions in The University of North Carolina,
- ◆ agencies and departments of the State of North Carolina, and public schools and community colleges within the state.

Your contributions and creditable service with the Local Governmental Employees' Retirement System may be transferred to TSERS, upon meeting certain conditions. Any retirement credit you have with the Legislative or Judicial North Carolina Retirement Systems may be counted along with your credit in TSERS for the purpose of determining eligibility for a reduced or unreduced benefit; however, only your creditable service in TSERS is used in computing the amount of your benefit from TSERS. (Any benefit from the other systems will be based on your service with those systems.)

Management of Retirement Funds

The management of the funds necessary to provide your retirement benefits is the responsibility of TSERS. These funds are invested by professional money managers selected by TSERS. Since this is a defined benefit plan in which the State assumes all investment risk, you should be less concerned about the investment performance.

Disability Benefits

You automatically become covered under the North Carolina Disability Income Plan (DIPNC) as a TSERS member. This benefit provides a short-term benefit following one year of contributing membership in TSERS and a long-term benefit following five years of contributing membership.

In addition to DIPNC, your institution may provide supplemental disability coverage that you may purchase. You should contact your Human Resources/Benefits Office for more information.

Pre-Retirement Death Benefits

TSERS' primary purpose is to provide retirement income, however, some employees may not live to enjoy their retirement benefits. In that event, TSERS provides a Death Benefit to protect your beneficiary if you die before retirement. In addition, if you meet certain age and/or service requirements, a Survivor's Alternate Benefit may be paid instead of a refund of your contributions.

Death Benefits

If you die while still in active service (while being paid salary) after one year as a contributing member, your beneficiary will receive a single lump sum payment. The payment equals the highest consecutive 12 months' salary during the 24 months before you die, but no less than \$25,000 and no more than \$50,000. This benefit is also paid if you die within 180 days of the last day for which you are paid salary.

Survivor's Alternate Benefits

If you designated one beneficiary to receive a refund of your contributions and if you die while in active service (while being paid salary or within 180 days after salary payments cease) after (1) completing 20 years of creditable service regardless of age, or (2) reaching age 60 with 5 years of membership service, then your beneficiary may choose to receive a monthly benefit for life instead of a refund.

The benefit equals the same monthly amount you would have received had you retired on the first day of the month immediately following your death and elected to receive your monthly benefits under the 100% Joint and Survivorship Option.

The Survivor's Alternate Benefit is not available if you named two or more persons or your estate as beneficiary. If you are not eligible for retirement or have less than 20 years of creditable service, and you die in active service, your beneficiary is eligible to receive a single lump sum benefit equal to the sum of your employee contributions plus four percent accrued interest.

Retirement Benefits

Your annual retirement benefit under TSERS is based on a formula that takes into consideration your "average final compensation" (the average of your salary during your four highest consecutive paid years) and your years and months of creditable service.

Creditable service means any period during which you contribute to TSERS, including any special service credit, provided you do not withdraw your contributions. (Refer to the insert for a TSERS sample calculation based on the current retirement formula.)

Under TSERS, you are eligible to retire with an unreduced retirement benefit once you:

- ◆ reach age 65 and complete 5 years of creditable service,
- ◆ reach age 60 and complete 25 years of creditable service, or
- ◆ have at least 30 years of creditable service, regardless of age.

It is also possible to retire earlier and receive a reduced benefit once you:

- ◆ reach age 50 and complete 20 years of creditable service, or
- ◆ reach age 60 and complete 5 years of membership service.

Retirement Payment Options

Your TSERS monthly benefit is determined according to the retirement formula and is payable to you for your lifetime. There are several payment options available that provide monthly payments to a survivor in the event of your death. There is also the potential for periodic cost-of-living increases in your benefit after retirement, as approved by the North Carolina General Assembly.

Health Insurance Following Retirement

You are eligible to continue health insurance coverage under the State of North Carolina Comprehensive Major Medical Plan when you retire if you have at least five years of TSERS creditable service and as long as you receive a monthly retirement benefit under TSERS.

At retirement, you may enroll in the retiree health insurance with coverage to become effective one month after the start of your monthly TSERS benefit. The State will pay 100% toward the cost of your contribution under the State Comprehensive Major Medical Plan if you were employed prior to October 1, 2006.

If you were first hired on or after October 1, 2006, and have 20 or more years of TSERS service, then the State will pay 100% toward the cost of your contribution under the State Comprehensive Major Medical Plan. If you have 10 but less than 20 years of TSERS service, the State will pay 50% of your contribution. If you have less than 10 years of TSERS service, then you must pay the full cost of the coverage.

Income Tax

Federal Tax

When you begin receiving a retirement benefit, any pre-tax contributions made by you and the University, as well as any investment earnings on these contributions, are taxed as ordinary income. If any of your contributions were made on an after-tax basis, the portion of the retirement benefit attributable to these after-tax contributions will not be taxed. (Note: TSERS employee contributions made prior to July 1, 1982, and any service purchases whenever made, are after-tax contributions.)

State Tax

The amount subject to State income tax is the same amount on which federal income tax must be paid, less an exclusion as large, in some cases, as \$4,000. If the pre-tax portion of your annual retirement benefit is \$4,000 or less, you will not owe any State income tax on your retirement benefits.

[Exception: If you were vested in TSERS on or before August 12, 1989, your TSERS retirement benefits, no matter what amount, are exempt from State income tax.]

Change in Tax Laws

Please refer to "Your Retirement Benefits" booklet for more information about income tax on TSERS benefits. Since tax laws often change, you should also consult your tax adviser to receive expert advice about your personal tax situation under current law.

ORP or TSERS: Your Choice

As you make a decision between the two retirement plans, keep in mind your career pattern and personal preferences. Consider factors such as:

- ◆ Your willingness to assume investment risk and reward;
- ◆ Your proximity to retirement;
- ◆ The importance to you of retirement plan portability;
- ◆ Your age and the number of years of service you think you will have as an employee with your institution or the State;
- ◆ Your preference between having your retirement income determined by a specific dollar amount (based on salary) invested in investments of your choice each year, or being guaranteed a retirement benefit based on your highest consecutive four years of State employee salary, your age, and your years of state service;
- ◆ Your concerns over death benefits;
- ◆ The impact of inflation during retirement; and
- ◆ The flexibility of each plan to serve your personal situation during your working years and after retirement.

A good way to decide which plan is better for you is to compare retirement benefits from both plans where all assumptions, including years of service and age, are exactly the same. Even if you keep years of service and age the same, you will have to make an assumption regarding the investment return in the ORP. If that investment assumption is too high, it could significantly overstate expected results. If any of the assumptions vary, the outcomes as to which plan is “best” for you could vary.

Generally, defined benefit plans like TSERS tend to favor employees who are hired and begin participation at relatively later ages (45 or older) and who continue employment at The University of North Carolina for the rest of their careers. The ORP generally is more favorable for employees who enter the plan at younger ages, regardless of whether they participate in the plan for an extended time.

Before making your decision, contact your University Benefits Representative to obtain a complete description of TSERS, which can be found in the handbook entitled “Your Retirement Benefits.” For more information on the ORP, you should review the prospectus of the specific ORP carrier(s). You may also wish to contact directly the ORP carrier who can assist you in your decision making process.

REMEMBER – Regardless of whether you elect to participate in the ORP or TSERS, you may make tax-deferred contributions on a voluntary basis to a variety of insurance carriers and mutual funds being offered through your institution pursuant to several Tax Code provisions.

Questions

Answers

- | | |
|--|---|
| 1. If I elect the Teachers' and State Employees' Retirement System (TSERS) or the ORP, may I change my election in the future? | 1. No, any election is irrevocable. |
| 2. How do I elect the ORP? | 2. Contact your University Human Resource/Benefits Office to obtain the necessary enrollment forms including the ORP election form and contact one or more of the authorized carriers. |
| 3. How do I elect coverage in TSERS? | 3. Contact your University Human Resource/Benefits Office to obtain the necessary enrollment forms. After you have been employed 60 days, you will automatically become a member of TSERS but you must complete the enrollment forms, unless you have elected to be covered by the ORP. |
| 4. How quickly must this decision be made? | 4. You must decide between the TSERS or ORP within 60 days of your date of commencing eligible employment. Failure to make a decision will cause your irrevocable membership in TSERS. |
| 5. If I do not select a fund or funds by the deadline, will I be able to change funds at a later date? | 5. Both your contributions and the University contributions made on your behalf will default to the lifecycle funds offered by the carrier(s) you select. You may at any time change your fund selection by contacting the ORP authorized carrier. |
| 6. If I choose to enroll in the ORP or TSERS, how much will be contributed on my behalf? | 6. Both you and your institution contribute a percentage of your compensation each payroll period that is set by law. (Refer to insert for current rates.) |
| 7. How do I select my ORP carrier? | 7. You should review this booklet carefully and request printed material and a prospectus from each authorized carrier. Each carrier also provides toll-free numbers and service representatives to assist you in your selection process. |
| 8. If I choose to participate in the ORP, can I change my carrier at any time? | 8. Yes, for any future month, but you should provide sufficient lead time to accommodate payroll processing. |
| 9. Can the contributions be allocated to more than one carrier? | 9. Yes, the employee contributions may be allocated to one carrier and the employer contributions may be allocated to another. |

Questions

10. If I change to another ORP carrier, what happens to my employer and employee contribution balances?
11. How am I informed of the financial status of my ORP account or TSERS account?
12. How does participation in the ORP or TSERS affect supplemental retirement plan contributions?
13. Do Social Security taxes (FICA) apply to my pre-tax employee contributions to the ORP or TSERS?
14. What is the difference between investing my contributions with an insurance company versus a mutual fund carrier?
15. If I invest my contributions in mutual funds, can I annuitize my account accumulations at retirement?
16. Am I eligible to continue participating in the State Health Plan upon my retirement?

Answers

10. You may leave past contributions in accounts with the ORP authorized carriers you selected, even if you decide to have future contributions managed by a different ORP carrier. You may also transfer all or a portion of your account(s) values to a new ORP carrier, subject to the ORP carrier's contractual limitations. There are no plan restrictions limiting transfers of funds among ORP carriers.
11. Each ORP authorized carrier provides periodic financial statements. TSERS provides an annual statement of your account balance.
12. You may still contribute to a 403(b) tax-sheltered annuity (TSA), the State's 457 deferred compensation plan, and/or the State's 401(k) supplemental retirement plan. However, your contribution limits and options will depend upon the type(s) of supplemental plans you select. You may wish to contact your ORP carrier's representative or a tax or legal consultant for more information.
13. Yes. Only state and federal income taxes are deferred from amounts contributed as pre-tax contributions to the ORP or TSERS.
14. A mutual fund pools your money with that of many other people who have similar investment goals. Professional money managers use the pool of money to buy individual securities, such as stocks, bonds, and short-term investments. You do not own the securities directly, but you own shares in the fund. You make money if the fund shares grow in value, or when the fund distributes profits to its investors. An annuity is a contract issued by an insurance company that you can use to accumulate assets for retirement or to provide a stream of income in retirement. It may offer a fixed or variable rate of return.
15. All four of the ORP carriers provide an annuity option at retirement. Since Fidelity Investments is a mutual fund carrier, Fidelity has contracted with The Principal Financial Group (The Principal) to provide a group annuity product for those ORP participants who retire and wish to safeguard retirement savings by receiving an income for life.
16. Yes, if you are in receipt of a monthly retirement benefit from either the ORP or TSERS.

Annuity – A contract usually issued by an insurance company that generally provides for the accumulation of contributions and a guaranteed income paid at regular intervals, generally monthly, for a specified period of time or for life.

Authorized Carrier – An insurance underwriter selected by The University of North Carolina to provide investment vehicles and annuities under the Plan.

Average Final Compensation – The average of your salary during your four highest-paid consecutive years of State service for purposes of calculating a TSERS retirement benefit. (Terminal payments, if any, for unused sick leave or reimbursements for expenses are not includable.)

Compensation – Total earnings, prior to withholding, as reported on Form W-2, paid by the employing institution, including earnings tax-deferred under a:

- ◆ **Tax Sheltered Annuity (TSA) plan**
[IRC Code 403(b)]
- ◆ **403(b)(7) Custodial Account**
- ◆ **Qualified cash or deferred arrangement**
[IRC Code 401(k)]
- ◆ **Flexible Benefits Plan (Cafeteria Plan,**
IRC Section 125), and
- ◆ **Governmental pick up [IRC Code 414(h)]**

Core Retirement Plan – The primary retirement plan of an employee that the employer provides by reason of the employment.

Creditable Service – Any period during which you contribute to TSERS.

Defined Benefit Plan – A pension plan in which retirement benefits rather than contributions into the plan are specified. A retired employee who has reached a certain age with a given number of years of service and who has earned certain income is entitled to a specified monthly pension payment.

Defined Contribution Plan – A pension plan in which contributions into the plan, rather than eventual retirement benefits to employees, are specified.

Distribution – Cash payment or annuity payment to stock, bond, or money market account holders by a corporation or financial institution.

Diversification – The practice of spreading risk by investing in a number of securities that have different return patterns over time. When one investment is yielding a low or negative rate of return in a diversified portfolio, another investment may be enjoying positive or above-normal returns.

Employee – Faculty, with the rank of instructor or above, who are employed by the University of North Carolina; field faculty of the Cooperative Agriculture Extension Service; the President and senior academic and administrative officers of the University of North Carolina who are appointed by the Board of Governors on recommendation of the President pursuant to G.S. 116-11(4), 116-11(5), and 116-14 or who are appointed by the Board of Trustees of a constituent institution upon the recommendation by the Chancellor pursuant to G.S. 116-40.22(b); and non-faculty instructional and research staff who are exempt from the State Personnel Act, are eligible to participate in the Optional Retirement Program, if they are permanently employed at least three-fourths time, for nine or more months per year, on a recurring basis.

Employer – The University of North Carolina or any of its constituent institutions.

Fixed Annuity – Investment contract sold by an insurance company that guarantees fixed payments, either for life or for a specified period, to an annuitant.

IRC – Internal Revenue Code of 1986.

IRC Section 401(a) – Tax Code section authorizing a qualified retirement plan to be operated and supported by an employer providing benefits through a trust.

IRC Section 403(a) – Tax Code section authorizing a qualified retirement plan to be operated and supported by an employer providing benefits through an insurance carrier contract.

IRC Section 414(h)(2) – Tax Code section authorizing pre-tax contributions by employees into qualified retirement plans of governmental entities.

Like Retirement Plan – A retirement plan of an institution or organization of higher education (other than The University of North Carolina or a constituent institution) in which the employee participates, in fact, through only the annuity contracts or trusts of companies with whom the employee did

participate in the ORP, or could have participated, had the participant continued enrollment in the ORP.

Mutual Fund – Fund operated by an investment company that pools money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities.

Participant – Every eligible employee enrolled in the ORP and every individual who has vested rights to Plan benefits.

Plan – The University of North Carolina Optional Retirement Program.

Portfolio – A group of investments the purpose of which is usually to reduce risk by diversification.

Prospectus – A formal written document relating to the offering of a new or existing security, which delineates the offeror's business plan needed by the investor to make an informed decision concerning investment in the security.

Reallocation – A change in the ORP carrier(s) and/or funds of an ORP carrier, that are to receive future contributions for a participant under the ORP.

Risk - Possibility that an investment's actual return will be different than expected; includes the possibility of losing some or all of the original investment.

Risk vs. Return - The balance an investor must decide on between the desire for low risk and high returns, since low levels of uncertainty (low risk) are associated with low potential returns and high levels of uncertainty (high risk) are associated with high potential returns.

Salary Reduction – Employee contributions made on a pre-tax basis, which reduces the participant's current taxable income.

Time Horizon – The amount of time an investor has to invest before needing the money in his or her investment fund.

Transfer of ORP Assets – An action moving present assets from one ORP carrier to another ORP carrier, or an action moving present assets from one fund of an ORP carrier to another fund of that carrier.

Twelve-Month Delay of Notification – The twelve months following a non-vested participant's termination of eligible service in the plan (usually your termination of employment) with The University of North Carolina. During this period, the individual must begin employment with a subsequent employer offering a core retirement plan and enroll in a like retirement plan with that employer to avoid forfeiture of ORP non-vested contributions.

Variable Annuity – An annuity contract in which the earnings and payments fluctuate depending upon the investment performance of the portfolio.

Variable Investment Accounts – Equity or debt-based mutual funds offered through an insurance carrier variable annuity contract.

Vested Benefit – A participant's account balance that cannot be forfeited upon termination of employment.

Withdrawal – The receipt of assets from an ORP account, usually constituting a taxable event under the Internal Revenue Code.

Contribution Rates

(effective July 1, 2006)

*Employee: 6% of covered salary taken on a before-tax basis

Employer:	2.66%	Pension Accumulation Fund
	0.16%	Death Benefit
	3.80%	Retiree's Health Plan Reserve
	<u>0.52%</u>	Disability Income Plan
TOTAL	7.14%	

919-807-3050
www.treasurer.state.nc.us

*For 2007, the annual compensation subject to retirement contributions is \$225,000 for members hired on or after January 1, 1996 and \$335,000 for participants hired prior to January 1, 1996, as provided by federal and state laws.

Retirement Benefit Calculation Example

Assume that you have a 12-month contract and retire at age 60 with 30 years of creditable service. Here are the steps to estimate your maximum monthly retirement benefit.

Step 1:	Add your salary during your	\$46,000
	4 highest paid years in a row	44,000
		42,000
		<u>40,000</u>
	TOTAL	\$172,000
Step 2:	Divide Step 1 by 4 to determine	\$ 43,000
	your Average Final Compensation	
Step 3:	Multiply Step 2 by the current	\$ 43,000
	retirement factor .0182 to apply	<u>x .0182</u>
	formula	\$ 782.60
Step 4:	Determine creditable service	30 years
Step 5:	Multiply Step 3 by Step 4	\$ 778.30
		<u>x 30</u>
		\$23,478.00
Step 6:	Divide Step 5 by 12 to determine	
	Monthly Maximum Payment	\$1,957

This Monthly Maximum Payment would be reduced if you elect to provide some monthly payment to a beneficiary after your death. Also, in this example, you would receive an unreduced benefit since you had 30 years of service. If you elected to take early retirement, your retirement benefit would be further reduced.



**THE UNIVERSITY OF NORTH CAROLINA
OPTIONAL RETIREMENT PROGRAM**

**Human Resources Division
General Administration Building
910 Raleigh Road, PO Box 2688
Chapel Hill, NC 27515-2688**

919-962-4530

**[www.northcarolina.edu/hr/
benefits/benefits.cf](http://www.northcarolina.edu/hr/benefits/benefits.cf)**

Contribution Rates

(effective July 1, 2006)

*Employee:	6%	of covered salary taken on a before-tax basis
Employer:	6.84%	ORP Carrier (Fidelity, Lincoln, TIAA-CREF and/or VALIC)
	3.80%	Retiree's Health Plan Reserve
	<u>0.52%</u>	Disability Income Plan
TOTAL	11.16%	

*For 2007, the annual compensation subject to retirement contributions is \$225,000 for participants hired on or after July 1, 1996, and \$335,000 for participants hired prior to July 1, 1996, as provided by federal and state laws.

AIG VALIC

For more than half a century, AIG VALIC has specialized in providing retirement programs and related investment, record keeping and administrative services to colleges, universities, hospitals and health care organizations, elementary and secondary schools and governmental entities in all 50 states. Over 26,000 organizations and almost 2 million Americans trust AIG VALIC as their retirement provider.

What's more, AIG VALIC has been helping the UNC faculty and staff plan financially for retirement for 30 years. And bear in mind that the company that's been there all along helping you save for retirement can be your financial guide for the rest of your journey, too. Ask your VALIC financial advisor about our many transition and post-retirement programs and products to help you live the retirement of your dreams.

The Academic Freedom Retirement Program from AIG VALIC

- ▶ AIG VALIC currently has 24 financial advisors to service The University of North Carolina Optional Retirement Program. Our advisors live in the communities they serve and provide comprehensive financial planning for each client.
- ▶ Your ORP plan from AIG VALIC has no surrender charges or contract maintenance fees, putting more money to work for you.
- ▶ AIG VALIC offers a tax-qualified retirement plan featuring 22 mutual funds advised by highly respected professional investment managers, and one fixed-interest option.

Global/Foreign Equity Funds

- ▶ Oppenheimer Global A (OPPAX)
- ▶ Janus Adviser International Growth S (JIGRX)

Small Cap

- ▶ Dreyfus Small Cap Stock Index (DISSX)
- ▶ Dreyfus Premium Small Cap Value R (DSVRX)
- ▶ Salomon Bros Small Cap Growth A (SASMXX)

Mid Cap

- ▶ Dreyfus MidCap Index (PESPIX)
- ▶ Pioneer Mid-Cap Value R (PCMRX)
- ▶ Munder Mid-Cap Core Growth A (MGOAX)

Large Cap

- ▶ Dreyfus S&P 500 Index (PEOPX)
- ▶ Davis NY Venture A (NYVTX)
- ▶ Merrill Large Cap Value A (MDLVX)
- ▶ American Funds Growth Fund R4 (RGAEX)

Bond Funds

- ▶ Dreyfus Bond Market Index (DBMIX)
- ▶ American Century Inflation-Adjusted Bond Adv (AIAVX)

Balanced Fund

- ▶ American Funds American Balanced R4 (RLBEX)

Lifestyle Funds

- ▶ T. Rowe Price Retirement Income Ad – Conservative (PARIX)
- ▶ T. Rowe Price Retirement 2010 Ad – Conservative (PARAX)
- ▶ T. Rowe Price Retirement 2020 Ad – Moderately Conservative (PARBX)
- ▶ T. Rowe Price Retirement 2030 Ad – Moderate (PARCX)
- ▶ T. Rowe Price Retirement 2040 Ad – Aggressive (PARDX)

Specialty Funds

- ▶ American Century Real Estate Adv (AREEX)

Stable Value/Fixed Account

- ▶ American Century Government Money Market Inv (BGAXX)
- ▶ VALIC Fixed-Interest Option*

AIG VALIC
3100 Tower Blvd.
Suite 1601, Box 50
Durham, NC 27707

Durham Regional Office
919-401-3200

AIG VALIC by Phone
888-568-2542

- ▶ Automated account service 24/7
- ▶ Review your portfolio value & current investment elections
- ▶ Change future investment elections
- ▶ Transfer assets from one investment to another
- ▶ Leave a voicemail message for your financial advisor

Want to speak with a person?

Call Monday–Friday from 8am–9pm (ET).
Press 0 to connect with a licensed Client Service
Professional at our Client Care Center.

Enroll Online: www.aigvalic.com/uncorp

Enrolling is easy! It's your choice

- ▶ Enroll online at www.aigvalic.com/uncorp.
- ▶ Meet with your financial advisor. Call 919-401-3200 to schedule an appointment.
- ▶ Complete and return the simple enrollment form included in the AIG VALIC Enrollment Kit, which is available at your benefits office.

Investment options

All contributions to your account will be invested in the AIG VALIC *Academic Freedom Retirement Program* with mutual funds from some of the best-known fund families that cover a wide array of asset classes.

Investment flexibility

The wide array of investment options that we offer gives you the investment flexibility you need to create a portfolio that suits your time horizon, personal investment risk tolerance and overall retirement plan. Investment values will fluctuate and there is no assurance that the objective of any fund will be achieved. Mutual fund shares are redeemable at the then current net asset value, which might be more or less than their original cost.

No need to make decisions on your own

Developing a personal retirement investment plan is not as difficult or tedious as you might think ... when you choose us as your ORP provider. Your VALIC financial advisor will meet with you – face to face – to develop a sound and personalized retirement and investment plan, help you implement it and then help you keep it on track. Your VALIC financial advisor also offers full financial planning services and will conduct educational seminars on campus.

Information about your account

You can access your account information 24 hours a day, seven days a week through AIG VALIC Online (www.aigvalic.com) or through AIG VALIC by Phone (1-888-568-2542). You can speak with a licensed Client Care Professional on Monday through Friday, 8 a.m. to 9 p.m. (ET). You will receive a quarterly account statement in the mail which details account transactions and balance(s).

Distribution options for when you need your money

When you retire, or if you terminate employment before retirement, you can tailor your benefits to meet your individual needs. Benefit options include:

- ▶ Purchasing an annuity to receive regular income payments – including a lifetime income option that neither you nor your spouse can outlive (guarantee subject to VALIC's claims-paying ability)
- ▶ Leaving funds on deposit
- ▶ Taking systematic or lump-sum withdrawals

Taxation

Your plan was established to encourage long-term savings. Income taxes are payable upon withdrawal. Plus, federal restrictions and a 10% federal tax penalty might apply to withdrawals prior to age 59½.

As you prepare to retire, deciding what to do with the money you've accumulated during your working years is one of the most important issues you'll face. Fortunately, AIG VALIC has the products and services you'll need to make decisions and start the income stream that will carry you through retirement – arguably the best years of your life! Your VALIC financial advisor will be with you every step of the way to assist you with these important decisions.

For more detailed information about the AIG VALIC plan, access www.aigvalic.com/uncorp or The University of North Carolina Benefits Office home page at www.northcarolina.edu/hr/benefits/benefits.cfm

FOR USE WITH ENROLLMENT KIT ONLY

*Policy Form GFA-504, a group fixed, allocated annuity issued and guaranteed by The Variable Annuity Life Insurance Company (VALIC).
(12/06)



**Fidelity Investments®
Tax-Exempt Services
Company**

Fidelity Investments has been providing investors with professionally managed mutual funds and investment services since 1946. As the nation's largest mutual fund company, Fidelity Investments is committed to providing investors a range of investment options, responsive customer service, and the educational resources to help you plan successfully for your retirement. Our investment philosophy is to seek out the best stock, bond, and short-term investments around the world through careful analysis and on-site visits to companies. With multiple offices located throughout the state, we are dedicated to serving the needs of the University of North Carolina.

**7011 Fayetteville Road, Suite 110
Durham, NC 27713**

**For Appointments
800-642-7131**

www.fidelity.com/atwork/reservations

**For Account Inquiries
800-343-0860**

www.fidelity.com/atwork

Investment Options

Fidelity offers a variety of mutual funds that are divided into categories known as investment disciplines. **Growth Funds** invest primarily in common stocks for long-term capital appreciation, and therefore, have high potential for fluctuations in value based on a variety of factors, including market conditions. Share price and return will vary. **Growth and Income Funds** blend the growth potential of common stocks with regular income and stability of bonds. Share price, yield, and return will vary. **Income (or Bond) Funds** invest mainly in bonds with the goal of achieving regular income. Share price, yield, and return will vary. **Money Market Funds** are the most conservative of all mutual funds. They are managed to maintain a stable \$1.00 share price and pay a variable rate of monthly income. While Money Market funds seek to maintain a \$1.00 share price, there is no assurance that they will be able to do so. An investment in a Money Market Fund is not insured or guaranteed by the FDIC or any other government agency. **Asset Allocation Funds** allocate investments among stocks, bonds, and short-term instruments seeking high total return with reduced risk over the long term. Share price, yield, and return will vary. We also offer a range of **Lifestyle Funds**, which offer a simpler, one-step way to invest for retirement. Also, an **In-Plan Income Annuity** option is offered, which will allow participants to convert some or all of their accumulated retirement savings into a guaranteed stream of monthly income in retirement. The Core lineup made available by Fidelity is listed below.

Money Market Fund

Fidelity Retirement Money Market Portfolio

Stable Value Fund

Managed Income Portfolio

In-Plan Income Annuity

Principal Income Annuity

Bond Funds

PIMCO Total Return Fund

Fidelity Inflation-Protected Bond Fund

International/Global Funds

Fidelity Diversified International Fund

Fidelity International Small Cap Fund

Fidelity Worldwide Fund

Balanced Fund

Fidelity Balanced Fund

Life Cycle Funds

Fidelity Freedom 2000 Fund®

Fidelity Freedom 2005 Fund®

Fidelity Freedom 2010 Fund®

Fidelity Freedom 2015 Fund®

Fidelity Freedom 2020 Fund®

Fidelity Freedom 2025 Fund®

Fidelity Freedom 2030 Fund®

Fidelity Freedom 2035 Fund®

Fidelity Freedom 2040 Fund®

Fidelity Freedom Income Fund®

Domestic Equity Funds

Fidelity Large Cap Value Fund

Spartan® U.S. Equity Index Fund

Fidelity Contrafund®

Fidelity Large Cap Growth Fund

Fidelity Value Fund

Third Avenue Value Fund

MSI Fund Trust Mid Cap Growth Portfolio

Mainstay Small Cap Opportunity Fund - Class I

Fidelity Small Cap Stock Fund

Columbia Acorn USA Fund - Class Z

Specialty Fund

Fidelity Real Estate Investment Portfolio

For more detailed information about the Fidelity products, you can access The University of North Carolina Benefits Office home page through the Internet's World Wide Web. Internet: www.northcarolina.edu/hr/benefits/benefits.cfm

Contract Features

Allocation of Funds

You may allocate your contribution in any manner among the Fidelity Funds. Your allocations must be in whole number percentages.

Transfer of Funds

Employees have the ability to exchange among the Fidelity fund options.* You can call **1-800-343-0860** or contact us online at **www.fidelity.com/atwork** to reallocate your investments as your needs change. Fidelity does not charge surrender fees.

Account Information

You will receive quarterly statements from Fidelity summarizing your account activity.

For information about your account or any Fidelity Funds, or to order a prospectus, call a Fidelity Retirement Services Specialist at 1-800-343-0860, 8:00 a.m. to midnight EST, Monday through Friday, or contact us online at www.fidelity.com/atwork.

Retirement Payout Options

Your investments need to be working for you before and after retirement. Everyone's retirement needs are different. Our spectrum of distribution options means you have real choice and control at retirement on how you take your payout. We offer:

- ▶ **Systematic withdrawal programs:** You can establish a regular schedule of withdrawals from your Optional Retirement Program.
- ▶ **Full or partial withdrawals:** You can distribute all of your retirement assets in one lump sum or defer the payout beyond the mandatory age of 70 ½ and withdraw the minimum required distribution amount.
- ▶ **Income annuities:** You can convert your account into a stream of income with either a fixed or variable income annuity.
- ▶ **IRA rollovers:** You can elect a direct rollover of your eligible assets to an IRA.

Range of Services

Fidelity gives you access to the financial planning tools you need to become a more informed retirement investor. These tools help you determine if you will have enough savings to retire and figure out what asset allocation might be right for you.

- ▶ Our counselors are experienced in retirement planning and available to provide retirement education at your campus.
- ▶ A number of investment education publications can be ordered by calling **1-800-343-0860**.
- ▶ Fidelity Retirement Services Specialists are available Monday through Friday, 8:00 a.m. to 12:00 p.m. EST, by calling **1-800-343-0860**. They can provide you with information and answer questions concerning your account and investment options.
- ▶ Automated account access is available virtually 24 hours a day, seven days a week for mutual fund prices, yields, account balances, exchanges, and more.
- ▶ You can visit Fidelity any time on the Internet for current Fidelity fund performance, interactive worksheets and two-way email. Internet: www.fidelity.com.
- ▶ You can access your account online at www.fidelity.com/atwork to view your latest account balances, current share prices of funds, recent contributions, current fund selections, historical performance of the mutual funds and move money between funds or change your fund selections.
- ▶ You will receive a personalized account statement on a quarterly basis.

For more complete information about Fidelity mutual funds, including fees and expenses, call Fidelity for free prospectuses or access them on the Internet at www.fidelity.com. Read them carefully before you make investment choices.

*Fidelity mutual funds reserve the right to modify or withdraw the exchange privilege.

Unless otherwise noted, transaction requests confirmed after the close of the market, normally 4:00 p.m. (EST), or on weekends or holidays will receive the next available closing share price.

Annuities are distributed by Fidelity Brokerage Services, Inc., member NYSE, SIPC; Fidelity Insurance Agency, Inc.; and Fidelity Investments Insurance Agency of Texas, Inc.

Information about mutual fund performance: Past performance is no guarantee of future results. A fund's share price, yield and return will vary, and you may have a gain or loss when you sell your shares. For more information about total returns or any Fidelity mutual fund, call Fidelity Investments.

Fidelity Investments Tax-Exempt Services Company. A division of Fidelity Investments. Institutional Services Company, Inc.
82 Devonshire Street, Boston, MA 02109. 2i81967

LINCOLN FINANCIAL GROUP

A Fortune 500 company with headquarters in Philadelphia, Lincoln Financial Group companies has consolidated assets of nearly \$125 billion as of December 31, 2005.

Lincoln Financial Group's oldest affiliate celebrated its centennial in 2005, marking 100 years of growth, strength and integrity in financial services. A century of success is a strong measure of client satisfaction. A leader in employer markets for nearly 40 years, Lincoln has a solid reputation for outstanding customer service and overall expertise as a plan provider. More than 24,000 employers have chosen Lincoln Financial to help their employees save for retirement.

Lincoln Financial Group
Suite 2-304
1815 Martin Luther King Jr.
Durham, NC 27707

NC Regional Office
888-548-4704
Account summary, transactions,
election change

866-419-7202

www.lfg.com/unc

Available Products

Through the Lincoln Alliance[®] Program, your retirement plan offers a wide array of investment options. Investments generally are grouped into three broad asset classes: stocks, bonds and cash/stable value options. Historically, these asset classes have performed differently under the same set of economic conditions. Stocks are shares in the ownership of a company. **Stocks** carry greater risks than bonds and cash/stable value options as they are subject to more volatility. Investment values will fluctuate with changes in market conditions and it is possible to lose money. However, in the past, stocks have offered the greatest potential for long-term growth. **Bonds** are issued by corporations or government agencies. A bond is a debt investment with which the investor loans money to a company or government for a specific term at a specified interest rate. Bonds are less volatile than stocks, but have higher volatility and increased credit risk when compared to other fixed income investments. **Cash/stable value investment** options are similar to bonds but hold money for much shorter periods. They offer low investment risk, but with low returns.

Most of the investment options in your retirement plan are mutual funds, which are diversified pools of stocks, bonds and other investments. They offer shares of ownership to investors and are overseen by professional fund managers to attempt to achieve stated investment objectives. Keep in mind that values will fluctuate and it is possible to lose money; also, there is a significant difference in risk among investment options within each broad asset class.

The Lincoln Alliance[®] Program offers an array of investment options across the three broad asset classes to allow you an opportunity to build well-diversified portfolios. We also offer target distribution date mutual funds, which represent various asset classes and are managed to a specific retirement or distribution year.

Stock Mutual Funds

American Beacon Large Cap Value Plan
Am Funds Capital World Growth and Income R4⁵
Am Funds EuroPacific Growth R4⁵
Am Funds Growth Fund of America R4
Columbia Acorn USA Z⁶
Columbia Mid Cap Value Z
Dreyfus Mid Cap Index
Dreyfus Premier S&P Stars Opp R
Dreyfus S&P 500 Index
Dreyfus Small Cap Index
James Small Cap⁴

Target Distribution Date Funds³

T. Rowe Price Retirement 2010 Adv
T. Rowe Price Retirement 2020 Adv
T. Rowe Price Retirement 2030 Adv
T. Rowe Price Retirement 2040 Adv
T. Rowe Price Retirement Income Adv

Bond Mutual Funds²

PIMCO Total Return Admin

Cash/Stable Value Investment Options

Lincoln Fixed Annuity
Vanguard Prime Money Market¹

- 1 An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.
- 2 Bond funds are less volatile than stock funds, but experience higher volatility and increased credit risk when compared to other fixed income investments.
- 3 Funds that diversify across asset classes generally have the same, but reduced, risks relative to the underlying asset classes. The more of the fund allocated to stocks the greater the risk. The bond portion will be affected by interest rate and credit risk.
- 4 Small-cap stocks may be riskier than stocks from more established companies. Small-cap investments may not be readily converted into cash. This may affect their value so that shares, when redeemed, may be worth more or less than what they originally cost.
- 5 International investing involves special risks not found in domestic investing, including increased political, social, economic and currency instability.
- 6 Investing in emerging markets can be riskier than investing in well established foreign markets. International investing involves special risks not found in domestic investing, including increased political, social, economic and currency instability.

For more detailed information about the Lincoln Financial investment options, you can access The University of North Carolina Benefits Office home page through the Internet: www.northcarolina.edu/hr/benefits/benefits.cfm. You should also refer to each mutual fund's prospectus for complete information on risk and fees and objectives.

Program Features

Allocation of Funds

The Lincoln Alliance® Program gives you the freedom to allocate your contributions in any manner among the above mentioned investment options. When your allocation is made, use whole percentages.

Transfer of Funds

- ▶ You can transfer monies among the Lincoln Alliance® Program investment options. However, Lincoln and the fund companies reserve the right to limit the number of transfers.
- ▶ Lincoln does not charge surrender fees.
- ▶ Withdrawals from the Lincoln Fixed Annuity will be restricted to 20% per year.
- ▶ You can call 800-234-3500 or visit us online at www.lfg.com/unc to complete your transfers.

Account Information

Comprehensive and easy-to-read quarterly statements that reflect activity during the calendar quarter are provided and mailed to you within five days after the close of the quarter. For information about your account, call 800-234-3500 from 8:00 am to 8:00 pm, Monday through Friday, or visit us at www.lfg.com/unc.

Retirement Payout Options

Lincoln Financial offers you a number of payout options and personalized service to assist you with selecting the option that best meets your retirement needs. Your local Lincoln representative will provide you with detailed information and illustrations to help you make the most of your retirement dollars. We offer:

Annuitization: Lincoln offers fixed and variable annuity options that include *Single Life and Joint and Survivor* payouts as well as guarantee periods that range from 3 to 20 years. Guarantees are backed by the claims-paying ability of the issuer.

Full or partial cash withdrawal: At retirement the vested accumulated value of your Lincoln Alliance® Program account may be withdrawn without restriction or charge. You may receive the distribution in a lump sum or we offer a convenient Automated Withdrawal Service, which allows for periodic distributions with the flexibility to stop or change your withdrawal method or amount.

Minimum distribution: Lincoln will automatically send you the amount necessary to satisfy the IRS Minimum Distribution retirement at the later of age 70 ½ or retirement.

Taxes will apply to distributions and if taken prior to age 59 ½ may be subject to additional 10% federal tax penalties.

Range of Services

- ▶ Access to your account is available 24 hours a day, 7 days a week at www.lfg.com/unc.
- ▶ Knowledgeable customer service representatives, who can provide you with information and answer your questions regarding your account, are available from 8:00 a.m. to 8:00 p.m. EST by calling 800-234-3500.
- ▶ Your local Lincoln representative is also available to assist you with your retirement planning needs, from enrollment to retirement. Lincoln's local representatives specialize in retirement planning and understand the importance of individual and personalized service. Personal annual reviews with your local Lincoln representative will help you keep your portfolio in line with your current financial situation and goals.
- ▶ Various educational materials designed to provide you with information about Lincoln's products and services, investments, market conditions and retirement planning needs are available to you at any time at no charge.
- ▶ Local seminars are offered to assist you with your retirement planning. These seminars include topics such as: risk analysis, asset allocation, investment options, market trends, and tax/legislative updates.

Consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. A prospectus for any of the specific mutual fund companies within the Lincoln Alliance® Program is available by calling 800-234-3500 or by visiting www.lfg.com/unc. Read it carefully before investing or sending money. Mutual funds offered through Lincoln Financial Advisors Corp., a broker/dealer, 1300 S. Clinton Street, Fort Wayne, IN 46802. The Lincoln Fixed Annuity is issued by the Lincoln National Life Insurance Company, Fort Wayne, IN 46802, on Form 28866 and state variations thereof. Guarantees are based upon the claims-paying ability of the issuer. Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates. CRN200603-1006639

TIAA-CREF - Financial Services for the Greater Good

The mission we embarked on over 85 years ago still rings true today – serve those who serve the rest of us. And with our nonprofit heritage, TIAA-CREF has long subscribed to a different set of guiding principles. Principles directly influenced by the people we serve. People like you, whose lifework advances the greater good. Because for all the good you do, we think some good deserves to come your way.

At TIAA-CREF, our goal is to offer the best products and services to help you work towards reaching your financial objectives. TIAA-CREF has been offered as a choice for retirement savings since the inception of the North Carolina ORP in 1972. Plus, we are available in all 50 states. So should you move, TIAA-CREF can move with you.

Investment Choices

TIAA-CREF offers investment options in all five of the major asset classes (Guaranteed, Money Market, Fixed Income, Real Estate and Equities). Our retirement annuity accounts and mutual funds are designed to fit your goals and risk tolerance, helping you to balance safety and opportunity.

For more detailed information about our investment choices, you can access the UNC ORP website at www.tiaa-cref.org/uncorp.

TIAA-CREF
Teachers Insurance and Annuity Association
College Retirement Equities Fund

Durham Office
410 Blackwell Street, Suite 120
Durham, NC 27701
877 267-4505

Charlotte Corporate Center
8500 Andrew Carnegie Blvd.
Charlotte, NC 28262
877 535-3910

Chapel Hill Office
6350 Quadrangle Drive
Suite 100
Chapel Hill, NC 27517
866-904-7804

INVESTMENT CATEGORY	INVESTMENT CHOICE
Principal Protection	CREF Money Market Variable Annuity Account
Principal Protection	TIAA Traditional Annuity
Bond	CREF Bond Market Variable Annuity Account
Bond	CREF Inflation-Linked Bond Variable Annuity Account
Balanced	CREF Social Choice Variable Annuity Account
Large-Cap Core Equity Passive Strategy	TIAA-CREF S&P 500 Index Fund
Large-Cap Core Equity Active Strategy	CREF Stock Account Variable Annuity Account
Large-Cap Value	TIAA-CREF Large-Cap Value Fund
Large-Cap Growth	CREF Growth Account Variable Annuity Account
Large-Cap Growth	T. Rowe Price Institutional Large-Cap Growth Fund

INVESTMENT CATEGORY	INVESTMENT CHOICE
Mid-Cap Core Equity	TIAA-CREF Mid-Cap Blend Index Fund
Mid-Cap Value	TIAA-CREF Mid-Cap Value Fund
Mid-Cap Growth	TIAA-CREF Mid-Cap Growth Fund
Small-Cap Core Equity	TIAA-CREF Small-Cap Equity Fund
Small-Cap Value	TIAA-CREF Small-Cap Value Index Fund
Small-Cap Growth	TIAA-CREF Growth Index Fund
Global Equity	CREF Global Equities Variable Annuity Account
Non-U.S. Equity	American Funds Europacific R5 Fund
Real Estate	TIAA Real Estate Variable Annuity Account
Lifecycle Funds	TIAA-CREF Lifecycle Funds

Investments in the TIAA-CREF Money Market Account are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annuity account options are available through contracts issued by TIAA or CREF. These contracts are designed for retirement or other long-term goals, and offer a variety of income options, including lifetime income. Payments from the variable annuity accounts are not guaranteed and will rise or fall based on investment performance. Mutual funds do not offer the range of income options available through annuities.

Allocation & Transfer Flexibility

Allocating your contributions

You can allocate your contributions among any of the fixed and variable annuity accounts, and mutual funds. You can also make changes to your allocations at any time in the future. Transfers made from the TIAA Traditional Annuity (\$10,000 minimum or entire amount in account, whichever is less) must be in annual installments.

Transferring accumulations

You can transfer your accumulations among the variable annuity accounts, mutual fund and guaranteed accounts at any time, at no charge. Once every calendar quarter, you can transfer some or all of your accumulation in the Real Estate Account to TIAA's traditional annuity, to one of the CREF accounts or to the mutual funds offered under the terms of your plan. Transfers to certain CREF accounts may be restricted by your employer's plan.

Objective guidance

Our guidance is based on the premise that the main purpose of your TIAA-CREF retirement accounts is to help provide lifetime financial security. We build as much flexibility as possible into our guidance. Because no single option can fulfill everybody's needs, a combination may be likely to produce better results.

Payout options

To fit your retirement needs, retirement income options from TIAA-CREF include: Cash withdrawals, Systematic withdrawals, Interest-only payments, Minimum Distribution Option (MDO), Fixed-period payments, One-life annuity (10-, 15-, or 20-year terms), Two-life annuities (10-, 15-, or 20-year terms). (Not all payout options may be available in some plans.)

Telephone Counseling Center

800 842-2776

For questions on your TIAA-CREF retirement plan, including minimum distribution, investment choices, payment options, benefits, premiums, retirement illustrations, payments and taxation, consultants are available Monday to Friday from 8 a.m. to 10 p.m. (ET) and Saturday from 9 a.m. to 6 p.m. (ET).

One-on-One Counseling Sessions

You can schedule an appointment to meet with a consultant by logging on to www.tiaa-cref.org/moc, or by calling the Durham Office at (919) 687-5200, toll-free (877)-267-4505).

TIAA-CREF Website

www.tiaa-cref.org

Get daily values for your accounts, transfer funds or change allocations through secure online transactions. Our website offers a number of interactive tools to help you address your various financial goals. You will also find in-depth information about retirement income, beneficiary, and tax withholding options, including illustrations of potential benefits, and many other features to help you with financial matters and retirement planning.

Automated Telephone Service

800 842-2252

For allocation of future contributions, transferring account balances among the TIAA-CREF variable annuity accounts, mutual funds, and to TIAA Traditional, performance information, accumulation unit values, the current value of your savings, the status of any withdrawal and transfer requests, and to order certain booklets and forms.

Please keep in mind that there are inherent risks in investing in securities. Past performance is no guarantee of future results. In addition, investment return and principal value will fluctuate so your accumulation, when redeemed, will be worth more or less than the original cost. Also, mutual funds do not offer the income options available through the variable annuity accounts, such as the lifetime or fixed-period options.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call (877) 518-9161 (or go to www.tiaa-cref.org) for a prospectus that contains this and other information. Please read the prospectus carefully before investing. TIAA-CREF Individual & Institutional Services, LLC and Teachers Personal Investors Services, Inc., distribute securities products. TIAA (Teachers Insurance and Annuity Association) New York, NY and TIAA-CREF Life Insurance Co., New York, NY issue insurance and annuities.

Retirement Annuity (RA) contract form series 1000.24: Supplemental Retirement Annuity (SRA) contract form series 1200.8

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