Participant Q&A

Why did Pepperdine make changes to the 403(b) Defined Contribution Retirement Plan?

Effective January 1, 2009, the IRS imposed new regulations on Pepperdine's 403(b) plan which will make the plan operate more like a 401(k) plan. In order to maintain the tax-favored 403(b) status, the University must fully comply with the new regulations. The primary changes Pepperdine must adhere to include but are not limited to:

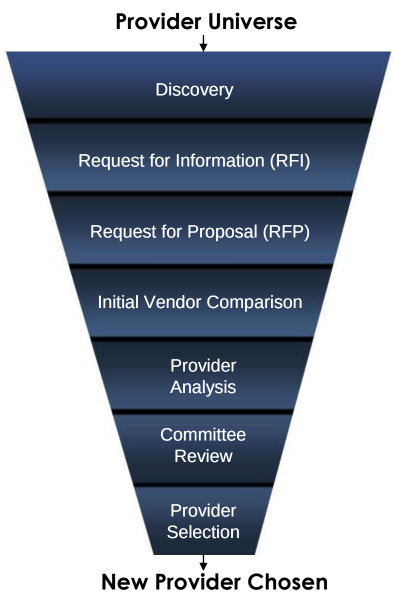
- Assuming fiduciary responsibility for selecting and monitoring plan investments;
- Ensuring plan fees are reasonable;
- Monitoring loans, distributions, and contribution limits;
- Consolidating recordkeeping (by having one fund provider manage administration for multiple providers or by moving to a sole administrator scenario);
- Providing an annual plan audit by a CPA.

In response to the new regulations, the University established a Retirement Plan Review Committee, comprised of faculty and staff, to assess the options and future direction of the University Retirement Plan in its entirety.

Additionally, the University retained Benefit Funding Services Group (BFSG), a third party independent retirement plan consultant and outside legal counsel to help the Committee comply with the new regulations and fulfill the fiduciary responsibilities. BFSG assisted in establishing prudent Committee processes and provided expertise during the search and evaluation process. BFSG continues to provide ongoing services to the Committee in regards to investment and compliance oversight.

The following outlines the process BFSG facilitated:

Search, Evaluation & Selection: 7 Step Process



- Review the current plan design; structure a review committee, study investment options, plan costs and revenues.
- Develop RFI questionnaire to send to 403(b) service providers in the marketplace. Assess ability to handle common remitter / multiple provider administration and coordination.
- Review all possible vendors. Select vendors to receive RFP questionnaire. Work with Committee to determine areas of emphasis and develop customized RFP. Send RFP to selected vendors.
- Develop Initial Vendor Comparison. Discuss findings with Committee and narrow potential vendors to 4 or 5.
- Compile complete vendor responses and prepare final detailed Provider Analysis.
- Meet with Committee to review Final Provider Analysis.
- Assist Committee with final vendor selection, present to the Benefit and Steering Committees. Prepare conversion timeline and management letter summarizing the process.

The Steering Committee reviewed and approved the Retirement Plan Committee's decision to transition to Diversified Investment Advisors as the sole administrator beginning February 1, 2009. Diversified is not a fund-provider, nor does it control or hold the funds, it will simply act as the neutral administrator of the University's plan and implement the government-required business processes on behalf of the University.

Why did the Retirement Plan Committee decide to move to a sole administrator in 2009?

Based on the RFI responses and a review of services, the Committee decided upon a sole administrator approach for the following reasons:

- Streamlined compliance processes;
- Lower cost;
- More robust service offering for participants; and
- Simplified data coordination.

Why did the Retirement Plan Committee decide on Diversified as the sole administrator?

Diversified was chosen as the sole administrator for the following services they provide:

- Overall fund flexibility – Diversified has no restrictions on the funds that it can offer; instead, their services will allow the University flexibility to offer "best in class" funds in each fund category.
- Competitive stable value fund offering. For example, the TIAA Traditional Annuity fund was a popular choice within the old plan, but it had severe restrictions on moving money to other investment funds (e.g., currently funds may be withdrawn only over a 10 year period). The Guaranteed Pooled Fund offered by Diversified does not have restrictions of this kind.
- A robust recordkeeping platform
- Exceptional support in regards to compliance with the new 403(b) regulations
- The ability to offer Vanguard, Fidelity and TIAA-CREF mutual funds on the core platform
- The ability to offer a self-directed mutual fund window
- Quality and tenure of the service team
- Competitive costs for plan participants

Were Fidelity, TIAA-CREF, Vanguard, and Prudential considered as contenders in the sole administrator search?

Yes, each of the incumbents received the RFP questionnaire. Fidelity, Vanguard and TIAA-CREF submitted responses. The Committee carefully reviewed the service offering and cost of each of the solutions offered by the incumbents. Upon final analysis, the Committee found that Diversified's offering was more expansive in regards to administration, communication, investment capabilities, administrative services to plan participants, and was offered at a comparable or lower cost.

What other features were added to the Plan in 2009?

Pepperdine added the following services:

- A consolidated website and toll-free phone access to manage retirement plan assets;
- Roth after-tax contribution accounts that will permit participants to contribute after-tax dollars which could potentially provide for investment earnings at retirement that are not taxed upon distribution;
- A Self-directed mutual fund window via the Schwab Personal Choice Retirement Account;
- PortfolioXpress, an asset allocation tool offered through Diversified Investment Advisors which designs custom portfolios using the funds within the Plan's core investment lineup. With PortfolioXpress, participants can invest in an asset allocation mix that is appropriate for the retirement year selected. PortfolioXpress automatically rebalances the participant account each quarter, and adjusts asset allocation to a more conservative mix as the participant nears retirement.

Did any of these changes affect Pepperdine's employer contributions to the Plan or each participants' ability to contribute to the Plan?

No, the employee and employer deferral provisions remained the same, as follows:

- For each pay period, the University will contribute an amount equal to 5% of eligible compensation to the Plan.
- Participants may choose to contribute up to the IRS limits on a pre-tax basis. Roth contributions are also allowed.
- The University matches participant contributions dollar for dollar up to 5% of eligible compensation.

Why is there no "Socially Responsible" fund in the current core line-up?

The topic of adding a "Socially Responsible Fund" to the core list of Funds offered in the Pepperdine Retirement Plan has been on the agenda of every Investment Committee Meeting since the initial line-up of funds was selected over a year ago.

In each case, as a result of research and discussion of the topic, the committee has to date chosen not to add such a fund to the "Core Fund" line-up for the simple reason that it has found it difficult, if not impossible, to come up with a uniform definition of what a "Socially Responsible" fund should be.

While on the surface it would seem fairly basic, looking deeper there are hundreds of so called Socially Responsible Funds available in the market place today. Some of the most common restrictions that funds screen investments for include alcohol, tobacco, gambling, defense/weapons, animal testing, religious values, products/services, environment, human rights, labor relations, employment equality, and community investment. Each fund may include one or more restrictions like these. Some funds follow their guidelines loosely, while others adhere to stricter screening criteria.

With all of this to consider the Committee feels it should avoid selecting a fund based upon its definition of "Social Responsible," even if it could come into agreement on such.

In any case, for participants that feel strongly in investing in "Socially Responsible" funds, the Mutual Fund Window provides you the opportunity to do so, and to do so in a way that will allow you to select the fund(s) that match your individual definition of socially responsible investing criteria. You can find social fund screening tools at the following websites:

http://www.socialinvest.org/resources/mfpc/
http://www.socialfunds.com/funds/mfc.cgi

Where and when can I review more details about the Plan?

Additional information can be found at: http://services.pepperdine.edu/hr/benefits/fulltime/retirement.htm

Do you have additional questions? Submit a question to the University's Retirement Plan Committee at humanresources@pepperdine.edu