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How Much Do Your Investments Cost?

When you're investing your money, it pays to know how expenses affect your investment returns.

Many investors don't pay much attention to the charges they pay for investing in products like variable annuities and mutual funds. As a result, investors are often surprised to learn how high these fees can be — and how much they may cost over time.

As an investor, you should be aware of the costs of your investments. Over the span of your lifetime, you can lose money to unnecessary expenses; money that does not remain in your account or fund is money that does not potentially grow as compounded earnings.

Generally speaking, high cost funds and accounts can have a significant impact on your investment returns over the long term. For example, compare a stock mutual fund with expenses of 0.50% with a stock mutual fund with expenses of 1.00%. Let's say you invest \$2,000 each year in both funds, with a hypothetical average annual return of 6%. At the end of 30 years, after accounting for expenses, the investment in the low-cost stock fund will have grown to \$152,419, while the higher cost fund will have grown to only \$138,765 — a difference of nearly \$14,000.

Now consider the cost differential between investing in a *no-load* stock mutual fund (a fund that doesn't have a sales charge) versus a stock mutual fund that has a 3% front-end load, both with the same 0.50% expense. (See below for more on sales loads.) If you invest \$2,000 annually in both funds at a hypothetical average annual return of 6%, at the end of 30 years (after accounting for expenses) the no-load fund will have increased in value to \$152,419, while the second fund will have grown to \$147,846. That's a difference of about \$5,000.

The price differential between some low-cost and high cost retirement accounts in the same investment category can be as high as two percentage points, or \$2 for every \$100 invested. That may seem like a small amount, but as these examples show, small amounts can add up over time. The only time that paying more for an account or fund might be acceptable is if you get higher returns. But be

very careful, since higher costs don't guarantee higher returns. (Note also, however, that lower expenses do not mean higher returns. Additionally, there are inherent risks in investing in securities. Past performance is no guarantee of future results.)

Expenses to Watch Out For

Mutual fund and variable annuity account expenses include *sales loads, administrative and management expenses, mortality and expense risk charges* and *12b-1 marketing fees*. Here are the details about each of these expenses:

Sales loads are deducted from your investment as either a front-end or back-end charge. For example, a 4% front-end load reduces your initial \$1,000 investment to \$960 (\$1,000 minus \$40). Back-end loads are deducted from the investment when you redeem (sell) it. Because of these high costs, many experts recommend no-load funds. **Administrative and management expenses** are deducted on an annual basis to cover a variety of operational expenses, including office rent, statement mailings and telephone service.

Mortality and expense risk charges pertain to variable annuities. When you invest in an annuity, some companies add this charge to cover the cost of guarantees for minimum death benefits. It also ensures that investors receive distribution payments from the investment company, even if they live beyond their projected life expectancy.

12b-1 marketing fees are charged by some investment companies for ongoing marketing support for the investment fund. Typically, they cover [promotion](#), [distribution](#) and [marketing](#) expenses.

Where to Learn More About Expenses

You can find information about a fund's or account's expenses in the prospectus. Annual fund expenses are also listed in some newspapers. You can also contact Morningstar Inc., a leading source of information on variable annuities and mutual funds, to find out about expenses for a specific fund or account.

To see the effects that charges can have on your investments, use our online Expense/Growth Calculator. You can find the calculator in the Tools section of our website at www.tiaa-cref.org.

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 current prospectus that contains this and other information. Please read the prospectus carefully before investing.

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