

TIAA Money Market Fee Waiver

What is happening?

As of June 30th of this year the fee waiver for TIAA-CREF money market options is set to expire.

What does this mean?

With the Fed holding short-term rates near zero most money market funds are struggling to earn any interest in this environment. Once you subtract fees from these funds, most would end up with negative returns. Money market funds are typically the cash option in retirement plans and offer the highest degree of liquidity and safety. Not wanting to generate negative returns, many money market providers have temporarily waived their fees.

If TIAA is unable to renew this waiver (which does require approval from their regulators) it opens the possibility that their money market funds may suffer small losses on a net basis. For instance, the CREF Money Market R3 in the MSU plan has an annual fee of 0.23%. If the underlying investments in the fund fail to earn at least that much, the return will dip into negative territory. In theory the negative return should not be more than that fee amount, and would likely be a little less.

What are the options?

We consider cash as an important subset of the fixed income asset class. While yields and returns are very low currently, the safety of cash (within a diversified portfolio) cannot be underestimated. Normally we might just suggest that whatever portion is allocated to cash be moved to other fixed income options. The outlook for bonds remains murky however. This year, many areas of the bond market have seen losses in excess of what money markets may see. While the worst of the losses may be over in the short-term, our medium-term outlook is for continued volatility and overall low returns. This outlook may worsen if inflation fears materialize, and longer-term interest rates are pushed higher. With short-term rates almost certainly stuck near zero for the foreseeable future and long-term rates subject to higher degrees of uncertainty, it makes for a very challenging environment for fixed income investing.

What is StraightLine recommending?

There are options out there, both within the retirement plan and outside of it. For our clients we will be reviewing the best course of action and making any necessary changes prior to the end of June. For anyone else we strongly suggest that you review your fixed income holdings and overall asset allocation. With how quickly things change in markets these days a simple "set it and forget it" strategy is not prudent. A higher degree of attention must be paid to both the risks and opportunities across all investments.

If you would like to review your accounts and discuss your options, please contact us at 248-269-8366 or email info@straightline.com