

PLAN UPDATE

SPECIAL EDITION



GREAT NEWS FOR SAVERS

Did you get your tax rebate in the mail this summer? If you did, you benefited from what is being called "The Great Tax Cut of 2001." This action was part of a tax law entitled the Economic Growth and Tax Relief Reconciliation Act of 2001, commonly referred to as EGTRRA. This federal legislation went far beyond tax refunds and provides expanded opportunities for all groups of tax deferred savers, especially participants in the Oregon Savings Growth Plan. This special edition of our newsletter explains some of the key features affecting our deferred compensation plan. Highlights of beneficial changes include the following:

- Tax credit for low and middle income savers
- Increased regular maximum annual deferral amounts
- Increased 3-Year Catch-Up deferral amounts
- Increased deferral amounts for participants over age 50
- Elimination of coordination requirements between 403(b) and 457 plans
- Flexible payment opportunities for those retiring and those already retired
- Ability to consolidate retirement savings by rolling other tax deferred accounts into the plan

TAX CREDIT FOR LOW AND MIDDLE INCOME SAVERS

You may be eligible in the 2002 tax year for a tax credit of up to \$1,000 for contributions made to the Oregon Savings Growth Plan. This new tax credit is money which is not refunded to you but is credited to your tax liability when you file your taxes. The existing tax deferral still applies to contributions each month. Combined with the tax deferral on a \$2,000 annual deferred compensation contribution, this new tax credit could reduce the annual out of pocket cost of that \$2,000 deferral to as little as \$525 for an individual filing jointly with an annual adjusted gross income of \$30,000. In this example, you would be getting a \$2,000 investment for only \$525 out of pocket dollars! In order to qualify for the full credit your adjusted gross income (not gross income) on your form 1040 may not exceed \$30,000 for joint filers. Single filers have limits that are one-half and heads of households have limits that are three-fourths of those filing jointly. Joint filers with adjusted gross income up to \$50,000 may still qualify for a 10 percent credit. Please consult with a tax advisor, accountant, or the IRS for additional information about this new opportunity.

INCREASED REGULAR MAXIMUM ANNUAL DEFERRAL AMOUNTS

Beginning January 1, 2002, you will be able to save as much as \$11,000 annually in your Oregon Savings Growth Plan tax deferred account. The chart on the right shows that this annual maximum also increases in future years.

Year 2002 monthly deferral maximum will be \$916, not to exceed 50 percent of gross monthly income. (IRS code identifies the maximum deferral as 100 percent of "includable" income which in most cases is the same as 50 percent of gross income.) If you are currently deferring by percentage, your actual dollar amount is now limited to \$708.33. If you make no change in this percentage, it is possible that your actual deferral amount may increase automatically in January.

If you wish to take advantage of this opportunity to increase your tax deferred savings, please log on to osgp.csplans.com or call 1-800-365-8494 and select option 2. State employees who complete deferral change transactions by 1 pm November 30 will affect December pay to be paid in January. Employees who are paid at the end of the month or who are paid more than once monthly must call in December to affect January pay.

INCREASED 3-YEAR CATCH-UP DEFERRAL AMOUNTS

If you are nearing retirement and have not deferred the maximum available to you in previous years, you may be able to save more than the regular deferral amounts during certain specific years. The 3-Year Catch-Up provision is available when you are three years from normal retirement age under PERS. A Tier One general service employee, for example, may begin participation in Catch-Up in the year that employee reaches age 55. The amount that may be deferred during each of the three years under this provision has been increased as indicated in the chart below.

If you are nearing retirement and would like to find out more about this expanded opportunity, please call our Information Line at 1-800-365-8494 and request a "Catch-Up Information Packet." If you are currently participating in Catch-Up, our office will be notifying you during November to explain your options.

Maximum Deferral Amounts Summary

The table below summarizes the increased savings opportunities provided under EGTRRA. The annual dollar amounts indicated in each box is the maximum allowed for that deferral type under the plan. A participant may not combine deferral types in any year.

Regular	50-Plus Catch-Up	3-Year Catch-Up	Year
\$11,000	\$12,000	\$22,000	2002
\$12,000	\$14,000	\$24,000	2003
\$13,000	\$16,000	\$26,000	2004
\$14,000	\$18,000	\$28,000	2005
\$15,000	\$20,000	\$30,000	2006
Indexed to Inflation	Indexed to Inflation	Indexed to Inflation	2007+

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CONTACT OSGP AT:

Information Line
1-800-365-8494

Online Internet Site
<http://osgp.csplans.com>

PERS/OSGP Internet Site
www.pers.state.or.us

INCREASED DEFERRAL AMOUNTS FOR PARTICIPANTS OVER AGE 50

Participants who would like to save more and are not participating in the 3-Year Catch-Up are still able to exceed the regular deferral in any year beginning with the calendar year in which they turn 50. This extra amount increases each year for the next five years and can amount to considerable additional retirement savings. The "Catch-Up Information Packet" requested at 1-800-365-8494 mentioned above will also help you understand how to participate in this provision.

ELIMINATION OF COORDINATION REQUIREMENTS BETWEEN 403(B) AND 457 PLANS

Beginning January 1, 2002, employees who are able to contribute to the Oregon Savings Growth Plan and a 403(b) or tax sheltered annuity may be able to defer up to the maximum in each plan in the same calendar year. This means that a participant who is able to defer the new maximum for OSGP in 2002 (\$11,000 in regular deferral) can also defer the maximum in the 403(b) plan as long as the combined deferral amount does not exceed 50 percent of gross income.

FLEXIBLE WITHDRAWAL OPPORTUNITIES FOR THOSE RETIRING AND THOSE ALREADY RETIRED

Until December 31, 2001, employees separating from service are required by law to notify the deferred compensation office of your choice of an irrevocable date to begin receiving payments with the opportunity to move that date into the future one time. Beginning January 1, 2002, all employees, including those previously separated, will not be required to elect a date to begin distributions. The payout choices will be like those currently available to individuals who have IRAs. This means that when we receive notification of your termination of employment we will send you a packet which outlines these expanded options. Choices will include the currently available lump sum, partial, installment, and annuity options. Additionally, a new periodic lump sum option will be available, which will better allow you to control your income after you terminate. You may, although you will not be required to, identify a date to begin these distributions, or you may elect to simply wait until the need for the funds arises. We will need at least 30 days notification prior to any withdrawal. Participants who are currently separated and awaiting distribution will have the option of voiding their previously established payment commencement date. Participants who are currently receiving a distribution will have the option of changing that distribution or suspending payments until a future date selected by the participant. If you are currently separated and are awaiting distribution or you are receiving payments, you will receive a separate explanation of your choices and the procedures to exercise your selection.

CONSOLIDATE RETIREMENT SAVINGS BY ROLLING OTHER TAX DEFERRED ACCOUNTS INTO THE PLAN

Do you have an IRA, 403(b), or 401(k) that you established with a previous employer? Beginning January 1, 2002, you will be able to consolidate those investments into your OSGP account! This should enable easier management of your tax deferred retirement savings while taking advantage of the lower plan fees and diverse investment choices overseen by the Oregon Investment Council. When you terminate employment you will then have the option of rolling out these assets or leaving them in this plan. The investments available when rolling assets into the Oregon Savings Growth Plan would be all nine options available to you through your regular deferral. Please call 1-800-365-8494 to request "rollover" forms if you would like to take advantage of this opportunity.

SUMMARY

If you are intrigued by some of these new possibilities and are considering taking advantage of them, you may wish to take action as soon as possible. This law contains a "sunset provision," which means that these opportunities will not extend beyond 2010. The changes brought to us in EGTRRA are significant. They are intended to encourage saving and to allow more flexibility in distribution. The legislation also has the effect of bringing more equal provisions to the various employer-sponsored tax deferred savings plans. For example, our 457 plan now has the same maximum allowable regular deferral amount as 403(b) and 401(k) plans. In some ways our plan has opportunities that others do not. Our 3-Year Catch-Up provision is more generous than the other plan types and we still have no 10 percent tax penalty for distributions made prior to age 59½. For more details on each of these provisions, please consider attending our free workshops provided throughout the state. The complete schedule can be found on the Internet at www.pers.state.or.us. Reservations for workshops can be made by calling 888-320-7377 or 503-598-7377. We hope you share our excitement as we move forward into 2002 with the benefits of the new tax laws and our new investment structure.

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The foregoing newsletter, as written by OSGP, is not intended to provide legal, tax or investment advice. For such advice, participants should contact their legal, tax or investment advisor.

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