

PLAN UPDATE



SAVERS TAX CREDIT

As an OSGP participant, you benefit by saving for retirement with pre-tax dollars. You may also qualify for the **Savers Tax Credit**, available for the first time in the 2002 tax year, when you file your federal income tax return for 2002. If eligible, you may reduce the amount of taxes you pay. This credit is in addition to the tax deferral you already received as you made each deferral! The amount of the tax credit is based on your adjusted gross income (AGI) and filing status.

For example, as the table below shows, a plan participant with an AGI of \$26,000, filing a joint 2002 income tax return, is entitled to a 50 percent Savers Tax Credit on the first \$2,000 of the 2002 OSGP contribution. Applying the 50 percent Savers Tax Credit on a 2002 contribution of \$600 results in a \$300 reduction in federal income tax liability for this participant ($\$600 \times 50\% = \300).

Joint	AGI by Filing Status		Eligible Credit
	Head of Household	Single	
Less than \$30,000	Less than \$22,500	Less than \$15,000	50%
\$30,000- \$32,500	\$22,500 - \$24,375	\$15,000 - \$16,250	20%
\$32,500 - \$50,000	\$24,375 - \$37,500	\$16,250 - \$25,000	10%
\$50,000 and higher	\$37,500 and higher	\$25,000 and higher	0%

This illustration has been simplified. AGI may vary based on other credits and/or deductions. Contact your tax advisor to determine your eligibility for the Savers Tax Credit.

MARKET VOLATILITY AND RETIREMENT INVESTING

The ups-and-downs of the stock market in the past several years have provided a “reality check” for retirement savers regarding the degree of risk with which they are comfortable. These fluctuations also bring into focus the types of risk we assume with any kind of savings or investments.

Investors typically associate the term “risk” with market risk, meaning the possibility that a particular investment may fluctuate in value. Stocks carry a higher market risk than fixed instruments found in the Short-Term Fixed Option, Stable Value Option, and Intermediate-Term Fixed Option. It seems much easier to assume market risk in investing when the market is performing well, because the reality of the market risk we are assuming may not be apparent. Today’s market shows the true meaning of market risk in investing.

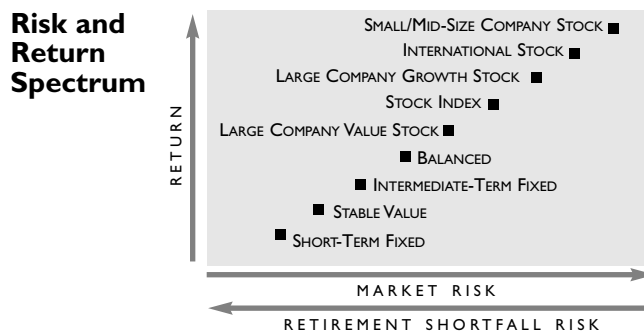
Another type of risk often overlooked is sometimes described as “retirement shortfall risk,” meaning the possibility you may have insufficient savings when you retire. Choosing investments with greater retirement shortfall risk may result in unmet or difficult-to-meet retirement income goals, unless you save more each month. Investments in the five stock options in OSGP have the lowest retirement shortfall risk based upon their long term historical rates of return.

Simply stated, there is no savings or investment vehicle that is without risk. What differentiates each investment is the type and degree of risk. When we ask ourselves as investors how much risk we should assume with our retirement savings, we must look at three key issues: our retirement savings goals, our personal tolerance for risk, and our years until retirement.

In general, with lower savings goals, low personal tolerance for risk, and/or a short time until taking payment from our retirement account, most financial professionals suggest assuming less market risk. That means also assuming higher retirement shortfall risk.

On the other hand, the higher our savings goals, the higher our personal tolerance for risk, and the longer we have until we will be receiving payment from our retirement account, the greater degree of market risk we may be able to assume. We have the time and can accept personally the market’s ups-and-downs we have seen lately and be reminded that each time the market has faltered in the past has been followed eventually by gains and new highs. Investors who are able to preserve this mind set remain invested in the stock market and continue to add new contributions monthly to realize the expected benefit of the market risks they assume.

The graph below illustrates the degree of retirement shortfall and market risk associated with each of the OSGP investment options and the relative returns based upon historical performance.



CONTACT OSGP AT:

Information Line
800-365-8494

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

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

PERS AND OSGP

Have recent news articles about PERS made you wonder about the impact on your OSGP account? The pension and deferred compensation assets are not commingled. They are maintained as separate trusts with separate investment decision making, separate funding, and distinct oversight. Regardless of the outcome of discussions about PERS, the Deferred Compensation Fund is administered and maintained to benefit you and your beneficiaries.

JOB TRANSITION? RETIRING?

There are a number of flexible options for OSGP participants who terminate employment. Your choices depend on your age at the time of severance and your account balance.

If your account balance at termination of service exceeds \$1,000 and you are less than 70 years of age, you have the following options:

- Keep your assets in the OSGP to continue the tax-deferred growth of your retirement account assets in low-fee, no-commission, professionally managed investments
- Roll assets in from other retirement plans, such as a 401(a), 401(k), 403(b) or an IRA, to consolidate your retirement savings
- Select among several flexible payment choices, similar to those in an IRA
- Although not required, you may roll your assets to a qualified plan or IRA

If you are age 70 or older:

The latest date you may start your distribution is April following the year in which you reach age 70½. Your payment options include:

- Lump sum distribution
- Partial lump sum distribution
- Installment payments
- Required minimum distribution (the smallest payment allowed by law)
- Direct rollover

If your account balance is less than \$1,000:

Within one year of severance you may:

- Choose to receive a lump sum payment
- Roll the account balance into an IRA

Making an Informed Decision

To help you choose among your many options, you are encouraged to attend a free OSGP seminar in your area. Visit the plan web site at www.pers.state.or.us or call the Information Line at 800-365-8494.

THINKING OF RETIRING IN 2003?

As you consider all the issues and choices related to preparing for retirement, you may wish to look closely at deferral options for your last calendar year of work. The maximum regular deferral for this year is \$12,000 with an additional \$2,000 allowed if you are 50 or older. If you would like to maximize your deferral to your last day of employment, defer unused vacation or “comp” time, and are retiring before year’s end, a new plan provision may help you accomplish your savings and tax-deferral goals. The **Retirement Year Maximum Deferral** provision is now available to all participants during the year they retire. Please call the Salem office at 503-378-3730 and ask to speak to a counselor if you would like to take advantage of this one-time opportunity.

SURVEY RESULTS

Our thanks to all who responded to the customer service survey. We will share results with you in the next issue of the *Plan Update* and will use the results as we review service delivery.

ADVISORY CORNER

Deferred Compensation Advisory Committee members are volunteers appointed by the PERS Board to review and provide valuable input into our educational program and plan communications as well as advise the PERS Board on issues related to deferred compensation. To continue *Plan Update*’s series on Advisory Committee members, we would like to introduce two additional members.

Bill Robertson has a bachelor of science and master of science in geology. He is a hydrogeologist with the Department of Environmental Quality in its Portland office. He particularly enjoys outdoor activities with his family.

The most recently appointed committee member, **Julie Kammer**, is a research analyst with the Department of Human Resources. Her background includes experience in banking, information systems, and technical research. Julie is the “financial planner” for her family and is expecting the OSGP to provide the majority of her supplemental retirement income.

Editorial Contributions

Deatrice Johnson, CitiStreet
Jon Springer, OSGP
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The foregoing newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact legal, tax, or investment advisers.