Plan Update

OSGP just made saving better than ever

Oregon Savings Growth Plan (OSGP) participants will see some beneficial changes in the very near future.

Max Plus Provision

Kicking yourself because you wish you had been deferring the maximum amount to OSGP?

Good news: all OSGP participants are eligible to change their deferral rate at any time during the year to meet the maximum deferral. Until now, participants had to have contributed at the maximum rate from January of any given year. For example, with a maximum deferral of $13,000 in 2004, participants had to defer $1,083.33 per month as of January 1 to defer the maximum amount.

Now the Plan allows eligible employees to increase their deferrals at any time during the year—as long as they have sufficient salary—to reach maximum deferral regardless of which calendar month contributions began. For example, if a participant has been contributing $200 per month for three months, but now wants to meet the maximum deferral, he or she may increase contributions to the amount necessary for the remaining nine months to reach the $13,000 limit.

50 Plus Catch-up Provision

Losing sleep wishing you had contributed the full $16,000 allowed under the 50 Plus Catch-up provision?

Rest easy. In the very near future, OSGP participants can increase contributions any time during the calendar year to whatever amount is needed to defer the regular maximum amount plus the 50 Plus Catch-up regardless of whether they are currently contributing or contributing at an amount below regular maximum.

Until now, only those participants contributing the maximum deferral amount since January 1 of any given year have been able to take advantage of the 50 Plus Catch-up provision.

Note: these contributions can only come from payroll deduction; therefore, a participant must have sufficient salary to make the deferrals.

70½ Required Minimum Distributions (RMD)

Mumbling about not being able to take the 70½ Required Minimum Distributions if you're still employed?

Not to worry. Participants who are at least 70½ and who are still working, whether or not they are contributing to the Plan, may now take these distributions before retirement if they chose to do so. Most participants would not want to take advantage of this; however, those members who retire and then come back to work part-time may want to do so.

Distribution Options

Wishing you had some control over which funds your distributions are coming from?

Your wish is granted. Participants will be able to choose between the current pro-rata option and an option that would allow installments to be distributed first from the Stable Value account.

Currently, when a participant begins taking distributions from OSGP, the money is withdrawn pro-rata across all funds and determined by the investment allocation of an account at the time the funds are distributed.

Participants will have to make this determination when they begin receiving distributions. This option requires participants to take active control of their accounts and to personally ensure that the necessary funds are in the Stable Value account on or before the scheduled date of each distribution (whether monthly, quarterly, or annually). If funds are not available in the Stable Value account at distribution time, the distribution will be on a pro-rata basis as described above.

Implementation

The Max-Plus and 70½ RMD are already in effect. The 50 Plus Catch-up and new distribution options will become effective in November or December of this year. Please contact OSGP if you have any questions.

Excessive Trading Policy

OSGP is one of many retirement plans that monitors the direct effects of excessive trading. Mutual funds incur costs from account holder trades, and higher than expected trading activity increases mutual funds' administrative costs and adversely affects their liquidity management.

In 2002, we implemented a policy to address excessive trading when Oakmark, which manages one of the underlying funds in the International Stock (IS) Option, notified OSGP staff that some participants in the IS Option were conducting an excessive number of trades.

The trading activity of several OSGP participants in the IS Option had risen to the extent that Oakmark determined it was detrimental to the performance of its mutual fund and consequently to the investment return of this option within the OSGP. Oakmark has the right under its OSGP contract to limit trading activity to reduce the adverse effect on the fund's return. As such, Oakmark exercised its right to have OSGP act to curtail its high trading volume with its fund.

Therefore, OSGP implemented the following restricted trading policy:

(continued on reverse side)

- If an OSGP participant makes more than two trades* per month over a consecutive three-month period in the IS Option, his or her account will be flagged. From that point forward, he or she will be allowed to make only one redemption per month in the IS Option. Purchases will not be restricted.
- Once it has been determined that a participant has exceeded the allowable trades in the IS Option, he or she will receive a letter from OSGP explaining the restrictions, CitiStreet will flag his or her account, and he or she will not be allowed more than one redemption per month in the IS Option.

*Trades are defined as either a purchase or redemption.

OSGP has worked with Oakmark in the hopes that these limitations will sufficiently reduce the transaction volume in its fund, although Oakmark and OSGP administration retain the right at any time to impose further restrictions and assess redemption fees as stated in Oakmark's prospectus. The full text of Oakmark's prospectus can be viewed at **www.oakmark.com**.

Additionally, OSGP administration reserves the right to take further steps to ensure that trading activity does not adversely affect other plan participants or the program overall.

What are the effects of higher interest rates on the Stable Value Fund?

The answer depends on how much interest rates rise. The objective of the Stable Value Fund is to remain stable and generate predictable returns that are competitive with other fixed income investments with similar risks. By design, the fund's return will move toward current interest rates.

The yield today in the Stable Value Fund is about 3.90 percent after fees are deducted. This is slightly higher than current market interest rates. If market rates only move up a little from today's levels, then the Stable Value Fund's interest rate will remain about 3.90 percent. However, if interest rates go up by 0.50 percent or 1.00 percent or more, the Stable Value Fund's rate will begin to move up.

It is important to realize that the Stable Value Fund's returns constantly move toward market interest rates, but the returns may lag behind those market rates. This is not necessarily a bad thing. For example, interest rates fell significantly in the past several years, and the Stable Value Fund's rate responded by drifting downward. But the Fund's rate didn't fall as far or as fast as market rates.

The opposite will happen if rates rise—the Fund's rate will drift upward, but it won't move up as far or as fast as market rates. And because the Fund invests in stable value investment contracts issued by banks and insurance companies, your investment is protected from principal fluctuations when market rates rise and fall.

Editorial Contributions

Laurie Kessinger, CitiStreet — David Crosley, PERS
Gay Lynn Bath, OSGP — Marsha Bacon, PERS

Consolidate Your Retirement Savings

Rolling money from other qualified retirement plans into your OSGP account can make it easier to manage your retirement savings overall. By consolidating your savings in one place:

- your savings are easier to track because you get one account statement rather than several;
- you can better manage your investment strategy because it is easier to set up your preferred investment mix and make changes when all of your money is in the same place; and
- you will be able to use the same broad range of professionally managed, carefully selected investment options as well as comprehensive Plan services for all of your retirement savings rather than just a portion.

We have enclosed a rollover form for your convenience. If you have any questions, please call Jack Schafroth at 503-378-3730, extension 232.

Fee Reduction, Again

The PERS Board recently approved a new contract between OPERS and CitiStreet that included a reduction in administrative from 17.5 to 14 basis points (a 25 percent reduction). The new contract will become effective on or about August 1, 2004. This means more money working for you!

Advisory Corner

Gay Lynn Bath, deferred compensation manager, is pleased to announce that **Jack Schafroth** has accepted the local government representative position for the OSGP. This position provides support and service to current and prospective local government employers and employees throughout the state of Oregon.

Jack has been the OSGP training and development coordinator for the state agencies for the last two years. He continues to handle those responsibilities along with his new position until a replacement is hired.

The three-year Advisory Committee terms for **Roman Martushev** and **Barry S. Kast, M.S.W**., will expire on June 30, 2004. According to the bylaws, they are both eligible for reappointment to another term, and both have expressed interest in extending their tenure. Their confirmation was affirmed at the June 4 PERS Board meeting. Roman and Barry also currently serve as chairperson and vice-chairperson, respectively, with those terms expiring in August 2004. The Advisory Committee will select new officers at the upcoming Advisory Committee meeting.

Mark your calendar to attend our Deferred Compensation Advisory Committee open meetings in 2004:

Date	Location	Time
August 11	Salem - Archives Building	9:30 a.m.
November 10	Tigard - PERS Headquarters	9:30 a.m.