

Plan Update

In this issue

Plan news

Save more as early as you can

A retirement saving incentive

Managing change

Retiree corner

Test your knowledge of retirement strategies

New rule for non-spouse beneficiaries

Moving your money to make life simpler

If you have retirement assets in different places, you can consolidate them in the Oregon Savings Growth Plan (OSGP).

Maybe you left money behind when you changed jobs. In that case, transferring money from your former employer's 457 Plan or rolling over your assets from a 401(k) plan, 401(a) plan, 403(b) plan, or a pre-tax Individual Retirement Account (IRA) into your OSGP account might offer you several advantages.

Easier to manage

Managing a single portfolio is easier than keeping track of investments scattered among separate employers' plans and IRAs. You can cut down on the number of account statements you receive. That reduces your paperwork and gives you a more complete picture of your retirement assets.

Investment choices

The Plan offers a diverse investment menu with lower-cost choices. Compare these investment options and their fees with those available from your former employers' plans. You should carefully read and review all investment information prior to making any investment decisions.

Convenience and services

OSGP also gives you access to information, tools, and services while you are employed and after you retire. The toll-free Information Line and Plan Web site make account management convenient.

Easy access to your assets

Fewer restrictions may be another advantage of consolidating your assets. OSGP allows you to access money that you transfer or roll over into your account from your previous employer's plans or an IRA at any age, at any time, whether you are an active employee or not.

When you transfer assets from another 457 government plan, there is no early withdrawal penalty for distributions taken before age 59½. However, amounts rolled over into OSGP from 401 plans, 403(b) plans, and pre-tax IRAs are still subject to the original plan's rules, which means an IRS 10 percent early withdrawal penalty may apply to distributions taken before age 59½.

How to make your move

1. Check with your previous employer or investment provider to ensure your assets are eligible for transfer or rollover.
2. Ask the provider for the forms you need and complete the forms.
3. Obtain and complete the *OSGP Transfer/Rollover In Form* from the Plan Web site or call the Information Line at **(800) 365-8494** to have one sent to you. ●

You can purchase PERS service credit

Beginning September 1, 2011, PERS' Tiers One and Two members can make eligible purchases of PERS service credit at retirement using tax-deferred dollars from their OSGP accounts.

If you take advantage of this provision, you will have over a year to accumulate more savings in your OSGP account. You will not pay taxes on these dollars until your PERS' benefit payments begin.

You can increase your contributions anytime by logging into your account at <https://osgp.ingplans.com>. To learn more, call the Salem office at **(503) 378-3730**. ●

What's your opinion?

OSGP is considering adding a self-directed brokerage account (SDBA) to the fund lineup. What do you think?

We invite you to give us your input online. Go to <http://www.oregon.gov/PERS/OSGP>. Click on **Please take our survey**. ●



Save more as early as you can

One of the best and simplest ways to save for your retirement is to take full advantage of your voluntary retirement savings plan at work. The earlier and the more you contribute, the better.

You gain the advantage of compound growth right away. When you invest, you earn interest on your money. And then that interest earns interest. That's called compound interest, and it's how your account grows. The sooner you start, the more you could accumulate for the future. And the more your money compounds over time, the less you may have to put away yourself to end up with enough for retirement.

In addition, the money in your Plan account accumulates tax deferred. That means you don't pay taxes until amounts from your Plan account are distributed to you at a later date, generally at retirement or separation from service. Tax deferral keeps more of your money working over time toward your retirement objective.

If you contribute only a minimal amount or put your Plan contributions on hold, you lose out on the maximum benefit of compound growth. It's important to review your contribution

level regularly to check your progress toward saving enough for retirement. Waiting for 10 or 20 years would force you to contribute much larger amounts to the Plan later on to try to make up the difference — and even then, you might not catch up.

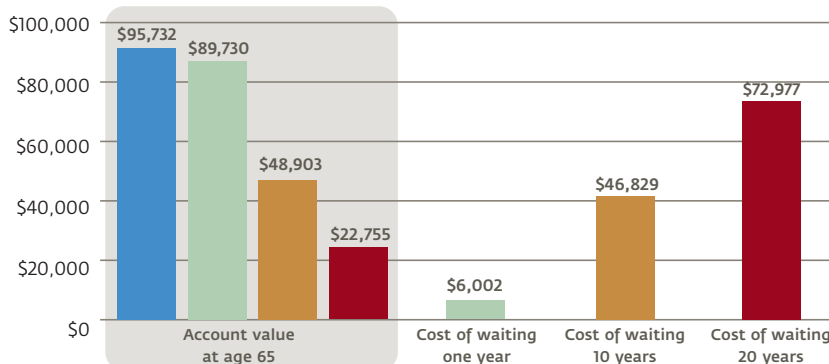
Compounding can do a lot for even a modest investment such as \$25 per pay period. But if you want to accumulate enough to retire, consider contributing as much as you can afford.

Investing sooner puts time on your side in other ways, too. With a longer time horizon, you may be able to invest more of your contributions to include some investment options that involve more risk in return for potentially higher long-term gains.

Take an active role in your Plan account as soon as possible. You don't want to reach the end of your career and think, "I wish I had started saving for retirement sooner." **What are you waiting for?** ●

The cost of waiting

If you save at age 25, you accumulate \$6,002 more in account value than if you wait until age 26. Even one year makes a difference, and if you delay 10 or 20 years, you give up thousands of dollars more for retirement.



- Starting at age 25
- Starting at age 26
- Starting at age 35
- Starting at age 45

This hypothetical example assumes \$25 contributions made twice a month at the beginning of each pay period. The annual interest rate of 6% is compounded twice a month. No withdrawals are made before the participants retire at age 65. This information is for illustrative purpose only to show how the number of years invested in the Plan could affect participant account values and is not intended as a guarantee of past or future performance of any security. The actual rate of return may be more or less than shown and depends on different factors, including a participant's choice of investment options. Net returns would be lower if there are any Plan or investment option fees, expenses, or charges which have not been considered in this illustration.

A retirement saving incentive

Generally, the lower your income, the harder it may be to save for retirement. The Saver's Credit is available to help motivate more people to try.

If you contribute to your Plan account or an Individual Retirement Account (IRA) and qualify, you could trim your tax bill by taking a Saver's Credit plus the federal tax deduction for the full amount of your contributions.

Under Internal Revenue Service rules, the credit is available for tax year 2010 to taxpayers who contribute to a 457(b), 403(b), or 401(k) plan or an IRA by December 31, 2010, and have a modified adjusted gross income that meets these limits:

- Up to \$55,000 for married couples filing their federal income tax return jointly
- Up to \$41,625 for heads of household
- Up to \$27,750 for singles or married individuals filing separately

The credit is a percentage of the contribution you make, ranging from a low of 10% to a high of 50%. The highest applies to people with the least income. The maximum is \$1,000, or if filing jointly, \$2,000.

Each year you contribute to your Plan and qualify for the credit, you will file Form 8880 with your tax return. To learn more, go to www.irs.gov/pub/irs-pdf/p4703.pdf. ●



Managing change

Major events such as a birth or a death in the family, marriage, divorce, job loss, or a new career may have important ramifications for your financial plans.

Beneficiary designations

In the event of your death, assets in your retirement plans, insurance policies, and other accounts would be distributed to the people listed as beneficiaries for those plans or policies, even if your will, trust documents, or other estate paperwork name a different beneficiary. At least once a year, review the beneficiary designations on file with your Plan, insurance policies, and other accounts and make any necessary updates.

Your estate plan

You may need to revise your will if a birth, divorce, death, or another change affects your personal situation. For example, you may wish to add a grandchild's name or remove a former spouse's name. Contact your attorney to update your will.

Your emergency fund

Certain situations call for boosting your emergency reserves, including the possibility of a layoff. Experts say you should have enough cash in your emergency fund to cover a minimum of three to six months of expenses. Keep the money in an easily accessible bank account or money market fund.

Retirement accounts

After leaving a job, you have a number of options such as continuing to leave your account balance in your employer's retirement plan if allowed by the plan's rules. Before you leave employment, contact your Plan to learn about your choices for your Plan account assets. ●

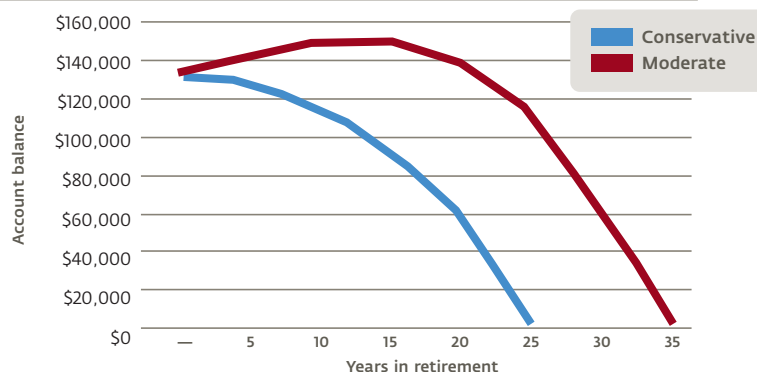
Conservative doesn't always mean safe

For your savings to last over a retirement of 25 years or longer, you will have to balance two competing goals: protecting your savings against market downturns and guarding against the long-term impact of inflation.

One way to achieve a balance is holding a mix of funds that invest in stocks, bonds, and cash. In general, it may be wise to hold money you'll need in the next several years in funds that hold bonds and cash equivalent investments so that a market decline won't threaten your ability to meet expenses. Bonds have lost ground during only seven calendar years since 1926. Cash didn't post a negative return during any calendar year in that time span.¹

Stock funds are much more likely than bond or cash equivalent funds to provide the growth you need to support increased withdrawals in retirement. Stocks outpaced inflation during all 64 rolling 20-year periods between 1926 and 2008, while bonds trailed inflation 16 times and cash lagged inflation 20 times.¹

A moderate portfolio with stock funds could last years longer



This chart illustrates how a moderate portfolio that includes stocks can help a nest egg last longer than a conservative portfolio of fixed income and cash equivalent investments only. Both investors withdraw 4% at the end of the first year and increase the withdrawal amount by 4% each year. As you can see, the moderate investor's savings, generating 6% annual returns, last 34 years, nine years longer than the conservative investor's savings, with 4% annual returns. This hypothetical example includes assumptions and is for illustrative purposes only. It doesn't reflect any specific investment and is not intended as a guarantee of past or future performance of any security. Systematic investing does not assure a profit and does not protect against loss in declining markets.

Your Plan's menu of investments includes options that make it easy to invest in stocks and bonds. You should carefully read and review all investment information, including investment objectives, strategies, performance, and expenses, prior to making investment decisions. You may want to consider consulting with an investment adviser about how various asset allocations might affect your long-term retirement finances.

Investment returns and principal value will fluctuate. It is possible to lose money by investing. Fixed income securities are subject to interest rate risk, and the net asset value of investment may fall as interest rates rise. ●

¹ Ibbotson S&P 500 Classic Yearbook. Stocks represented by the S&P 500, bonds by the Ibbotson Intermediate-Term Government Bond Index and cash by 30-day Treasury bills. Indexes are not available for purchase.

Test your knowledge of retirement strategies

1. What is diversification?

- a) Buying shares of different types of investments
- b) How you divide your investment dollars among the asset classes
- c) Giving equal weight to both stock and bond funds in your portfolio

2. What is asset allocation?

- a) Buying shares of different types of investments
- b) Determining which asset classes to invest in
- c) How you divide your investment dollars among the asset classes

3. What would be a reason for you to rebalance your retirement plan account?

- a) To capitalize on a surging market
- b) To return your asset allocation to its original strategy
- c) To give stock and bond funds equal weight in your portfolio

Answers:

1. **a.** Diversification is a way to help protect yourself from a loss in one investment by spreading your risk across several different types of investments: large company stock funds, small company stock funds, corporate bond funds, government bond funds, etc. Diversification does not guarantee a profit or protect against loss in declining markets.
2. **c.** In terms of risk and reward, stocks, bonds, and cash equivalents behave differently. Asset allocation is determining the percentages of each asset that you think can give you a blend of risk and reward based on your goals, years to retirement, and tolerance for risk.
3. **b.** Sometimes a prolonged period of market volatility can throw off your asset allocation. A bear market, for instance, may leave your portfolio overweighted in bond funds. In this case, you would rebalance to return your investments to your original target allocations. ●



New rule for non-spouse beneficiaries

Children and other non-spouse beneficiaries who inherit a deceased retirement plan participant's account balance and want to keep the assets tax-deferred may leave them in the plan or choose a rollover if they wish.

Non-spouse beneficiaries can roll over inherited plan account assets into an inherited Individual Retirement Annuity or an Individual Retirement Account (IRA), subject to Internal Revenue Service minimum distribution requirements.

Before 2010, governmental 457(b) plans, 403(b) plans, and 401(a) plans could choose whether to permit non-spouse beneficiaries to roll over inherited plan assets. If a plan did not allow a rollover into an inherited IRA, non-spouse beneficiaries who wished to keep inherited plan assets tax-deferred had to leave them in the plan. Now the Worker, Retiree and Employer Recovery Act of 2008 (WRERA) requires these plans to include the rollover option beginning this year.

If you are a Plan participant, make sure your primary and contingent beneficiary designations on file with your Plan are up to date. If you are a non-spouse beneficiary who has inherited Plan assets, consult a tax adviser about your individual situation prior making a decision. ●



OSGP Web site:
<http://osgp.ingplans.com>

OSGP Information Line:
(800) 365-8494

PERS/OSGP Web site:
www.oregon.gov/PERS/OSGP

Editorial contributions:
Gay Lynn Bath, OSGP
David Crosley, PERS
Jon DuFrene, PERS
Marcy Loomis, ING

This newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax, or investment advisers.

© 2010 ING. All Rights Reserved.



quarterly calendar

The New York Stock Exchange is closed:

- Monday, September 6, 2010

Transactions made on this day will be processed the following business day.