The Deferred Word Newsletter Spring Edition 2012

Nevada Public Employees Deferred Compensation Program (NDC)

Welcome to New Committee Members

COMMITTEE MEMBERS

Dr. Rex Reed—Chair
NDOC

Brian L. Davie—Vice Chair
LCB

Karen Oliver
GCB

Dr. Carlos Romo
Retired

Scott K. Sisco
NDOT

Tara Hagan
Executive Officer

Jenny Potts
Administrative Asst.

Carrie L. Parker
Deputy Attorney General

http://defcomp.state.nv.us

Plan Website

Karen Oliver

Karen Oliver graduated from the University of Nevada-Reno with a B.S. degree in accounting in 1995. She has held administrative positions for a bank trust department, law firms, and a title company. Beginning her 14-year career with Sierra Pacific Power (now NV Energy), she went back to college and was promoted to staff accountant after completing her accounting degree. Currently she is an investigative agent with the Nevada Gaming Control Board. Karen is also an active volunteer in the Reno community.

Dr. Carlos Romo

Carlos Romo has resided in Nevada since 1972. He obtained a B.A. degree from the University of New Mexico; in addition to M.A. and PhD degrees from Tulane University. He also was awarded the Fulbright Hayes Scholarship to study in Europe. Dr. Romo retired from State of Nevada Service almost four years ago after working for Dept of Employment Training and Rehabilitation (DETR), the Division of Nevada Equal Rights Commission. His last four years of employment were at Truckee Meadows Community College (TMCC) as the Director of Equity and Diversity. He served on NDC during its early founding and is now returning as a member representing the retired members.

Hartford Announces It is Selling its Retirement Plan Business

On March 21, Hartford announced a change in its corporate direction. The Hartford is shifting its business model to focus on its property and casualty, group benefits and mutual fund businesses; and as a result is selling its Retirement Plan business, individual life insurance operations, Woodbury Financial Services and exiting the individual annuity business. The timeline provided as part of an Investor Call on March 22, indicated the sale of these businesses would begin immediately and the transaction is expected to be completed in 12 months. Please visit the NDC website to read a statement from the Hartford regarding the recent announcement.

Hartford is contractually required and committed to NDC during this time of transition. We do not expect any disruptions to day to day servicing of the Plan and its Participants.

As a result of this announcement, Standard and Poor's credit rating agency has downgraded Hartford's Life Insurance financial strength credit rating. Due to these changes, the Committee held a special meeting on Wednesday, April 4 to consider the issues associated with the General Account investment option. As fiduciaries responsible for Plan governance and oversight, the Committee and its third-party investment advisor will continue to monitor this investment option closely

We will continue to keep you updated on developments related to the bid process, the Hartford General Account and any additional changes that may be necessary due to Hartford's decision to divest its retirement plan business. Should you have questions or concerns, please contact the NDC office.

Thank You and Best of Luck!

Jenny Potts, NDC Administrative Assistant, is leaving in June. Her family is starting a new chapter and moving out of the area.

Jenny has been a tremendous asset to NDC. She started when we rarely had forms to process or participants to assist. She now processes thousands of participant requests each year, in addition to all her duties which assist the Committee.

We want to thank her for all her hard work and dedication which has made possible our successes over the past few years possible. We wish her the best of luck in her new endeavors.

NDC Plan – Service Provider Request for Proposal (RFP)/ Competitive Bid

NDC is statutorily required to conduct a competitive bid for service providers (such as Hartford/ING) every 5 years. The bid process is best practice amongst governmental supplemental retirement plans such as NDC, and helps to ensure the Plan remains competitive. The bid will seek to reduce current participant fees, enhance participant services and maintain a simple yet diversified investment menu.

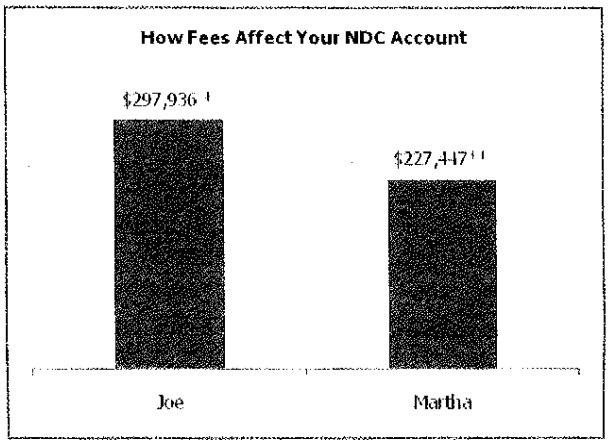
Plan Structure and Fees

As of December 31, 2011, NDC Plan assets have increased 56% since the 2007 bid process. This increase in Plan assets will assist NDC in lowering current participant fees. The bid process (bid document available on the NDC website) will consider both the current dual service provider structure and a single provider structure to determine which is more advantageous to participants.

Investment option fees are the one item which NDC can control and the Committee has and will continue to control Plan expenses and maximize value to Participants. Through the bid process, the 56% increase in plan assets over the past five years will assist NDC in lowering participants' fees which directly impact wealth accumulation.

Fee Example

Martha invests in a broad market (S&P 500) actively managed fund with a total fund expense of 1.00% annually. Joe invests in a broad market passively managed fund with a total fund expense of 0.05% annually. Each invests $50,000 over 30 years and receives a 6% annual rate of return on their investment before fees are considered. Joe has $70,489 more than Martha after 30 years due to the fact his fund expenses were 0.95% lower. See the illustration below.



*Hypothetical illustration assumes initial account value of $50,000 and an assumed 5.95% annual interest rate net of fees. You should consider your financial ability to consistently invest in up as well as down markets. ** Hypothetical illustration assumes initial account value of $50,000 and an assumed 5.05% annual interest rate net of fees. You should consider your financial ability to consistently invest in up as well as down markets.

Investment Option Considerations

One of the primary purposes of a competitive bid is to seek either a firm or firms to continue to provide record-keeping and participant services for NDC such as, contribution processing, investment purchases, account information, Plan information, and other essential day to day transactions. The bid does not seek specific investment recommendations from bidders but rather ensures the firms have maximum flexibility in terms of the investment options it can make available to the Committee and its third-party investment advisor, Arnerich Massena. NDC wants to make certain a firm's expense and revenue requirements are separate from its ability to offer the best in class investment options identified by the investment advisor. The Plan also wants to ensure it is not required to utilize a firm's proprietary funds which may not be as competitive to non-proprietary alternatives.

Stable Value/Stability of Principal Option

Stability of principal options, such as, general insurance accounts are designed to deliver objectives of principal stability and relatively steady yields. NDC understands the key characteristics which are important to participants, including:

- Principal Protection
- Yields or Crediting Rates Proportionate to Risks
- Relatively Stable Yields/Crediting Rates
- Liquidity/Portability at 'Book Value'* for Participants

* Stable value funds have protection against interest rate swings via the protections in insurance company and bank contracts. This means that investors in a stable value fund are able to transact (make deposits, withdrawals, transfers) at book or contract value, which is principal plus accrued interest. If the market value of the stable value fund's underlying assets is insufficient to honor benefits for covered withdrawals at book value, then the contractual protections kick in to ensure that participants continue to transact at contract value. Contract value, or book value, is the value of all the assets supporting the stable value fund plus the contractual protection against interest rate volatility.

CONTINED FROM PAGE 2

As fiduciaries responsible for the governance and oversight of the Plan, the Committee and its investment advisor also seek key characteristics to ensure the risks associated with these options are consistent with the investment objectives. These features include:

- Transparency of fees, yields/crediting rates and investment holdings
- Assets are held in trust for the benefit of Participants and Beneficiaries
- Liquidity/Portability of assets at the Plan level
- Assets are not subject to general creditors of firm
- Diversification of risk (asset management and book value protection)

NDC is conducting this bid in a much different fixed income market environment. With the 10-year treasury bond near 2.2%; we know the yields/crediting rates for these investments will be more in line with current market conditions and not similar to the current rates which were provided during the last NDC competitive bid in 2007. We are committed to ensuring the key characteristics in these options remain the same and understand safety and security remain the top priorities for participants who invest in these options.

Participant Services

NDC conducted a participant survey in 2011 which indicated the majority of participants do not utilize the current provider services, such as meetings with service provider representatives, customized websites or visiting the service provider office locations. This information is important as the Plan considers the most meaningful participant services and the effect various services have on Plan expenses. We will be seeking bidders to provide innovative ideas for communicating with participants and employees, such as social media, webcasts, and webinars; in addition to more traditional services (mailing, in-person, etc.).

Next Steps

The NDC Committee will announce RFP finalists at its June meeting. The finalists will conduct presentations for the Committee at a special meeting in July at which time the Committee will award a contract contingent upon successful contract negotiations. We will continue to provide updates on this important process. Please don't hesitate to contact the NDC office for additional information.

Nearing Retirement? Give NDC a Boost with Your Final Payout Contribution

If you are retiring soon, you may be receiving a lump sum sick and annual leave payment. Often these payments are fairly substantial which may result in a significant amount of federal taxes being withheld. You can utilize NDC to help reduce the federal taxes by deferring a lump sum into your NDC account. Let's look at an example:

Janet is age 60 and retiring on August 31. She's been contributing $400 per paycheck to NDC for 2011. At the time of retirement she'll have contributed $7,200. Janet is eligible to receive a sick and annual leave payment of $16,000. Since Janet's eligible for the Age 50+ catch-up annual contribution of $22,500, she can deduct as much as $15,300 from her lump sum payment. This would result in Janet only being taxed on $700 instead of $16,000.

Please note you cannot utilize the three– year special catch-up provision the year in which you intend to retire; therefore, the Age 50+ catch-up amount of $22,500 is the maximum annual contribution, assuming you meet the age requirement. We request you complete this paperwork a minimum of 30-days prior to your retirement date. For additional information, please contact the NDC office.

Your Hartford Team

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ING

Your ING Team

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Dianna Hennessey, Marketing Consultant, 775.886.2401	

Investment Option Information

What is market capitalization?
Market capitalization (also known as 'market cap') represents the value of a company, including all of its assets, capital, revenues, etc. Assuming the company is sold for a fair price, it would be close to the market capitalization. The market capitalization is the total value of the tradable shares of a publicly traded company.

Types of Market Cap
There are several approximations of market capitalization to determine the size of a business. There are different definitions from different sources, but the following is an approximate listing:

Mega Cap:	$200 billion and greater
Large Cap:	$10 billion to $200 billion
Mid Cap:	$2 billion to $10 billion
Small Cap:	$300 million to $2 billion

Why is this important?
Studies indicate as investors one of our best defenses against market risk is asset allocation. Asset allocation is diversifying our investments amongst different asset classes, such as stocks, bonds, and cash. We also diversify our equity assets amongst a variety of asset categories, such as large companies, foreign companies and smaller companies. Different types of investors will invest in options with market caps suited to their liking. For example, the mega cap companies like Apple, Exxon-Mobil, etc. are very stable, and if you want to invest in solid, consistently performing stocks, you may choose investment options which are limited to large-cap or mega-cap companies. Investments generally become more risky, and there is more potential for gain and loss as the market cap decreases. Some investors tend to invest mostly in investment options with mid and small cap stocks because they want to maintain a riskier portfolio. Others have investment options with different varying categories of market caps in order to maintain a mixed portfolio. Whatever you choose should be based upon your risk tolerance and retirement goals.

NDC—Simplifying Your Investment Selection
NDC is consolidating fund options to make market-cap investment selection less complex for participants. Investment options in the small-mid cap options often blend together but this is not always apparent to participants. For example, you may be investing in a fund titled ABC Small Value Fund and assume the fund is investing in small cap stocks with a value style; however, the fund has now shifted to include mid-cap stocks and growth style investments.

Investment firms are also shifting to funds which combine small and mid cap equities for greater investment flexibility and diversification. NDC will be consolidating some fund options effective in May and June. The new options provide consistent performance, lower fees and options with greater diversification for a more streamlined, simplified investment option menu. You will receive additional information directly from your service provider (Hartford/ING) over the next several weeks.

Investment Option Changes

Current Options		New Option
SSgA Mid Cap Index Fund Vanguard Mid Cap Index Fund Vanguard Small Cap Index Fund	→	Vanguard Extended Market Index Fund

Current Options		New Option
CRM Mid Cap Value Colombia Mid Cap Value Opp. Colombia Small Cap Value II Fund Well Fargo Advantage Special Small Cap	→	Lord Abbott Value Opportunities I Fund

NEVADA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PROGRAM

Thank You

Andrew MacKay

Diane Comeaux

Jim Barnes

Thank you for your service to the Deferred Compensation Committee. We appreciate the time you gave and the dedication you showed as a Committee member.

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