Nevada Deferred Compensation
YOUR PLAN... YOUR FUTURE

The Deferred Word Newsletter Summer Edition 2013

Nevada Public Employees Deferred Compensation Program (NDC)

COMMITTEE MEMBERS

Scott K. Sisco
Chairman
DOC

Dr. Carlos Romo
Vice Chair
Retired

Karen Oliver
GCB

Brian L. Davie
LCB

Steve Woodbury
GOED

Reba Coombs
Program Coordinator

Micah Salerno
Administrative Asst.

Shane Chesney
Sr. Deputy Attorney General

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(775) 684-3397

http://defcomp.state.nv.us

What's New at the NDC Program?

The Committee held the second meeting of the calendar year on June 6, 2013. Among the items on the agenda was to receive quarterly reports from our Investment Consultant and the two Recordkeepers, MassMutual and ING. Nevada's plan continues to grow and currently has $611.7 million in assets. This represents a $22.9 million (3.9%) increase over the previous quarter, primarily due to investment gains.

The Committee continued its discussion of the addition of Morningstar Managed Accounts to the ING platform and voted to amend the current contract with ING pending final review by the NDC's Deputy Attorney General. More information about this service will become available in the near future.

A Request for Information has been released to reach out to accounting firms to perform a financial audit of the plan. That document may be found on our website homepage.

Please take a moment to look at our new website! Staff has been working very closely with EITS and the site has a new, refreshed look and information is easier to access than ever before. Among the updated documents is the program's Administrative Manual and updated quarterly performance and fee information.

Upcoming Meeting Dates

August 15, 2013 — Q2 Quarterly Meeting

November 14, 2013 — Q3 Quarterly Meeting

September 8-11, 2013 — National Association of Governmental Deferred Compensation Administrators (NAGDCA) — National Conference , Louisville, KY

January 9, 2014 — Strategic Planning Meeting

Important Links

MassMutual EZ Enrollment Form
http://defcomp.nv.gov/uploadedFiles/defcompnvgov/content/Enroll/HartfordEZForm.pdf

ING EZ Enrollment Form
http://defcomp.nv.gov/uploadedFiles/defcompnvgov/content/Enroll/INGEZForm.pdf

Payroll Contribution Form
http://defcomp.nv.gov/uploadedFiles/defcompnvgov/content/Forms/Nevada_Payroll_Change_Form(1).pdf

Investing for Your Future Doesn't Have to be Complicated

We will be providing a series of articles in forthcoming newsletters describing program features, and the different funds and investments in which you can consider when you contribute to the Nevada Deferred Compensation Program as well as the advantages of staying in the program.

Today we will highlight **Bond Investing 101** so please turn to page 3 for more information.

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Consider Staying with the Program!

You've worked hard for your money. When you retire, it's important to keep your money working hard for you. The Nevada Deferred Compensation Plan offers benefits like lower fees, flexibility, and access to valuable services. These benefits are generally not available outside a retirement plan. The choice is yours!

The Nevada Deferred Compensation Plan (Plan) is designed to help you save for your future while you are working, and provide supplemental income when you retire or leave employment. As you prepare for retirement or a career change, you have several options to consider:

- Take an immediate payment from your Deferred Compensation account
- Roll your money over into a traditional IRA or another eligible retirement plan (evaluate the various features of each plan before making any financial/investment-related decision)
- Keep your money in the Plan

Review these five reasons when deciding whether staying in the Plan may provide you with better retirement opportunities.

1. Possible Lower Cost. You can take advantage of "strength in numbers" by being part of a large group plan, which means you may benefit from lower expenses. This may help make a positive difference in your account's growth over time.

2. Real People for Help. You can continue to benefit from face-to-face support from a local representative who you know and trust, even once you've left State employment. Simply call 866-ING-NVDC or toll-free 866-464-6832.

3. Investment Flexibility. You can select from a variety of investment options to maintain an investment mix based on your personal situation, including a stable value fund providing a rate calculated on a daily basis. The investment choices will be monitored for quality by the NDC Committee on an ongoing basis.[1]

[1]The NDC Committee and ING U.S. are independent entities and not affiliated with each other.

You should consider the investment objectives, risks, and charges and expenses of the investment options carefully before investing. Fund prospectuses and an information booklet containing this and other information can be obtained by contacting your local representative. Please read the information carefully before investing.

4. Easy Account Management. You can access account information, Plan information, and investment education 24 hours a day, seven days a week—either online or by phone. ING's website at ingretirementplans.com/custom/nevada has a variety of educational resources and interactive tools at your fingertips.

5. Choice of Payout Options. When you're ready to receive a payout, the Plan provides a variety of distribution options to suit your financial needs, including periodic payments and partial withdrawals. You can change your distribution arrangement as often as you like.

And, unlike IRAs and other plans, assets in 457 plans like the Nevada Plan are not subject to the IRS 10% penalty tax if paid to you before age 59½. Payments are only subject to ordinary income tax when distributed. If you rollover these assets to another eligible retirement plan (like a 401 (k) or 403(b) plan, or IRA), they will become subject to this early distribution tax if withdrawn before age 59½ unless an IRS exception applies.

Note: Distributions are allowed only upon severance from employment, attainment of age 70½, (and you have separated from employment), death, or the occurrence of an unforeseeable emergency, which are considered to be triggering events. The Plan also includes a provision allowing the in-service distribution of accounts that do not exceed $5,000 if: 1) you have not made any contributions to the Plan during the prior two years; and 2) you have not received this type of in-service distribution in the past.

ING does not offer legal or tax advice. Consult with your tax and legal advisors regarding your individual situation

IMPORTANT INFORMATION

Variable investment options offered under a funding agreement are intended as long-term investments designed for retirement purposes. Money distributed will be taxed as ordinary income in the year the money is distributed. Account values fluctuate with market conditions, and when surrendered the principal may be worth more or less than the original amount invested.

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Bond Investing 101

A bond—the most common type of fixed income investment—is essentially an "IOU" in which an investor agrees to loan money to a company or government in exchange for a predetermined interest rate. Bond mutual funds may invest in a wider variety of bonds than most individuals can afford separately. The exact type of debt the fund invests in will depend on the focus chosen by the fund's management team. Make sure to consult the fund's prospectus for detailed information on its investment holdings.

Key Advantages of Bond Fund Investing

Active management Saves individual investors from researching creditworthiness, maturity, price, face value, coupon rate, yield and countless other factors that affect bond investing.

Diversification By investing in many individual bonds, even relatively small investments are diversified. When an underperforming bond is just one of many in a fund, its negative impact on an overall portfolio is lessened. Diversification, however, does not assure a profit or protect against loss.

Automatic income reinvestment Income from all bonds can be reinvested automatically and consistently added to the value of an investor's account.

Liquidity Investors can sell shares in a bond fund at any time without regard to bond maturities.

There are many risks associated with bond fund investing, such as interest rate risk, credit risk, prepayment risk and liquidity risk. These risks are discussed below.

How Bonds Work
Bonds can be issued by a variety of institutions, including governments, municipalities and corporations. Many things, including market conditions, affect bond performance. However, interest rate sensitivity and credit quality tend to affect a bond's behavior more than any other factors.

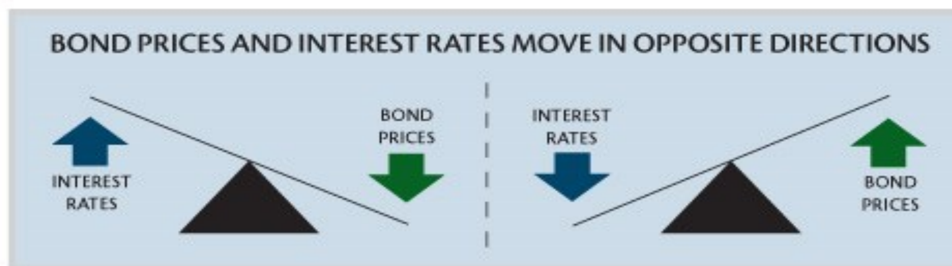
Interest Rate vs. Prices
Interest rates and bond prices have an inverse relationship; when rates rise, bond prices fall and vice versa. Generally, longer term bonds are more sensitive to interest rates since there is more time for rates to change.

When interest rates fall, a bond issuer may choose to pay back the bond owner's initial investment before the bond's maturity date. They can then issue a new bond at a lower interest rate, but the original bond owner no longer receives regular interest payments. This is known as prepayment risk.

Duration
A bond's duration reflects the sensitivity of the bond's price to changes in interest rates. A longer duration means the bond's price will change by a greater amount in response to a change in rates. Sometimes a change in interest rates, coupled with other economic factors, can create a smaller market for bonds and make them harder to sell. This is known as liquidity risk. However, there is no liquidity risk in government debt, and shares of a bond fund can always be sold.

Credit quality
Much like the grades you received on your report card in school, the issuing company receives a rating based on how likely it is to pay back a loan. In general, the higher the perceived risk of default (credit risk) on a fixed income instrument, the lower the credit rating.

Several independent rating agencies, including Moody's Investor Services and Standard & Poor's, use rating systems to evaluate bonds' credit quality. The Bond Credit Rating Guide (next page) highlights how these two agencies rate bonds. Bond types can vary in terms of risk, return potential and maturity dates, offering investors numerous ways to potentially meet their financial goals.



Why Own Bonds?

Diversification
Higher quality bonds play an integral role in any investment portfolio. Because they don't typically move in tandem with equities, they may help lower risk in a stock-heavy portfolio, and potentially enhance a portfolio's overall returns.

Income
Fixed income securities generally make regularly scheduled interest payments over a set period of time—typically at rates above those of cash equivalent investments such as money market funds. Steady and predictable payments make them particularly attractive to retirees and investors looking to augment their income, and may help offset losses in other parts of their portfolio.

Opportunity
At times, different sectors of the financial markets will be more attractive than others. As economic factors shift, investors may want to own securities representing those parts of the market that have the potential to offer strong returns. Bonds can add a measure of stability to a diversified portfolio, while potentially delivering steady income.

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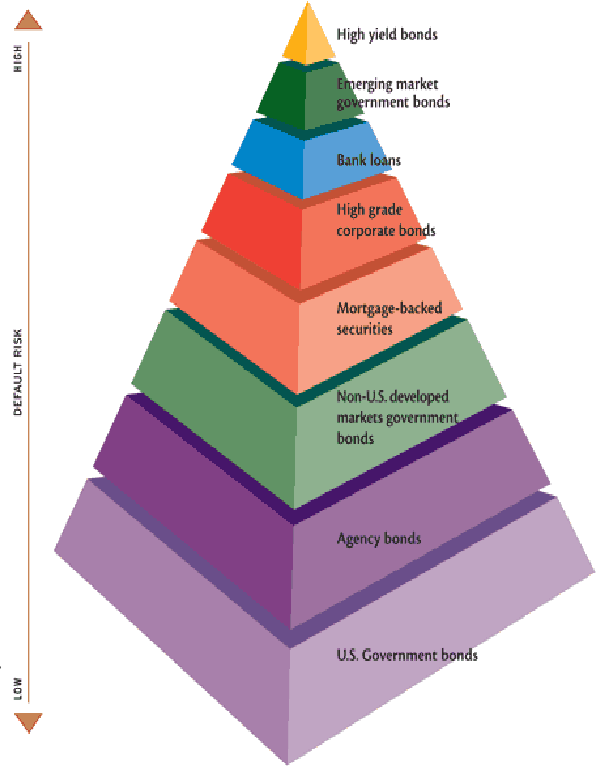
Choosing the Right Bond Investment for You

Not all bond types are the same

Different types of fixed income investments have different risk characteristics, so it's important to understand how each may function in a portfolio. U.S. Government bonds, for example, typically have the lowest correlation to stocks of any fixed income asset type, so they tend to be good diversifiers. By contrast, high yield bonds typically are more highly correlated to equities. As a result, while these tend not to offer strong diversification benefits, they may help boost a portfolio's returns when used judiciously. For help building a diversified fixed income portfolio, talk to your financial advisor.

Building a Fixed Income Portfolio from a Risk Perspective

This pyramid (right) represents one approach to structuring a well-diversified fixed income portfolio.



Types of bonds

High yield bonds
Also known as "junk" bonds, these are issued by companies with below-investment-grade ratings. Investors typically receive higher yields in return for the higher credit risk they assume. High yield bonds are also subject to liquidity risk.

Emerging market government bonds
Bonds issued by governments of emerging markets such as Brazil, Mexico or Russia. These bonds have a higher risk of default, and their value may fluctuate as political conditions in these countries change. Investors are typically compensated with higher yields for the additional risk assumed.

Bank loans
Sometimes known as "senior floating rate" bank loans, these are loans made primarily to non-investment-grade U.S. companies looking to finance operations. These instruments have historically provided income in excess of market rates because the loans' rates reset periodically based on changes in market rates.

High grade corporate bonds
Debt issued by corporations rated BBB or higher by Standard & Poor's. Companies that issue these types of bonds are usually large corporations with less risk of default on interest or principal payments.

Mortgage-backed securities
Banks and other lending institutions (primarily U.S. agencies) pool mortgages and offer them as securities to investors.

(Cont'd on back page)

Bond Credit Rating Guide

Quality	Moody's	Standard & Poor's	
High	Aaa	AAA	Investment grade (or high grade) bonds are considered the least likely to default
	Aa	AA	
	A-1, A	A	
	Baa-1, Baa	BBB	
	Ba	BB	Commonly called high yield or "junk" bonds
	B, Caa	B, CCC, CC	
Low	Ca, C	D	

Duration: Indication of interest rate sensitivity

Example: Bond's duration = 5 years

INTEREST RATES 1%

BOND PRICE 5%

SPREAD DURATION: Indication of sensitivity to a 100 basis points (bps[1]) change in spreads (or OAS[2]) relative to constant treasury yield

Example: Spread duration = 2

SPREADS 100 bps

BOND PRICE 2%

Your MassMutual Team

Northern Nevada

9850 Double R Blvd., Suite 201
Reno, NV 89521
(775) 826-1227
Fax: (775) 827-5482

Anita Westfield, ext. 2

Sharon Brannon, Retirement Ed. Specialist, ext. 4

Jake Honea, Retirement Ed. Specialist, ext. 5

Steve Watson, Consultant

Southern Nevada

750 East Warm Springs Road, Suite 330
Las Vegas, NV 89119
(702) 387-8100
Fax (702) 650-9817

Robert Trenerry, Regional Manager
(702) 387-8103
Janet Corral, Retirement Ed. Specialist
(702) 387-8104
Anthony Cardone, Retirement Ed. Specialist
(702) 387-8105
Tracey Pulsipher, Administrative Support
(702) 387-8101

Your ING Team

Carson City

844 West Nye Lane, Suite 101
Carson City, NV 89703
(775) 886-2400
Fax: (775) 882-9758
Toll Free: (866) 464-6832

Steve Platt, APRC, Regional Director
(775) 886-2402

Eric Honea, Representative
(775) 886-2403

Dianna Hennessey, Marketing Consultant
(775) 886-2401

Las Vegas

3960 Howard Hughes Parkway, 5th Floor
Las Vegas, NV 89169
(702) 990-3720
Fax: (702) 990-3721
By Appointment

Eric Wyer, Representative
(702) 990-3720

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Non-U.S. developed market government bonds

Bonds issued by governments of economically advanced foreign countries such as Great Britain, France or Japan. These bonds may include currency risk.

Agency bonds

Issued by United States Government agencies, these are generally thought to be safe investments in terms of default risk. However, unlike U.S. Treasuries, they are not explicitly backed by the full faith and credit of the U.S. Government. Usually, their yield is slightly higher than that of government bonds, with very low risk.

U.S. Government bonds

Backed by the U.S. Government, these bonds (also known as U.S. Treasuries) are considered to have virtually no risk of default but offer relatively low interest rates.

1. A basis point equals 1/100th of a percentage point.

2. Option-adjusted spread (OAS) is a measurement tool for evaluating price differences between similar products with different embedded options. Mainly used for fixed income products, a larger OAS implies the potential of a greater return for greater risk.

Fixed income investing entails credit and interest rate risks. When interest rates rise, bond prices generally fall, and a Fund's share price can fall. Below investment grade ("junk") bonds are more at risk of default and are subject to liquidity risk.

Foreign investments may be more volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes and political and economic factors. Emerging and developing market investments are especially volatile.

Senior loans are typically lower rated (more at risk of default) as well as illiquid investments (which may not have a ready market).

Would you like to have someone come to you to explain the benefits of Deferred Compensation?

Let us know—email or call us at deferredcomp@defcomp.nv.gov or (775) 684-3397

and WE will come to YOU!

Nevada Deferred Compensation Program
Nevada State Library & Archives Building
100 N. Stewart Street, Suite 210
Carson City, NV 89701-4213

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