



## The Deferred Word Newsletter Fall Edition 2011

Nevada Public Employees Deferred Compensation Program (NDC)

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Plan Website  
<http://defcomp.state.nv.us>

## Nevada Employees' Financial Education Day

Come join us for the Sixth Annual Nevada Financial Education Day. This year our event will be in conjunction with **National Save for Retirement Week**. National Save for Retirement Week is a congressionally endorsed, national event calling on all employees to take full advantage of their employer retirement plan.

You will learn about saving for retirement, Social Security benefits, Nevada Public Employees' Retirement System (PERS) benefits, NDC and other important information. Meetings are being held in **Carson City, Las Vegas, and Reno**. See the column to the right for dates, times and locations.

In addition to the seminars, representatives from various agencies and NDC Staff will be available to answer individual questions throughout the day.

**The Governor's office has authorized three hours administrative leave to allow state employees to attend. Please coordinate with your supervisor to ensure appropriate coverage in your department.**

For more information regarding this event, please visit our website or contact NDC at 775.684.3398 or via e-mail at [deferred-comp@defcomp.nv.gov](mailto:deferred-comp@defcomp.nv.gov). Please note you do not need to RSVP for these events.

### TUESDAY, OCTOBER 18, IN CARSON CITY

Legislative Building

401 S. Carson Street, Suite 1214

**Morning session: 9:00AM to 12:00PM**

**Afternoon session: 1:00PM to 4:00PM**

### WEDNESDAY, OCTOBER 19, IN RENO

Desert Research Institute (DRI)

2215 Raggio Parkway, Stout Room A & B

**Morning session only: 9:00AM to 12:00PM**

### TUESDAY, OCTOBER 25, IN LAS VEGAS

Grant Sawyer State Office Building

555 E. Washington Avenue, Suite 4412

**Morning session: 9:00AM to 12:00PM**

**Afternoon session: 1:00PM to 4:00PM**

**Can't Make it to a Seminar? The October 18 and 25 sessions will be webcast. Go to: [www.leg.state.nv.us/MeetingDisplay/AudioVideo](http://www.leg.state.nv.us/MeetingDisplay/AudioVideo).**

### We need your help!

Nevada Deferred Compensation (NDC) seeks to provide a supplemental retirement plan with cost-effective, quality investment options and excellent customer service. We strive to continually evaluate our Plan and its communication efforts to assess their effectiveness.

In an effort to evaluate and improve NDC, we are conducting a series of focus groups with participants, non-participants and retirees. If you would be willing to meet for 60 minutes a few times per year with 6-8 others, please contact the NDC office at 775.684.3397. Thank you for your consideration.



## Do you want to manage your own NDC portfolio? If no, give target-date funds a try!

We understand you lead busy lives and do not necessarily want to be financial experts. You'd rather save for retirement at an amount that works for your budget and leave the financial decisions and management to the professionals.

NDC now offers target-date funds to help simplify investing. The year in the fund name (see list below) refers to the approximate year when you plan to stop working. The "Income Fund" may be an appropriate investment if you are currently in retirement and receiving distributions from NDC.

Target-date funds offer a one-fund approach for maintaining a well-diversified portfolio over many years. A fund's mix of assets changes over time, typically becoming more conservative as you near retirement. Along the way, the fund is automatically rebalanced at regular intervals to maintain its designated asset mix. If you don't want to have to do all of this your own, a target-date fund can be an appealing option.

Target-date funds can also be beneficial for an additional reason. By delegating the rebalancing to a professional investment manager, you may be better able to avoid emotional decisions. Knowing that you have a disciplined long-term strategy may help you stick to your plan during turbulent times in the financial markets.

While target-date funds can offer convenience and other useful advantages, it's important to recognize that they are not guaranteed in any way. Similar to other investment options, such as mutual funds, target-date funds will fluctuate in value with the ups and downs of the markets.



### Are there risks?

Like all mutual funds, target-date funds have risk. But the whole point of investing for the long term is to balance this with the potential for reward.

With a target-date fund, you are clearly assuming 'market risk' - the potential for varying returns from year to year. The broad U.S. stock market returned 15.0% in 2010, 26.5% in 2009 and -37.0 in 2008. Bonds are also subject to market risk, but typically to a lesser degree than stocks, as we saw in the last three years; bond investments returned 6.6% in 2010, 5.9% in 2009, and 5.2% in 2008.

While stocks expose you to the highest level of market risk, they also provide the opportunity to grow capital and protect against 'shortfall risk' - running out of money in retirement. If you invest in very conservative assets in order to limit your market risk, you may increase your shortfall risk because conservative assets historically don't perform as well as stocks.

### Conclusion

Target-date funds can be a useful tool. They offer broad-based investment exposure, periodic rebalancing, and asset reallocation over time. They also provide a way to invest with discipline and eliminate emotional decisions.

It's true that these funds aren't for everyone. If you are comfortable constructing your own portfolio and rebalancing it over time to meet your needs, you may not find a target-date fund useful. However, a large number of investors do not have the time, inclination or knowledge to put together a well-balanced, diversified portfolio. In these cases, target-date funds may offer a logical option.

Fund Name	Asset Allocation as of June 30, 2011
Vanguard Target Retirement Income Fund	30% equities*, 45% bonds, 20% TIPS**
Vanguard Target Retirement 2015 Fund	58% equities*, 40% bonds, 2% TIPS**
Vanguard Target Retirement 2025 Fund	74% equities*, 26% bonds
Vanguard Target Retirement 2035 Fund	89% equities*, 11% bonds
Vanguard Target Retirement 2045 Fund	90% equities*, 10% bonds
*Combination of domestic and international    **Treasury inflation protected securities	

## 2011 Legislative Updates

The 2011 Legislature passed Assembly Bill (AB) 74 in which Sections 33.1 through 33.7 affect some NDC participants. AB 74 expanded coverage under the Nevada Life and Health Insurance Guaranty Association (Association) to group insurance contract investments, such as general account investments. The purpose of this Association is to protect investors in these type of accounts, within limits, in the unlikely event that an insurer becomes financially unable to meet its liabilities.

Should an insurer become insolvent and you are invested in its general account, your NDC account would now be insured for the monies invested in the insurer's guaranteed investment option up to \$100,000, if you are a Nevada resident. If you are not a Nevada resident, you may be covered under your state's Life and Health Guaranty Association. The maximum coverage allowed is an aggregate of \$100,000 regardless of the number of contracts issued by one insurer. For additional information on coverage, please visit this [link](#) or go to [www.nvlifega.org](http://www.nvlifega.org).

Please note if you are invested in non-guaranteed investments, such as equity, bond or stable value funds, these are NOT considered assets of the insurer and are therefore not subject to bankruptcy proceedings. These assets are held in trust for the exclusive benefit of NDC participants and their beneficiaries. Should an insurer become insolvent and your NDC account is invested in non-guaranteed investment options, the options would be transferred to a new vendor.

The Nevada Deferred Compensation Committee, in conjunction with its consultant, reviews the financial health and credit ratings of the insurers. In addition, the Committee reviews the asset allocation and credit quality of the underlying holdings within the insurer's general account to help assess the risk associated to participants. Should the credit quality, financial health or risk associated with the investments become a concern to the Committee, the Plan would begin the procedure of transferring assets from the insurer's general account to a new investment option.

Should you have questions or concerns regarding this provision, please contact NDC Staff or your vendor.

## Stay Invested in NDC After You Retire

When you are ready to retire or separate from service with your employer, you have to decide what to do with your NDC account. For those who are retiring, the Plan offers a variety of payment options. If you are changing jobs or don't need to take an immediate distribution, consider the advantage of keeping your assets in the Plan.

### Investment diversification

Investment returns earned during retirement could be a significant source of future income. The Plan offers you the ability to manage your account with a diversified investment menu, which includes target date funds, low cost index funds, actively managed mutual funds, and stability of principal options with competitive crediting interest rates.

### Lower annual expenses

Plan expenses can have a significant impact on your overall investment returns. As a Participant in the NDC, you will pay lower annual expenses than you are likely to find with other plans or in an Individual Retirement Account (IRA). If you are considering a rollover to another plan or an IRA, compare the administrative and investment management fees of those options to the amount you are paying now (you will most likely find IRA fees substantially higher).

### Consider Rolling IRAs and other retirement plans into NDC

To take advantage of the variety of investment options and lower annual expenses, consider rolling (a non-taxable event) assets you may have in IRAs or other retirement plans into NDC. You can consolidate your assets under one plan for ease of administration and cost-effectiveness.

### At age 70 1/2

Once you are no longer working, the Internal Revenue Code requires you to take a required minimum distribution (RMD) from NDC and all your tax-deferred plans upon reaching age 70 1/2. When that occurs, your NDC vendor will automatically calculate your RMD and notify you of the amount you are required to take as a distribution. When you consolidate all your tax-deferred plans into NDC, the total amount required as a distribution is made simple and does not require the additional work of contacting multiple investment firms to determine your RMD.

For additional information please contact NDC staff or your vendor.

Retiree  
NDC

# Hartford



## National Save for Retirement Week October 16 – 22, 2011

**The situation:** Too many Americans are not saving enough for retirement.

**The solution:** Enroll in your employer’s retirement plan, or increase your contribution if you are already in the plan.

The time is now.... **National Save for Retirement Week** is a great time to put some KER-POW in your planning efforts. Your employer’s retirement plan offers you a convenient, tax-advantaged way to put aside money for what is likely to be the biggest expense you’ll ever face – retirement. With its array of investing options, account management tools and automatic contributions, you won’t find an easier way to start saving for your future.

To learn more about what your retirement plan can offer you visit:

[www.viewmyretirement.com/nevadadcp](http://www.viewmyretirement.com/nevadadcp) or call The Hartford at (800) 875-9218



Download your free superhero sound effect ringtone and check out our *superheroes in retirement* by scanning this code or visiting [thehartford.com/whew](http://thehartford.com/whew).

If you have any questions, please contact your local Hartford specialist for assistance.



### Your Hartford Team

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# A New Way to Plan for Retirement

## NDC offers Morningstar® Retirement Manager<sup>SM</sup> as part of its retirement plan benefits.

Planning for retirement takes time, and has its challenges. To help, the State of Nevada Deferred Compensation Committee has teamed up with Morningstar Associates, LLC, to provide investment advisory services designed to help you with your retirement planning needs.

As an added benefit to the retirement plan, Morningstar Retirement Manager offers Investment Advice (Managed by You) through the retirement plan website.

In an effort to provide some direction, the investment advice service, **Managed by You**, offers:

- Personalized asset allocation strategies
- Investment selections (based on our plan's investment options)
- Educational tools
- Retirement planning resources

All of these resources are available to you at no additional charge. While you may use these resources as often as you'd like, make sure you are disciplined to review your account on a regular basis. Keeping your account in line with your future goals is an important step in managing your retirement account.

### About Morningstar

Morningstar Associates, LLC, a leading provider of investment advisory services for the retirement plan industry, is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc., a company known for its independence and investor focus. Morningstar Associates serves institutions and individuals at all stages of retirement plan development including plan lineup development, investment monitoring and participant recommendations.

### About ING

As a global leader with over 40 years of experience, ING has the scale and resources to address the unique needs of the defined contribution market. We offer a suite of products and programs, including variable annuities, separate account products and mutual fund programs. Our multi-fund family investment approach and multi-tiered pricing model allow for flexibility. ING provides the Morningstar Retirement Manager platform as an available service through our product suite.

### ING Nevada Offices

**Stop by:** Carson City Service Center | 844 West Nye Lane, Suite 101

**Phone:** 775.886.2400 or 866-ING-NVDC (866-464-6832)

**By appointment:** Las Vegas Office | 3960 Howard Hughes Parkway, Suite 520

**Phone:** 702-990-3720 or 866-ING-NVDC (866-464-6832)

**Visit:** [ingretirementplans.com/custom/nevada](http://ingretirementplans.com/custom/nevada)

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**IMPORTANT: The projections or other information generated by Morningstar® Retirement Managers<sup>SM</sup> regarding the likelihood of various retirement income and/or investment outcomes are hypothetical in nature, do not reflect actual results (including investment results) and are not guarantees of future results. Results may vary with each use and over time.**

Annual Retirement Income Outlook considers such things as your asset mix and Morningstar Associates' own forecasts for return, risks and correlation for various asset classes. The Expected Retirement Income noted within the tool is the amount the simulation has determined as having a 90% probability of being achieved.

Annual Retirement Income Goal is calculated by taking 70% of your projected salary at retirement, expressed in today's dollars. Your projected salary at retirement is determined by a proprietary salary growth curve and your projected social security benefits. Morningstar Associates' salary growth curve assumes your salary will grow at rates that vary with your age. Projected social security benefit is based off of an algorithm supplied by the Social Security Administration.

Proposed Asset Mix is derived from various factors such as your years to retirement, your projected salary growth and results from an asset-liability analysis. The asset-liability analysis is an economic concept that is helpful in understanding your ability to withstand financial losses by incorporating a projected future stream of income into your current financial situation.

Morningstar Retirement Manager is offered by and is the property of Morningstar Associates, LLC ("Morningstar Associates"), a registered investment advisor and a wholly owned subsidiary of Morningstar, Inc., and is intended for citizens and legal residents of the United States and its territories. Morningstar Associates' advisory service relates solely to the investment options offered under the plan. Retirement plan funding products are offered through ING Financial Advisers, LLC (member SIPC) or other broker dealers with which it has selling agreements. ING provides Morningstar Associates with the plan's investment options and information about participants but the decisions regarding the advice provided are made by Morningstar Associates. ING and its companies are not affiliated with Morningstar Associates or its affiliates, and receive no fee or other direct financial benefits from Morningstar Associates in connection with the use of its services. The Morningstar name and logo are registered marks of Morningstar, Inc.

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## Investing Basics – Risk versus Reward

As investors we are always trying to maximize our reward (investment return), but do we spend enough time trying to reduce our risk? The risk/reward tradeoff is very simple: The higher the risk, the higher the potential return must be to compensate for the increased risk exposure. This is why safer investments, such as treasury bonds, certificate of deposits, and savings accounts offer low returns. Investments, such as emerging market funds or small cap equity funds offer higher potential returns but the risk of loss is much greater. The key is to maximize return while minimizing risk.

How can we strike the balance between risk and return in selecting among different types of investments, such as equity mutual funds, bond funds or cash investments? The chart above demonstrates the correlation between risk and return amongst different types of investments. As you might expect, equity mutual funds have both the highest level of risk and highest average return. U.S. Treasuries, generally regarded as the most risk-free investment, combine the lowest risk with the lowest average returns.

The complexity of determining risk is a daunting task; however, you do have tools available to you to help in reducing the overall risk in your NDC account. The first thing you want to consider is your personal risk tolerance based upon your goals, financial condition, time frames, and comfort levels. Be realistic about your goals and the time you have to meet them; a single 22 year-old can probably afford more risk than a 65 year-old retiree. Let's consider tools you have available to help reduce your investment risk:

**Diversification:** Modern portfolio theory suggests that putting your eggs in a variety of baskets can reduce overall risk, even if all the baskets themselves are risky. You may consider a combination of domestic and international equity mutual funds, in addition to different sizes of companies (combination of large cap and small cap funds).

**Long-term Investing:** Equity investments have an average annualized rate of return of 9.9% since 1926 (see chart on the next page). If you were a long-term investor, you would have experienced steep climbs and steep drops, but overall you'd be ahead. The questions to ask are: What is your time horizon? How much can you afford to lose in the short-term? Can you afford not to pursue growth to outpace inflation? And how comfortable are you accepting short-term losses to eventually get long-term gains?

**Dollar Cost Averaging:** By investing through NDC, you automatically dollar cost average by investing each pay period. Dollar cost averaging can help reduce market timing risk. By investing regular amounts each pay period, your cost per share will average out over time. If you believe the market will rise over the long term, then the expensive shares you buy at the top of one cycle will be offset by the cheaper shares you buy when the market corrects or experiences a downturn.

**Consider Historical Down Market Periods and Standard Deviation:** We've learned that past performance is not an indicator of future performance; however, you may consider reviewing historical down market periods and standard deviation when considering the risks of an investment and your ability to tolerate such risk.

Standard deviation is a statistical measurement that is applied to the annual rate of return of an investment to measure the investment's volatility or price fluctuation. What is being measured is how widely an investment's returns fluctuate over time. Looking over the long-term, standard deviation provides strong evidence of the relationship between risk and return. The lower the standard deviation the less risk and price fluctuation.

#### **Total Returns from 1926 – 2010\***

	<b>Equities</b>	<b>Bonds</b>	<b>T-Bills</b>
Annualized Return	9.9%	5.5%	3.8%
Best Year	60.0% (1935)	42.1% (1982)	14.0% (1981)
Worst Year	-41.1% (1931)	-12.2% (2009)	0.0% (1940)
Standard Deviation	19.2	7.4	0.9

\*Based on returns for the period from 1926 through 2010. Stocks are represented by the total returns of the S&P 500. Bonds are represented by a composite of the total returns of long-term U.S. government bonds, derived from yields published by the Federal Reserve, and the Barclay's Long-Term Government Bond index. T-bills are represented by a composite of the yields of 3-month Treasury bills, published by the Federal Reserve, and the Barclay's 3-month Treasury Bills Index. Source: Standard and Poor's.

#### **Points to Remember**

- Return is largely a function of risk; in general, the higher the possible returns, the greater the risk.
- The tendency of an investment to fluctuate is known as volatility.
- The basic measurement of volatility is known as standard deviation.
- Largest monthly loss and down market measures look at downside risk.
- Diversification, long-term investing, and dollar cost averaging can help to reduce risk.



## NEVADA PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

### Special Announcements

NDC is pleased to announce the election of its Executive Officer, Tara Hagan, to the National Association of Governmental Defined Contribution Administrators (NAGDCA) Executive Board. We look forward to her representing NDC on this national board.

We are also pleased to report NDC has been awarded the 2011 Leadership Recognition Award from NAGDCA for outstanding achievements in effective communications for its new enrollment campaign titled "Getting Started with NDC". NDC appreciates the recognition and looks forward to continuing to make a great plan even better for our participants.

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