The Deferred Word Newsletter Spring Edition 2011

Nevada Public Employees Deferred Compensation Program (NDC)

Plan Website

http://defcomp.state.nv.us

Roth 457(b)

During the February 2011 meeting, the NDC Committee passed a motion to add the Roth 457 provision **effective January 1, 2012.** NDC Staff will begin a comprehensive communication campaign in July to assist you in understanding the features and benefits of this provision. To help you understand how the Roth feature may affect your options for retirement savings, we've dedicated the next two pages to the Roth 457.

What are Roth 457 Contributions?

The addition of the Roth feature to NDC simply provides you with more flexibility. This option does not change how much you can contribute nor where you can invest. What it does is give you more control over when your contributions and retirement income will be subject to federal income tax.

Unlike contributions to your traditional NDC account, which are made on a pre-tax basis, contributions to a Roth 457 are made on an after-tax basis. What this means is your Roth contributions will be subject to income taxes before they're invested in your account.

Rather than simply having the option to contribute your paycheck deduction before taxes (pre-tax), you will now have **THREE** options for contributing:

- Continue deductions before taxes (pre-tax) only option currently available
- Change to after-tax deductions (post-tax)
- Choose a combination of before and after tax deductions (not to exceed the annual maximum deduction amount)

For example: Susan is currently contributing the regular annual maximum to NDC ($16,500 per year or $634.62 per check). On January 1, 2012, Susan wants to split her annual contributions equally between post-tax and pre-tax deductions. Therefore, in January, Susan will have $317.31 deducted before taxes and $317.31 taken after tax for a total of $16,500.

When can I take monies from my Roth 457?

Most conditions for taking money from your NDC account stay the same regardless of whether it's a regular or Roth account.

As you know, distributions from NDC are only allowed under the following circumstances:

- Separation of service (retirement or termination)
- Purchase of service credit (**may not be available for Roth)**
- Approved unforeseen emergency (**may not be available for Roth**)
- De minimus account (balance is less than $5,000 and you haven't contributed for 24 consecutive months or more)
- At age 70 ½, even if still working

Roth 457 has two additional requirements for a distribution to be considered a 'qualified' distribution. A qualified distribution from a Roth account must meet the following two conditions:

- Roth contributions must be held in the account for five consecutive years after the first contribution is made; and
- You must be at least age 59 ½ the year you take the distribution.

If both of the above conditions are met, the distribution is deemed 'qualified' and therefore tax-free. Distributions that are determined to be non-qualified will be subject to tax on the earnings portion (if any) of the account. Please note Roth contributions are deducted after-taxes and are therefore not taxable.

NDC Staff will be continuing to communicate with you regarding this new feature. Please check our website for additional information, such as frequently asked questions (FAQs) and online tools to help in your retirement planning.

Please note the Roth feature is only available to current and new participants and does not allow any additional choices or options for retirees.

We've Moved!

The NDC office has moved to the **Nevada State Library and Archives Building** at **100 N. Stewart Street, Suite 210, Carson City, NV 89701**

Our new contact numbers are:

Tara Hagan: 775.684.3397

Jenny Potts: 775.684.3398

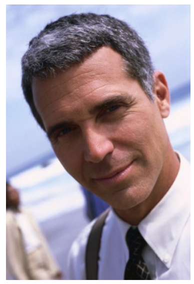
Fax: 775.684.3399

Which option will be best for you, Regular NDC or Roth NDC?

The primary advantage of Roth contributions is the potential to withdraw your contributions and earnings tax-free when you retire. In short, you'd be trading a current tax benefit for a future tax benefit. Even in retirement, income taxes can be significant on pensions, Social Security, and other types of income which is subject to federal income taxation.

The primary disadvantage of Roth contributions is that the contributions are included in current income. There are very few tax deductions available to most taxpayers and many deductions, credits and exemptions may be reduced based on your adjusted gross income. For some participants, the income tax savings is an important part of making NDC contributions affordable. NDC Staff will be providing online-calculators and other tools to help you determine which type of contribution is best for you. **Let's take a look at two examples to help you consider what is right for you.**

Jeff (Age 45)



Wants current tax break

Jeff considers himself in his "peak" earning years. He knows he won't be making this money forever, but wants to enjoy it while he can.

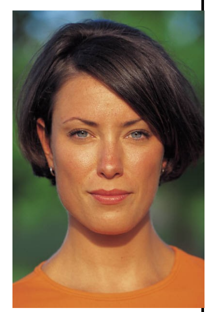
- Doesn't think he can afford to lose another tax deduction.
- Expects to be in a lower tax bracket when he retires.
- Doesn't like change.

Comparing Jeff's Options		
	Pre-Tax 457 (Regular)	**Post-Tax 457 (Roth)**
Gross Income:	$75,000	$75,000
Annual Salary Available to Save	$10,000	$10,000
Less taxes at 25%	-$0	-$2,500
Net Yearly Contribution Totals Over 20 yrs.	$10,000 $200,000	$7,500 $150,000
Value at retirement (assumes 20 years of contributions at 6% interest)	$378,900	$284,200
Less taxes at 15%	-$56,800	-$0
After-tax value	**$322,100**	**$284,200**
Jeff is considering: Regular Pre-tax 457		

Linda (Age 25)

Wants long-term tax-free growth potential

Linda just got out of grad school and is embarking on her new career. She feels good about the fact she's already starting to build her savings.



- Isn't worried about the tax deduction now.
- Confident her salary will increase over the years.
- Expects to be in a higher tax bracket when she retires.

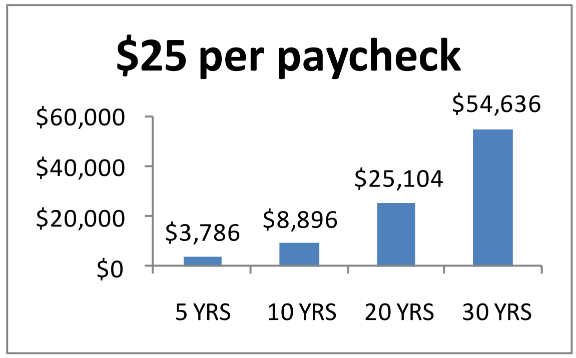
Comparing Linda's Option		
	Pre-Tax 457 (Regular)	**Post-Tax 457 (Roth)**
Gross Income:	$35,000	$35,000
Annual Salary Available to Save	$3,000	$3,000
Less taxes at 25%	-$0	-$750
Net Yearly Contribution Totals Over 40 yrs.	$3,000 $120,000	$2,250 $90,000
Value at retirement (assumes 40 years of contributions at 6% interest)	$478,200	$358,700
Less taxes at 33%	-$159,500	-$0
After-tax value	**$318,700**	**$358,700**
Linda is considering: Roth 457		

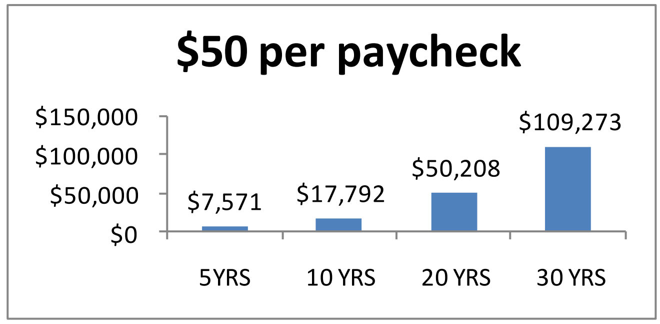
It's Time to Restart or Increase your Contributions

As fellow state government employees, NDC staff understand these economic times have been challenging. Loss of income, increases in health insurance and costs of basic goods and services may have put a strain on your household finances. However, we want to encourage you to restart or increase your NDC contributions. A small increase in your NDC contribution today can mean a big difference in your retirement savings tomorrow.

The charts to the right provide hypothetical illustrations based on $25 and $50 increases per paycheck. But remember, because NDC provides pre-tax advantages, the reduction in your take-home pay will be less. A $25 deduction (based on a 25% tax rate) would be a $18.75 reduction in your paycheck. A $50 deduction (based on a 25% tax rate) would be $37.50 reduction in your paycheck.

Please note the illustrations assume a 6% hypothetical rate of return. For information on increasing your NDC deduction, visit the NDC website.





Now that You're Retired; it's Time to Make a Few Decisions.

Retiree Corner

After a lifetime of work, it's time to enjoy. But first, you will need to think about how you'll best use your NDC account to make your retirement years the culmination of all your dreams and goals.

Because NDC allowed you to contribute pretax dollars, and allowed your money to grow tax-deferred, you'll need to consider the tax consequences of withdrawing your account. Taking it all out right away (a lump-sum withdrawal) and investing in a non-tax-qualified investment option (savings account or retail mutual funds) may have serious tax consequences. Even though NDC does NOT have a 59 1/2 early withdrawal penalty, you'll still have to pay current taxes on the entire amount. That amount may be substantial enough to bump you into a higher tax bracket.

You have several options to best utilize your retirement dollars to fit your immediate and long-term goals:

- Roll the money into an Individual Retirement Account (IRA)
- Set up a schedule of systematic withdrawals.
- Take partial payments from the account, as needed
- Guarantee a series of income payments through a fixed annuity (Guarantees are based on the claims-paying ability of the issuing company.)

	Lump Sum	Systematic Withdrawal	Fixed Annuity Payments	Periodic Partial Payments
Tax efficient?	No—all taxed at once.	Yes, taxed only on withdrawals.	Yes, taxed only on payments.	Yes, taxed only on partial payments.
Continued tax deferral on balance	No	Yes	Yes	Yes
Easy to access balance	N/A	Yes	No	Yes
Ability to outlive income	Yes	Yes	No	Yes

Hartford

Asset Allocation Helps Manage Risk

Stocks outperformed bonds in the late 1990s. Bonds outperformed stocks in the early 2000s. Then stocks outperformed bonds again in 2003. So how do you invest your retirement savings plan contributions to keep up with investment markets that change direction so often?

How To Do It Right

No one can predict with certainty which investments will perform best next year and which will perform worst. Don't try to outguess the markets. Instead, help manage investment risk by determining—and sticking with—an appropriate **asset allocation.** This refers to the mix of stock, bond and cash investments best suited to your time horizon (how long until you'll need the money), your financial goals, and your tolerance for risk. Ideally, you could consider some global investments, as well as those from the United States.

You probably do most, if not all, of your investing through mutual funds. Since funds spread their assets among a large number of stocks or bonds, you gain instant diversification in your portfolio. In addition, your money would be actively managed by professional portfolio managers, which takes the investment selection decisions off your shoulders.

Changing the Mix

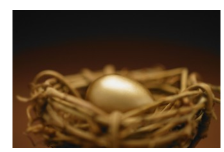
Once you've decided on an appropriate allocation, modify it only as you get older (and the time until you need the money gets shorter) or when your financial situation changes. That way you won't be tempted to respond to every twist and turn the investment markets take. You want to find the ideal combination of assets that strikes a balance among your performance expectations, risk tolerance and investment time horizon.

You should rebalance your portfolio once a year (Auto-Rebalance Feature Available in Your Plan)—restoring your allocation to what you originally intended by selling off some investments that have posted the biggest gains, and using that money to buy more of investments that haven't done so well. Major changes in your asset allocation should be rare—generally in response to changes in your personal situation, not to a rally in stocks or a slump in bonds.

Measuring the Results

Not all of your investments will deliver gains every year. Stocks and bonds, domestic and global investments, respond differently to changes in the investment climate, so it is unlikely that all your investments would perform identically year-after-year. But with your money spread across so many asset classes, you probably would have some winning investments every year.

While asset allocation won't eliminate investment risk, spreading your assets among several investment types may help cushion your nest egg from temporary setbacks in any one market. And, over time, allocating your retirement funds among different asset classes should produce higher returns than if you concentrated all your money in just one asset class.



If you have questions about your account at The Hartford contact your Retirement Education Specialist listed below.

Your Hartford Team

Northern Nevada

9850 Double R. Blvd., Suite 201
Reno, NV 89511   (775) 826-1227

Tom Verducci, Team Lead, ext. 3

Sharon Brannon, Retirement Ed. Specialist, ext. 4

Jake Honea, Retirement Ed. Specialist, ext. 5

Anita Westfield, Administrative Support, ext. 2

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Las Vegas, NV 89119 (702) 862-8296

Robert Trenerry, Regional Manager, ext. 60303

Janet Corral, Retirement Ed. Specialist, ext. 60304

Anthony Cardone, Retirement Ed. Specialist, ext. 60305

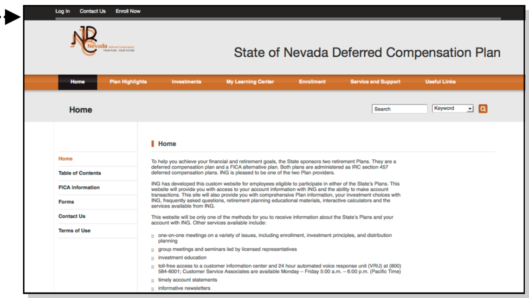
Tracey Pulsipher, Administrative Support, ext. 60300

New look and feel for the Plan website

Changes in the design and organization of the custom website maintained by ING Life Insurance and Annuity Company at *www.ingretirementplans.com/custom/nevada* were rolled out in February. These enhancements make it easier for you to access information, download forms, and manage your Plan account. In addition, you will see different features after you log in to your account.

The new look of the custom website features the familiar colors of the Nevada Plan and mouse-over technology provides a simpler way to find what you are looking for. To access your account, go to the top navigation bar and click **Log in**.

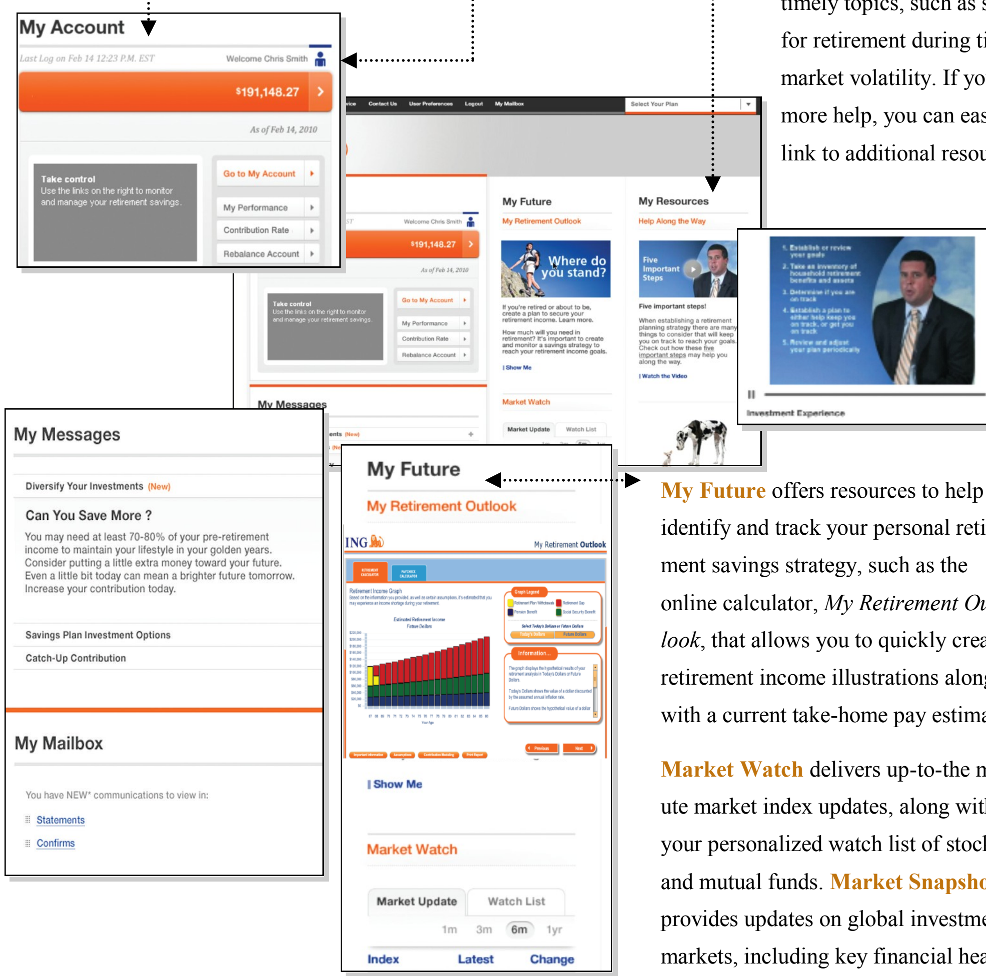
After you log in to your account, you will have access to the newly added **My Learning Center** that offers you a wide choice of educational materials and interactive tools to help you with planning and investing for retirement.



My Account provides a summary of all of your benefits, with the ability to expand each benefit to view detailed information about your account, transactions, and the Plan and quick links to take action. You can see personal performance, view your contribution rate, and use the automatic account rebalancing tool.

Once you log in to your account, you are welcomed to your personalized home page. Next to your name, you will see an icon to click if you want to change your password, security question, and mail preferences.

My Resources uses video, text, and electronic media to update you on relevant and timely topics, such as saving for retirement during times of market volatility. If you want more help, you can easily link to additional resources.



My Message Center shows account news and important alerts. You will receive personal messages when appropriate, such as reminders to update your beneficiary information or develop a strategy to help you reach your retirement goals. If you receive a message, you can click from the message to take action.

My Mailbox highlights newly available electronic correspondence like confirmation notices and statements.

My Future offers resources to help identify and track your personal retirement savings strategy, such as the online calculator, *My Retirement Outlook*, that allows you to quickly create retirement income illustrations along with a current take-home pay estimate.

Market Watch delivers up-to-the minute market index updates, along with your personalized watch list of stocks and mutual funds. **Market Snapshot** provides updates on global investment markets, including key financial headlines and newsworthy stock market activity.

Nevada Public Employees Deferred Compensation Program

Update Your Beneficiaries

Have you recently reviewed your beneficiary designation on your NDC account? We all know life is hectic and it's easy to forget to update beneficiaries on your various accounts. If you have recently been married, divorced, added a child or had a death in the family, it may be time to review and possibly update your beneficiaries for NDC.

Types of Beneficiaries

Primary beneficiary: This person is entitled to the monies in your NDC account. Please note you can name more than one primary beneficiary.

Contingent beneficiary: This person will receive the monies if the primary beneficiaries have died before the NDC participant. Please note you can name more than one contingent beneficiary.

It's easy to update your beneficiaries, forms can be obtained from your provider or the NDC office. If your NDC provider is ING, you may also change your beneficiary through your online account. Contact your provider or NDC for additional information.

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