State of Colorado 457 Deferred Compensation Plan

Perspectives

Summer 2006

*Invest in the Journey*SM

In This Issue

457 Committee Election

In the last bulletin, we notified participants of the three vacancies on the State of Colorado 457 Deferred Compensation Committee. During the month of May we received three nomination forms. Since the nominations equaled the number of vacancies, no election was held. At the June 8, 2006, meeting, the Committee appointed Billy Kwan (Regulatory Agencies) to a four-year term, Dean Conder (Labor and Employment) to a two-year term and Doug Windes (Treasury) to a one-year term. Congratulations to the new Committee members.

The Committee meets on the second Thursday of every month at 1313 Sherman Street, Room 318, at 1:30 p.m. The date and time are subject to change, so please contact Cari Arnold at (303) 866-3436 for confirmation or visit the Web site at **www.colorado457.com** to view the full agenda.

Investment Option Changes

At the State of Colorado, we are committed to offering our participants a broad and diverse array of quality investment options. With that in mind, the State of Colorado 457 Deferred Compensation Committee is pleased to remind you about the exciting enhancements to the 457 Plan's investment option choices.

Seven New Investment Options

On August 3, 2006, seven new investment options will be added to the Plan: Hotchkis & Wiley Large Cap Value, American Funds Growth Fund of America R5, Artisan Mid Cap Value, Munder Mid Cap Core Growth Y, Veracity Small Cap Value[1], TCM Small Cap Growth[1] and Dodge & Cox International Stock[2].

Six Discontinued Investment Options

In addition, after careful review the Committee has decided to discontinue six investment options effective August 3, 2006: American Funds Washington Mutual Investors R4, American Century Ultra Investors, American Century Equity Income, Artisan Mid Cap Investors, Constellation Clover Small Cap Value[1], and Dreyfus Founders Discovery F[1]. These funds are being discontinued because their long-term performance no longer meets the criteria established in the Committee's Investment Policy.

The State of Colorado 457 Deferred Compensation Committee encourages you to take the time to evaluate your 457 Plan account to ensure that your personal retirement savings are working to your best advantage. Should you wish to change your future contributions or move your existing account balance to other available investment options, you must do so prior to August 3, 2006. On the afternoon of August 4, 2006, the State of Colorado 457 Plan will reopen to all participant transactions. Please visit the Web site at **www.colorado457.com** or call KeyTalk® at **(800) 838-0457** to make investment option changes.

Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain prospectuses for mutual funds, any applicable annuity contract and annuity's underlying funds and/or disclosure documents from your registered representative. For prospectuses on Self-Directed Brokerage, contact Ameritrade Corporate Services™ at (866) 766-4015. Read them carefully before investing.

1 Equity securities of companiew with relatively small market capitalization may be more volatile than securities of larger, more established companies.
2 Foreign investments involve special risks, including currency fluctuations and political developments.

Have Questions? Need Information?

Visit the Web site:
www.colorado457.com

Call KeyTalk®:
(800) 838-0457

Visit the Deferred Compensation Plan Service Center:
1775 Sherman Street, Suite 2820
Denver, Colorado 80203
Hours: 8:00 a.m. to 5:00 p.m.

Three Profiles, Three Asset Allocations

What should your portfolio look like?

There's no simple formula for figuring out your own asset allocation. The good news is: You may do best financially and psychologically by creating an allocation that's tailored to you, based on your age, number of years until retirement, financial goals and obligations, and personal comfort with investment risk.

Individual Differences

To get an idea of what we mean, check out the three hypothetical investors described below.[3] They have these three things in common: Each is 38 years old, earns $35,000 a year and contributes 6% of salary ($2,100) annually to his or her employer's retirement savings plan. Because each person has different financial circumstances and feelings about risk, each chose a different allocation.

Judy, a single woman who lives alone, says market swings would keep her awake at night. Further, in a few years Judy may need to help pay for nursing-home care for her mother, who is in ill health. Keeping in mind her discomfort with risk and the probability that she may need to borrow from her retirement account temporarily (if her plan allows it) to help her mother, Judy decides on the following asset allocation: 40% stock funds, 40% bond funds and 20% cash investments, such as money market funds. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

Bob has two young children, so he and his wife, Betty, will be paying college bills almost until the day he retires. Since they won't be able to save much while they're paying those bills, they must save all they can today and invest it for maximum growth to potentially give them the biggest retirement fund possible. Bob's not concerned about initial market fluctuation, as he has several years before he will need the money and he feels comfortable with short-term fluctuations. Bob chooses an allocation of 80% stock funds, and 20% bond funds.

Melanie has two older children who will finish their college education years before she retires. But she talks about quitting her job in a few years and starting a business with her husband, Raymond. When that happens, they might have an initial drop in income, but they don't want to crack their nest egg if they can avoid it. They choose to balance investment growth with safety of principal. They decide on an allocation of 60% stock funds, 20% bond funds and 20% cash investments.

More Than Returns

Because of their different asset allocations, Judy, Bob and Melanie will have different-sized nest eggs come retirement day. How big a difference depends on the performance of the investment markets over time. Remember, though, that they chose their asset allocations based on what they determined was appropriate for their individual situations. It's clear that Bob was willing to accept more risk. But given Judy's and Melanie's uneasiness about risk and the other financial needs they anticipated, they did what was right for their own pocketbooks and peace of mind. And those considerations should guide you in determining your asset allocation as well.

3 These hypothetical profiles are for illustrative purposes only and do not represent any specific investment products or advice.

Earn an 'A+' in Investing

Three ways to increase your financial IQ

Study Hall: Take a personal finance class at your local community college. Some workshops and seminars will teach you the basics of stocks, mutual funds and retirement planning. Online, SmartMoney University at smartmoney.com, along with morningstar.com, offers some great courses you can take for free at your own pace. Check out the American Library Association's free "Investor Education@Your Library" courses at cs.ala.org/ra/invest. You may also visit the Plan Web site (www.colorado457.com) and click on "Education.

Channeling: The national networks report financial news every day. CNN and CNBC do as well. Weekend wrap-ups are provided by CBS on *Market Watch* and by CNBC on *The Wall Street Journal Report*.

News Print: Stock watch here, mutual fund listing there—a mere flick of the wrist keeps you on top of the market. For example, *The Wall Street Journal* is a respected source of financial information. Don't have the time to read this information every day? Check your local newspaper's weekend edition for an overview.

Please note: This newsletter does not constitute investment or financial planning advice. Please consult with your financial planner, attorney and/or tax adviser as needed.