

# Perspectives

SUMMER 2009



## Governor Signs Legislation Moving the State of Colorado 457 Plan to PERA

On July 1, 2009, oversight and management of the State of Colorado 457 Plan will be transferred to the Colorado Public Employees' Retirement Association (PERA). On that date, the Plan will become the Colorado PERA 457 Plan. PERA operates a 401(k) Plan, which currently has more than 77,000 participants and \$1.2 billion in assets, making it one of the largest governmental 401(k) plans in the nation. The PERA 401(k) Plan and the PERA 457 Plan will both be available as additional opportunities for eligible public employees to save for retirement on a tax-deferred basis.

### *What does the transition to PERA mean for participants?*

Initially, there will be very little change for you when the Plan transitions to PERA. You will continue to access and manage your account the same way you always have. There will be no changes to the fund lineup when PERA takes over on July 1. The phone number and Web site access will remain the same.

### *What changes are coming after July 1?*

PERA will now manage the 457 Plan contract with the Plan's service provider, Great-West Retirement Services®. Only minor changes to the current contract are anticipated during the first year of PERA's oversight.

### *How will PERA provide oversight?*

The PERA Board of Trustees approves the recommendations of the internal staff Investment Advisory Committee, or IAC. The IAC is chaired by PERA's Chief Financial Officer and membership on the Committee includes the General Counsel and the directors of Equities, Fixed Income and Communications. The IAC works with an external consultant to monitor fund performance and recommend changes in the fund lineup to PERA's Chief Operating Officer and Chief Investment Officer. If approved, recommendations are then forwarded to the Benefits Committee of the Board of Trustees for review before the full Board votes on any changes.

### *Why is the 457 Plan moving to PERA?*

PERA invests more than \$30 billion on behalf of over 430,000 current and former public employees who participate in the PERA Defined Benefit Plan. PERA also oversees a large 401(k) Plan and administers a Defined Contribution Plan for eligible State employees. It makes sense from an efficiency standpoint that an entity whose business *is* retirement should oversee the 457 Plan.

Welcome to PERA. We look forward to working with you as you invest for retirement.

## Diversification Is Key

During a prolonged bear market, it may be tempting to seek refuge in cash. Money market accounts, certificates of deposit<sup>2</sup> (CDs) and Treasury bills<sup>3</sup> are considered among the safest cash investments available. But that safety may be an illusion in the long run. *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.*

- 1 Access to KeyTalk and the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.
- 2 Certificates of deposit are insured by the FDIC for up to \$100,000 per depositor (up to \$250,000 for retirement account assets) and offer a fixed rate of return, whereas both the principal and yield of bonds and stocks will fluctuate with market conditions.
- 3 U.S. Treasury securities are guaranteed as to the timely payment of principal and interest if held to maturity. Fund shares are neither issued nor guaranteed by the U.S. Government.

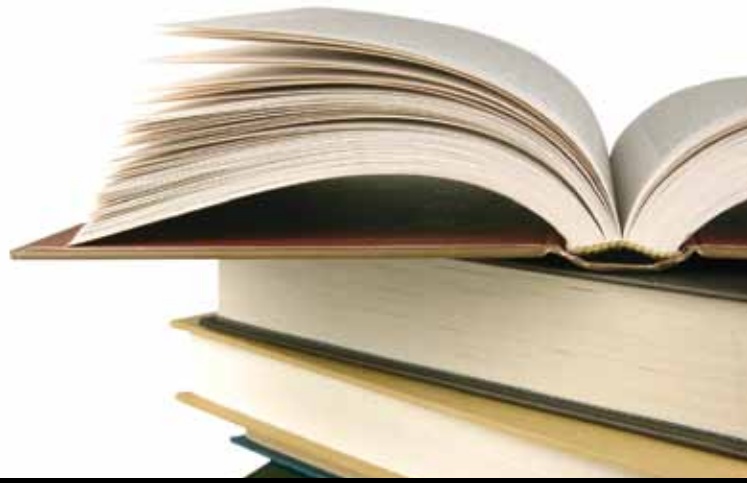
*(Continued on reverse)*

### Have Questions? Need Information?

Visit the Web site at [www.colorado457.com](http://www.colorado457.com) or call KeyTalk® at (800) 838-0457, option 2.<sup>1</sup>

Visit the Deferred Compensation Plan Service Center: 1775 Sherman Street, Suite 2040, Denver, CO 80203

Hours: 8:00 a.m.—4:30 p.m. Mountain Time, Monday through Friday



**Inflation Risk**

In order for your portfolio to experience growth over time, your returns must surpass the inflation rate. Over the past 25 years, cash, as measured by the 30-Day Treasury Bills Index, has produced an annualized return of just 1.79 percent compared with 6.61 percent for stocks and 5.16 percent for bonds.<sup>4</sup>

**Buy Low, Sell High**

Historically, the frequent selling of stocks in reaction to market downturns has had an adverse effect on long-term returns. That’s because when you sell stocks after prices have declined, you miss the eventual recovery in stock prices that typically follows a bear market. Research firm DALBAR, Inc. found that over the past 20 years, individual fund investors had an average annual return of 1.9 percent compared with 8.4 percent for the S&P 500® Index—largely because many investors tended to jump in and out of stocks.<sup>5</sup>

If growth is what you’re after, consider looking beyond cash—no matter what the stock market is doing. Remember: The market moves in cycles.<sup>6</sup>

4 Morningstar, Inc.

5 Quantitative Analysis of Investor Behavior 2009, DALBAR, Inc.

6 Past performance is not a guarantee or prediction of future results.

**Make the Most of Your Plan**

More than one in three Americans age 45 or older stopped contributing to their retirement account in 2008.<sup>7</sup> However, you still have strong reasons to continue to save:

- Each contribution is taken from your paycheck before it has been taxed, thus reducing your current taxable income. Plus, your investments grow tax-deferred until you begin taking withdrawals.
- By regularly investing the same amount at set intervals, you benefit from a feature called dollar cost averaging (DCA). With DCA, you buy more shares when prices are low and fewer when they’re high. While DCA won’t protect your investments from incurring losses, it does offer a chance to capture prices at their most advantageous levels.<sup>8</sup>

In 2009, you can contribute up to \$16,500 to your 457 account.<sup>9</sup> That may be more than you can afford this year, but consider saving more gradually by increasing your contributions by 1 percent each year.

7 *A Year-End Look at the Economic Slowdown’s Impact on Middle-Aged and Older Americans*, AARP, January 2009

8 Dollar cost averaging does not ensure a profit and does not protect against loss in declining markets. Investors should consider their financial ability to continue a dollar cost averaging plan during periods of fluctuating price levels.

9 Investors age 50 or older can make catch-up contributions of an extra \$5,500 each year.

**QUICK TIP**

**Quiz: Inflation Matters**

Test your knowledge about the potential impact of inflation on your account.

- |  | <b>T</b>                 | <b>F</b>                 |
|--|--------------------------|--------------------------|
| 1. Inflation is most likely to occur when the demand for products and services begins to exceed the available supply.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. It makes sense to cut back on saving and investing until inflation eases.   | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Even if inflation presents new investment challenges, you still want to stick with the asset allocation that best fits your goals, time horizon and risk tolerance. | <input type="checkbox"/> | <input type="checkbox"/> |

*Answers*

- ✓ 1. True. For example, economists worry that inflation could rise anew as money provided to consumers through the government stimulus plan could result in demand outstripping the available supply of goods and services.
- ✓ 2. False. The real danger is that if you don’t save enough you won’t have enough to live on in retirement.
- ✓ 3. True. Determine the best asset allocation strategy for your own personal situation—then stick to it, rather than trying to adapt it to whatever economic winds are blowing.

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