Perspectives

SECOND QUARTER 2010

# You May Want to Think Twice

During these challenging economic times, you may be rethinking how you spend your paycheck. It can seem like an easy solution to cut retirement savings so you have more money to spend today. But what is easy may not be what is best for your long-term financial security. In fact, there are two major drawbacks of stopping contributions to a savings plan like the Colorado PERA 457 Plan:

- Your paycheck may not grow as much as you think. Money for the Colorado PERA 457 Plan is taken from your paycheck before taxes. That means you defer paying taxes on any amount you contribute to the Plan. If you stop making contributions, your taxable income may grow. For example, if your paycheck before taxes is $1,500 and you contribute $200 per paycheck to the 457 Plan, you only pay taxes on $1,300. If you stop making contributions to the Plan, you may have to pay taxes on all $1,500, and the increase in your take-home pay may not be as much as you expect.
- You may have less money to spend in retirement. Plans like the 457 Plan are effective because you contribute a steady stream of money over time, regardless of market conditions. The following example shows how a short break in contributions can drastically lower the amount you have in the Plan:

| *Sophia* | *John* |
|---|---|
| Enrolls in the Colorado 457 Plan at age 30 | Enrolls in the Colorado 457 Plan at age 30 |
| Contributes $100 per month | Contributes $100 per month |
| Continues contributing $100 per month until age 65 | Stops contributing when he turns 40 and makes no contributions for five years |
| | Resumes contributions of $100 per month when he turns age 45, and continues his $100 contribution until age 65 |
| Account value at age 65: $113,609 | Account value at age 65: $95,161 |

FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration does not represent the performance of any investment options. It assumes a 6 percent annual rate of return, reinvestment of earnings, no withdrawals, and a 1 percent fund management fee. Rates of return may vary. The illustration does not reflect any administrative charges or expenses that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if tese charges had been deducted.

Sophia contributed just $6,000 more to the Plan than John, but her account balance is more than $18,000 larger than his. A better solution for John may have been to reduce his monthly contributions rather than stopping all together.

Bumps in the road on the journey to retirement are inevitable. Remember that staying the course today can lead to a successful retirement in the future.

# 2010 Required Minimum Distributions

You are normally required by law to begin annual withdrawals, called Required Minimum Distributions (RMDs), from your 457 Plan account by April 1 following the year in which you reach age 70½, or in the year you retire, whichever is later. For 2009, this requirement was suspended. RMDs will again be required in 2010.

*Contact KeyTalk at 1-800-838-0457[1] to start your periodic payments now.*

**Have Questions? Need Information?**

Visit the Web site at **www.colorado457.com** or call KeyTalk® at **1-800-838-0457, option 2**.[1]

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

# Three Mistakes You Can Avoid

It's easy to go on autopilot once you've joined the Colorado PERA 457 Plan and set how you want your contributions to be invested. Below are three common limits on your potential to save more, followed by ways you can be proactive:

**Contributing too little.** If possible, contribute as close to the maximum allowed in the Plan. In 2010, you may contribute as much as $16,500 to your 457 Plan account. If you're age 50 or older, you can also make "catch-up" contributions of as much as $5,500.

**Investing too heavily in one asset class.** Recent history has shown that the stock market can rise and fall significantly over a short period of time. You may be tempted to avoid investing in stock funds and load up on bonds and cash investments such as money market funds.

In reality, you'll likely need the strong potential for long-term growth that stocks could provide. Investing part of your money in stocks can help you capture some of the growth potential of stocks without exposing all of your savings. The key is to determine the appropriate asset allocation—the mix of stock, bond and cash investments—that is right for you.

When determining your asset allocation, consider the amount of time before you plan to retire, the amount of risk you're comfortable with, and your overall investment objectives. In general, the longer your time horizon to retirement, the greater the percentage of stocks you may want to hold.

**Timing the market.** A single headline can drive a person to shift money from one asset class to another. In 2008 and early 2009, many investors sold their stock funds and put their money in bond and money market funds hoping to avoid further losses. These investors bought bonds and money market funds at a high price and sold their stocks at a low price—the opposite of buying low and selling high. Unless they moved back into stocks, they also may have missed the rally that ensued. Between December 31, 2008, and December 31, 2009, stocks gained 26.5 percent.[2] Bond returns fell 2.4 percent and cash investments were up just 0.1 percent.[2, 3]

*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.*

Coming Soon

## Share Your Thoughts About the Colorado PERA 457 Plan

In the third quarter of 2010, Great-West Retirement Services® will conduct a survey about your participation and satisfaction in the Colorado PERA 457 Plan. Look for more information coming soon. We look forward to hearing from you about the Plan!

# Paper Work

In our increasingly electronic world, there are still some paper documents that you should hold on to. The following is a list of papers you should file:

- **Tax returns.** Generally, the IRS has up to three years to challenge a return unless circumstances exist that extend the three year period. Keep tax records and related receipts for at least four years.
- **Retirement account statements.** Hold onto annual statements until you retire or close the retirement account.
- **Bills and receipts.** Keep records of major purchases indefinitely to support insurance claims if the items are lost or stolen.
- **House records.** If you sell your home, you'll need documentation of the purchase price as well as improvements you made to the home. This information will help you establish the cost of the house for tax purposes.

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 Stocks measured by the S&P 500®, bonds by the Ibbotson Intermediate-Term Government Bond Index, cash investments by 30-day Treasury bills. Source: Ibbotson Associates SBBI 2010 Classic Yearbook.

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

**Core securities (except those offered through the self directed brokerage option), when offered, are offered through GWFS Equities, Inc., a wholly owned subsidiary of Great-West Life & Annuity Insurance Company.**

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