MILWAUKEE COUNTY DEFERRED COMPENSATION PLAN

MONEY MATTERS

SUMMER 2009

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CASH IS NOT KING

During a prolonged bear market, it may be tempting to seek refuge in cash. Money market accounts, certificates of deposit[1] (CDs) and Treasury bills[2] are considered among the safest cash investments available. But that "safety" may be an illusion in the long run.

STAY AHEAD OF INFLATION

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 91-Day Treasury Bills Index, has produced an annualized return of just 1.79% compared with 6.61% for stocks and 5.16% for bonds.[3]

DON'T BE SAFE, THEN SORRY

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%, compared with 8.4% for the S&P 500 Index—largely because many investors tended to jump in and out of stocks.[4]

If growth is what you're after, you need to look beyond cash—no matter what the stock market is doing. Remember: The market moves in cycles. You want to be sure you'll be invested in stocks when they eventually recover.[5]

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 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.
2 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.
3 Morningstar, Inc.
4 Quantitative Analysis of Investor Behavior 2009, DALBAR, Inc.
5 Past performance is not a guarantee or prediction of future results.

MILWAUKEE COUNTY

SELECT COMMITTEE ON DEFERRED COMPENSATION

Room 203, Courthouse
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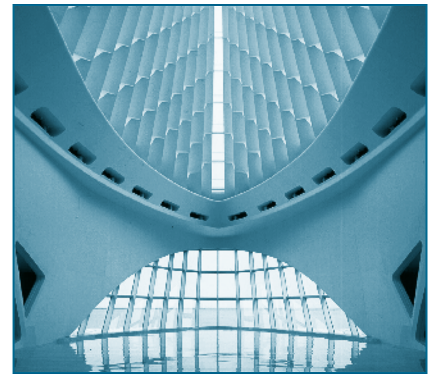
ONLINE DEFERRAL CHANGE FEATURE

YOUR PLAN NOW ALLOWS YOU TO MAKE CHANGES TO YOUR DEFERRAL AMOUNT ONLINE. JUST LOG IN TO YOUR ACCOUNT AT **WWW.MILWAUKEECOUNTY457.COM** AND CLICK ON CHANGE ACCOUNT. NOW YOU CAN DO EVEN MORE WITH YOUR ACCOUNT ON THE WEB!



GET THAT MORTGAGE

Interest rates have fallen this year, making borrowing more affordable. But lenders have become more demanding, even for homebuyers with good credit. Here are a few ways you can work through it.

MAKE SURE YOUR CREDIT SHINES

Lenders not only look for a stellar credit score, but also at two other numbers. Your loan-to-value ratio indicates what your house is worth versus the amount you're borrowing. The lowest rates are reserved for those borrowing less than 60% to 80% of their home's value. Your debt-to-income ratio compares how much you have in debt outstanding versus your before-tax income. Lenders prefer to see this ratio at 43% or less.[11]

HOLD STEADY

Lenders value stability, so if possible, postpone major life changes so they don't disrupt your credit history. Being able to show you have not frequently changed jobs or residences, for example, will work in your favor.

GET A SECOND OPINION

With the mortgage banking industry in flux, it pays to get approved in advance by more than one lender. You might save a few hundred dollars by seeking out lenders who don't charge application fees. ■

11 bankrate.com

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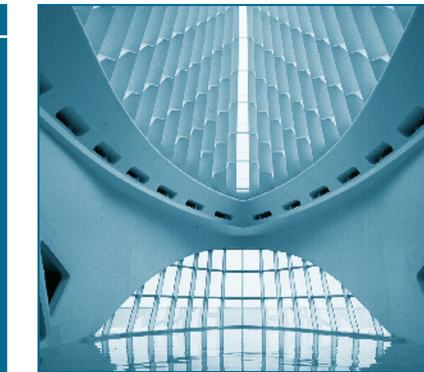
REMEMBER YOUR BENEFICIARY

ON YOUR QUARTERLY STATEMENT, YOU WILL FIND A SECTION FOR YOUR BENEFICIARY. PLEASE REVIEW THIS INFORMATION CAREFULLY. IF THIS HAS CHANGED OR IF A BENEFICIARY IS NOT LISTED, PLEASE COMPLETE A *BENEFICIARY DESIGNATION FORM*. YOU CAN GET THIS FORM ONLINE AT **WWW.MILWAUKEECOUNTY457.COM** UNDER THE FORMS TAB. MAIL OR FAX THE COMPLETED FORM TO THE ADDRESS/NUMBER LISTED ON THE BACK OF THE FORM. YOU MAY ALSO CALL THE SERVICE CENTER AT (877) 457-MILW (6459).

FEE HOLIDAY EXTENSION

THE SELECT COMMITTEE ON DEFERRED COMPENSATION HAS EXTENDED THE FEE HOLIDAY EXTENSION TO ALL PLAN PARTICIPANTS THROUGH THE THIRD QUARTER OF 2009. ENJOY THE BENEFIT OF NO ADMINISTRATIVE FEES FOR ANOTHER QUARTER!



QUIZ: INFLATION MATTERS

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

1. Inflation is most likely to occur when the demand for products and services begins to exceed the available supply. T F

2. Since inflation can eat away at the buying power of the assets in your retirement account, it makes sense to cut back on saving and investing until inflation eases. T F

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. T F

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 income 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. ■

MAKE THE MOST OF YOUR PLAN

More than one in three Americans age 45 or older stopped contributing to their retirement account in 2008.[6] However, your workplace plan offers strong reasons to save:

- Each contribution is taken from your paycheck before it has been taxed, thus reducing your 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.[7]

In 2009, you can contribute up to $16,500 to your retirement plan[8]—which may be more than you can afford this year. Save more gradually by increasing your contributions by 1% each year. ■

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

7 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.

8 Investors age 50 or older can make "catch-up contributions" of an extra $5,500 each year. irs.org.

GIVE YOURSELF CREDIT

The recession has provided many lessons for Americans—chief among them a reminder of the dangers of falling into debt. If you find yourself falling behind—especially on high-interest credit cards—consider paying off the balances as soon as you can. Otherwise, the interest you'll pay over time will blunt your ability to save when you need every resource available to rebuild your nest egg from recent market losses.

To pay down credit card debt as quickly as possible:

REVIEW SPENDING. Find areas where you can free up cash. For example, you might dine out less frequently or carpool to work rather than drive solo. You may need to make bigger sacrifices as well, like postponing luxury purchases for a year or downsizing your vacation plans.

PAY THE MINIMUM—AND THEN SOME. Each month, make the minimum payment on all your credit-card accounts to avoid late fees. Then make as large an additional payment as you can on the card with the highest interest rate. Say your balance on one card charging 14% interest is $5,000. If you added $80 to the $125 minimum monthly payment due, you'd pay off the debt in 29 months instead of 20 years of paying only the minimum. The amount you'd save in interest: $3,249.

When your credit-card debt is paid off, you may be able to use the money you were paying your card companies to build savings. If you haven't yet started an emergency fund or if the one you have is small, you may want to add to that first before increasing your retirement account contributions.

Having cash on hand for upcoming expenses and unexpected hardships will make it less likely you'll have to dip into your nest egg.

KEEPING GOOD CREDIT

Cleaning up your credit balances can help improve your spending and saving habits. It can also be a big step toward improving your credit history. Your credit history affects everything from getting a mortgage to the rate you pay on a new car loan. Each year you're entitled to a free copy of your credit history from the three major credit bureaus.[9]

WHAT'S YOUR SCORE?

For a small fee, you can request your credit score, a three-digit number that reflects your ability to make debt payments. Credit scores range from 300 to 850. Keeping your credit-card balances low and paying all your bills on time are steps you can take to improve your score. Another tip: Don't open new accounts just to increase your available credit. Many store cards carry low limits. As a result, a few purchases might max out the cards, pushing up your credit utilization rate—a measure of your debt as a percentage of your total available credit. Lenders look for credit utilization of 30% or less.[10]

The following are the components of your credit score:

35%	History of paying on time
30%	Amount you owe
15%	How long you have had credit
10%	Amount of new credit
10%	Number of accounts ■

9 Equifax (800-685-1111), Experian (888-397-3742) and TransUnion (800-916-8800) are the three top credit bureaus.

10 smartmoney.com