Managing “Good” and “Bad” Debt

A good rule of smart debt management is to minimize your “bad debt.” “Good debts” are loans that allow you to make purchases of long-lasting—and potentially increasing—value. A student loan, for example, lets you buy an education that can enhance your future earning power. A mortgage not only helps you buy a home for your family for many years to come, but it also an asset, the value of which may grow over time.

By contrast, “bad debts” are loans used to buy something that disappears almost immediately—like a night out for dinner and a movie—or something that starts losing value as soon as you’ve bought it, such as a car or plasma TV. Of course, it’s impossible to entirely avoid bad debts. But it’s a good idea to try to minimize them. You don’t want to be overly burdened paying for things long after their value has vanished.

Pay it down
You’ll save yourself a bundle—and free up extra cash to sock away for retirement—by making more than the minimum payment on your credit cards every month. Take a card on which you owe $6,000 and incur 15% interest, for example. Paying $50 more than the minimum each month is likely to eliminate your debt nearly 17 years faster and save you more than $4,000 in interest. What a difference!

Stay in Your Plan
When you separate service from the State of Alaska, you have a number of options to manage your Defined Contribution Plan account. Keeping your money in the Plan may provide you with better retirement opportunities than other investment products.

Reasons to stay with your State of Alaska Plan:

- You might pay less in fees if you stay in the Plan.
- Low-cost investment options. The Plan offers you competitively priced investment products, when compared to many other investment options. Low investment fees continue to keep more of your retirement money working for you in your portfolio.
- You retain distribution flexibility with a variety of payout options.
- Quick and easy transfers among investment options are still available.
- The Plan offers flexible, easy account management. You may continue to call KeyTalk® at 1-800-272-0859 to speak with a representative about your Plan-specific questions. The website at www.akdrb.com allows you to log in to your account to manage your retirement savings and access financial education information that can help you effectively prepare for retirement. Access both KeyTalk and the website at any time for account information or to make changes to your investments.

You retain distribution flexibility with a variety of payout options.
You can keep your money in the Plan—even if you retire or leave your job—or you may choose from a variety of distribution options, including periodic payments and partial withdrawals. You can also change your distribution arrangement as many times as necessary (unless you choose the annuity option) as long as you begin receiving payments by the required date.

The Plan offers tax-deferred growth, professional money management and flexible distribution options—with added benefits like low costs, flexibility and access to valuable services.

Consider keeping your dollars in the Plan.

1 Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrade/maintenance or other reasons. Transfer requests made via the website or KeyTalk received on business days prior to close of the New York Stock Exchange (4:00 p.m. Eastern Time or earlier on some holidays or other special circumstances) will be initiated at the close of business the same day the request was received. The actual effective date of your transaction may vary depending on the investment options selected.

4 www.bankrate.com (Feb 2011)
Investing Smarts: What’s your asset allocation strategy?

Your asset allocation—the way you divide your money among the three basic investment categories of stocks, bonds and cash—helps to determine the potential return of your account. It also helps manage the risk that your account value may fluctuate dramatically over time.

Choose the right mix

When you select your allocation, consider your time horizon. The longer you have until retirement, the greater your allocation to stocks should be. Stocks have historically delivered a high long-term return, but tend to be volatile in the short term. Bonds typically don’t fluctuate as dramatically in the short run, but over the long term they’ve barely outpaced inflation. Cash equivalents are the least volatile investment, but they generally pay the lowest long-term return.2

Investing at every stage

➤ Gearing up: The early years

When you’re in your 20s, 30s and 40s, first determine how much you can save in your workplace retirement plan, being sure to leave enough money in your budget for the here and now. Build an emergency stash—experts recommend three to six months’ salary held in an easily accessible account.

Once you’ve built an emergency fund, consider increasing contributions to your workplace retirement account annually, and keep a ‘hands-off policy.’ Remember: Your retirement plan is the cornerstone of your future.

➤ Go for growth

Be sure to tailor your retirement investments to suit your needs. The longer you have until retirement, the more money you may want to consider investing in stock funds to fuel growth in your portfolio. Although they may be subject to greater swings than other categories such as bond funds and cash investments, stock funds historically have greater long-term growth potential. Between 1926 and 2009, stocks averaged 9.8% in annual returns, compared with 5.3% for bonds and 3.7% for cash.2

Prepare for other key goals on an individual basis. For example, you might set up a college savings account for your children—keeping in mind that you won’t necessarily have to foot the whole tuition bill yourself. Loans, grants, scholarships and your children’s part-time jobs can help lighten the load.

➤ Prime-time planning

In your 50s and beyond, start to focus on yourself by visualizing life beyond the 9-to-5 workplace. Determine if you’re on track to maintain the style of living you want. As expenses like mortgage payments and college tuition wind down, use this freed-up cash to pump up your retirement plan.

Investing Smarts (continued from page 2)

➤ Dialing down

Next, consider a more moderate mix of investments as you get closer to the time when you’ll begin drawing from the funds. You’ll want a mix that adequately preserves your capital, provides regular income, and maintains the long-term growth potential needed to finance a retirement that may last 20 to 30 years.

The right combination of these assets helps create a portfolio with the potential to provide the long-term return you need without more risk than you can comfortably handle. Of course, asset allocation doesn’t eliminate losses or ensure profits—but it may help manage the risk that all your investments decline at the same rate at the same time.

Keep your eye on your allocations; you may need to adjust them if the market shifts (see “If You Need to Rebalance” below). Then let time, and tax-deferred compounding work together to help your nest egg grow.

Looking for help with your asset allocation?

Your State of Alaska Defined Contribution Plans have many resources to help you with your asset allocation, including Reality Investing® Advisory Services (Advisory Services). Advisory Services can provide you with a personalized retirement readiness assessment that comes complete with recommended changes to your investment and savings strategy. It can also give projections of your targeted retirement income and retirement age.

You can choose the level of support that is right for you: Online Investment Guidance, Online Investment Advice or a Managed Account service. There is no fee for Online Investment Guidance, and Online Investment Advice is available for a low quarterly cost of $6.25. If you choose the Managed Account service, the quarterly fee will be based on your account balance, as follows:

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For more information about Advisory Services, including any applicable fees, log in to the Plan website at www.akdrb.com and click on Reality Investing, or call KeyTalk at 1-800-232-0859.

There is no guarantee that participation in Advisory Services will result in a profit or that your account will outperform a self-managed portfolio.

2 Morningstar, Inc. IBES® SIB® 2010 Classic Yearbook. Past performance is not a guarantee or prediction of future results.

If You Need to Rebalance

Your asset allocation changes over time due to the ups and downs of the financial markets. Consider rebalancing at least once a year to get back to your original mix.3 Let’s say you had an original allocation of 60% stock funds, 35% bond funds and 5% cash equivalents, but stock fund prices fell, turning your mix to 50%/45%/5%. There are two ways you can rebalance: Transfer money from your bond investments to your stock investments, or direct increased contributions to your stock investments.

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If you’re approached about moving your account to a broker’s company, be sure to compare your current fee structure with the broker’s fee structure. If the expenses are higher with the alternative, what is the real reason to move your money? Who will it benefit? Consider all options. After all, it’s your money.

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