State of Alaska PERS/TRS Defined Contribution Retirement Plan

FINANCIAL FOOTNOTES

WINTER 2012

A retirement planning newsletter brought to you by Great-West Retirement Services® and Alaska Division of Retirement and Benefits

In This Issue

Take the Long View

The markets and the economy move in cycles. Is a recovery in sight?

In today's turbulent economy, it's important to understand the different phases of what is known as the business cycle. Doing so will help you stay calm during difficult periods.

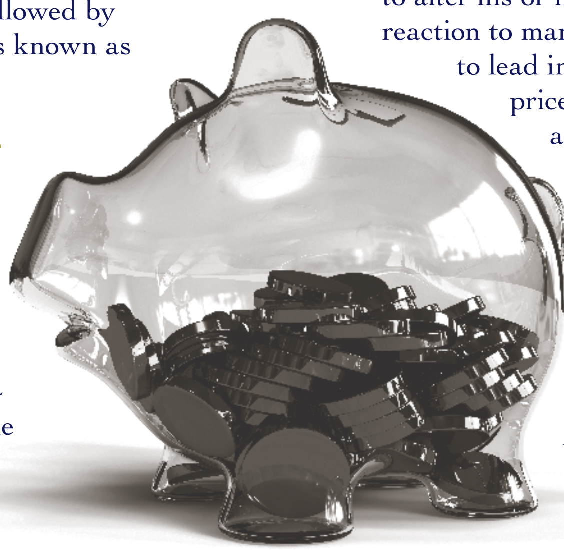
What is the business cycle?

The nation's economic activity is measured from its peak through its trough, or lowest point, then back again. Declining activity is called a contraction. A prolonged contraction is called a recession—something most Americans have become familiar with in recent years. Increasing activity is called an expansion. This revolving period of decline followed by eventual recovery is known as the business cycle.

The market's role

Generally, the stock market anticipates movements in the economy. That means stocks tend to fall before—and usually continue to struggle during—a recession's early stages. Before a recession ends, however, the anticipation of a recovery often prompts stocks to rebound. That said, predicting just when the market's recovery will occur is virtually impossible.

BUY LOW SELL HIGH



Keep your head

The worst course an investor can take is to alter his or her investment strategy in reaction to market events. Emotion tends to lead investors to buy at high prices when times are good and sell at low prices when pessimism prevails—a lose-lose scenario.

Stay invested

When you continue to invest in stock funds through good times and bad, you buy more shares when their prices are low. And that will position you well to reap the benefits of a market recovery.

PERS and TRS Defined Contribution Retirement Plan



Inflation-Fighting Strategies

How three generations of investors might cope with inflation

Over the years of building your nest egg and while you're tapping it during retirement, inflation—even when low—will likely be eroding your investment returns. Consider the following three hypothetical investors and the investment mix each has selected to combat inflation.

ANN At **age 26**, Ann is just starting to save for retirement. She knows she must invest so her savings can stay ahead of future inflation. Her retirement savings are allocated **100% in stock funds.** Compared with other asset classes, stocks have best outpaced inflation over time.[1]

BRIAN At **age 42**, Brian expects to retire in 25 years. He wants to shield some investments from stock market volatility, so **20% of his nest egg is in bond funds**. But **80% is invested in stock fund**s because he potentially still has enough time to ride out the market's ups and downs.

CURTIS At **age 60**, Curtis plans to retire in five years. He worries about inflation eroding his savings—now and throughout his retirement, which could last 20 years or longer. With only a short time until he retires, he allocates more conservatively: **40% of his assets are in bond funds** and **10% in cash investment**s. He keeps **50% in stock funds** as a hedge against inflation. He knows that a jump in inflation could force him to rethink his retirement timing and budget.

Effective investment strategies like these may give you the opportunity for meaningful long-term growth.

1 Morningstar, Inc. *Ibbotson® SBBI® 2011 Classic Yearbook*. Past performance is not a guarantee or prediction of future results.

FOR ILLUSTRATIVE PURPOSES ONLY. Intended to illustrate possible investment portfolio allocations that represent an investment strategy based on risk and return. This is not intended as financial planning or investment advice.

New Year, New Website

In the first quarter of 2012, the State of Alaska Website, **www.akdrb.com**, will transition to a new site which has been redesigned with you in mind. The Website content will be reorganized to make it easier for you to find the information you need. It will also be easier for you to review your account and complete transactions. Other enhancements include:

- At-a-Glance – Each time you log in, you will find the At-a-Glance tile located at the top of the screen showing your current account balance, your rate of return and last contribution amount.
- New Calculators – Take advantage of a library of useful calculators so you can make well-informed decisions on everything from budgeting to saving for college.
- My Action Plan – The site offers recommendations for actions you can take to keep your Program accounts in line with your personal circumstances (such as your age and savings rate).
- Suggested Links – Each page you visit features suggested links for next steps to consider based on the content of the page you selected.

Visit **www.akdrb.com** to see announcements about this new site and to be one of the first to preview it!

Five Steps for the New Year

New Year's resolutions are made with the future in mind, so why not make one that focuses on saving for a comfortable retirement? The steps you take now can help determine how successful you'll likely be at meeting your savings goals. Try the following action steps.

step 1 ***Determine how much money you'll need in retirement.*** Generally, most financial planning experts recommend anticipating replacing 70% of your pre-retirement earnings to comfortably maintain your pre-retirement standard of living. —sometimes more depending on your health care needs.[2] To help you arrive at this figure, check out the calculator at choosetosave.org/ballpark.[3]

step 2 ***Assess where you are now*** in terms of how much you've already saved. Using an online calculator, such as at aarp.org or bankrate.com, can help.[3] If you're on track to your retirement savings goals, your New Year's resolution should be to monitor your progress periodically to determine if any adjustments are needed. If you're behind where you planned to be, consider taking the third action step.

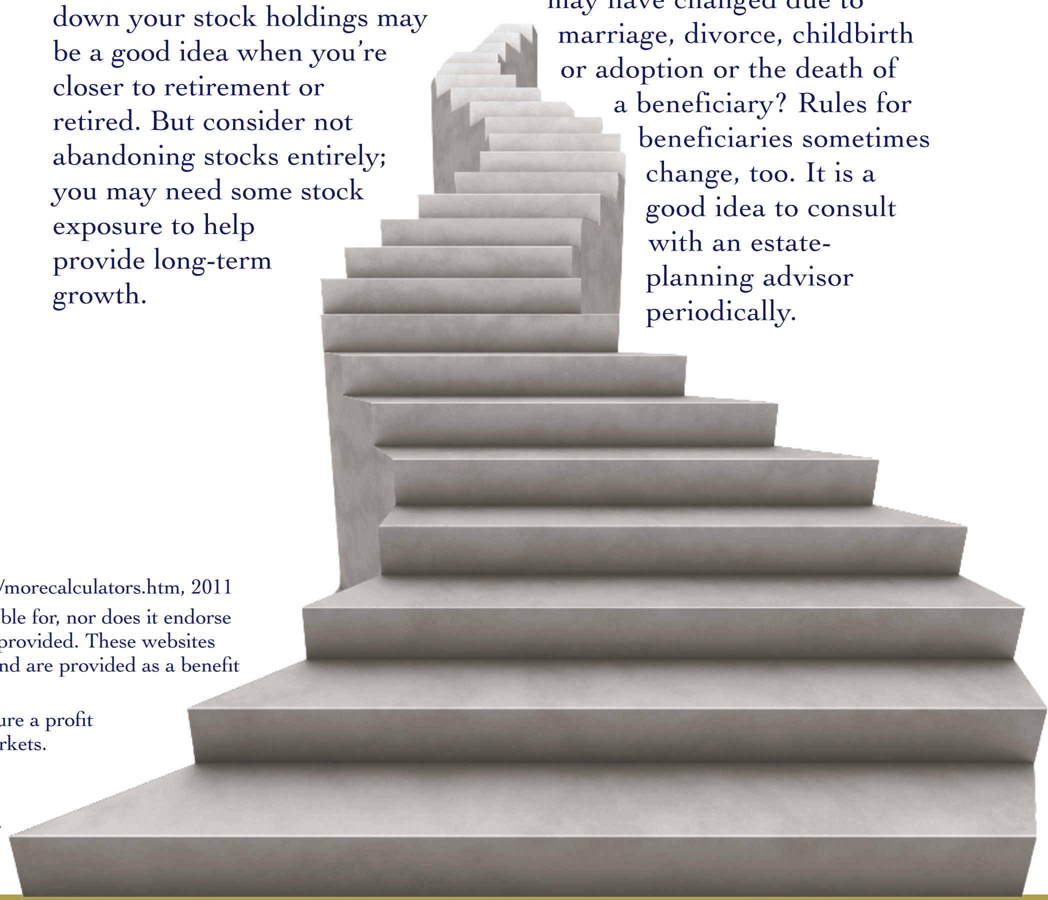
step 3 ***Consider closing your savings gap*** using one or both of these options:

◊ Pursue an investment strategy that includes stock funds. These higher risk investments tend to offer potentially higher returns—although past performance is not a guarantee of future results. They also tend to have steeper ups and downs, so you'll need to figure in your appetite for risk and your time frame for riding out market declines.

The further you are from retirement—say 10 years or more—the longer you have for weathering the market's ups and downs, and the more you should consider a greater allocation to stock funds. Dialing down your stock holdings may be a good idea when you're closer to retirement or retired. But consider not abandoning stocks entirely; you may need some stock exposure to help provide long-term growth.

step 4 ***Stay informed.*** Read information provided by your plan to learn about any changes in investment offerings—particularly new options that may help you refine your asset allocation. Also, explore any new features and services. Check out your Plan's asset rebalancing feature.[4] Ask your plan representative about anything you don't understand.

step 5 ***Review your beneficiary forms.*** In most cases, it's your plan beneficiary form and not your will that determines who inherits your retirement account savings. Does the form on file listing your primary and secondary beneficiaries reflect your current intentions, which may have changed due to marriage, divorce, childbirth or adoption or the death of a beneficiary? Rules for beneficiaries sometimes change, too. It is a good idea to consult with an estate-planning advisor periodically.



2 Source: https://www.socialsecurity.gov/planners/morecalculators.htm, 2011

3 Great-West Retirement Services® is not responsible for, nor does it endorse the content contained in the additional websites provided. These websites are for general education and information only and are provided as a benefit tothe users of the sites.

4 Asset allocation and/or rebalancing does not ensure a profit and does not protect against loss in declining markets.

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The Right Mix

Asset allocation and diversification are two of the most important investing strategies. Here are the differences between the two strategies:

Asset allocation[5] is the process of designating percentages of your investment dollars to the basic asset classes (stocks, bonds, and cash equivalents) based on your financial goals, time horizon, and tolerance for risk. You can do this on your own or you can invest in funds that are designed to invest in different asset classes. For instance, you may allocate 80% of your investment dollars to stock funds and 20% to bond funds. Or you could invest in a target date fund that essentially manages your asset allocation for you over the course of your career. A target date fund resets its asset mix according to your anticipated retirement date; the closer you are to retirement, the smaller its allocation to stocks. The date in a target date fund represents an approximate date when an investor would expect to start withdrawing their money or when an investor expects to retire. The principal value of the funds is not guaranteed at any time, including the target date.

Diversification[5] is a way of saying don't put all your eggs in one basket. You can diversify by investing in different asset classes and in different types of investments within those asset classes. For example, a diversified portfolio may consist of both stock and bond funds, with the stock portion invested in large-cap and mid-cap funds and the bond portion consisting of both corporate and government funds.

How do asset allocation and diversification affect risk?

Neither investing strategy eliminates risk. But by putting your money in an assortment of investments that, historically, are unlikely to all move in the same direction in terms of value and performance, you may be able to protect your portfolio from a single, devastating loss in one investment category.

5 Asset allocation and diversification do not ensure or guarantee better performance and cannot eliminate the risk of investment losses.

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KeyTalk®—account inquiries and maintenance	1-800-232-0859[6]

6 Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

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