



State of Alaska Supplemental Annuity Plan Deferred Compensation Plan

FINANCIAL FOOTNOTES

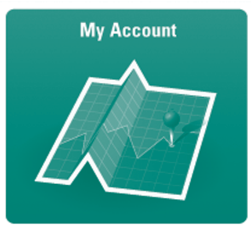
SUMMER 2012

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

In This Issue

Getting to Know the New Plan Website: My Account

With the new and enhanced State of Alaska Retirement Plan Website, you have a quick and easy way to view your account details with the My Account tile.



The My Account tile offers one-click access to your account balance, statements and investments. When you log in to **www.akdrb.com**[1], you'll see the tile prominently featured.

From the My Account tile, you can:

- Check your overall account balance, as well as the balance in each investment option
- Do a balance comparison
- Access electronic versions of account statements
- Generate a statement on demand
- Review your current investment allocations

Keeping track of your retirement has never been easier! Explore the new Website today.

1 Access to KeyTalk® and the Website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/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 option selected.

Fight Your Fears

Emotion can be an investor's worst enemy

Emotional reactions to market movements often result in poor investment decisions. Take the "buy high, sell low" tendency in which an investor buys stocks that have soared in price and sells them when the price has plummeted—a sure way to lose money. Instead of trying to "time the market," consider this rational approach to long-term investing:

1. Stick with an investment mix that fits your goals, time frame, and tolerance for risk. If you won't tap your account for 30 years, for example, you might be less concerned about short-term volatility and opt for a bigger stock allocation to maximize potential long-term growth. As you near retirement, generally capital preservation becomes more important, so you might decide to trim your stock investment allocation while boosting bond investments and cash investments.

2. Rebalance periodically. A volatile market can cause your investment mix to shift away from your targets, causing your portfolio to take on more or less risk than you wish. You can bring your investment mix back on target by adjusting your percentage allocations periodically on **www.akdrb.com**.[1,2]

3. Boost contributions annually. If your retirement plan offers an automatic annual increase, go for it. Even a small increase each year can make a difference in the growth of your savings.

2 Rebalancing does not ensure a profit and does not protect against loss in declining markets.

Set Solid Goals

When you plan for retirement, setting goals for saving and spending can be tricky. See how two hypothetical investors at different life stages can get on track for retirement. Which one best represents you?

Jerry, age 35

Jerry, who earns $50,000 a year, wonders, "How much should I be saving for retirement?"

At this age, he should shoot for contributing at least 10% of his paycheck to his retirement plan, and then further increase his deferral by a percentage point each year thereafter as his salary increases until he reaches the maximum allowed by his plan.

Of course, the right savings target depends on Jerry's personal circumstances, including his current total assets, his living expenses, and the age at which he expects to retire. Jerry can visit the website at **www.akdrb.com**[1] for information regarding his State of Alaska Retirement Plans, as well as financial education information, financial calculators and other tools to help him manage his account.

THE TAKE-AWAY: Take advantage of time

Saving more now can make it much easier to meet your goals, especially if you have decades before you plan to retire. Increasing the portion of your paycheck that is deposited automatically in a retirement plan also can reduce your current tax bill[3] if contributions are deducted out of pre-tax income.

Amy, age 57

Amy wonders how much money she'll need to live on when she retires, hopefully at age 65.

With plans to retire in eight years, Amy needs to calculate current expenses and then compare them with her income and expected savings she'll have accumulated by that time. By visiting **www.akdrb.com**[1], Amy will have access to calculators that will help her do the math for her retirement needs.

THE TAKE-AWAY: Don't underestimate retirement expenses

Most financial advisors say you'll need about 70% of your pre-retirement earnings to comfortably maintain your pre-retirement standard of living (see "***Reality Check on Retirement Spending***").[4] But some experts recommend that you plan on costs that are even higher. One reason is that you need to account for inflation, which will gradually increase your cost of living while eroding the purchasing power of your money, especially if you have a lot of it parked in cash investments. What's more, you may face high medical costs. You may be eligible for Medicare at age 65, but the federal insurance program does not cover all expenses (see "***Rx for Your Health***").

How will your budget change?

The best way to calculate your retirement needs is to examine your current budget and estimate how it will change. Then, add up the amounts you anticipate receiving from Social Security and a pension, if you have one. The difference between this amount and your annual expenses is the amount you'll need to withdraw from your savings annually in order to fill the income gap.

Limit withdrawals

Financial planners generally suggest that you withdraw no more than 3% to 4% of your savings during the first year of retirement, and then adjust for inflation each year thereafter. At that rate, your portfolio has a chance of lasting up to 25 or 30 years—not bad, considering today's long life spans.

FOR ILLUSTRATIVE PURPOSES ONLY. Highly adverse market conditions may affect an investor's ability to sustain withdrawals at these rates. This is not intended as financial planning or investment advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

3 Withdrawals are subject to ordinary income tax. A 10% early withdrawal penalty may apply to withdrawals made prior to age 59½. The 10% early withdrawal penalty does not apply to 457 plan withdrawals.

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

Reality Check on Retirement Spending

Conventional wisdom suggests you will need about 70% of your pre-retirement income to maintain your current standard of living in retirement. But a government study challenges that advice. It finds that spending in retirement could decline by just 1% to 6%.[5]

Rather than rely on a big drop in spending after you retire, carefully consider likely decreases in income, the cost of the activities you are likely to pursue in retirement, and other expenses like health care. You may want to count on having 100% of your current expenses. This could provide a more realistic benchmark for planning for a long retirement.

5 "The Retirement Consumption Puzzle: Actual Spending Change in Panel Data," National Bureau of Economic Research and Rand Corp., April 2008.

Rx for Your Health

Even with Medicare, expect high health care costs

Everyone age 65 or older is eligible for Medicare. While it's true that Medicare may cover hospital care at no charge if you or your spouse paid Medicare taxes during your working years, it doesn't cover most dental, vision and hearing services or long-term care. You'll also have out-of-pocket costs like deductibles and co-insurance, and you must pay premiums for coverage of doctors' visits and prescription drugs. How much might all of this cost you? For the average, healthy 65-year-old married couple, the estimated amount of money needed for out-of-pocket health care expenses during retirement is more than $250,000.[6]

Coverage for added expenses

You may decide to buy a "Medigap" policy from a private insurance company to pay for charges not covered by Medicare. You also may buy private long-term care insurance. Before purchasing any policy, make sure you understand the terms of what's included in the coverage. **Important note**: You may already have health insurance through your State of Alaska Retirement Plan, so check with your Retirement Plan Counselor, or review your plan options on the Division Website at **www.doa.alaska.gov/drb**.

It's wise to assume that your nest egg must be large enough to cover health care-related expenses throughout your retirement lifetime. You may find it helpful to save for health care in an account earmarked for those expenses, such as a Health Savings Account, in which contributions may be tax-deductible.

6 "Funding Savings Needed for Health Expenses for Persons Eligible for Medicare," ebri.org, December 2010.

Ready to Retire?

The State of Alaska Defined Contribution Plans and You: How to Keep a Good Thing Going

Retirement: It's the culmination of a lifetime of planning, preparation and saving. It's also the time to decide how you'll want to dip into the funds you've accumulated in your State of Alaska account.

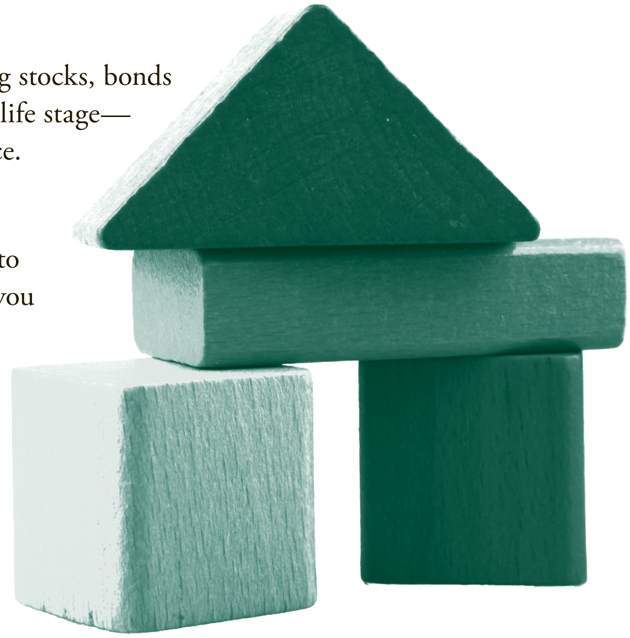
Here's one of the best-kept secrets about retirement planning: The same resource that helped you build your retirement nest egg can help you make the best use of that money in retirement. By keeping your account in the State of Alaska Plan, you'll have access to the same low-cost investment options and account management tools you've always used. So if you plan to keep at least a portion of your retirement funds invested, continuing to work with the State of Alaska Plan is a good option.

You can leave your money invested in the State of Alaska Plan until you are 70½ years old. However, you must begin receiving a required minimum distribution (RMD) by April 1 of the year following the year in which you reach age 70½ or sever employment, whichever occurs later. For questions regarding your specific situation or for help with calculating your RMD, please consult your financial advisor or tax professional.

Make It Personal

Match your investment mix with your goals and life stage

Your asset allocation strategy—the way you divide your investments among stocks, bonds and cash—is all about you. It should reflect your financial goals and your life stage—specifically the level of risk that's appropriate for your age and risk tolerance.



The building blocks

The right combination of assets helps create a portfolio with the potential to provide the long-term return you need without more short-term risk than you can comfortably handle. Historically, stocks have delivered high long-term returns but a very bumpy ride along the way. Bonds haven't fluctuated as dramatically in the short run but barely outpaced inflation longer term. Cash was the least volatile but paid the lowest long-term return.[7] Please keep in mind that past performance is not a guarantee or prediction of future results.

The younger you are, the more you might want to consider stock investments as a larger portion of your portfolio in order to benefit from their growth potential; you have more time to recover from big downturns. However, if you're closer to retirement, consider a higher concentration of bond and cash investments to cushion the impact of stock market declines.

Adjust annually

Your allocation changes over time due to the ups and downs of the financial markets. Consider rebalancing at least once a year to get back on your chosen course. You can do this by logging on to **www.akdrb.com** and shifting the percentages of your investments in stocks, bonds and cash back to their original targets.[8]

Contacts/Account Maintenance	
Alaska Division of Retirement and Benefits	1-800-821-2251
From Juneau	1-907-465-4460
Website	www.doa.alaska.gov/drb
Account information online	www.akdrb.com[1]
KeyTalk®—account inquiries and maintenance	1-800-232-0859[1]

7 Morningstar, Inc., Ibbotson® SBBI® 2012 Classic Yearbook.
8 Asset allocation and/or rebalancing neither ensure a profit nor protect against loss in declining markets.
Please note: This newsletter does not constitute investment or financial planning advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

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