State of Alaska Supplemental Annuity Plan Deferred Compensation Plan

FINANCIAL FOOTNOTES

SUMMER 2013

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

In This Issue

Playing Catch Up

Tips for reaching your retirement savings goal—even if you're behind

Are you behind on saving for retirement? You're not alone.

- **Nearly half of workers born between 1948 and 1964 appear to be at risk of outliving their retirement savings.[1]**
- **More than one-quarter of workers don't think they have enough money to pay for basic expenses in retirement.[2]**
- **Retirement may seem light years away for younger workers; many people in their 30s and 40s are already behind on saving.[2]**

Here's what investors at different life stages can do to save more for retirement.[3]

The Younger Years (20s to Mid-40s): Take advantage of the decades ahead to get on track.

Step up your savings

Investors starting younger may have the luxury of time, but regardless of age, putting more away for retirement can help. Even a small increase in the amount you are contributing toward retirement can make a big difference. If eligible, you should also consider maximizing your deferred compensation plan's contributions. In 2013, the IRS allows you to contribute up to $17,500 pre-tax to your State of Alaska Deferred Compensation Plan.[4] If not, consider other avenues to bolster your nest egg, such as a savings account or Individual Retirement Account (IRA).

Don't tap your nest egg

Your State of Alaska plans don't allow early withdrawals while you are a current employee (except the 457 Plan in the case of unforeseeable emergency), but you may be able to take money out of another retirement savings account before you actually retire. This sounds tempting, but if you do take a withdrawal, you'll potentially owe income taxes on the money and, in many cases, a 10% federal early withdrawal penalty on top of those taxes.[5] Moreover, you'll lose the potential growth that money may reap over time.

Go for growth

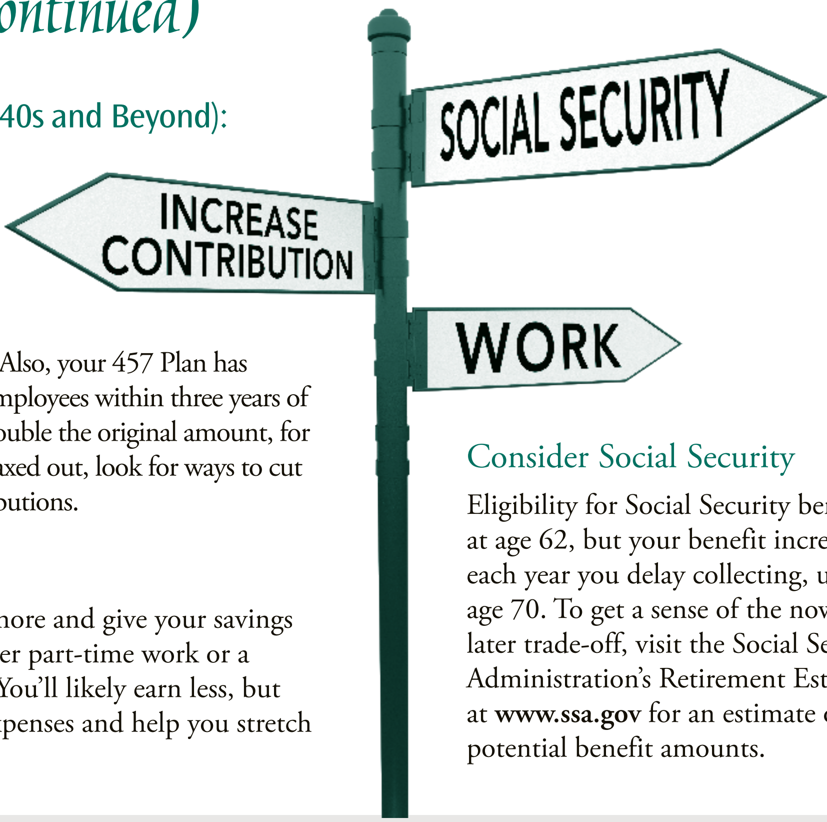
Financial professionals generally recommend that investors in their 30s and early 40s hold at least 70% to 80% of their retirement portfolio in equities. But many investors in that age group don't hold nearly that much, according to data compiled for smartmoney.com by the Employee Benefit Research Institute.[6] Since you can sacrifice potential growth by playing it too safe, it's important to hold an age-appropriate, diversified portfolio.[7]

Continued on page 2

1 "The EBRI Retirement Readiness Rating," July 2010, ebri.org.
2 "2012 Retirement Confidence Survey," ebri.org.
3 This is not intended as financial planning or investment advice. Representatives of GWFS Equities, Inc. are not registered investment advisors and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax advisor as needed.
4 irs.gov
5 The 10% early withdrawal penalty does not apply to 457 plan withdrawals.
6 "What's Gen X So Scared Of? Stocks." May 5, 2011, smartmoney.com.
7 Diversification of an investment portfolio does not ensure a profit and does not protect against loss in declining markets.



Playing Catch Up (continued)



Midlife and Retirement Years (Late 40s and Beyond): Consider your options.

Minimize a shortfall

If you're age 50 or older, you can make an extra $5,500 in "catch-up contributions" in addition to the $17,500 you're allowed to contribute to your State of Alaska 457 Plan. Also, your 457 Plan has special catch-up provisions that may allow employees within three years of normal retirement age to contribute up to double the original amount, for a total of $35,000 in 2013. If you haven't maxed out, look for ways to cut back elsewhere so you can boost your contributions.

Keep working

If you're able to work longer, you'll save more and give your savings more time to potentially grow. Or consider part-time work or a career change to do something you love. You'll likely earn less, but the extra income will offset your living expenses and help you stretch your retirement savings.

Consider Social Security

Eligibility for Social Security benefits begins at age 62, but your benefit increases with each year you delay collecting, up until age 70. To get a sense of the now versus later trade-off, visit the Social Security Administration's Retirement Estimator at **www.ssa.gov** for an estimate of your potential benefit amounts.

When Should You Rebalance?

Market moves can throw your allocation off target

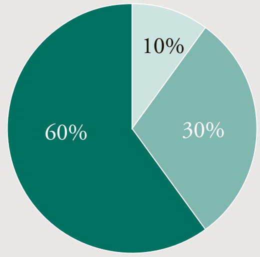
Changes in financial markets affect your investment mix over time. As markets fluctuate, one asset class may occupy a greater share of your portfolio while another consumes less. When this happens, consider "rebalancing"—returning your portfolio to your target asset allocation. Rebalancing can help optimize your portfolio by trimming back on asset classes that have recently outperformed and increasing those that have underperformed and may be ready to grow.[8]

Check your portfolio's allocations at least annually. If they have changed by more than five percentage points, adjust them back to your intended targets. In the example to the right, you could shift 5% out of stock investments, allocating 4% to bond investments and 1% to cash investments.

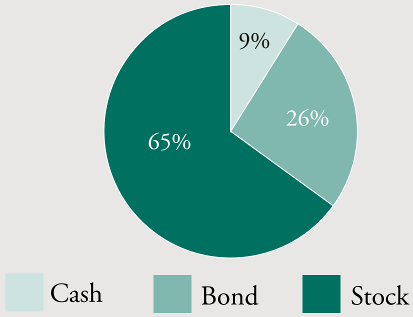
If you are ready to rebalance, visit the Website at **www.akdrb.com**, or contact a Great-West Financial[SM] representative with questions or to get help.[3]

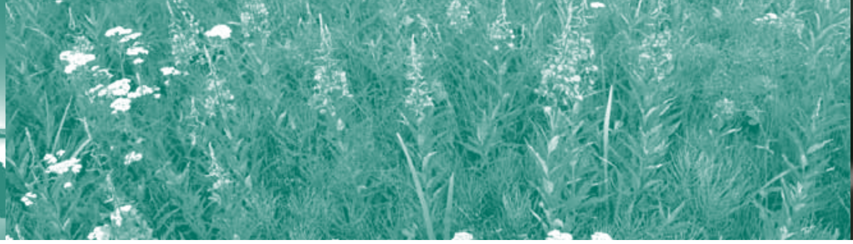
8 Rebalancing does not ensure a profit and does not protect against loss in declining markets.

Let's say, for example, you are allocated as follows:



If your stock investments gain 30% one year, your bond investments rise 4%, and your cash investments return 1%, your mix will shift to:




Finding the Right Mix

Putting asset allocation to work for you

As an investor, you face a number of risks. Two of the most basic are volatility, the market's nerve-wracking ups and downs that can hurt your portfolio's value, and shortfall, the danger that your investments won't grow enough to meet your long-term goals. Asset allocation—dividing your portfolio holdings among a combination of stock, bond and cash investments—can help you manage both of these risks.[9] That's because different asset classes typically don't rise and fall in value at the same time. So, having a mix of various types of assets helps smooth out the impact of market volatility while improving the growth potential of your portfolio over the long term.

Finding the right combination of assets for you depends on three key factors:

Your total savings goal

How much do you need to save to generate enough income for a retirement that may last 20 years or longer? Opting for a less expensive retirement lifestyle or delaying retirement can help you close a savings gap. For example, a 65-year-old with $80,000 in savings who contributes $500 a month to his or her retirement plan could amass an extra $16,500 in savings by working until age 67.[10]

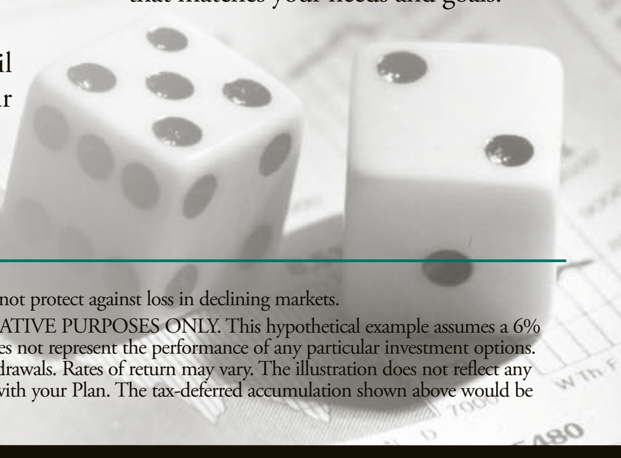
Your time horizon

The amount of time you have until you need to start withdrawing your retirement savings can affect your investment strategy. Generally speaking, the more time until you retire, the more likely you can achieve your savings goal by making regular contributions and keeping a broad mix of stock and bond investments. With less time until retirement, you may need bigger contributions and/or more exposure to stock investments to reach the same target. See the "Go Long on Risk" article on page four for more information.

Your risk tolerance

Young adults are often more risk-tolerant because they have more time to recover from market losses. Investors nearing retirement, on the other hand, are often less risk-tolerant, because they need to protect their savings from the possibility of an extended market downturn. That said, considering that retirement could last 30 or more years, investors may want to keep a moderate risk allocation—typically meaning more than 60% in stock investments—in their portfolios well into their retirement years.

Because your situation changes over time, it's sensible to monitor your asset allocation periodically and make needed adjustments. Your State of Alaska Plan Website, **www.akdrb.com**, may provide tools and other resources to help you determine an asset allocation strategy that matches your needs and goals.



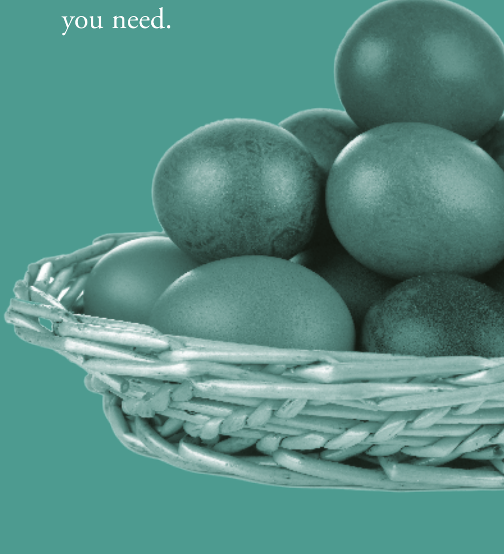
9 Asset allocation does not ensure a profit and does not protect against loss in declining markets.

10 Savings Calculator on finra.org. FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical example assumes a 6% annual return on investment. The illustration does not represent the performance of any particular investment options. It assumes reinvestment of earnings and no withdrawals. Rates of return may vary. The illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if these fees had been deducted.

Beware of Overlap

If you own several different investment options, you may think you are diversified.[7] But how diversified are you if each fund holds stock in Company ABC? That's called overlap—and it's common. For example, recent data show that 4,978 different investment options own Microsoft stock.[11]

The more overlap you have, the less you're reaping the benefits of diversification. You can do a quick check for overlap by looking at the top 10 holdings of every fund. You can find this information on **www.akdrb.com** in the "Investment Information" section. If your investment options own the same few stocks, look for others that offer the diversification you need.



11 Morningstar.com, May 2, 2013. The data on the number of investment options owning stock of a given company is based on the most recent periodic report from each investment option.

Go Long on Risk

Over many years, a low-risk investment strategy may hurt returns

After the stock market tumult of recent years, you may have decided to play it safe with a "conservative" investment strategy that's heavy on bond and cash investments that deliver mostly predictable and modest returns. But is that really a safe approach?[3]

A minimal-risk investment strategy may work against you over time because inflation erodes the purchasing power of your nest egg. If your investments grow an average 4% annually and the inflation rate is 3%, for example, your actual return is only 1%. If you're young and have many years of investing ahead of you, you risk coming up short on savings when retirement finally rolls around.

On the other hand, an aggressive investment strategy—heavy on higher risk stock investments—leaves your nest egg exposed to bumps in the market. The closer you are to retirement, the less time you have to wait out stock market recoveries. Because you want your nest egg to be large enough to meet your retirement goals when you start to tap it, it may make sense to reduce your investment risk as retirement approaches.

The bottom line: When you think about risk, you need to consider your investing horizon. The longer until you need your savings, the more risk you can generally tolerate—and the more bumps in the road you can handle.

Consider a Target Retirement Trust

If you're concerned about risk but don't want to worry about shuffling your investments around, consider one of the Target Retirement Trusts available through your State of Alaska Plan. This investment option will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date (which is the assumed retirement date for an investor). In general, the underlying investments are made up of stocks (or stock funds), bonds (or bond funds), and cash equivalents. This can be an easy way to transition into lower risk as you near retirement.

The date in a Target Retirement Trust represents an approximate date when an investor would expect to start withdrawing his or her money or when an investor expects to retire. The principal value of the trusts is not guaranteed at any time, including the target date. Please see the appropriate trust overview at **www.akdrb.com** for additional information.

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*
KeyTalk® — account inquiries and maintenance	1-800-232-0859*

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