State of Alaska
Supplemental Annuity Plan
Deferred Compensation Plan

FINANCIAL FOOTNOTES

WINTER 2011

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

In This Issue

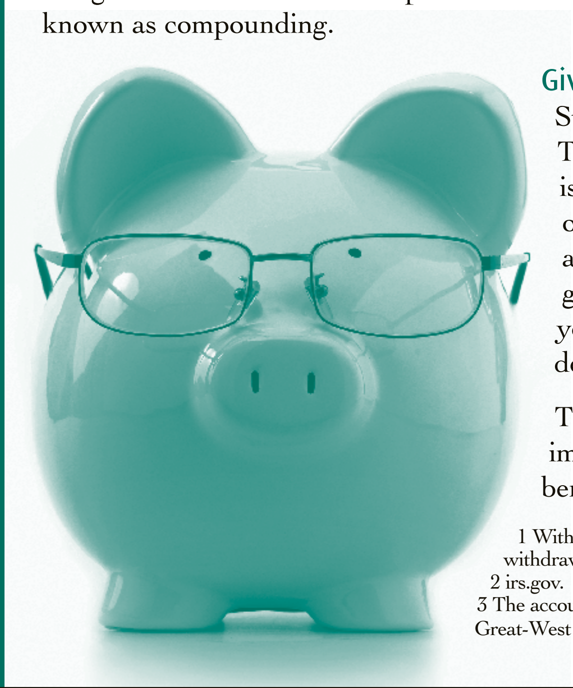
Tax-Smart Saving

Make the most of the State of Alaska Deferred Compensation Plan

Whether or not this year's changes in the tax laws affect you, there's one thing that remains constant: the benefits of investing in the voluntary Deferred Compensation Plan available to Alaska State agencies. If you are a political subdivision employee, check with your employer to see if they offer a similar employee plan.

The pre-tax advantage

Deferred compensation plans generally are effective long-term savings tools. One reason is their ability to shelter money from taxes: You aren't taxed on the dollars you contribute to the plan—or on any money your investments earn—until you start making withdrawals.[1] What's more, you can reinvest every penny of your investment earnings, rather than paying a portion of them to Uncle Sam. Over time, these returns potentially can generate more returns—a phenomenon known as compounding.



Give it a boost

Strive to save as close to the maximum allowed in the plan. The IRS limit for deferred compensation plan contributions is $16,500 for 2011, and even more if you're age 50 or older or meet other criteria in your plan.[2] You may not be able to afford contributing that much now, but you can make it a goal—gradually increasing the percentage you defer from your salary each year. You can easily make changes to your deferral amount by visiting **www.akdrb.com**.

The State of Alaska Deferred Compensation Plan is an important piece of your financial future. By maximizing its benefits, you'll have a better chance of reaching your goals.

KeyTalk® Enhancements Coming Soon

During the first quarter of 2011, KeyTalk will be enhanced with speech recognition capabilities. Along with this new functionality, other highlights include new authentication alternatives in the event you do not have a PIN number[3] and the ability to request a statement or form. The enhancements will be phased in beginning in February with the rollout completed by the end of March. The KeyTalk number for Alaska, **1-800-232-0859**, will remain the same.

1 Withdrawals are subject to ordinary income tax. A 10% penalty may apply to early withdrawals made prior to age 59½; this does not apply to 457 deferred compensation plans.
2 irs.gov.
3 The account owner is responsible for keeping the assigned PIN confidential. Please contact Great-West Retirement Services immediately if you suspect any unauthorized use.

Adjusting Your Asset Allocation

With your State of Alaska defined contribution plans, you may have taken the opportunity to determine your asset allocation—the percentage of your retirement plan contributions to invest in stock funds, bond funds and cash equivalent investments. Your asset allocation strategy is not just about percentages; it should reflect your life stage, your comfort with risk, and your overall financial goals.

Every year, take the time to review your allocations to make sure they are still in line with your original targets—and still suit your needs. In many cases, you'll be able to stand pat. But if a change is warranted, here are questions you should ask yourself, with answers that will help you take appropriate action.

Do I need to rebalance?

Sometimes market moves can shift your allocations away from their original targets. If you notice a change of more than 5% from your preferred allocations, consider rebalancing, or resetting your allocations back to their original targets.[4]

Hypothetically speaking, say you have a targeted allocation of 70% in stock funds, 25% in bond funds and 5% in cash investments. If due to market declines your stock allocation has fallen to 65% your portfolio may lack the growth potential you seek. You could direct new contributions to stock funds or shift savings out of an asset class (bonds or cash or both) that has grown too large into stocks.

Has my life changed?

Anything that substantially affects your income, expenses or financial goals may be a good reason to rethink your strategy. Let's say you get married and your spouse also has a workplace retirement plan. Consider how the two plans work together: Check for any redundancies in the funds you've each chosen, and see if your long-term investment goals match.

Do my investments match my life stage?

Your age is the most important factor because it determines your time horizon: how many years before you retire, and then how many years you'll need to rely on your savings in retirement.

1. The Early Years: Can I afford to take more risk?

Younger investors, say between their 20s and 40s, have several decades before they need to withdraw their money for retirement. Generally, your priority at this stage should be to maximize growth.

Stocks have historically offered the greatest potential for long-term growth compared with other asset classes, although past performance does not guarantee or predict future results. You might consider holding as much as 80% or more of your portfolio in stock funds and 20% in bond funds. Occasionally, the value of your stock investments may decline. However, your greatest advantage is time. Over many years, the potential growth of your stock funds, combined with continued plan contributions, may make up for those declines while helping to offset the impact of inflation.[5]

2. Mid-life: Time to dial down?

By your 50s, you may have accumulated substantial assets but have less time to make up for losses. It's still important to maximize growth in order to offset the longer-term risk of inflation. (See "How Inflation Hurts Your Cash.") Shifting a portion of your savings out of stock funds and into bond and cash funds can help you manage your risk of short-term losses, while maintaining a good measure of growth potential. You might choose to hold about 70% or less in stock funds, with 25% or more in bond funds and 5% in cash equivalent investments.[5]

3. Retirement: How can I make my savings last?

As you approach retirement, you want to protect your savings from sudden declines, so it may make sense to reduce your stock fund assets in favor of bond funds. You might consider an allocation of 40% in stock funds, 40% in bond funds and 20% in cash equivalent investments. You may not want to abandon stock funds, though: You'll always need some growth, whether to maintain your lifestyle or leave a legacy for your heirs.

Can I get assistance with my asset allocation strategy?

Do you need help putting an asset allocation strategy into play? Your Plan also offers an innovative suite of three levels of investment assistance through Reality Investing® Advisory Services (Advisory Services). Depending on the level of involvement that you want to take in managing your account, Advisory Services may provide you with the help you need. There is no guarantee that participation in Reality Investing Advisory Services will result in a profit or that your account will outperform a self-managed portfolio. Visit **www.akdrb.com** for more information on these services, including any applicable fees.

4 Rebalancing does not ensure a profit and does not protect against loss in declining markets.
5 Representatives of GWFS Equities, Inc. are not registered investment advisers and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

How Inflation Hurts Your Cash

Some investors may think of cash as the ultimate safe investment. But cash is not risk-free. Investors who keep most of their assets in cash or cash equivalents, such as stable value or money market funds, face the risk of inflation.

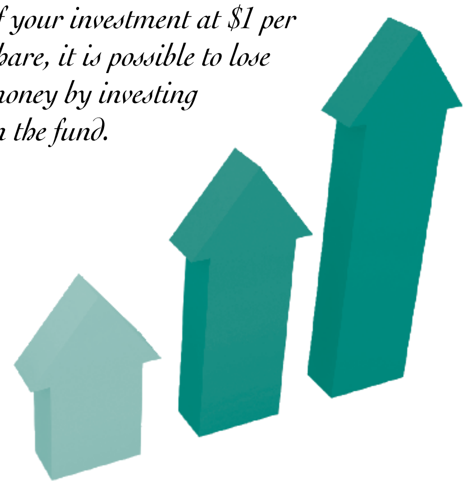
Inflation, or the rise in the prices of goods and services, reduces the purchasing power of cash over time. Even at 3% per year—the average rate since 1926—inflation may slash the purchasing power of $1,000 to $543 over 20 years.[6]

In 2009, inflation fell for the first time since 1955, down 0.4% for the year.[8] Some economists worry that the opposite of inflation could occur: deflation—a prolonged period of falling prices.[7] Investors who trade frequently may consider short-term deflation strategies.[7] But for investors like yourself, who are focused on saving for retirement, protecting your investments from the long-term effects of inflation could be in your best interest. The reason: Even if deflation occurs, it has historically proved to be rare.[6]

You can soften inflation's bite by maintaining a well-balanced portfolio that invests in stock funds and bond funds in addition to cash equivalent investments, such as money market funds. The returns of each asset class tell the story of how investing in stock funds and bond funds can help you stay well ahead of inflation: From January 1, 1926, to December 31, 2009, cash equivalent investments, such as money market funds, gained just 3.7%, while bonds averaged annual returns of 5.4% and stocks returned 9.8%.[8]

Keep your assets growing by staying wise to inflation.

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 per share, it is possible to lose money by investing in the fund.



6 Bureau of Labor Statistics (bls.gov).
7 "What To Do If Inflation Strikes," June 4, 2010, smartmoney.com.
8 Morningstar, Inc., Ibbotson® SBBI® 2010 Classic Yearbook. Stock return is based on the Standard & Poor's 500 Index. Bond return is based on the Long-Term Government Bond Index. Cash return is based on the 30-day Treasury bill. Past performance is not a guarantee of future results.

Just One Percent More

Even small increases in Deferred Compensation Plan contributions can make a big difference in the size of your nest egg. Compare the savings outcomes of the following three hypothetical investors, assuming that each receives a 3% annual raise on an initial $60,000 salary.*

Investor	Monthly contribution	Account value after 25 years
Susan	5%	$259,406
Jennifer	6%	$311,287
Robert	7%	$363,169

For more information, or to make changes to your deferral amount, visit **www.akdrb.com**.[9]

* FOR ILLUSTRATIVE PURPOSES ONLY. Does not represent the performance of any investment options. Assumes 7% annual rate of return, reinvestment of earnings, with no withdrawals. Rates of return may vary. 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.
9 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 (12:00 p.m. Alaska 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.



A Helping Hand

Test your knowledge about Deferred Compensation Plan catch-up contributions

Once you reach age 50, you can contribute even more than the maximum allowed to the State of Alaska Deferred Compensation Plan. How much do you know about catch-up contributions?

True or False?

1. In 2011 you can make catch-up contributions of up to double the standard limit to the Deferred Compensation Plan.
2. Making catch-up contributions won't have much of an impact to your Deferred Compensation account if you're already contributing the maximum.

THE ANSWERS

1. True. If you're 50 or older, there is a catch-up feature available that can bring your total contribution to $22,000 in the State of Alaska Deferred Compensation Plan.

   Additionally, all employees who are within three years of their normal retirement age can make up for contributions they could have made during previous years of state employment but didn't. This catch-up limit is double the regular contribution limit. For 2011, this equals $33,000. Note that the age 50 and over catch-up provision and the regular catch-up provision cannot be used in the same year.[10]

2. False. Let's say you and a friend each have $150,000 in your Deferred Compensation accounts at age 50 and already contribute $16,500 annually. If your friend makes catch-up contributions of $5,500 each year and you don't, she could have accumulated $987,438—or $143,396 more than you—by age 65, assuming a 7% annual return on your investments.

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10 You may contribute under the standard catch-up provision for a maximum of three consecutive years. Once you elect the standard catch-up, if you do not utilize it for all three consecutive years, you cannot make up the amounts not utilized at a later time or with another employer.

Annual Financial Statements for the Alaska Supplemental Annuity Plan are now available at **http://doa.alaska.gov/drb/sbs_ap/financial/financial-reports.html** and for the Alaska Deferred Compensation Plan at **http://doa.alaska.gov/drb/dcp/financial/financial-statements.html**.

Contacts/Account Maintenance

Alaska Division of Retirement and Benefits	1-800-821-2251
From Juneau	1-907-465-1600
Website	www.doa.alaska.gov/drb
Account information online	www.akdrb.com[9]
KeyTalk®—account inquiries and maintenance	1-800-232-0859[9]

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