County of Los Angeles
Savings Plan

July 2007

The Right Mix

Attempt to maximize growth while minimizing portfolio risk

Asset allocation means determining the right mix of stocks, bonds and cash equivalents to help you prepare for a comfortable retirement. It may also help to reduce risk in your investment portfolio.

Create a Timeline

Although your primary goal is retirement, your financial objectives probably fall into three categories: growth, income and protecting your investments from risk. While you're working, you may seek growth; as retirement approaches, your focus may shift to income generation and risk avoidance.

Pick and Choose

Only you know your risk tolerance, but experts agree your allocation should gradually become more conservative as you age. For example, while a mix of 80% stock funds and 20% bond funds might be fine when you're younger, at retirement age you might want to preserve your assets and generate income while continuing to seek growth. Consider adjusting your investment allocation over your working years to gradually get more conservative as retirement approaches. When you retire, depending on your risk tolerance, you may have a more conservative mix of 40% stock funds and 60% spread among bond funds and cash equivalents. However, experts caution that retirees should avoid becoming ultra-conservative because you will still need continued growth in your portfolio to outpace inflation.

Rebalance to Stay on Track

Once you've chosen an allocation, review it periodically to make sure your savings are on track. You may need to rebalance if personal circumstances change, or if market performance has caused certain asset classes to become overweighted in your portfolio.[1] For example, if the stock market has gone up while the bond market has stayed flat, you may need to sell a portion of your stock funds and reinvest the proceeds in bond funds to maintain your original mix.

Finally, remember that no single asset allocation is right for every investor. Yours should reflect your risk tolerance, time horizon and retirement goals.

1 Rebalancing neither ensures profit nor protects against loss in declining markets. Investors should consider their financial ability to continue a rebalancing plan during periods of fluctuating price levels.

Investments in Harmony

Make sure your savings are working together

Think of a symphony orchestra: All the musicians play together. But it doesn't just happen by chance. The instruments must be positioned so the sounds blend: violins up front, brass in the middle and percussion in the rear. You aren't conducting a symphony, but you are coordinating something complex—your retirement savings. So you, too, must position all the components with great care. You have the savings you built through your 401(k) Savings Plan and your pension with LACERA. Perhaps you own an Individual Retirement Account (IRA) or hold other assets outside of your tax-deferred savings accounts, like mutual funds, stocks, bonds or a certificate of deposit[2] (CD). Maybe your spouse or companion has savings and investments of his or her own, too.

To keep your assets working harmoniously, consider all of them together before making changes to your portfolio. Be sure to include your partner's investments when developing your household diversification and asset allocation strategies. Don't forget to fine-tune your portfolio by choosing the proper instruments—identify common investments and consider reallocating assets to the funds with the potential to meet your investment goals. For example, if you have a retirement account that has a well diversified and consistent performing small-cap fund and a less diversified and lower performing large-cap fund, you may consider reallocating assets in that account to the small-cap fund with an offsetting reallocation in another investment vehicle that has a more diversified and better performing large-cap fund. Your overall mix between small cap and large cap will not have changed, but your portfolio may be better suited to your long-term investment goals.

You will still need to keep time during your swan song and coordinate how you will take distributions from your various investments. Each investment vehicle has its own advantages and disadvantages, such as early withdrawal penalties or potential tax consequences, when it comes to distributions. Be sure to do your research and consider which account(s) would provide you with the most benefit for each dollar withdrawn.

The better your investments fit together, the better your chance of orchestrating a beautiful retirement.

2 Certificates of deposit are insured and offer a fixed rate of return, whereas both the principal and yield of bonds and stocks will fluctuate with market conditions.

Great-West Retirement Services® Introduces New Retiree Advocate

Great-West Retirement Services is pleased to announce the creation of a new position called the Retiree Advocate. The primary purpose of the Retiree Advocate is to receive and organize input from Plan participants and retirees with respect to the services, products and features that Great-West Retirement Services should provide to better serve retirees and those participants nearing retirement.

Your Retiree Advocate is Ron Nichols—a 1971 graduate of Santa Barbara College and a 40-year veteran of the financial services and retirement plan business. Ron built a business focused on public sector retirement plans, which grew to encompass more than 450 public entities, with more than 100,000 participants. He is one of the founding members of the National Association of Government Defined Contribution Administrators (NAGDCA). A retiree since 2004, Ron's experience in the public sector pension business, plus his

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"For the past 40 years, the public and private sectors have focused most of their efforts on the accumulation phase of retirement savings. It is now time to focus more attention on the retirement income portion of the market, and the unique and growing needs of public sector employees."

—Ron Nichols, Retiree Advocate

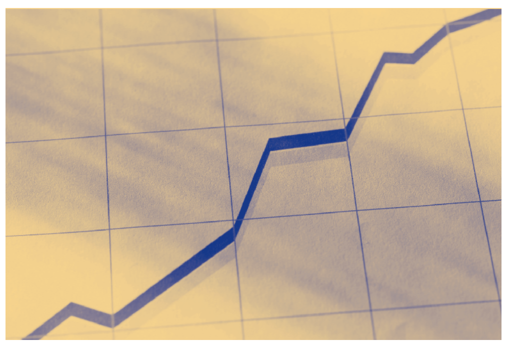
Why We're All So Interest-Ed

Interest rates impact all your investments

Interest rates are often called the cost of money. Actually, they're the price paid to borrow or lend money for a specified period of time. When you open a savings account, for example, or buy a CD[2], the bank is borrowing your money and paying you for the use of it. The bank then lends your money to other banks and consumers and makes a profit by charging them a higher rate of interest than it is paying you.

What Goes Up Must Come Down

You probably have noticed that the interest rates on loans advertised by banks constantly change, and sometimes they go up or down quite rapidly.



Why do they fluctuate so much? One important reason is inflation. When inflation is high (or expected to be high), banks and lenders know that they eventually will be paid back with dollars that are worth less than the ones they loaned out. Let's say you have $1, and the annual inflation rate is 10%. A year from now, you'll need $1.10 to equal your original $1. So banks insist on higher interest rates to compensate them for the decline in their money's purchasing power.

Interest rates also move up or down when inflation expectations remain constant. That's because when the economy is doing well, businesses can find more opportunities to use your money profitably, and they are willing to pay a higher rate of interest for it.

Another powerful force is the Federal Reserve (the Fed), which sets national monetary policy and supervises banking operations nationwide. When the Fed fears that the economy is expanding so fast that inflation may increase, it tries to cool things off by pushing short-term interest rates higher so that businesses and individuals won't want to borrow as much money. In contrast, when the economy is contracting, the Fed lowers interest rates to stimulate borrowing and spending. When consumers begin borrowing and spending more money, the entire economy benefits.

Interest Rates and Asset Allocation

Keep in mind how changes in interest rates can affect different types of investments. Many stocks move in the opposite direction from interest rates. As businesses pay more for loans and raw materials, their earnings are reduced and stock prices generally decline. Furthermore, interest rate changes have a more predictable impact on at least one interest-generating investment vehicle: bonds.

As a general rule, rising interest rates drive bond prices down, and falling rates drive them up. The reason: On the day a bondholder decides to sell his or her bond, current market interest rates for bonds of similar maturities will determine the price paid to redeem the bond. The bond's value will be lower when interest rates are higher than the bond's interest rate, and higher when interest rates are lower.

Usually, the more years from maturity (repayment of the bond), the bigger the price change.

When you decide how to allocate the money in your retirement plan, you are basically choosing among:

1. Lending your money out in different ways (bond funds, cash equivalents, etc.)
2. Investing in earning and/or growth potential (stock funds)
3. A mix of the two

Now that you know how interest rates can impact your investments, think carefully about your asset allocation. Do your savings have the growth potential to stay ahead of inflation? The answer is very much in your interest.

Great-West Retirement Services® Introduces New Retiree Advocate

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experience as a retiree, brings you a unique perspective. He is keenly focused on the needs of public sector retirees and those nearing retirement. "For the past 40 years, the public and private sectors have focused most of their efforts on the accumulation phase of retirement savings. It is now time to focus more attention on the retirement income portion of the market, and the unique and growing needs of public sector employees," Ron says.

Issues of importance to retirees will appear regularly in this newsletter and on your Plan Web site. Ron also welcomes your input on issues of concern to you. He may be reached by phone at (877) RET-GWRS (877-738-4977) or by e-mail at retireeadvocate@gwrs.com.

Retraction

In last quarter's newsletter, you may have noticed that a trade deficit was defined as occurring when the value of goods entering into a country is less than the value of goods leaving the country to be sold in foreign markets. A trade deficit actually occurs when the value of goods entering into a country is greater than the value of goods leaving the country to be sold in foreign markets.

Great-West Retirement Services Customer Service Is There for You

On-Site Customer Service Locations

Martin Luther King/Drew Medical Center
12021 S. Wilmington Ave., Los Angeles
First and third Monday every month in main lobby

LAC/USC Main Hospital
1200 N. State St., Los Angeles
Second and fourth Friday of each month in cafeteria

Kenneth Hahn Hall of Administration
500 W. Temple St., Los Angeles
Third Thursday of each month, second floor lobby entrance from mall

Public Works
900 S. Fremont Ave., Alhambra
Third Wednesday of each month in cafeteria

Health Services
313 N. Figueroa St., Los Angeles
Fourth Thursday of each month in the main lobby

Olive View Medical Center
14445 Olive View Dr., Sylmar
Fourth Wednesday of each month in cafeteria

Rancho Los Amigos Rehabilitation Center
7601 E. Imperial Hwy., Downey
Second Thursday each month in Jacquelyn Perry Clinic Lobby

Harbor/UCLA Medical Center
1000 W. Carson St., Torrance
Second Thursday of each month in elevator lobby

Note: On rare occasions, a representative may not be available. Representatives also follow the normal holiday schedule.

How to Reach Us

On the Internet: www.countyla.com[3]

By Phone: (800) 947-0845

Call the L.A. County Service Center toll free and choose "1" from the menu of options you hear to obtain information or make changes to your account. You will be connected to KeyTalk®, an automated service available 24 hours a day, seven days a week.[3] Once you enter your Social Security number and Personal Identification Number[4] (PIN), you can retrieve personal account information and make changes to your account.

In Person: The L.A. County Service Center

Located at 500 N. Central Ave., Suite 220, Glendale, CA 91203. New address effective Mid-August: 655 N. Central Ave., Suite 1900, Glendale, CA 91203. Office hours are Monday through Friday, 8:30 a.m. to 5:00 p.m. Pacific Time. Call (800) 947-0845 and choose "4" from the menu to schedule an appointment. Or call the Retiree Advocate at (877) RET-GWRS (738-4977).

Please note: This newsletter does not constitute investment or financial advice. 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.

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

4 The account owner is responsible for keeping the assigned PIN confidential. Please contact Great-West Retirement Services immediately if you suspect any unauthorized use.

Great-West Retirement Services® refers to products and services provided by Great-West Life & Annuity Insurance Company and its subsidiaries and affiliates. Investment options have been selected by the Plan Administrative Committee and are composed of mutual funds and separately managed institutional accounts. Securities are offered through GWFS Equities, Inc., a Great-West Company and NASD member firm. Great-West Retirement Services® and KeyTalk® are registered service marks of Great-West Life & Annuity Insurance Company.
 Not intended for use in New York.
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