County of Los Angeles
Savings Plan

July 2006

Choose the Right Portfolio Mix

Help protect your assets by allocating them

No one can predict with certainty how investments will perform. This year's best performer may be next year's worst. So, how do you invest your retirement 401(k) Savings Plan contributions to keep up with changes in the investment markets?

Planning Session

Don't try to outguess the markets. Instead, help manage investment risk by determining—and maintaining—an appropriate asset allocation. That's the mix of stock, bond and cash investments best suited to your time horizon (how long until you'll need the money), your financial goals and your tolerance for risk. Not all of your investments will deliver gains every year. Stocks and bonds, domestic and global investments, respond differently to changes in the investment climate, so it is unlikely that all your investments would perform identically year after year. But with your money spread across a variety of asset classes, you can help protect yourself from the occasional downturn.

Progress Check

Over time, investment performance can affect the allocation of your account. Check annually to see if you need to rebalance[1] to restore your original allocation. Major shifts in your asset allocation should be rare—generally in response to changes in your personal situation, such as marriage, children or retirement. Rely on your allocation strategy and you won't be tempted to respond to every twist and turn the investment markets take.

A Smoother Ride

While asset allocation won't eliminate investment risk, spreading your assets among several investment types may help cushion your nest egg from temporary jolts in any one market. And, over time, allocating your retirement funds among different asset classes should help you realize better performance than if you concentrated all your money in just one asset class.

Choose a Pre-Assembled Portfolio

Take the work out of allocating your assets by using one of the three Pre-Assembled Portfolios. Once you know your risk tolerance level, it's easy to match your investment style to one of the Pre-Assembled Portfolio options available to you. Ranging from conservative to aggressive, each Pre-Assembled Portfolio is diversified with a mix of investments covering a variety of asset classes and investment types within the asset classes. The diversification can allow for a more consistent rate of return while helping to reduce portfolio risk and volatility. The investment mix is rebalanced automatically each quarter to maintain the established percentage of each investment option. Just choose the Pre-Assembled Portfolio that best matches your investor style. It's that easy! For more information on the Pre-Assembled Portfolios, look for your *Fund Data Booklet* coming soon to your mailbox.

[1] Rebalancing does not assure a profit and does not protect against loss in declining markets. Investors should consider their financial ability to continue a rebalancing plan during periods of fluctuating price levels.

Mail and Pay Stub Correspondence

The Savings Plan and the County often notify participants/employees of important issues through the mail or pay stubs—be sure to read these items because they likely affect YOU. Shortly to arrive in your mailbox is the annual *Fund Data Booklet*, a useful tool to help you reevaluate your investment allocations.

Risk Profile

Allocate your assets based on realistic expectations

The returns for stocks, bonds and cash investments over the last five, 10 and 20 years[2] show how markets historically have moved in relation to each other—and why dividing your assets among these three classes helps to minimize investment risk. Although past returns are no guarantee or prediction of future performance, this historical view suggests what you reasonably may be able to expect from these three asset classes as you determine your asset allocation.

How asset classes have performed over five-, 10- and 20-year periods

Average annual returns	Stocks	Bonds	Cash
2000 through 2005	1.1%	6.4%	2.7%
1995 through 2005	11.4%	6.7%	3.8%
1985 through 2005	12.8%	8.0%	4.7%

[2] Source: Ibbotson Associates. Stock returns are based on the return of the Standard & Poor's 500 Index. The S&P 500® is an unmanaged index generally considered to be representative of the large-cap U.S. stock market. Bond returns are based on the total return of a one-bond portfolio of intermediate-term government bonds with a maturity of approximately five years. Intermediate-term government bonds are a commonly used measure of overall bond performance. Cash returns are based on the total return of a one-bill portfolio of 30-day U.S. Treasury bills. Treasury bills are considered to be representative of the returns of cash-equivalent investments. You cannot invest directly in an index. All returns are before tax with dividends reinvested. Past performance is no guarantee or prediction of future results.

Earn an 'A+' in Investing*

Three ways to increase your financial IQ

Study Hall: Take a personal finance class at your local community college. Some workshops and seminars will teach you the basics of stocks, mutual funds and retirement planning. Online, SmartMoney University at smartmoney.com, along with morningstar.com, offers some great courses you can take for free at your own pace. Check out the American Library Association's free "Investor Education@Your Library" courses at cs.ala.org/ra/invest. You can also visit the Great-West Retirement® Services Web site (www.gwrs.com) and click on "Education."

Channeling: The national networks report financial news every day. CNN and CNBC do, as well. Weekend wrap-ups are provided by CBS on *Market Watch* and by CNBC on *The Wall Street Journal Report*.

News Print: Stock watch here, mutual fund listing there—a mere flick of the wrist keeps you on top of the market. For example, *The Wall Street Journal* is a respected source of financial information. Don't have the time to read this information every day? Check your local newspaper's weekend edition for an overview.

* Resources mentioned in this article are not endorsed by the County.

Three Profiles, Three Asset Allocations

What should your portfolio look like?

There's no simple formula for figuring out your own asset allocation. The good news is: You may do best financially and psychologically by creating an allocation that's tailored to you, based on your age, number of years until retirement, financial goals and obligations, and personal comfort with investment risk.

Individual Differences

To get an idea of what we mean, check out the three hypothetical investors described below.[3] They have these three things in common: Each is 38 years old, earns $45,000 a year and contributes 6% of salary ($2,700) annually to his or her employer's retirement Savings Plan. Because each person has different financial circumstances and feelings about risk, each chose a different allocation.

Judy, a single woman who lives alone, says market swings would keep her awake at night. Further, in a few years Judy may need to help pay for nursing-home care for her mother, who is in ill health.

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Three Profiles, Three Asset Allocations
What should your portfolio look like? (*continued*)

Keeping in mind her discomfort with risk and the probability that she may need to borrow from her retirement account temporarily (if her plan allows it) to help her mother, Judy decides on the following asset allocation: 40% stock funds, 40% bond funds and 20% cash investments, such as the Stable Value Fund. An investment in the Stable Value 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 $1.00 per share, it is possible to lose money by investing in the fund.

Bob has two young children, so he and his wife, Betty, will be paying college bills almost until the day he retires. Since they won't be able to save much while they're paying those bills, they must save all they can today and invest it for maximum growth to potentially give them the biggest retirement fund possible. Bob's not concerned about initial market fluctuation, as he has several years before he will need the money and he feels comfortable with short-term fluctuations. Bob chooses an allocation of 80% stock funds, and 20% bond funds.

Melanie has two older children who will finish their college education years before she retires. But she talks about quitting her job in a few years and starting a business with her husband, Raymond. When that happens, they might have an initial drop in income, but they don't want to crack their nest egg if they can avoid it. They choose to balance investment growth with safety of principal. They decide on an allocation of 60% stock funds, 20% bond funds, and 20% cash investments.

More Than Returns

Because of their different asset allocations, Judy, Bob and Melanie will have different-sized nest eggs come retirement day. How big a difference depends on the performance of the investment markets over time. Remember, though, that they chose their asset allocations based on what they determined was appropriate for their individual situations. It's clear that Bob was willing to accept more risk. But given Judy's and Melanie's uneasiness about risk and the other financial needs they anticipated, they did what was right for their own pocketbooks and peace of mind. And those considerations should guide you in determining your asset allocation as well.

[3] These hypothetical profiles are for illustrative purposes only and do not represent any specific investment products or advice.

Rev Up Your Retirement Plan Account
Eight ways get your savings into high gear

To achieve financial security in retirement, you'll have to use your head—and your retirement Savings Plan. Here's how:

1. **Save enough! Check out the calculators at smartmoney.com or countyla.com to get a good idea of how much cash you'll need to feather your nest egg.**
2. **Max out. Contribute as much as you can to your retirement account—at least as much as required to receive the 4% County match.**
3. **Strategize wisely. Keep your asset allocation in line with your age, years until retirement and tolerance for risk.**
4. **Don't count on LACERA and Social Security. Even if Social Security is there when you retire, it may not be enough.**
5. **Diversify. When you spread your money across a variety of stock and bond funds, you help to minimize your risk of loss.**
6. **Stick to your long-term strategy. Try not to be influenced by short-term market volatility.**
7. **Rebalance once a year. This helps bring your investments back in line with your original asset allocation.**
8. **Don't crack your nest egg. It's not a line of credit. If you need a loan, look elsewhere.**

Registered Domestic Partnerships: IRS Compliance

The California Domestic Partner Rights and Responsibilities Act became effective on January 1, 2005. This law extends the rights and duties granted by marriage under California law to individuals registered as domestic partners; however, it does not supersede federal law. Thus, in order for the Savings Plan to maintain its tax-favored status, the Plan must comply with federal law preventing the application of certain spousal provisions to domestic partners. In light of applicable federal law, the following Savings Plan policy will be implemented:

- A participant may make an emergency or hardship withdrawal with regard to the eligible expenses of a registered domestic partner only if he/she qualifies as a dependent under federal tax law.
- Similar to a spouse, a registered domestic partner will automatically be considered the "default" beneficiary. A notarized consent waiver is required if someone else is to be designated the primary beneficiary.
- In the case of a dissolution of a registered domestic partnership, a court-ordered domestic relations order (DRO) dividing the account will be honored; however, the following should be taken into consideration:
    1. The assets awarded to the former registered domestic partner under a DRO will be segregated under his/her name, but distribution will be delayed until the participant is eligible for a distribution.
    2. Amounts distributed to a domestic partner under the DRO will be reported on form 1099R as a distribution to the participant and federal income taxes will be withheld accordingly. This means that the Plan participant, not the domestic partner, will be responsible for the federal income taxes imposed on the distribution, and the domestic partner will receive a distribution less the taxes withheld on behalf of the participant. The domestic partner, however, may be responsible for the state income tax on his or her distribution under the DRO.
- As a beneficiary upon death or under a DRO, the registered domestic partner cannot roll assets over to or from the Savings Plan.
- As a beneficiary, the registered domestic partner is subject to the IRS' Required Minimum Distribution Rules for non-spouse beneficiaries.

If you have any questions, please contact a Client Services Representative at (800) 947-0845.

How to Reach Us

On the Internet: www.countyla.com*

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.* Once you enter your Social Security number and Personal Identification Number (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. 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.

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.

*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.