*Money*Talks

Wisconsin Deferred Compensation (WDC) Program

In This Issue:

Check Out Your WDC Vanguard Target Date Funds

Vanguard Target Date Funds are available in the WDC and were created to help keep you on the right track toward a financially secure retirement. The date in a Target Date Fund represents an approximate date when an investor expects to retire. These funds are designed to automatically adjust your asset allocation and risk exposure as you near retirement, and oftentimes, into retirement. By systematically reducing your portfolio's exposure to equities, they can remove the guesswork of asset allocation and give you the freedom to focus on other important life events.*

Each Target Date Fund is designed around a specific retirement date and retirement phase. Assets within each fund are allocated across asset classes with varying levels of investment risk, and they automatically shift into traditionally more conservative holdings by gradually reducing the allocation to equity funds and increasing the allocation to fixed-income and short-term funds as the anticipated retirement date approaches.

Additionally, each fund is designed to be a complete solution. If you choose other investment options in addition to a Target Date Fund, you could change your overall asset allocation, which could limit the effectiveness of the fund. For example, if you choose a Target Date Fund that has a 90% stock and 10% bond allocation and then also choose another bond fund offered in the WDC, you are reducing the stock allocation of your overall portfolio.

Asset allocation and balanced investment options are subject to the risks of the underlying funds, which can be a mix of stocks/stock funds and bonds/bond funds. Stock values fluctuate in response to the activities of the general market, individual companies and economic conditions. Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. In general, when interest rates rise, bond values fall and investors may lose principal value.

The principal value of the funds is not guaranteed at any time, including the target date. More information on the Target Date Funds can be found on the website at **www.wdc457.org** or contact the WDC office at **(877) 457-9327**. ■

FDIC Insured Bank Option: MBO Harris has declared an annualized interest rate of 0.57% for the second quarter 2012.

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

Minimizing Risk

It's natural to feel emotional when your investments gain or lose value. Market fluctuations can either reinforce your confidence or cause you to wonder if you've made the right choices.

Take control

The truth is, every asset class—whether stocks, bonds or cash—carries some form of risk, and you will never be able to eliminate it entirely. But there are ways you can manage it. For example, you can balance the different kinds of risk you face by spreading the money in your WDC account across various asset classes. The percentage you allocate to each should depend on two factors: time (the number of years before you need your money) and your risk tolerance (the amount of risk you're comfortable with).*

How risk can affect your investments:

Market risk and stocks.

Market risk is the possibility that the value of your investments will fluctuate every time the market moves. Stocks have a high degree of market risk in the short term: Sudden declines can lead to quick losses. Longer term, however, the risk of losses with stocks and, therefore, stock funds, tends to decline. The stock market has posted positive returns during every rolling 20-year period from 1926 to 2010.[2,3]

Interest-rate risk and bonds.

Compared with stocks, bonds have relatively low market risk and potentially provide stable returns. However, bonds carry significant interest-rate risk: When rates rise, newly issued bonds offer higher interest payments than existing bonds. This causes prices to fall on older, lower-paying bonds, typically hurting returns.

The longer a bond's maturity, the more susceptible it is to interest-rate risk. A longer time period increases the chance that interest rates will rise before the bond matures, leaving the owner locked into lower payments than he or she could get from newer bonds. Holding short-term bonds or funds that own bonds that will mature within a couple of years will help to mitigate the effect of interest-rate risk.

Inflation risk and cash.

Cash investments, such as money market funds, rarely lose value, but over long periods they carry high inflation risk, which is the chance that your investments won't earn enough to keep pace with the gradual rise in the cost of goods and services. Unless you're retired or about to retire, holding large amounts of cash investments may not be in your best interests.

Remember 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 $1.00 per share, it is possible to lose money by investing in a Money Market Fund.

It's about time

Consider the number of years before you'll need your money. If your retirement date is more than a decade away, you may feel comfortable with a more aggressive mix: one that is weighted toward stock funds. Historically, stock funds' strong growth potential has helped to protect against inflation risk.[3]

However, if you plan to retire within 10 years or less, you may want to invest more conservatively, with a greater portion of your accounts in bond funds and cash investments. Once you find the balance you're comfortable with, you'll be more confident that you can reach your financial goals. ■

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Review and Update Your Beneficiary

Selecting a beneficiary is an important step in your retirement planning. By selecting a beneficiary, you ensure that the funds you worked a lifetime to save can be used to provide stability for your loved ones after you are gone.

To designate a beneficiary for your WDC account(s), log into the website **www.wdc457.org**[1] and click on *My Profile* and then *Beneficiary*. Remember, you should designate a beneficiary for all of your financial accounts; any beneficiary designations you have on file with the Wisconsin Retirement System do not apply to your WDC account.

If you have any further questions regarding your beneficiary information on file with the WDC, call us at **(877) 457-9327**.[1] ■

Protect Yourself

Tips for avoiding identity theft

Identity theft is growing fast. Spare yourself the personal and financial violation with the following advice from the Federal Trade Commission:*

- Thieves often pick through trash bins for financial documents. Shred papers and receipts that contain personal information.
- Guard your mail. Drop off outgoing mail in post office collection boxes instead of in an unsecured mailbox. If you're planning to be away from home for a stretch, contact the U.S. Postal Service to request that your mail be held until you return.
- Before revealing any identifying information, for example, on a job application, ask how it will be used and secured and whether it will be shared with others.

- When given the option to create a computer password, use a combination of numbers, symbols, and uppercase and lowercase letters. Avoid predictable words or numbers (your mother's maiden name, your birthday, etc.) that make it easy for outsiders to gain access.
- If you own a computer, update your virus protection software regularly. Do not open files from strangers. Do use a hacker-inhibiting firewall and a secure browser that encrypts or scrambles information you send over the Internet (particularly important when making online transactions). Be sure to bypass automatic login features. ■

* Fighting Back Against Identity Theft," ftc.org July 2012.

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 in your WDC account:

1. Stick with an investment mix that fits your goals, time frame, and tolerance for risk. If you won't tap your WDC 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 yourself by adjusting your allocations periodically via the WDC website at **www.wdc457.org** or you can set up the WDC's Rebalancer tool to do this automatically for you.[1,4]

TO SET UP REBALANCER

1. Log on to the website at **www.wdc457.org** and go to the *Transactions* menu or call the WDC at **(877) 457-WDCP**.[1]
   Choose your rebalancing frequency:
   - Once
   - Quarterly
   - Semi-annually
   - Annually
2. Determine and set your preferred asset allocation, which is the percentage of your account you want invested in the three different asset classes—stocks, bonds and cash equivalents.
3. Let the Rebalancer tool keep you on your journey to retirement.

3. Increase your contributions annually. As a WDC participant, you can increase your contribution amounts at any time as well as schedule an increase through the WDC's website at **www.wdc457.org** or by calling **(877) 457-9327**.

TO SCHEDULE A CONTRIBUTION INCREASE

1. Log on to the website at **www.wdc457.org**, go to the *My Account Tab* and then choose *Change Account*.
2. Click on *Deferral Update*.
3. Select *Schedule Increase*.
4. Select *Before Tax* or *Roth Contributions*.

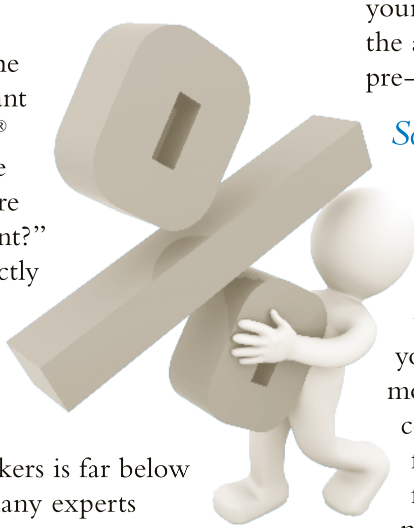
You may also contact the WDC at **(877) 457-WDCP (9327)**.[1] ■

Survey Says...

Are Public Sector Employees Underprepared for Retirement?

Recently, the Center for Retirement Research at Boston College released the results of a study funded through a grant from Great-West Retirement Services® (the retirement service provider for the WDC). The study, "How Prepared Are State and Local Workers for Retirement?" examined some of the trends that directly affect you as a WDC participant.

Here are some of the findings from the study:



- The average retirement benefit earned by most public sector workers is far below the 80% replacement ratio that many experts say is needed to maintain pre-retirement living standard.
- Only 32% of workers retire or separate from public service with a supplemental retirement account like your WDC account. Among that group of workers, the average benefit is equal to only 49% of their pre-retirement earnings.

So what do these statistics mean for WDC participants?

First, it may be that your anticipated retirement benefits won't provide the level of income you're expecting. To reach that 80% level, you may want to consider contributing more to your WDC account. Second, remember that the money you contribute to your WDC account will continue to grow whether you continue to work for a public employer in the state of Wisconsin or follow a different career path. Even though you may not be able to predict where your career will take you, saving through the WDC is a smart part of your retirement strategy. ■

WDC Program Contact Information

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2 Morningstar, Inc., Ibbotson® SBBI® 2011 Classic Yearbook
3 Past performance is not a guarantee or prediction of future results.
4 Rebalancing does not ensure a profit and does not protect against loss in declining markets.

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