West Virginia TDC Plan

Winter 2007

# FINANCIAL Footnotes

www.wvteachersdcp.com

(888) WVTEACH (888-988-3224)

## Web Site Enhancement

### Quicken® and Microsoft® Money Download

You can now download your retirement Plan account activity to all versions of Quicken® and Microsoft® Money.

A file download containing your account activity for any given statement period is created. This file is then downloaded and imported into Quicken®and Microsoft® Money.

The types of account activity available to download include:

- Contributions
- Withdrawals
- Transfers
- Dividends/Capital Gains

### Downloading and Importing Is Simple!

Follow these quick and easy instructions to download and import your account activity:

1. Log in to the Plan Web site at **www.wvteachersdcp.com** and select the "Quicken®/Money Download" option, located on the Transaction History page.[1]
2. Select the file download format compatible with your software program (Quicken® or Money) and version/year.
3. Select a statement period.
4. Download the file to your computer.
5. Log out of your retirement Plan's Web site.
6. Open your software program (Quicken® or Money) and follow the step-by-step instructions to import the downloaded file into the application.

1 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.

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## Bonds and Your Asset Allocation

### Every portfolio needs a cushion

Because stocks and bonds tend to move in opposite directions, bond funds can improve your portfolio's performance during a stock market downturn, and the income they generate can provide a valuable cushion. If you're new to bond funds, or are thinking about buying more, the following facts may help you understand them.

### The Basics

When you buy a bond, you're lending money to an issuer—typically the U.S. government, a corporation or a municipality—which pays you interest and repays your principal in the future when the bond matures. The face value of the bond is the amount you receive at maturity—usually $1,000 for corporate bonds, $5,000 for municipal bonds and $10,000 for government bonds.

### Interest Is Everything

Interest rates have the greatest impact on bond prices; however, changes in the issuer's credit quality or financial condition can also affect a bond's value. Generally, when interest rates drop, bond prices rise because new bonds will pay a lower interest rate—making existing bonds more valuable.

When rates rise, the reverse is true: Bond prices fall because new bonds will pay a higher interest rate—making existing bonds less valuable. Of course, you don't lose any money on a bond that declines in value unless you sell it before it matures. If you continue to hold a bond, you receive the same interest rate—regardless of current market interest rates.

### It's a Matter of Maturity

Most bonds fall into three categories: short term (less than five years), intermediate term (five to 10 years) and long term (10 years or longer). Generally, the longer a bond's maturity, the greater its yield—the interest paid by a bond, expressed as an annual percentage. These higher yields compensate investors for longer investment periods and greater price volatility. Typically, mutual funds invest in bonds with different maturities to help shield investors from interest rate risk.

### The Yield Curve: Risk vs. Return

You can use a yield curve—a graph that illustrates the relationship between the interest rates (yields) on short- and long-term bonds of the same quality—to assess risk and reward associated with bonds of various maturities.

When short-term rates are lower than long-term rates, it's a *positive yield curve*. When short-term rates are higher than long-term rates, it's a *negative or inverted yield curve*. When there is little or no difference between short-term and long-term rates, it's a *flat yield curve*.

The yield curve tends to be positive, because investors who agree to tie up their money for longer periods are usually compensated with a higher yield for the extra risk they are taking. A common version of the yield curve plots Treasury securities, showing the range of yields for a three-month Treasury bill up to a 20, or 30-year Treasury bond.

### Use to Choose: Credit Ratings and Benchmarks

Bond ratings from such agencies as Standard & Poor's and Moody's Investors Service reflect the issuer's ability to make interest payments and repay the bond's face value at maturity, and your risk of default. Because they are backed by the full faith and credit of the government, U.S. government bonds are not rated.

You can compare your bond fund's performance against three benchmarks widely used by professional money managers and individual investors alike: the Lehman Brothers Aggregate Bond Index, the Lehman Brothers Municipal Bond Index and the Lehman Brothers Treasuries Composite Treasury Index.

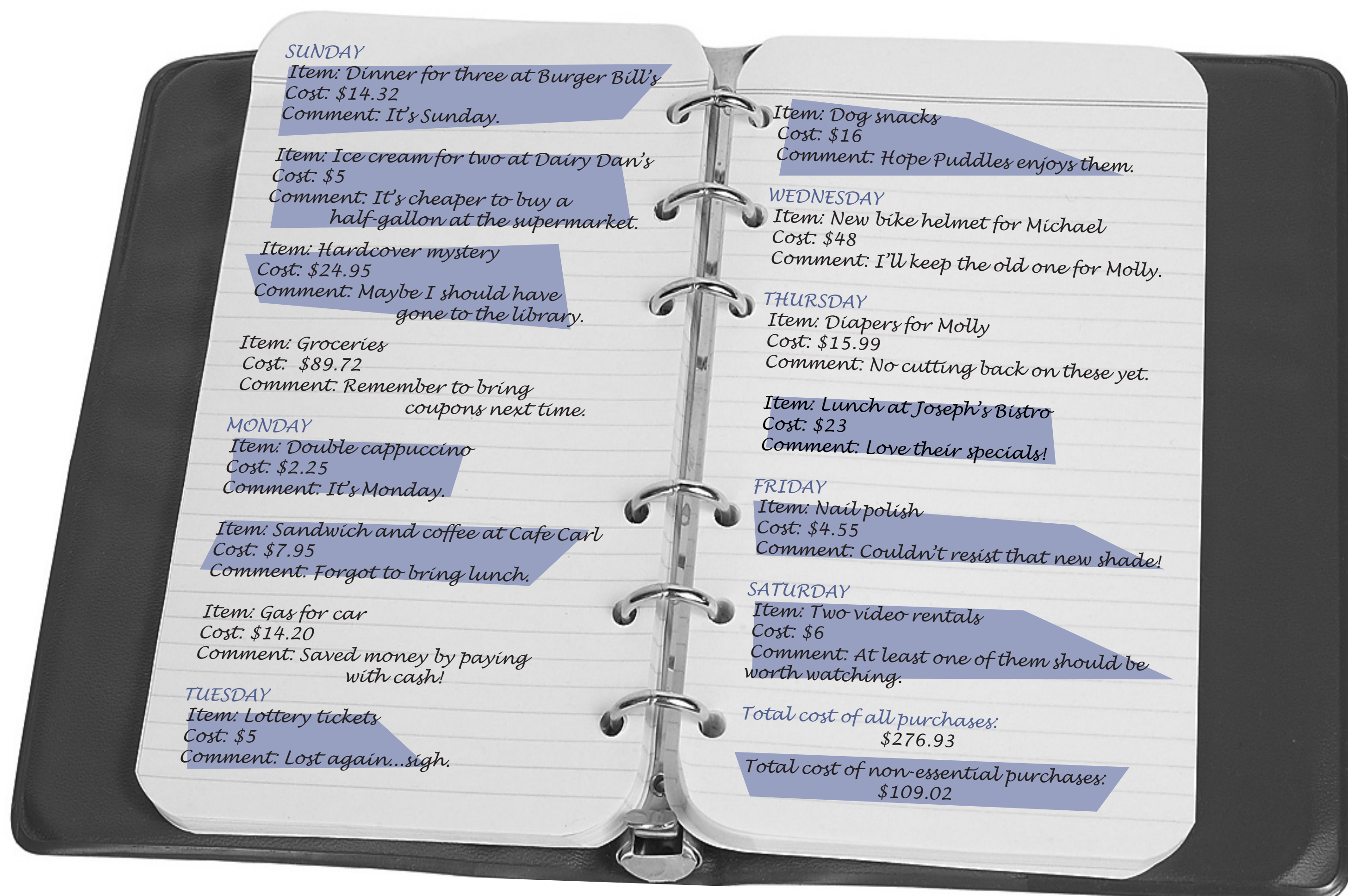
Equipped with this knowledge, consider including bond funds in your retirement portfolio.

# Dear (Spending) Diary

Where does all your money go? Whether you see yourself as a penny pincher or a free spender, you may not be sure of the answer to that question. In particular, you may wonder what happens to the cash you carry around in your wallet.

You'll know the answer one week from today, if you keep a spending diary for the next seven days. You may be surprised to find that you're frittering away surprisingly large amounts on impulse items, such as fancy coffee, tobacco, snacks or lottery tickets.

Take a look at this weekly spending diary for cash items purchased by a single mother of two. The non-essential items are highlighted and totaled at the bottom. They add up to a sizable sum.




***In just one week, this single mom could have put more than $100 toward retirement! If you follow her example, you may be surprised at how much spare cash you can find for your future.***

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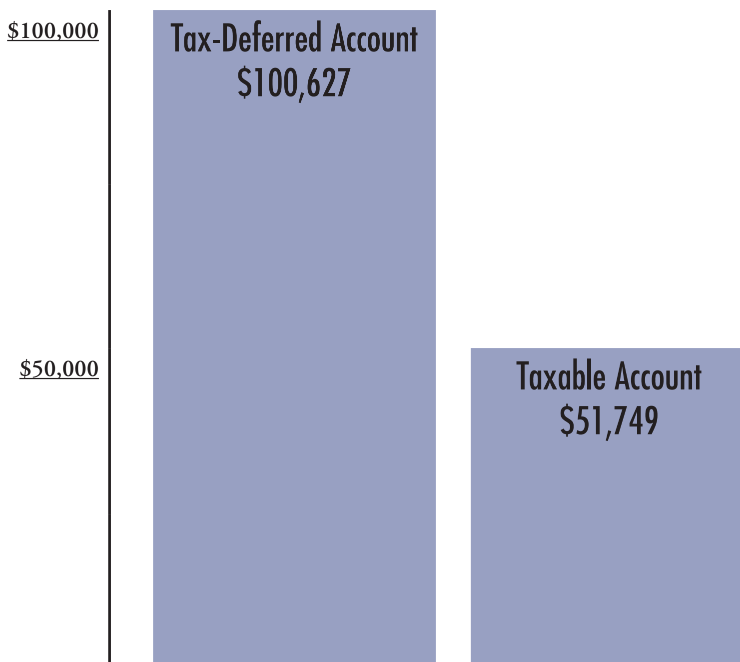
# Get with the Program

## Tax deferral can have a big impact on your savings

Retirement accounts aren't really magic, but they can seem that way. That's because anything you earn in your typical retirement account is allowed to grow tax-deferred until you reach retirement age and start withdrawing the funds. Say your tax bracket is 30% (federal and state combined). If you invest $10,000 in a portfolio of stock and bond funds and earn a compound average annual return of 8% for 30 years, you'll end up with $100,627 in a retirement account. If you invested that $10,000 in a taxable account, you'd have $51,749. That's a difference of $48,878. Of course, you will pay taxes on the income withdrawn from your retirement account. Assuming the same 30% tax rate, you'd still come out ahead in the end.

If you have a tax-deferred retirement account, the benefits are even more sweet. In these employer-sponsored plans, you get to contribute before-tax dollars and your employer will often match all or part of your contributions. Those two benefits alone could add more to your savings than any rate of return you could possibly hope to get elsewhere.

*Hypothetical growth of $10,000 invested in a tax-deferred account as opposed to a taxable one over 30 years.*




This hypothetical illustration does not represent the performance of any investment options. It assumes an 8% rate of return, a 30% combined federal and state income tax bracket, and reinvestment of earnings, with no withdrawals. The illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulations shown above would be reduced if these fees had been deducted.

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