

Money Talks

April 2002

Congress Corrects Pension-Reform Law

State legislation not yet passed

Language to conform Wisconsin income tax laws to the federal laws, which will allow the WDC to adopt EGTRRA, is included in the budget reconciliation bill (Special Session AB1). The state legislature is currently in special session to take action on this budget bill. Further updates can be found on the WDC Web site at www.wdc457.org.

Congressional intent and action didn't accomplish all that was anticipated.

In spite of what you might have read elsewhere, Section 457 participants could have found themselves unable to contribute as much into their deferred compensation

One objective of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) that was passed last year was to provide Section 457 plans, such as the Wisconsin Deferred Compensation Program (WDC) with flexibility and features more similar to qualified plans (such as Section 401(k) and 403(b) plans). Unfortunately,

plan as 401(k) and 403(b) plan participants (under federal tax laws). This is because of a missing change to the definition of compensation in Section 457.

Included in the Job Creation and Worker Assistance Act of 2002, an economic stimulus bill passed last month, is language to correct this omission. Among other things, the Act says the definition of compensation used in applying deferral limits to 457 plans is the same as defined for 403(b) and 401(k) plans.

Under federal tax laws, 457 plan participants can now contribute 100% of their includible compensation up to \$11,000 in 2002. The definition of includible compensation is now the same for Section 457, 403(b) and 401(k) plans, which will allow participants to base the 100% maximum on gross annual earnings.

(Note: State income tax laws have not yet been amended.)

Report Says Personal Savings Rate is Zero!

A report issued by the General Accounting Office (GAO) entitled *National Saving: Answers to Key Questions* (GAO-01-0591SP) has identified that the personal savings rate in the United States has plummeted to levels not seen since the Great Depression. The personal savings rate reflects how much American households are setting aside from current income (and not spending).

In the 1960's this rate averaged 8.3 percent and increased to an average of 9.6 percent over the 1970s. The savings rate peaked in 1982 to 10.9 percent, but has been in a steady decline throughout the 1990s. In 1999, it dropped to 2.2 percent and in 2000 the personal savings rate is estimated to be zero!

What does this mean to our retirement security? Social Security currently replaces only about 40% of

pre-retirement income for the average worker. With the uncertainties of the future of Social Security, personal savings plays an even greater role to achieve a financially secure retirement.

Without a significant increase in personal savings now (coupled with reform of Social Security and Medicare funding), the GAO report says most Americans will not be able to support the lifestyle they enjoyed while working, during their retirement years. Future generations will be left with a lower standard of living during retirement than currently enjoyed...a first for the United States.

The WDC provides an easy way for you to invest for retirement that may help you increase your personal savings rate.

Source: This report can be found on the General Accounting Office Web site at <http://www.gao.gov> or direct link to the report is <http://www.gao.gov/new.items/d01591sp.pdf>

2002 National Summit on Retirement Savings

Encouraging individuals to save and invest for retirement has become a critical priority. As identified in the article *Personal Savings Rate is Zero* on page 1, there is a real risk that many Americans will not have sufficient income to enjoy their retirement years. The federal government is taking an active role in identifying ways to encourage retirement savings.

The Savings Are Vital to Everyone's Retirement Act of 1997 (SAVER) was enacted to advance the public's knowledge and understanding of the importance of retirement savings. This Act requires that the Department of Labor (DOL) maintain a public outreach program and hold three bipartisan national summits that focus on retirement savings.

The first summit was held in June 1998 and the second one was held in February 2002 in Washington DC. The goal of the second summit was to identify how to help Americans retire with security and dignity.



Approximately 250 delegates from all over the country attended the summit and worked in teams to establish action plans to inform and persuade individuals to save for retirement. Information on the retirement summit and the outreach efforts can be found on the DOL Web site at <http://www.saversummit.dol.gov>

How To Find Extra Money To Invest



Finding extra cash to invest for retirement can seem impossible, considering all of your day-to-day expenses. Try these tips to free up more cash for investing.

Examine your income tax withholding

Do you always receive a large income tax refund each year? This means that you have too much income tax withheld from your paycheck and you are basically providing an interest-free loan to the government.

Put this extra money to work for you by reducing your tax withholding and increase your contributions to a retirement savings plan, such as the WDC.

The Internal Revenue Service says refunds averaged \$1,624 for the 2000 tax year.¹ If you are near this

Although implementation of EGTRRA is currently on hold (see article on page 1) the amount you can contribute to the WDC will significantly increase once Wisconsin Statutes are amended to conform to the 2001 Internal Revenue Code. Finding extra money to invest may not be as hard as you think.

average, you could defer about \$62 bi-weekly by lowering your federal tax withholding and still maintain the same take home pay amount.

Evaluate your expenses

Keep a spending diary for a few months to see exactly where your money is going. For example:

- If you are a smoker, do you really know how much you spend on this? You could save about \$820 a year² by cutting back a pack a day.

If you quit altogether, you may save even more as you might qualify for lower-cost life, auto and homeowner's insurance. This additional amount could then be contributed to your retirement plan each year.

- Do you read all those magazines that you receive? Evaluate your subscriptions and memberships and cancel those you don't use. Invest these savings for retirement.

Consider refinancing your home mortgage

With mortgage interest rates lower than they've been for years, it's a good time to consider refinancing. You can use the difference saved from lower monthly payments as a source for additional deferrals. This way you're investing your money, and saving for your retirement, instead of using it to pay finance charges.

¹Source: Bank rate.com, www.bankrate.com/brm/itax/weeklyreturns.asp, 11/08/01

²\$2.25 per pack x 365 days = \$821 per year

YOU HAVE A CHOICE!

Once state income tax laws are amended to recognize EGTRRA (see article on page 1), you may be able to transfer the balance you have in other plan accounts (such as a 401(k), 403(b) tax-sheltered annuity, traditional IRA account) into the WDC. Three reasons you should consider this are:

- 1 Easy monitoring of your investments**
You will receive one consolidated statement each quarter that details all your retirement assets.
- 2 Access to your retirement assets 24/7**
You have access to your WDC account, information twenty-four hours a day - seven days a week, through the Web site [www.wdc457.org] or an automated interactive telephone system (800-758-4457). Customer service staff are available 8:00 a.m. to 4:30 p.m. normal business days in Madison (see address and telephone numbers on page 4) and periodically available at your work site.
- 3 Cost is extremely low and fully disclosed**
Because of the oversight of the Department of Employee Trust Funds and the Deferred Compensation Board, the WDC is one of the lowest cost defined contribution plans in the country.

The following are some questions you should ask yourself when considering rolling retirement assets from one account to another.

Are you happy with the plan's investment selections? The WDC offers 16 core investment options, including funds from seven different mutual fund families. The Wisconsin Deferred Compensation Board monitors these options. An additional 2,000 plus mutual funds are also made available through the Schwab Personal Choice Retirement Account (PCRA).¹

What are the plan's costs? The WDC is one of the lowest cost providers of deferred compensation plans in

the country. The fees are based on your account balance, and begin at 50¢ per month. The highest fee you ever pay is \$10 per month--once your account reaches \$150,000.

What are the investment management fees and are representatives paid commission based on your investment selections? WDC representatives are salaried and there are no commissions or bonuses based on your investment selections. In addition, because of the asset size of the WDC, we are able to provide you with institutional funds at a much lower cost than you can find on the retail market.

Would you like one statement to record all of your retirement assets? The WDC will record your entire retirement account balance in one statement (two if you also have a PCRA) that you will receive each quarter. You also receive a quarterly newsletter MoneyTalks and an investment performance report that shows the short- and long-term performance of the core investment options.

How easy can I access my account? The WDC offers an interactive Web site [www.wdc457.org] that allows you to access your account 24 hours a day, seven days a week. The Web site provides plan specific information and educational material (along with retirement calculators) to help you establish an investment plan that meets your individual retirement income needs. An interactive telephone system (1-800-758-4457) is also available for you to obtain account information and execute transactions.

What is the reputation of the retirement plan and when was it established? The WDC began in 1982, at the forefront of tax-deferred savings plans, and has continued to enhance the plan design, customer service and the investment spectrum to better meet the needs of all participants. The WDC is recognized nationally as a leader in the deferred compensation industry.

Four Tips for Dealing With Market Ups and Downs

- 1) Implement a well-thought-out investment plan – and then stick with it! That way you'll be in the market when conditions improve.
- 2) Don't make investment decisions based on short-term market drops or gains. Instead, evaluate how an investment fits into your overall financial strategy.
- 3) Look at a market decline as a buying opportunity. Some stocks may be undervalued following a broad market decline, allowing you to invest more in high-quality companies.
- 4) Talk with a financial professional. If you are uncertain about your investment decisions, a financial advisor can help.

¹For a prospectus containing more complete information for the core options in the WDC, including management fees, charges and expenses, please request a prospectus by calling (608) 256-6200. For a prospectus for funds offered through PCRA, please call the Dedicated PCRA Call Center at 1-888-393-PCRA (7272). Please read prospectus(es) carefully before you invest or transfer money.

After two years of volatility, will the market change its tune?



Investors looking for market gains have had to face the music of retreats for a second straight year.

The Dow Jones Industrial average finished 2001 with a loss of 7.1 percent. The Standard & Poor's 500 stock index fell 13 percent and the Nasdaq composite sank 21.1 percent. Still, all the major averages are higher than they were in mid-1998.

Disco reigned in the dance halls the last time the three major stock market averages had fallen for two consecutive years. But there's a new song in the air. According to *The New York Times*, a last-quarter rally has analysts suggesting the worst may be over for equity markets.

The stock market bottomed out on September 21, 2001, in the shadow of the terrorist attacks. Since then, stocks that often track with the economy have led a resurgence.

The New York Times says three factors have many analysts thinking the recovery has already started:

- The Federal Reserve's proactive anticipation of the recession, having cut interest rates 11 times in 2001.
- The most recent period when the Dow Jones Industrial Average and the Standard & Poor's 500 fell for three consecutive years was 1939-1941.
- The optimism of American consumers throughout the recession.

Because consumers didn't pull back spending very much, the recovery is likely to be subdued rather than robust. Still, the new tune in the investment community may soon be an oldie-but-goodie: "Happy Days are Here Again."

Source: "After Two-Year Drop in Markets, Calendar Turns on Note of Hope," *The New York Times*, 1/1/2002.

Past performance is no guarantee of future results.

FDIC Insured Bank Option

M&I Bank has declared an annualized interest rate for the second quarter 2002 of 2.00% and an annualized yield of 2.02%.

Stable Value Fund

This information is now located on the Performance Results of Funds report included with your quarterly statement.

Wisconsin Deferred Compensation Program (WDC)

is a supplemental retirement benefit plan regulated by Section 457 of the Internal Revenue Code and managed by the Wisconsin Department of Employee Trust Funds (DETf).

"Money Talks"

is distributed quarterly with the Participant Statement of Account. Questions regarding the WDC should be directed to the Plan Administrator's office:

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