Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Retirement Systems Vol. 16, No. 1, Winter 2001

In this issue...

What Roth Hath, Traditional Hath Not

by Mary H. Jochim
Sterling Financial Advisors

The Taxpayer Relief Act of 1997 introduced a new Individual Retirement Account (IRA) called the Roth IRA. The primary inducement to make contributions to the Roth IRA is that distributions are tax-free if certain conditions are met. One drawback to the Roth IRA is that contributions to the account are never deductible. Let's take a look at the Roth IRA and some of the rules that go along with it.

An individual may contribute up to $2,000 a year to a Roth IRA (less any contribution made to a traditional IRA for that year). Contributions to Roth IRAs are not deductible and must be in cash when made. In addition, unlike regular IRAs, there is no age restriction on making contributions. The AGI threshold for contributing to a Roth IRA is $95,000 for single individuals and $150,000 for married individuals filing a joint return. For single filers, the allowed contribution is phased out for AGI between $95,000 and $110,000. For married individuals, the allowed contribution is reduced proportionately if AGI is between $150,000 and $160,000. No Roth IRA contributions are allowed if an individual is married and files separately.

The earnings attributable to contributions accumulate on a tax-deferred basis and become tax free and penalty free upon withdrawal providing the Roth IRA has been in effect for at least five years **and** the taxpayer:

- has attained the age 59 ½,
  - dies or becomes disabled, or

Continued on page 6

Deferred Compensation Update

Participating in the Deferred Compensation Plan is a voluntary way to accumulate supplementary retirement income. A Deferred Compensation Plan is a plan whereby you authorize your employer to reduce your current salary so that you can receive the amount deferred at a later date, such as retirement. State employees may defer a minimum of twenty-five dollars per month. DCP is not part of your mandatory Retirement Plan.

Federal DCP Limits Change

The maximum amount a Deferred Compensation Plan (DCP) participant may contribute during a calendar year is the lesser of 33 1/3% of includible compensation (roughly 25% of gross compensation) or a dollar limit.

Due to federal changes allowing the maximum I.R.C. Section 457 contributions limits to be indexed with inflation, the dollar limit for 2001 will increase to $8,500

Continued on page 5

Important Notice to Members and Reporting Agents!

Effective December 1, 2000 <u>all</u> forms (Member Change forms; future allocations, transfers, PIN, name, address or beneficiary changes; Employer Reporting forms; Enrollment, Non-Contributing, Vesting Credit, etc.) must be sent to the Retirement Office for processing. DO NOT send any forms to Ameritas.

Thank you for your cooperation!

New Call Center – Member Friendly

**by Jane Hansen,
Member Services Manager**

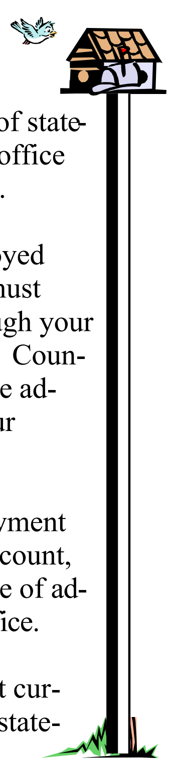
In June 2000, the Nebraska Retirement Systems' implemented a Call Center/ Member Services Department. Our mission is to assist our plan members with telephone inquiries and to review their account information during personal visits at the Retirement Office . Our member services staff consists of four retirement specialists who are trained in all of the plans administered by the Retirement Systems. In addition to providing many important personal services to our members, the formation of this department allows other retirement specialists in our agency to process your written requests and applications in a more timely and efficient manner.

When you call the Retirement Systems, you will be greeted by an automated attendant system. If you would like to make an appointment to come in and meet with one of our Member Services specialists, push "1" to reach our receptionist. She will set up an appointment for you. At the time of your appointment, a member services specialist will have prepared your requested information and will spend time reviewing it with you. If you wish to speak to Member Services, push "3". The Specialist who answers will be able to help you with everything from assistance in using Ameritas' pension access line, <u>basic</u> facts about your plan, to a status report on any inquiries or applications you have submitted to our office.

Two common phone requests for information from our members which <u>cannot</u> be completed over the telephone are inquiries about beneficiary listings and Personal Identification Numbers (PIN). Beneficiary information is not yet accessible to our specialists with our current computer system, and PIN information is not available by phone for security reasons. The most expedient way to make certain that your beneficiaries are listed as you want them is to ask our staff to send you a new form which will supercede any previous listings once returned to our office. Our staff can also provide you with a form to assign yourself a new PIN number if you do not know your number or wish to change it.

Many of you have had an opportunity to use the services of our Call Center/ Member Services department. We hope you have been pleased with our service and with our agency's new structure. As with all departments in the Retirement Systems agency, it is our goal to serve our members by assisting them in understanding their retirement plan and in helping them to plan for a successful retirement. ❑

Is Your Address Current?



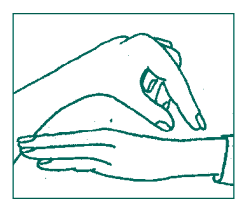
Every quarter, **hundreds** of statements are returned to our office due to incorrect addresses.

If you are presently employed with a state agency, you must change your address through your agency personnel contact. County employees need to make address changes through your County Clerk.

If you have ceased employment and have deferred your account, you must mail your change of address to the Retirement Office.

If your address is not kept current with our office, your statement cannot be delivered.

A Test for Your "True" Age



Experts now say that age is not so much a matter of your calendar years but your physical condition. Someone who is age 51 could actually have the health and body of a 42-year-old. Here's a test to measure the true age of one part of your body - your skin:

1) Place your hand palm down on a flat surface.
2) With your other hand's thumb and forefinger, pinch a large section of the back of the flattened hand.
3) Hold firmly for five seconds.
4) Release and count the number of seconds it takes for the pinched skin to go back to its normal appearance.

Skin Elasticity	Your Body's "True" Age in Years
0 to 2 Seconds	19
3 to 4 Seconds	30
5 to 8 Seconds	40
9 to 10 seconds	45
11 and higher	60+

(Ideas Unlimited, 9/00)

IRS Urges African-Americans to Beware of Tax Refund Scams

WASHINGTON — The Internal Revenue Service today cautioned African-Americans not to be misled by anyone offering to help them file for tax credits or refunds related to reparations for slavery. There is no such provision in the tax law. Those who pay to have reparations-related tax claims prepared are being deceived.

IRS centers nationwide have received a growing number of such slavery reparations claims this year, repeating similar experiences in 1994 and 1996. "We regret that people may be circulating misleading information in the African-American community," said IRS Commissioner Charles O. Rossotti. "It's despicable that some are stealing from innocent people by charging fees to prepare what they know to be baseless claims.

For example, the Florida Attorney General obtained an injunction late last month against a Miami-based promoter who charged victims $100 to handle their "claims." This promoter even warned consumers not to contact the IRS on the pretext that the IRS did not want the general public to know about the tax credit. "Promoters do not want potential victims to learn the truth about this hoax," Rossotti said.

The IRS has seen two principal reparations schemes. In one, the person claims a credit for "black investment taxes" or "reparations for African-Americans." In the other, the person attaches a form listing thousands of dollars in tax withholding that, in fact, never occurred.

Because there is no law providing for such reparations, the IRS rejects

Continued on page 6

Legal Corner

by NPERS Legal Counsel,
Shawn Nowlan

In the State and County Retirement Systems, the amount of your retirement benefit depends on the amount in your account when you retire. According to Neb. Rev. Stat. § 84-1318, "The retirement value for any employee who retires under the provisions of [the Act] shall be the sum of the employee's employee account and employer account as of the retirement date." This puts a lot of responsibility on each individual member, to help make good investment choices.

Because of the importance of prudent investing, it's always good to be reminded of the resources available to members of the State and County Retirement Systems that can be of assistance in financial planning.

In 1991, the Legislature passed a law requiring the Retirement Office to sponsor a retirement education and financial planning program for State Retirement plan members under age 50. In 1995, this program was extended to County Employees. According to Neb. Rev. Stat. § 84-1511.01, NPERS provides information on retirement education and financial planning, that should be comprehensive, and includes discussions on the retirement system, budgeting and other planning information, including investment choices.

NPERS provides this information to help you decide how to maximize your investments to meet your long-term financial goals. The Personal Planning program is open to members who are under age 50 and the Preretirement Planning program is for members age 50 and over, (established in Neb. Rev. Stat. § 84-1511). You may attend the Personal Planning seminar twice before you are fifty and the Preretirement program twice after you turn fifty. The state agency or county that employs you must give you a work day to attend – you may not be forced to use a vacation, sick, personal or compensatory day in order to attend the seminar. (See § 84-1511.01). An employee may not attend more than one seminar **per fiscal year**.

In addition to our educational seminar programs, NPERS provides several resources for you to learn about your investment choices:

- You may watch an investing video that NPERS has distributed to all county clerks and to state agency personnel contacts. The video explains the various investment funds available and provides information on prudent and effective investing.
- The ***Retirement Roundup*** often has articles that are geared towards helping you make investment choices.
- Every February you are mailed an Annual Investment report, which will give you information about the last year of performance of the funds offered through the retirement systems.
- NPERS has hired Sterling Financial Advisors, of Omaha to provide educational services for State and County plan members. Sterling will take calls from plan members with questions regarding pension investment choices. Sterling's toll-free number is 1-877-970-9300; in Omaha call 970-9300.

DFA Small Company Portfolio ** (New Manager, effective 10/30/00)

September 30, 2000

Investment Objective: The Small Company Stock Fund's primary objective is capital appreciation through investment in small capitalization domestic common stocks. The Fund in isolation involves high risk/reward characteristics. However, when used as a part of an overall investment plan, it provides additional diversification benefits. Contributions to this Fund are now invested in the Dimensional Fund Advisors (DFA) U.S. 6-10 Small Company Portfolio.

Investment Style: This fund is focused on capturing the returns and diversification benefits of a broad cross-section of small U.S. companies. Stocks purchased represent the smallest 50% of companies listed on the NYSC (based on market capitalization.) The portfolio also invests in companies with comparable market cap listed on the American Stock Exchange and the NASDAQ National Market System.

Performance Thru 12/31/99:

	Fund	Wilshire Small Stock Index	Russell 2000 Stock Index
Year to Date*	10.6%	7.9%	4.2%
One Year	25.4%	26.9%	21.3%
Three Years	13.7%	14.4%	13.1%
Five Years	17.6%	18.3%	16.7%

*Thru 9/30/00

Returns are net of investment management fees.

Composition:

Common Stocks	99.7%
Cash Equivalents	.3%

Major Sectors:

Non-Durables	25%	Business Services	12%
Business Equipment	16%	Durables	9%
Financials	13%	Manufacturing	7%

Largest Holdings:

America West Holdings	.35%	OSI Pharmaceuticals	.24%
Manhattan Assoc.	.24%	NPS Pharmaceuticals	.23%
Dura Pharmaceuticals	.24%	Cell Therapeutics	.21%

Portfolio Analysis:

Portfolio Assets	$614 M	Price to Book Value	2.1
Number of Holdings	3,598	Return On Equity	12.3%
Weighted Avg. Market Cap	$507 M	Dividend Yield	.82%
Price/Earnings Ratio	12.9x	Beta (volatility vs. market)	0.9

Manager: Dimensional Fund Advisors is located in Santa Monica, California.

Annual Management Fee: Approximately .45%

** This Fact Sheet represents performance prior to DFA becoming part of this Fund

New Manager for Small Stock Fund

Dimensional Fund Advisors (DFA) is the new fund manager for the Small Company Stock Fund effective October 30, 2000. DFA replaces Brinson Associates who had managed the Small Company Stock Fund for the State/County/DCP plans since November of 1997. The Investment Council conducted a manager search to replace Brinson, who had been on probation since April, after Brinson failed to improve its performance significantly enough to meet the return of the Small Company Stock Fund benchmark.

The investment objectives of the Small Company Stock Fund ***have not*** changed with the selection of a new manager. The primary objective of this fund is capital appreciation through investment in small U.S. company stocks. The DFA fund has a core investment style. This means DFA invests in a "blend" of small company value *and* growth stocks.

You will note on the opposite page (page 4) we have produced details on the DFA U.S. 6-10 Small Company Portfolio as of September 30, 2000. Although we were not invested in the DFA fund on September 30th, the summary gives you historical performance information and the basics on DFA's investment style. **Note**: ***past performance is not an indicator of future performance. As in any stock fund there is no guarantee against loss of principal.***

The Russell 2000 Index continues to be the benchmark used to monitor the performance of the manager of the Small Company Stock Fund. A fund that tracks the Russell 2000 Index invests in the stocks of small companies which have higher risk than larger more well established companies. The investment characteristics of this fund continue to be rated "high risk."
There is a considerable reduction in the Annual Management Fee for the new manager. DFA will charge us .45%; this includes about .05% to cover custodial fees and expenses of the Investment Council. The previous manager, Brinson Associates, had fees of 1.20% until April when they lowered their fees to approximately .80%. This was still comparatively higher than the DFA charges. As you know, a lower overall management fee can significantly affect your returns over the long-term.

Caution: The Small Company Stock Fund is a high-risk fund and should not be used as your only investment choice. It is useful as part of your overall investment plan when combined with other funds in the plan with different risk characteristics. ❑

DCP Update *(Cont. from page 1)*

Catch-up Rule

In our DCP plan you may elect to "catch-up" contributions in one or more of the last three years before you retire, if you have not contributed the maximum each year of your employment with the state. Once you request a "catch-up" we will require documentation of your salaries for all prior years of employment since December 31, 1978. The maximum contribution under a catch-up is $15,500 per calendar year, less any amounts deferred for prior taxable years.

State employees should contact the Retirement Office for further information on DCP. County employees will need to ask your County Clerk if your county offers a Deferred Compensation Plan. ❑

Call Us...Toll Free!
1-800-245-5712

Annual Investment Report

The Annual Investment Report for members of the State and County Employees Retirement Plans and the State's Deferred Compensation Plan will be mailed to all plan members in early February 2001. The report will include investment results, plan statistics and updated "fact sheets" for each investment fund for the plan year ending December 31, 2000.

Note: During the year individual "fact sheets" for each investment fund are updated quarterly and are available to you upon request. ❑

See You Next Fall!

We have been getting quite a few calls from people wanting to know when the next seminars will be held.

As you may remember from a previous newsletter, the seminar schedule was changed so that all Preretirement and Personal Planning seminars for State and County members are now being held during the fall. All spring seminars have been scheduled for School Plan Members.

There are some major differences between some of the plans and alternating back and forth from day to day can be very challenging. This change in scheduling will allow our seminar staff and presenters to focus on your specific plans for an entire season rather than alternating from one plan to another.

The fall dates have not yet been confirmed but will begin in September and run into December. Registration information will be mailed to eligible members approximately four weeks prior to seminars.

Mark your calendars and we will look forward to seeing you at a seminar in the fall and hope that 2001 is a successful year! ❑

Roth IRA *(Cont. from page 1)*

- is a “qualified first-time home buyer” using the distribution in the purchase of a primary residence.

Distributions from a Roth IRA that has been in effect for at least five years and are taken for any of the above reasons are known as “qualified distributions.” Qualified distributions are not includible in taxable income. Now for the tricky part, distributions that are taken from Roth IRAs before any of the events specified above are met are deemed “non-qualified distributions.” Non-qualified distributions will be taxable and potentially exposed to the 10% penalty to the extent the distribution includes earnings.

Unlike traditional IRAs, there is no requirement to begin distributions from a Roth IRA at age 70 ½. An individual can continue to defer tax on Roth IRA earnings for their entire lifetime. The traditional IRA required minimum distribution rules do apply to the beneficiary of a Roth IRA following the death of the Roth IRA participant. Thus, a beneficiary can continue to defer tax on Roth IRA earnings but the beneficiary is subject to minimum distribution requirements.

A traditional IRA may roll over (or simply convert) all or part of the assets into a Roth IRA if an individual’s AGI is not more than $100,000 for the year of the conversion (or rollover). The $100,000 AGI limit is determined without regard to any amount included as a result of the conversion and is applicable to single and joint taxpayers. Withdrawals from a traditional IRA that are converted into a Roth IRA are not subject to the 10% penalty tax. However, the full amount of the conversion may be subject to taxation.

In deciding whether to make contributions to a traditional IRA or a Roth IRA, a taxpayer should take into account a number of factors. Some of these factors are eligibility to make contributions, the number of years to accumulate earnings, the time projected to begin distributions and current versus future tax brackets. A taxpayer must consider whether the current deduction of contributions to a traditional IRA are more valuable than the future recovery of earnings tax free.

This brief article is no substitute for a careful examination of all of the advantages and disadvantages of this matter in light of your unique personal financial circumstances. Before implementing a financial planning strategy, consult with your Financial Advisor and tax professional. ❑

IRS Warning *(Cont. from page 3)*

these claims. Taxpayers who repeatedly file them after receiving a denial notice may be subject to a $500 penalty for filing a frivolous tax return.

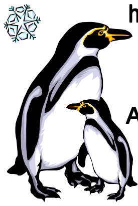
Promoters of reparations tax schemes have been convicted and imprisoned, and the IRS continues to investigate new promoters for possible prosecution.

People hearing about tax benefits that sound “too good to be true” should check them out with a trusted tax professional or the IRS before getting involved with claims that may not be legitimate. The IRS toll-free help line is 1-800-829-1040. ❑

RETIREMENT ROUNDUP

Published by
Nebraska Retirement Systems
Retirement Information Office
1221 N Street, Suite 325
P.O. Box 94816
Lincoln, NE 68509-4816
402-471-2053
Toll-Free 1-800-245-5712
http://www.nol.org/home/pers

Director: Anna J. Sullivan
Editor: Louise Weyer
Asst. Editor: Pam Williamson



Help Us, Help You!

Attention Plan Members:

One of the ways to make changes (future allocations, transfers and assigning yourself a new PIN number) to your retirement account and/or DCP account is via a paper form named, appropriately, a Change Form! To change your name, address and/or beneficiary listing, you will need to complete the appropriate forms. If you choose to make changes using the paper forms, it is **imperative** that the forms be completed **accurately and thoroughly.**

If you, or anyone assisting you in filling out a change form, have any questions about the form, please call our office and we will be happy to answer your questions. Incorrect information and incomplete forms can delay the processing of your request <u>and</u> create additional workload for everyone involved.

Attention Agency Personnel Contacts and County Clerks:

If you have questions regarding the completion of **any** of the reporting forms such as the Enrollment Form, Non-Contributing Member Form, Vesting Credit Form etc., please **do not hesitate** to give us a call. Completing forms correctly the first time saves us all a lot of work! ❑

Happy New Year!

Live as if you were to die tomorrow.
Learn as if you were to live forever.

~ Mahatma Gandhi