Retirement Roundup

State & County Employees

Nebraska Retirement Systems

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State Employee Rate Changes August 1st

Members of the state employees retirement plan will see a contribution rate increase beginning August 1, 1998. The rate will increase from 3.6% of salary to 4.33% of salary. The law also provides that when a member's total contributions to the plan during the calendar year exceed $864, the member's contribution moves up to 4.8% of salary.

For example: right now a member whose salary during the year exceeds $24,000 will move to the 4.8% contribution rate when he/she has received salary in excess of $24,000 ($24,000 x 3.6% = $864 contribution). The higher initial contribution rate of 4.33% of salary, effective August 1st, means that a member's contributions will exceed $864 sooner in the year and at a lower salary. At the new contribution rate of 4.33% a member will reach $864 of contributions when his/her salary reaches $19,954 during a full calendar year. Contributions on salary in excess of $19,954 during the year will then be at the 4.8% rate.

LB1191, passed this year by the Legislature, authorized this contribution increase for state employees. Beginning with the first biweekly payroll in August, members who have already exceeded $864 of contributions will continue at the same rate of 4.8% of salary. All other members will begin contributing at the new, initial rate of 4.33%. The employer matching contri-

(Continued on page 2)

A Failure to Diversify Stock Investments Could Prove Disastrous in the Long Run

By Jonathan Clements, Wall Street Journal

One of Wall Street's most important ideas is suffering an untimely demise. A few years ago, few doubted the virtues of reducing risk by spreading your stock-market bets widely. But today, there is ample evidence that investors aren't bothering with diversification.

Mutual-fund companies are rolling out "focus" funds that stick with just a few dozen stocks. Many employees are betting heavily on their own company's shares.

Maybe most worrisome, investors seem to view buying anything other than U.S. blue-chip stocks as increasingly foolhardy. According to fund researchers Lipper Analytical Services, less than 16% of stock-fund assets are in funds that invest abroad, down from 20% at year-end 1994. What's going on? It is, I fear, a potentially disastrous case of rearview mirror investing.

"If you look at performance since 1990, it's easy to trash diversification because U.S. large-cap stocks have done so well that people don't feel they need to own anything else," says Scott Lummer, chief investment officer of the 401k Forum, a San Francisco investment adviser. "But this fantastic run won't last forever. When it ends, international stocks and small stocks will likely provide a cushion."

Make no mistake, stock-market diversification isn't a cure-all. "A well-diversified portfolio can still go down," says Laurence Siegel, director of investment policy research at the Ford Foundation. "But the ups and downs are more muted."

The idea with diversification is to combine a host of different companies, large and small, U.S. and foreign. When some sectors and some stocks are suffering, others will do well; thus giving you smoother portfolio performance and ensuring that your wealth isn't badly damaged by a few rotten stocks.

When U.S. stocks crash, for instance, foreign markets usually also lose money, though not as much. But to see the real benefits of global stock-market diversification and to understand why today's single-minded focus on American blue chips may prove so mistaken, you have to look at long-term performance.

"Historically, one would have made a whole series of bad decisions if one had judged everything by recent experience," says Gary Brinson, president of Brinson Partners, a Chicago money manager. "If you start diversifying away from areas that have done poorly, you end up concentrated in areas that have recently done well. We have seen time and time again that that has had nasty consequences."

To hammer home this point, Mr. Brinson points to the varying fortunes of stocks and other investments during the past three decades.

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Diversify Investments *(from page 1)*

In the mid-1970's, bonds and cash investments looked attractive based on performance over the previous five years, while stocks seemed utterly unappealing. But over the next five years, stocks were the place to be, while bond and cash returns were relatively modest. Similarly, in the mid 1980s, real estate ranked as one of the most dazzling investments over the previous five years, while foreign stocks had posted unspectacular results. What happened next? You guessed it. Foreign stocks went on a tear over the last half of the 1980s, while real estate fell from grace.

"In the late 1980s, the U.S. was discredited and Japan was going to be the hero of the world market," Mr. Brinson recalls. But as we know now, those sizzling foreign gains didn't last. In fact, investors have done far better in the 1990s by sticking with U.S. stocks.

This doesn't mean that all investments go through five-year cycles of first dazzling gains and then tawdry results. But there is a lesson here for those who flock to yesterday's winners while dismissing the laggards as unsuitable for investing.

"Washing your hands of a whole asset class is foolish," says Claudia Mott, director of small-cap research at Prudential Securities. "Historically, small caps have done well, but it's based on long holding periods. People are much too short-term oriented."

Today, investing in smaller U.S. stocks, emerging markets and Japanese shares is viewed as almost imprudent. Yet if U.S. large-company stocks post disappointing results in the years ahead, these downtrodden areas could bolster your portfolio's performance.

Indeed, if you are investing for a decade or more, which is the sort of time horizon you should have if you are buying stocks, diversification can mean the difference between making decent money and failing to meet your investment goals.

Sure, U.S. blue-chip stocks have topped the charts in the 1990s. But the 1980s were a great decade for foreign shares and the 1970s belonged to small U.S. stocks. In fact, in the 1970s, both small stocks and foreign shares posted double-digit annual gains, while blue chips shuffled along at 5.9% a year, as measured by Standard & Poor's 500-stock index.

"There are long dry periods and they're awful," Mr. Siegel says. "But you can't easily forecast which assets are going to do well, so you have to diversify."❑

RETIREMENT ROUNDUP

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Rate Change *(from page 1)*

bution rate remains at 156% of the member rate, but has the effect of an increase, since it is a percentage of the member rate.

Note: The contribution rate change will happen automatically. It will NOT be necessary for you or your agency payroll department to complete new forms. ❑

Fall 1998
Seminar Calendar

Preretirement Seminars
age 50 and over

December 10	-	Lincoln
December 16	-	Lincoln

Personal Planning Seminars
under age 50

October 7	-	Omaha
October 20	-	Lincoln
October 22	-	Beatrice
November 3	-	Norfolk
November 18	-	Lincoln

NOTE: Seminars will be held statewide next spring.

Enhancement of Investment Education for Members Planned

With the addition of five new investment funds, the need for investment education has increased significantly for many members. We are now providing quarterly "Fund Fact Sheets", written materials describing each fund's objectives, we allow you 24-hour access to your pension account information, and we conduct all-day Personal Planning Seminars and Preretirement Seminars. Yet, you are asking for more.

Kirkpatrick Pettis (KP) has helped us with the financial planning portion of our Personal Planning Seminars (for members under age 50), and, until recently, have had an 800 # for members to call with investment-related questions. KP staff has also provided us written market comments about our funds in our quarterly statements.

However, we had Kirkpatrick Pettis discontinue some of these services last fall when the expanded investment options became available. We thought KP could not represent all of the investment funds without the appearance of a conflict.

Feedback from you, the members, is telling us you want and need more!! So, in the coming months we are going to request bids from a variety of investment companies who might be interested in providing the services we have mentioned above (this does NOT include investment of the assets). Our hope is to have the bidding process completed by the time we start our Fall '98 seminars. We will keep you posted. ❑

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