Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Retirement Systems
Vol. 15, No. 3, Summer 2000

In this issue...

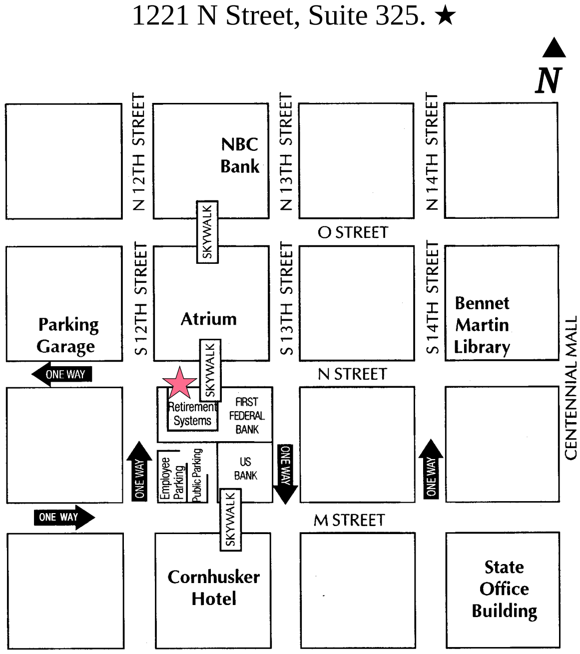
Mission Accomplished!

As you have probably heard, our office has moved! The move took place the last weekend in April. Thanks to the hard work and dedication of our Director and employees, (and a great moving company) the move was accomplished with very few complications.

We are still in the process of getting 'settled' and it may take a while to get used to all the changes that are taking place for both our staff and our members. **One thing for you to remember is that it is now necessary for you to make an appointment in advance when you are planning to visit our office**. Please call our receptionist, toll-free, at 1-800-245-5712 or, in Lincoln, call 471-2053 to schedule your appointment.

Below is a map of downtown Lincoln, showing our new location at:

1221 N Street, Suite 325. ★



Major Technology Initiative Underway

The Legislature and the Governor have granted spending authority for a major overhaul of the Retirement Systems computer systems this year. We began in 1998 to develop a long-range plan addressing our technology needs. This plan is now under way.

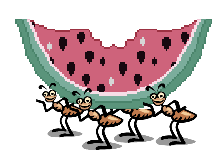
We will be using a phased approach in our Technology Plan and are implementing changes to our administrative processes as well as our computer systems. With our move into our new office space, we have also completely reorganized our office administration.

This fall we will install an imaging system to help us manage the millions of pieces of paper and microfilm documents in member files. This system will streamline our handling of member requests by using "electronic" files and workflow software to track each member request.

Other improvements coming soon will be: implementation of a phone center to improve response time for member calls; an Internet "benefit calculator" to assist members in obtaining estimates in advance of retirement; and the ability to download forms from our Web Site. ❑

"The difference between the impossible and the possible lies in determination."

~ Tommy Lasorda



Ameritas Contract Renewed

The Public Employees Retirement Board (PERB) formally renewed the contract for recordkeeping services with Ameritas Life Insurance Corporation, to begin July 1, 2000. The new contract increases the annual per member cost of record-keeping from $12.45 in 1999-2000 to $27.00 for the 2000-2001 year. The new three-year contract also allows a one-dollar increase in the second and third years.

The current contract was awarded to Amertas in July of 1997. Ameritas has continued to expand its services for our members since 1997. The move to daily pricing of the funds and the Internet access has been well received by plan members. When considering whether to renew the contract with Ameritas the PERB looked at several factors, one was that the closest bidder to Ameritas in 1997 requested an annual per member rate of $40.00. The PERB felt the new Ameritas rate was therefore still in a reasonable price range.

However, in an effort to control the direct member costs, the PERB and Ameritas have agreed to transfer certain functions, which are currently performed by Ameritas staff, to the Retirement Office staff. As a result we expect the annual per member rate can be reduced to a base of $20.00 once staff training is complete.

The key functions to be transferred to the Retirement office staff are the direct input of member enrollments and changes and distributions via an online connection to the Ameritas record-keeping computer system. Also, all live phone calls will be handled by Retirement Office staff or Sterling Financial Advisors. We expect this transition to take six to nine months.

Our office reorganization includes reviewing all key processes in an effort to streamline and improve member services. A major part of this effort is to develop an integrated computer information system for all retirement plans served by our agency. Although we expect to continue to outsource the recordkeeping services for the State and County Employees Retirement Plans and the voluntary Deferred Compensation Plan, there are certain administrative processes we intend to review. As the integrated system is developed in the next four years we will likely see the use of electronic member enrollments and the expanded use of the Internet for many functions now requiring paper documents. It is with these future changes in mind that the PERB has made its decision to retain Ameritas. ❑

Fall 2000
Seminar Calendar
State & County Members

Preretirement (age 50 and over)			Personal Planning (under age 50)		
September 19	-	Scottsbluff	October 4	-	Kearney
September 20	-	Ogallala	October 11	-	Norfolk
October 5	-	Grand Island	October 26	-	North Platte
October 12	-	Norfolk	November 1	-	Lincoln
October 24	-	Omaha	November 15	-	Lincoln
October 31	-	Lincoln	November 16	-	Lincoln
November 29	-	Beatrice	November 28	-	Omaha
December 13	-	Lincoln			
December 14	-	Lincoln			

Registration forms will be sent to eligible members approximately 4 weeks prior to meetings in your area.

10% Tax Penalties and Lump Sum Refunds

In the State and County Retirement Plans, members who are vested have the same options when they cease work, whether or not they are 55. But 55 is still considered normal retirement age in the plans. If you decide to take your money as a lump sum refund, there are important distinctions based on whether you quit working for your employer before or after normal retirement age.

In order to determine which kind of benefit you may get, the Nebraska Public Employees Retirement Systems (NPERS) will need to know how old you were when you ceased employment. Depending on that age, you will get one of two different types of lump sum refunds. If you cease employment at age *55 or older*, your refund will be called a "retirement allowance." However, if you ceased employment at *any age younger than 55*, then your refund will be called a "termination benefit" – the refund will still be called a "termination benefit," even if you <u>receive</u> the money <u>after</u> age 55.

If your refund is a "termination benefit," you are less than 59½, and you decide not to roll the money over into another tax-deferred account (like an IRA), the 10% penalty applies. You will have received what the IRS calls an "early distribution" of pension assets. This 10% penalty applies to the taxable portion of your refund, and is in addition to the income tax you must pay on the refund; you will have to pay this penalty when you file your income taxes. The IRS also requires NPERS to withhold 20% of the refund to pay for regular income taxes. In other words, 30% of your check will go to the federal government if you take a refund that is a "termination benefit" and you take it before you are age 59½.

If you receive a refund that is a "retirement allowance" because you quit

Continued on page 4

Fine-Tuning Your Portfolio To Make Money And Sleep Soundly

How comfortable are you in making personal investment decisions among the available options through your retirement plan? Not surprisingly, many participants in similar plans believe they lack the requisite investment experience to make wise choices. In fact less than 15% of respondents in a recent study expressed strong confidence in their ability to make wise investment decisions. If you are of like mind, take heart. First, the chief ingredient in investment success is often no more than the adoption of a simple, but disciplined, asset allocation strategy. Second, you can learn more about this strategy on your own by attending one of the Personal Planning seminars scheduled for this fall.

"...the chief ingredient in investment success is often no more than the adoption of a simple, but disciplined, asset allocation strategy."

Your financial health in retirement is determined primarily by how you chose to allocate your investment dollars between various investment choices, or asset classes, such as stocks, bonds, money markets or stable investments. You might think that success has more to do with investment managers picking the right stocks or by timing the market but those methods of adding value are important to a much lesser degree. Studies have shown that your allocation choices will typically explain 90% of the variation between your rate of return and the person down the hall.

A common mistake made by participants in self-directed plans is the failure to diversify adequately. Ironically, the result of inadequate diversification is often a portfolio with too *little* risk. Let's see how this happens.

Consider the situation faced by a new participant with perhaps thirty years until retirement who is offered several investment options. Given the understandable desire to avoid any risk of loss over time, they typically select a highly conservative investment, such as a Stable Fund (Guaranteed Insurance Contracts, etc.) or a Money Market Fund. Then, like many participants, they promptly go on with their life and forget about retirement planning for the next decade. Given this low tolerance for risk and a long time horizon, is the Stable Fund appropriate? Probably not.

Most of the time, choices like these are made because of failure to understand some basic investment premises. We know that investors are rewarded for taking risks. The more risk they are wil-ling to take, the higher their long-run expected returns. Second, the statistical law of large numbers foretells that as the length of the investment horizon increases, the probability that a diversified portfolio of individually more risky assets will ultimately produce the higher returns predicted approaches 100%. Put differently, diversification across individually risky assets does expose the investors to the risk of principal loss in any *given* year; however, the probability of a net <u>long-term loss</u> is almost zero.

What is a sufficient number of years to be confident of this result? In this century, financial market cycles have on average, lasted from three to five years. A good rule of thumb would be for those planning on retiring **and** tapping into their account in <u>less</u> than ten years – allowing time for two market cycles – should consider gradually weighing their portfolios more heavily toward highly conservative asset classes, such as Money Markets, Stable Funds, or Bond Index Funds. This might be accomplished in 10% increments over ten years for example. All other participants would be well advised to adopt a broad asset allocation strategy, and to invest in a variety of riskier asset classes such as large and small company stocks, bonds, and international stocks whose long-run returns will almost surely be greater.

The benefits of diversification are most evident during long market declines. We have been most fortunate over the last several years that market declines, while painful, have not been long-lived. Over longer periods of time a more volatile asset class like stocks will likely outperform a diversified portfolio. However, you should keep in mind that one of the main advantages of diversification is reducing risk and that sick feeling in your stomach when the markets go down, not necessarily making you more money, over the long run.

When looking at your retirement plan asset allocation consider all the investments you and your spouse own. Taking those other investments into account will assist you in developing the best asset allocation for your entire investment portfolio, including your retirement accounts. If you haven't been sleeping soundly during the recent market volatility maybe you should give us a call at Sterling Financial Advisors so we can visit about your asset allocation strategy. Most certainly, if you haven't attended the Personal Financial Planning Seminar plan on doing so this fall. It is a day off with pay that will pay you great financial dividends in the future as well as helping you sleep better at night! ❑

Mary H. Jochim
Sterling Financial Advisors
877-970-9300 (toll free)
402-970-9393
Securities Offered Exclusively Through Raymond James Financial

Questions?
Call . . . Toll Free!

- For account balances, transfers allocation changes and updated returns, call the Pension Access Line toll free, 1-800-449-2696 or 467-6925 in Lincoln.
- For Change Forms, Fact Sheets, distribution and other plan details, call the Retirement Office toll free, 1-800-245-5712 or 471-2053 in Lincoln.
- For fund investment concerns call Sterling Financial in Omaha at 402-970-9393 or toll free, 1-877-970-9300.

Brinson Fund on Probation

At its April meeting, the Nebraska Investment Council placed Brinson Partners Inc., manager of the Small Company Stock Fund, on probation. The reasons cited by the Council for the probation were the resignation of key personnel, Gary Brinson in particular, and a major reorganization of the parent investment management activities of the company UBS. Council members also expressed concern about the fund's performance in relation to its benchmark during the past four to five quarters.

Wilshire Consultants, who provides management consultant services to the Investment Council, recommended the Council take action regarding the fund. However, Wilshire was quick to point out that although the fund has lagged its benchmark, the Russell 2000, much of the reason for the underperformance has been due to the "value" style of the fund. When compared to a value oriented benchmark Brinson has performed positively. "Growth" stocks have far outpaced "value" stocks in the market for an extended period. In fact, Wilshire has some expectation that the fund could recover its losses when "value" stocks come back into favor in the market.

After deliberating at length, the Council voted to place Brinson on probation and to begin the search for a replacement manager. Probation will mean the Council will put Brinson under greater scrutiny, conduct interviews of key Brinson staff and require frequent reporting. Leaving Brinson in place as the manager during the search for a replacement will minimize transaction costs when a new manager is chosen, but will also give the fund time to recover.

The Small Company Stock Fund is one of eleven funds offered to members of the State and County Employees Retirement Plans and the State's voluntary Deferred Compensation Plan. As a plan member you should always consider the full array of funds carefully and diversify your investments to minimize risk. The Small Company Stock Fund is by its very nature a high-risk fund and therefore is not appropriate for 100% of a your member contributions.

For details on the Small Company Stock Fund investment objectives and performance please refer to your Semiannual Report of February 2000. If you have questions regarding the fund offerings or want further information on diversification, we suggest you contact Sterling Financial Advisors who is under contract with the Retirement Office to answer investment-related questions for you. Questions regarding the probation process can be directed to Anna at the Retirement Office at 1-800-245-5712, in Lincoln at 471-2053 or call the Nebraska Investment Council at 471-2043. ❑

Easy Access

To access account information and make account changes via the web site or the VRU (voice response unit) at Ameritas, you will need to know your four digit PIN number, social security number and the plan number.

Your four digit PIN number was printed on your June 1997 statement. If you don't know your PIN number, please assign yourself a new number by completing a Change Form.

The Change Form is printed on the back of your statement or you may obtain one from your agency personnel contact, County Clerk or by contacting our office. **Please mail your Change Form to Ameritas at the address listed on the bottom of the form.**

If you are a state employee, your plan number is 2002. The DCP plan number is 2000. If you are a county employee, check with your County Clerk to obtain your plan number, or check your last statement. ❑

Tax Penalties *(Cont. from page 2)*

working for your employer at age 55 or older, you will not have the 10% penalty assessed. If you roll the money into another tax deferred account (like an IRA), no money will be withheld. If you take the refund directly, NPERS will withhold the normal 20%, but there is no penalty.

When you are deciding what to do with your refund, keep this rule of thumb in mind: *if you worked until you are age 55, you can retire, take your refund, and not pay the 10% penalty*. However, if you ceased work earlier than 55, *you will have to wait until you are age 59½ to escape the 10% penalty on a refund.*

This article only covers federal income tax matters. There may also be state income tax consequences if you take a refund. You will need to check with your state of residence.

Remember that the Retirement Systems provides this information for your general interest. If you want to know how your individual taxes would be affected by a lump-sum refund of your retirement account, you will need to contact your accountant, tax attorney or other financial advisor. ❑

Have A Great Summer!

RETIREMENT ROUNDUP
Published by
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