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
•活着

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

Important Notice to Members and Reporting Agents!

Effective December 1, 2000 all 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 retire-
ment 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 ap-
pointment 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 every-
thing from assistance in using 
Ameritas’ pension access line, basic 
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 
cannot be completed over the tele-
phone are inquiries about beneficiary 
listings and Personal Identification 
Numbers (PIN). Beneficiary informa-
tion is not yet accessible to our spe-
cialists with our current computer 
system, and PIN information is not 
available by phone for security rea-
sons. 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 state-
mements 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. Coun-
ty employees need to make ad-
ress changes through your 
County Clerk.

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

If your address is not kept cur-
rent with our office, your state-
ment 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.

<table>
<thead>
<tr>
<th>Skin Elasticity</th>
<th>Your Body’s “True” Age in Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 2 Seconds</td>
<td>19</td>
</tr>
<tr>
<td>3 to 4 Seconds</td>
<td>30</td>
</tr>
<tr>
<td>5 to 8 Seconds</td>
<td>40</td>
</tr>
<tr>
<td>9 to 10 seconds</td>
<td>45</td>
</tr>
<tr>
<td>11 and higher</td>
<td>60+</td>
</tr>
</tbody>
</table>

(Ideas Unlimited, 9/00)
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 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.

Continued on page 6
**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.

<table>
<thead>
<tr>
<th>Performance Thru 12/31/99:</th>
<th>Fund</th>
<th>Wilshire Small Stock Index</th>
<th>Russell 2000 Stock Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year to Date*</td>
<td>10.6%</td>
<td>7.9%</td>
<td>4.2%</td>
</tr>
<tr>
<td>One Year</td>
<td>25.4%</td>
<td>26.9%</td>
<td>21.3%</td>
</tr>
<tr>
<td>Three Years</td>
<td>13.7%</td>
<td>14.4%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Five Years</td>
<td>17.6%</td>
<td>18.3%</td>
<td>16.7%</td>
</tr>
<tr>
<td>*Thru 9/30/00</td>
<td></td>
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</tr>
</tbody>
</table>

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.

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 includable 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 1/2. 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.

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 and 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