Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems

Vol. 19, No.7, Fall 2004

In this issue...

Cash Balance Dividend

There is good news for State and County **Cash Balance Benefit** participants. The Public Employees Retirement Board (PERB) has announced an earnings allocation (dividend) has been granted to the account of each Cash Balance participant who had an account balance on December 31, 2003, and who is currently contributing. Excellent investment returns for the 2003 plan year of 20.2% and an interest credit rate of slightly more than 5% have enabled the PERB to approve the dividend.

The PERB, by law, has the option to grant a one-time dividend to active member accounts while maintaining the required cushion of 10% of the assets.

The PERB's goal with the Cash Balance Benefit is to maintain benefit adequacy, which is defined as an annual 8% return. If the credit rate (set by statute as the federal mid-term rate plus 1.5%) is less than the benefit adequacy guideline of 8%, the difference may be credited to each member account as a dividend if gains allow.

Here is how the dividend has been calculated: A member's 12/31/2003 account balance was multiplied by an earnings factor of 3.088% (this included the difference between the 2003 rate and 8% plus interest credited through 9/30/04 on that account). For example, an account balance of $25,000 as of 12/31/03 would result in a one-time dividend of $772.

The dividend was distributed September 30, 2004, and will appear on the third-quarter account statements under the "Gain/Loss" column.

Retraction and Clarification

The Spring 2004 Retirement Roundup contained references to Sterling Financial Advisors, LLC, which are retracted and clarified in the following letter:

August 12, 2004

To the Department of Banking and Finance:

Pursuant the concerns expressed by the Nebraska Department of Banking and the requirement that Sterling Financial Advisors author a disclaimer, we are submitting the following for your review.

Retraction and Clarification -- The Spring 2004 Retirement Roundup contained references to Sterling Financial Advisors, LLC, which included: "it is '*safe*' to call Sterling Financial" and "Sterling Financial Advisors in Omaha is currently under contract, and is in '*good standing*' with the Securities and Exchange Commission and National Association of Securities Dealers."

Sterling Financial Advisors does **not** have a contract with the Securities and Exchange Commission (SEC) or the National Association of Securities Dealers (NASD). If such a contract had existed it would be in violation of security laws to reference any registered investment advisor, like Sterling Financial Advisors, as being in "good standing." Sterling Financial Advisors wishes to again clarify

(Cont. on page 4)

The Rule of 72

An easy method you can do yourself to figure out how long it will take for your investments to double.

"How long will it take my investment to double?" This is a common question many may have concerning their investments and think a calculator is needed to provide an answer. But a calculator may not be needed, at all. The tool to use is called the Rule of 72 and, best of all, it is simple and free.

Double Your Investment

This is how it works. If you have an investment you think will grow at an assumed rate of return per year, then simply dividing that rate of return into 72 will provide a rough estimate of the number of years it will take for the investment to double in size.

For example, let's assume an investment is assumed to grow at an average rate of return of 6% each year. Simply dividing six into 72 will give a rough estimate that it will take 12 years for this investment to double (72 ÷ 6 = 12). This formula assumes a fixed annual rate of return and the reinvestment of all earnings. Keep in mind that very few investments offer a guaranteed rate of return and that an investment's past performance does not guarantee future performance.

Inflation

The Rule of 72 may also be used to show the negative power of inflation. This may be an especially handy tool to you when approaching the retirement decision and in your retirement years. Using this tool, you can estimate the number of years it will take for your cost of living to double. Or put another way, how long before your purchasing power is cut in half.

For example, let's assume you are retired and forecast an inflation rate of 5% per year. An inflation rate, in general terms, is the rate of increase in the prices of goods and services purchased over time. Forecasting an inflation rate of 5% means you are assuming the prices of the goods and services you will purchase in the future will increase at a rate of 5% per year. Using the Rule of 72, simply dividing five into 72 will provide a rough estimate that your cost of living will double in 14 to 15 years. (72 ÷ 5 = 14.4).

Of course, this article is no substitute for a careful consideration of all of the advantages and disadvantages of an investment strategy to meet your goals. Before implementing a significant investment strategy consider consulting your financial advisor. Do your homework.

Mary H. Jochim
Sterling Financial Advisors
Registered Investment Advisors
Securities offered exclusively through
Raymond James Financial Services
Member NASD/SIPC
mary.jochim@raymondjames.com
402-970-9300** or **877-970-9300

Cash Balance Credit Rate Announced

The new crediting rate will be 5.12% annualized for the coming quarter. The Federal Mid-term Rate for October 2004 has changed to an annual rate of 3.62%. This new rate will be credited to Cash Balance member's accounts for the period October through November 2004. The law states that the rate credited to member accounts will be the Federal Mid-term rate plus 1.5% per annum.

At the end of each quarter NPERS updates the interest credit paid to Cash Balance member accounts based on any changes to the Federal Mid-term rate. If this rate is less than 3.5% per annum, the credit rate to member accounts will be no less than 5% per annum. During the calendar year 2003 the interest credit rate averaged 5.1% for the year.

New Benefit Estimator

NPERS is pleased to announce new benefit estimators are up and running on our web site. These new estimators are available on the "non-secure" section of our site, which means each **State** and **County Plan** member can utilize them without creating a personal account. To find the estimator, go to **www.npers.ne.gov** and look for the blue buttons on the left side of the page. Look for the "Plan Info" heading and click on the "State" or "County" button accordingly. Then click on the "Benefit Estimator" link at the top of the page.

Not only do NPERS' benefit estimators provide financial information, they can also be used as educational tools to help you plan for retirement. State and County Plan members who are considering purchasing an annuity can use the estimator to determine monthly benefits under each of the annuity options. For a complete listing of your options at retirement, please refer to your member handbook (also available in the "Publications" section of our web site).

The State and County estimators require you to enter information regarding your age, retirement date and account balance, then calculate an estimated benefit *based on the information you provide*. You may input estimated future account balances or retirement dates in order to "guesstimate" what your benefit might be when you reach retirement. Estimated benefits are not captured or saved with the estimator.

Criteria for determining your retirement benefit:
If you choose to purchase an annuity, it will be based on:

- The total dollars in your retirement account and how much of it you decide to use when purchasing the annuity.
- The benefit you participate in (Cash Balance has a higher rate than Defined Contribution).
- The annuity option selected.
- Your age and your beneficiary(s) age on the date benefits are to begin.
- The laws in effect at the time you cease employment.

Putting a Stop to Excessive Trading

There are a number of **State** and **County Plan** members that participate in the **Defined Contribution Benefit** and/or **Deferred Compensation Plan** (DCP) who try to "time the market" and trade their shares *excessively* in and out of the 11 investment options.

Since excessive or short-term trading in fund shares may disrupt management of a fund and raise costs, T. Rowe Price, investment fund manager of the International Stock Fund, has announced a revision in its redemption fee policy *effective January 1, 2005*. As of that date, participants purchasing shares who make more than one "round trip" (i.e., one purchase and one sale or one sale and one purchase) involving the same fund within any 90-day calendar period will violate the policy. Traders may be barred for 90 calendar days or permanently from further purchases of the funds. Transactions placed by such persons will be subject to rejection or cancellation without notice.

T. Rowe Price reviews trading activity at the omnibus account level and looks for activity that indicates potential excessive or short-term trading. If deemed in violation, a *2% redemption fee* will be charged on shares if they are redeemed on or before the 90th day from the date of purchase. If shares are redeemed after the end of the holding period, they will not be subject to the redemption fee.

NPERS does not have all of the details on the implementation of this policy. We will provide further details when we know them. If you have questions, please call NPERS at **800-245-5712** or **402-471-2053**.

Moving?

Remember to inform **your employer** whenever your address or other personal information changes.

With implementation of PIONEER (our new technology project), *your employer* submits your current personal information to NPERS through what is called "employer reporting." Any changes to a member's demographics recorded by an employer will update information in NPERS' database.

Therefore, all changes must be made *through your employer* to ensure NPERS has correct information to mail your quarterly account statement and other important items.

Members not currently employed with state or a Nebraska county should call, write or fax address changes directly to NPERS.

2004 State & County Seminar Calendar

Preretirement
Age 50 and over

Kearney	-	October 14
Lincoln	-	October 27
N. Platte	-	November 3
Norfolk	-	November 9
Omaha	-	November 16
Fremont	-	December 1
Lincoln	-	December 16

Personal Planning
Under age 50

Lincoln	-	October 28
N. Platte	-	November 4
Norfolk	-	November 10
Omaha	-	November 18
Fremont	-	December 2
Lincoln	-	December 15

We cannot accept registrations by phone. If you need a registration form, please contact NPERS or print from our web site at **www.npers.ne.gov.**

Retraction

(Cont. from page 1)

the information printed in the Spring 2004 Retirement Roundup as follows: Sterling Financial Advisors does **not** have a contract with the SEC nor does it have one with NASD. Sterling Financial Advisors does **not** have any "good standing" or "safe" status with any of these organizations. Sterling Financial Advisors **does** have a contract with the State of Nebraska Public Employees Retirement Systems.

This retraction has been reviewed and approved as written by Raymond James Financial Services, Inc., compliance department (reference approval number A04-10729). Anna Sullivan, Executive Director, Nebraska Public Employees Retirement Systems, has also reviewed the retraction. Pursuant to your approval, the retraction will be printed and displayed prominently on the first page of the fall "Retirement Roundup."

In the future, Ms. Sullivan has indicated any references to Sterling Financial Advisors will be submitted in advance for review by Raymond James Financial Services' compliance department legal counsel.

Sincerely,

Mary H. Jochim, Financial Advisor
Sterling Financial Advisors, LLC

Editor's Note: NPERS takes full responsibility for authoring the article in question and failing to seek review and approval of it's content by Ms. Jochim and Raymond James Financial Services before publication .

Reminder for Defined Contribution Members

Effective July 16, 2004, **Defined Contribution Benefit** members have more choices for their employere funds.

You may now invest your *employer* account among the 11 fund choices available to you in your *employee* account. For more information, refer to the Summer 2004 Retirement Roundup, or call NPERS at **800-245-5712** or **402-471-2053.**

RETIREMENT ROUNDUP

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402-471-2053 or 800-245-5712
www.npers.ne.gov
Director: Anna J. Sullivan
Editor: Jan E. Fox
Asst. Editor: Pam Williamson

New Investment Video Available

A new video explaining the investment choices offered to **State** and **County Plan** members is now available. You will want to see this video if you participate in the **Defined Contribution** Benefit (DC), and/or are enrolled in the **Deferred Compensation Plan** (DCP). The information is *not relevant* for *Cash Balance* participants.

This 25 minute video is narrated by John Morey representing Sterling Financial Advisors, a company under contract with NPERS to provide investment education services.

John explains the make-up of the 11 investment funds available to you in your member account and the employer account.

Selecting the appropriate investment account(s) is an important decision and this video can help. Your investment strategy should result in an account selection mixture best suited to your financial needs and family circumstances.

Contact your employer and tell them you'd like to view this video. NPERS will loan copies to state agencies or counties upon request. Employers should contact NPERS at **800-245-5712** or **402-471-2053** to receive a copy.

Nebraska Public Employees Retirement Systems
P.O. Box 94816
Lincoln, NE 68509-4816
85-28-51