

IPPFA  
Illinois Public Pension Fund Association  
457 Deferred Compensation Plan  
and Investment Guide

*This material is designed to give you an overview of your program's features and the investment options available to you.*

*If a discrepancy exists between the provisions found in this material and the legal plan documents, the legal plan documents will govern.*

*Diversified Investment Advisors is an investment advisory firm with a singular business focus — retirement savings plan management. Diversified provides comprehensive investment and administrative services for more than \$51 billion in retirement plan assets, helping more than one million participants save and invest wisely for retirement.*

# About Diversified

Diversified Investment Advisors is a registered investment advisor with a singular business focus - retirement plans. Our mission is to *help people to save and invest wisely for retirement*. Today, more than ever, retirement plans are changing as the industry continues to redefine itself. Government regulations and evolving employee expectations present ongoing challenges to plan sponsors and participants. In assuming greater responsibility for their retirement security, participants require the support of comprehensive programs, which grow and adapt as their individual needs change.

With over \$50 billion in pension assets and participants who number in excess of one million, Diversified responds to the changing requirements of participants with sophisticated, performance driven solutions. As a national firm, we serve our participants to ensure rapid response and exceptional service.

Our investment philosophy is grounded in fundamental, prudent investment principles. We have incorporated modern portfolio theory as well as academic and internal analyses to construct a family of funds, which has provided consistent, long-term performance at appropriate levels of risk.

Our high quality is recognized in consistently employing the following principles:

- Performance is overwhelmingly influenced by asset allocation;
- Asset allocation requires a broad array of funds representing the major asset classes and investment style;
- Highly accomplished independent portfolio managers can best achieve investment goals;
- Continuous monitoring of these managers ensures strict adherence to investment objectives.

We also bring comprehensive monitoring and control to the investment process. Since we utilize independent managers, we can be completely objective in the selection and review process. We seek superior portfolio management teams with strong histories of success, and expertise in specific investment styles. We continuously monitor our managers to ensure that they are meeting our investment goals. Additionally, we analyze new fund alternatives seeking prudent ways to enhance investors' long-term return potential.

Whether investors are comfortable selecting their own funds, or prefer to have us manage their account for them, we offer an investment approach that suits your investment style.

- ✓ Investment without the hassles. Our *Strategic Allocation Funds* were created to provide a choice of fund portfolios that are based on optimal performance of the holdings for a specific time horizon. Each Strategic Allocation Fund is also rebalanced to meet changing market conditions.
- ✓ Investors can build their own investment portfolio from our exclusive group of funds. Carefully chosen and monitored by Diversified to meet long-term investment strategies, these funds provide the right tools to build a balanced customized retirement portfolio.
- ✓ If an investor's main concern is the safety of principal, we offer a guaranteed fixed interest option. This option offers a guarantee of both principal and return on investment.

# Frequently Asked Questions

*This section answers questions most often asked about your employer's Deferred Compensation 457 Plan and its benefits. The plan document and summary provide details specific to your plan which may not be covered in this booklet. Additional materials are also available which discuss the investment options.*

## What is an eligible Deferred Compensation 457 Plan?

Simply stated, it is a better way to save. Eligible Deferred Compensation, under Section 457 of the Internal Revenue Code, is a tax favored supplemental retirement savings program offered to employees of state and local governmental entities. Your plan provides:

- Tax savings on every dollar you contribute;
- Automatic savings through payroll deduction; and,
- Tax deferred savings on your investments.

## How does it work?

You elect to save a portion of your income. Generally, contributions are deducted from your gross pay before federal, state and local income taxes are withheld. This means your tax savings are immediate.

The contributions you make are invested as you direct. Investment earnings on your contributions are not taxed as they accumulate in the plan.

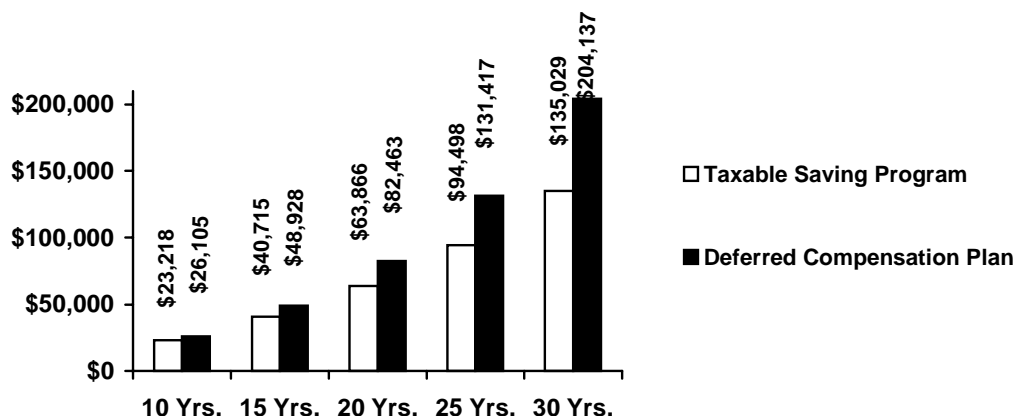
At retirement or separation from service, you can elect to receive your account balance in a lump sum, as a series of payments, or defer payment to a later date, in accordance with the plan's terms. Income taxes are generally paid only as you receive distributions.

## Why is this a smart way to save for retirement?

Experts agree it is one of the best because:

- Contributing through payroll savings creates forced savings;
- Savings are more affordable due to current tax relief; and,
- Earnings compound at a faster rate due to the tax-deferred growth.

The following chart illustrates the difference between a taxable savings program and a deferred compensation program.



*(Assumptions: \$200 monthly deposit, 8% annual interest rate and a 28% federal tax bracket. The taxable program assumes deposits and interest are reduced by the effect of a 28% tax rate. The deferred compensation program assumes the effect of a lump sum distribution at the same 28% tax rate.)*

**Why should I be concerned about saving today?**

Time is a big advantage in reaching your financial goals. Starting to save early dramatically affects how much money you can accumulate. Waiting just one year makes a big difference. Look at this example:

Starting Age	Balance at Age 65	Total Income Payments Over 15 Years	Difference
25	\$698,202	\$1,193,074	
vs			\$95,364
26	\$642,393	\$1,097,710	
35	\$298,072	\$509,340	
vs			\$42,964
36	\$272,929	\$466,376	
45	\$117,804	\$201,301	
vs			\$19,356
46	\$106,477	\$181,945	
55	\$36,589	\$62,523	
vs			\$8,720
56	\$31,486	\$53,803	

*(Assumptions: \$200 deposited each month, 8% annual growth rate and a 15 year pay out of equal monthly payments of account balance starting at age 65.)*

The most effective way to assure long-term financial security is to begin saving immediately.

**How much can I contribute?**

Section 457 plans allow you to contribute 1% to 100% of your gross pay (after payroll taxes):

<u>YEAR</u>	<u>CONTRIBUTION LIMIT*</u>
2004	\$13,000
2005	\$14,000
2006	\$15,000
2007 and beyond	adjusted annually for inflation in \$500 increments

*\*This includes both employee and employer contributions.*

**Can I make additional contributions?**

Yes. Beginning in 2002 a catch-up contribution is available in the plan year you attain age 50. The catch-up contribution is \$3,000 for 2004 and increases by \$1,000 increments annually until it reaches \$5,000 in 2006. Alternatively, if you have not taken full advantage of allowable contributions to the plan in the past and you are within three years of normal retirement age, it may be possible to contribute up to twice the amount normally permitted during the three years prior to retirement.

**How would plan participation affect my paycheck?**

If you signed up for a contribution of \$400 per pay period and are subject to a 28% Federal tax withholding rate (and no other income tax withholding), your take home pay would only change by \$288. This figure may be higher or lower depending on your actual withholding rate and applicable state and local taxes.

**What happens to the contributions I make?**

Your plan offers a wide array of investment options to which you may direct your contributions. You may choose to invest in one option, or allocate assets among several options. You may also transfer assets among most options at any time.

**How much tax can I save in current income taxes?**

By participating in the plan, you may realize substantial annual tax savings:

Federal Tax Rate	CONTRIBUTION			
	\$1,200	\$2,500	\$5,000	\$7,500
15%	\$180	\$375	\$750	\$1,125
28%	\$336	\$700	\$1,400	\$2,100
31%	\$372	\$775	\$1,550	\$2,325
36%	\$432	\$900	\$1,800	\$2,700

(This example is for illustrative purposes only and is not intended to represent any particular tax bracket or filing status. Tax savings will vary.)

Remember, you save these taxes each year that you make your contribution. Additional savings may result, because any earnings on your contributions are not subject to income tax until withdrawn. And, there is no additional paperwork to file annually with your tax return. Depending on your state and local tax codes, you may also qualify for other tax savings in addition to those illustrated above.

**What if I need additional help?**

A Diversified Representative can answer your questions and provide you with tools to make informed decisions regarding your 457 plan. You can call 800-755-5801 to setup an individual or group appointment or to speak with one of our investment counselors.

**How do I keep track of my account?**

You will receive quarterly statements detailing account information and investment results. Additionally, you may call our toll-free line at any time to obtain current account information or view your account through our internet site at [www.divinvest.com](http://www.divinvest.com). Our newsletters, seminars and communication materials will also help you stay informed.

**Can I withdraw from the plan at any time?**

You can decrease or stop contributions at any time. Federal rules do not allow distributions unless you have:

- separated from service
- retired
- reach the year in which you attain age 70-1/2
- have an unforeseeable emergency as defined by IRS regulations
- QDRO determinations
- a small inactive account (based on plan provisions)

**What happens when I retire or separate from service?**

You have a variety of options:

- Leave your funds in the plan until a date you designate (the maximum age before pay- out must begin is generally 70-1/2). Earnings continue to grow tax deferred while maintaining the same flexibility available to active participants;
- Receive your account balance as a lump sum;
- Receive your account balance as installment payments over time;
- Receive a portion of your account in a lump sum and the remaining balance as installment payments over time;
- It may be possible to transfer your account to another 457 plan; or
- Rollover balance of the account into an IRA, 403(b), qualified plan, or another 457 plan sponsored by a state or local governmental entity.

**How are taxes applied when distributions are received?**

Distributions are taxed when received and included in your personal income for the year the distribution was received.

**What happens to the money in my account if I do not live to collect it?**

Each participant in the plan may name a beneficiary who will receive the remaining account balance or installment payments in the event of the participant's death.

**How can I get started?**

It's easy! First, you need to answer these questions:

- What amount should I save?
- How should I invest it?
- Who should I name as beneficiary?

Then complete and submit an enrollment form. The program starts working for you with the next eligible payroll cycle.

# Plan Highlights

# What You Need to Know About Your 457 Deferred Compensation Plan

## Program Provider

The Deferred Compensation Plan is an employer-sponsored program intended to comply with the State and Federal regulations for Internal Revenue Code Section 457 Deferred Compensations Plans.

## Entry Dates

Employees may enroll in the Plan by submitted an Enrollment Form. Instructions received are processed and take effect the next pay period.

## Your Contributions to the Plan

**You may contribute from 1% to 100% of pay. After payroll taxes the maximum annual dollar amount that can be deferred is:**

<u>YEAR</u>	<u>CONTRIBUTION LIMIT*</u>
2004	\$13,000
2005	\$14,000
2006	\$15,000
2007 and beyond	adjusted annually for inflation in \$500 increments

*\*This includes both employee and employer contributions.*

Contributions are deducted from gross pay each pay period.

You may change your contribution amount by completing a new Enrollment Form. Changes can be made at any time.

Contributions and earnings are not subject to Federal income tax until withdrawn. State taxation rules generally are similar, although some exceptions exist.

Distributions may not occur earlier than separation of service, the year in which you attain age 70-1/2, or for unforeseen emergencies.

Upon separation of service, you may choose a lump sum, periodic payments, defer payment to a later date, or transfer to another deferred compensation plan. Distributions from your account cannot be rolled over to an IRA.

## Catch-up Provisions

A catch-up contribution is available beginning with the calendar year you attain the age of 50. For 2004, the catch-up contribution is \$3,000 and increases by \$1,000 increments annually until it reaches \$5,000 in 2006. Alternatively, employees who have not taken full advantage of the plan in the past and are within three years of normal retirement age may qualify to contribute up to twice the amount normally permitted three years prior to retirement.

# Plan Highlights

# What You Need to Know About Your 457 Deferred Compensation Plan

## Investment Funds and Transfers

Your contributions are allocated to your choice of investment options offered under the program with Diversified. You may select one or a combination of seventeen (17) funds offered.

Changes in the investment of future and past contributions may be made at any time.

Transfers from the Stable Fund can be made according to the following provisions: Transfers from the Stable Fund are not permitted to the Money Market and High Quality Bond Funds.

Transfers from the Stable Fund may not be transferred back to the Stable Fund, Money Market and High Quality Bond Funds for 90 days. After the 90-day period, the money originally transferred from the Stable Fund may be transferred to any fund.

Transfers are not permitted from the Stable Fund directly to another investment provider available under the plan. To accomplish a transfer to another provider, money can be transferred from the Stable Fund to any of the funds other than those listed above for 90 days. After the 90-day period the money can then be transferred to another investment provider.

Transfers from investment funds other than the Stable Fund can take place without restriction or limitations. This includes transfers to another investment provider.

## Participant Loans

The IPPFA has a loan provision available unless stated otherwise.

## Withdrawals and Distributions

Distributions may not occur earlier than separation of service, the years in which you attain age 70-1/2, or for unforeseeable emergencies.

Upon separation of service, you may choose lump sum, periodic payments, defer payment to a later date (but no later than 70-1/2 or retirement), or transfer to another eligible 457 Deferred Compensation plan.

Distributions from your account can be rolled over to an IRA, 403(b), qualified plan or another governmental 457 plan.

## Account Fees

There are no other fees other than what is described in this booklet.

## Account Information

Individual account records are updated daily. Investment transactions received by Diversified are processed the same business day if received by 4 p.m.

Statements are mailed on a quarterly basis and include account balance, investment results, and all transactions that have taken place during the period. Individual confirmations are also sent with each change that you make to your account.

# Plan Highlights

# What You Need to Know About Your 457 Deferred Compensation Plan

## Self Directed Account

Diversified Investment Advisors has an alliance with Charles Schwab & Co. Inc. to provide a full range of self directed investment options including access to over 2,000 mutual funds.

The Personal Choice Retirement Account<sup>®</sup> (PCRA) is designed for participants who:

- are experienced investors;
- want more control of their retirement investments;
- want a wider choice of investment options; and
- have larger than average account balances.

The minimum account balance must be \$20,000 for access to PCRA. Minimum initial transfer is \$10,000. You may transfer up to 50% of your account. There is an annual fee of \$50.00 for PCRA, which may be withdrawn from your account each year.

If you are interested in establishing a PCRA, you may obtain additional information, including applicable transaction fees and expenses, during the enrollment session.

## On-Site Representatives

The BenefitSolutionsGroup is the exclusive marketer of the IPPFA 457 Plan.

We have dedicated representatives who are available to meet with you on a one to one basis. To schedule an appointment, please call 800-817-0765.

## Plan Specific Transaction Information

For information on: loans, withdrawals, transfers, benefit information, retirement planning, etc. please call:

- 800-817-0765 – Toll-Free Telephone Service
- 773-427-2060 – Local Chicago Office
- 800-281-3092 – Toll-Free Springfield Office
- 800-755-5801 – Toll-Free Telephone Service, Diversified Investment Advisors

## Internet Resources

Get to know The IPPFA 457 Plan. Obtain a Retirement Planner request or browse through Frequently Asked Questions.

[www.IPPFA.org](http://www.IPPFA.org) which is the IPPFA Web site and [www.divinvest.com](http://www.divinvest.com)

## Summary Plan Description

The above highlights represent only a brief overview of the Plan's features and do not constitute a legally binding document. Please refer to the Summary Plan Description for more information about the specific Plan provisions.

# Investment Options Transfer Chart

	TRANSFER TO GROUP A	TRANSFER TO GROUP B	TRANSFER TO GROUP C
TRANSFER FROM GROUP A	NO	NO	YES
TRANSFER FROM GROUP B	YES	YES	YES
TRANSFER FROM GROUP C	YES	YES	YES

Note: “Yes” means transfers between the options in the groups are permitted and “No” means transfers are not permitted between the option in the groups.

## GROUP A

Stable Fund

## GROUP B

Money Market Fund  
High Quality Bond Fund  
PCRA

## GROUP C

Short Horizon  
Short/Intermediate Horizon  
Intermediate Horizon  
Intermediate/Long Horizon  
Long Horizon  
Core Bond Fund  
High Yield Bond Fund  
Value & Income Fund  
Stock Index Fund  
Growth & Income Fund  
Equity Growth Fund  
Mid-Cap Value Fund  
Mid-Cap Growth Fund  
Special Equity Fund  
Aggressive Equity Fund  
International Equity Fund

## Restrictions

Monies transferred from any investment option in Group A to any investment option in Group C must remain in such investment option for a period of at least 90 days before they may be transferred to an investment option in Group B or back to an investment option in Group A.

Monies in Group A investment options cannot be transferred to the Personal Choice Retirement Account® (PCRA). Monies in Group C investment options which were transferred from Group A investment options must remain in such investment options for at least 90 days before they may be transferred to PCRA. Monies in PCRA may be transferred to any fund.

If a plan participant sells International Equity Fund shares (either through an exchange or a redemption), that plan participant may not be permitted to exchange shares back into the International Equity Fund for 90 days. This restriction on exchanges will not affect purchases of International Equity Fund shares through regular retirement plan contributions during any such 90-day period.

# FEES AFFECT PERFORMANCE!

Many of the 457 plans offered in Illinois have additional fees that are not related to fund management. They are generically referred to as “wrap fees” and they may include one or more of the following charges:

- Administrative Fee
- Variable Expense Charge
- Actuarial Risk Charge
- Mortality and Expense Charge
- Mortality and Administration Charge

These charges are taken out daily before the calculation of unit values and cannot be seen. They are buried deep in the master contract, prospectus or disclosure material and can be hard to get, even upon direct inquiry of the vendor.

- These charges may range from .55% to 1.30%\* of the annual asset balance!
- These charges are on top of fund management expenses!

## HOW MUCH COULD A “WRAP FEE” COST ME\*\*?

*New Employee Contributing \$2,000 per year over time period stated*

“WRAP FEE”	AFTER 5 YEARS	AFTER 10 YEARS	AFTER 15 YEARS	AFTER 20 YEARS	AFTER 25 YEARS	AFTER 30 YEARS
.55%	\$140	\$873	\$2,850	\$7,825	\$16,394	\$34,150
.65%	\$165	\$1,029	\$3,354	\$8,557	\$19,220	\$39,960
.70%	\$178	\$1,107	\$3,604	\$9,187	\$20,615	\$42,821
.80%	\$203	\$1,262	\$4,101	\$10,435	\$23,373	\$48,458
.90%	\$229	\$1,416	\$4,593	\$11,668	\$26,086	\$53,981
1.25%	\$316	\$1,948	\$6,284	\$15,863	\$35,241	\$72,457
1.30%	\$329	\$2,024	\$6,521	\$16,448	\$36,507	\$74,991

*Existing Employee: \$35,000 balance - \$4,000 per year contribution*

“WRAP FEE”	AFTER 5 YEARS	AFTER 10 YEARS	AFTER 15 YEARS	AFTER 20 YEARS	AFTER 25 YEARS	AFTER 30 YEARS
.55%	\$1,675	\$6,184	\$16,290	\$37,031	\$77,451	\$153,567
.65%	\$1,977	\$7,282	\$19,144	\$43,433	\$90,661	\$179,401
.70%	\$1,127	\$7,828	\$20,558	\$46,598	\$97,170	\$192,091
.80%	\$2,427	\$8,914	\$23,364	\$52,853	\$109,999	\$217,023
.90%	\$2,726	\$9,991	\$26,138	\$59,013	\$122,580	\$241,371
1.25%	\$3,763	\$13,701	\$35,601	\$79,839	\$164,726	\$322,186
1.30%	\$3,911	\$14,223	\$36,922	\$82,723	\$170,515	\$333,194

ASSUMPTION: Underlying Annual fund yield is 10%\*\* (net of fund management expenses) compounded over the periods shown.

THERE ARE NO FEES IN THE IPPFA 457 PROGRAM OTHER THAN THE FUND EXPENSES SHOWN IN THIS BOOKLET!

\* Source: Aegis Advisors Market Overview Report to the IPPFA Board dated April 2001

\*\* The costs and annual fund yield are hypothetical and illustrative only. They are not representative of any actual client or of a specific investment product or strategy.

**Diversified Direct<sup>SM</sup>**  
**www.divinvest.com**  
**1-800-755-5801**

Diversified offers superior customer service and direct access to up-to-date information about your retirement savings account. Through our Web site and toll-free telephone service, you can access account information and investment performance, and initiate selected transactions on your account.

Diversified Direct Online – www.divinvest.com – provides Web-based investment modeling and retirement planning tools to help you create or modify your Plan of a Lifetime strategy. Or, you may call Diversified Direct – 1-800-755-5801 – to speak with a Participant Advisory Counselor for enrollment assistance, investment counseling, and retirement planning guidance.

Diversified Direct can help you:

- Set a retirement income goal
- Create a retirement savings strategy
- Choose among the available investment options
- Learn about diversification
- Roll over an existing account to your retirement savings plan
- Open a Diversified IRA
- Stay informed about economic conditions, tax regulations and Social Security
- Keep your retirement savings strategy up-to-date
- Rebalance your investments
- Create a plan for investing during retirement
- Choose an appropriate distribution option when you retire or leave your employer

Diversified Direct is available 24 hours a day, seven days a week. Customer Service and Participant Advisory Counselors are available Monday through Friday, 8:00 a.m. to 9:00 p.m., ET. Customer service is available in 140 languages.

# A Word About Investing

When it comes to investing in your retirement plan, you want to be sure you do two things:

- 1. Grow the money you are investing to meet your retirement plan objectives; and**
- 2. Manage your retirement fund's exposure to risk.**

Diversified Investment Advisors manages your retirement plan. We are experts at helping participants, like yourself, to save and invest wisely for retirement. And we're here to help guide you in making sound investment decisions for your retirement plan assets.

Diversifying your investments is key to both growing your retirement funds and limiting your fund's exposure to risk. For this reason, the investment options in your plan should represent three major types of investments: cash equivalents, bonds, and stocks. We offer this array of investment options, because choosing among different types of investments (called "asset classes"), and then choosing a mix of investments within each asset class, is one of the best ways to limit exposure to risk. When you make investment decisions for your retirement funds, you should consider using the same approach: Choose at least two asset classes, and then diversify by further dividing your savings among several investment options within each of the asset classes you choose.

Diversified Investment Advisors brings you the expertise of some of the world's finest institutional investment managers and, since many of these firms manage large pension accounts, it's expertise that would not otherwise be available to you. Diversified selects these managers with several goals in mind:

- 1. Each investment manager specializes in one type of investment;**
- 2. The investment managers together represent a mix of different types of investments for long-term retirement planning; and**
- 3. The managers must maintain the style of investing which Diversified believes is appropriate for the type of asset class they manage.**

Diversified monitors these managers for you to ensure that they maintain the style of investing for which they were chosen. A manager's style is the consistent discipline used to buy and sell investments. We monitor our managers carefully, so your retirement investments are not exposed to undue risks as you work to meet your retirement fund goals.



