

PLAN UPDATE



ENRON AND THE IMPORTANCE OF DIVERSIFICATION

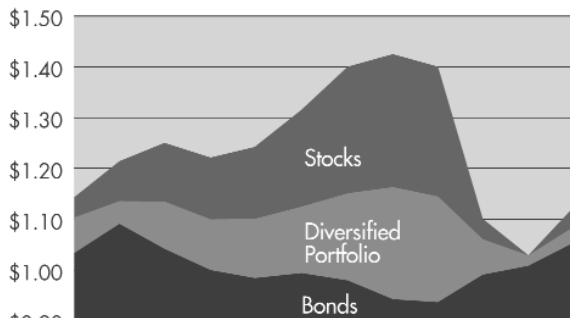
To Oregon public employees the problems some Enron employees face with their 401(k) plan and company stock may seem distant and appear not to apply to them. While it is true that there is no company stock in the Oregon Savings Growth Plan, there is nevertheless a very important lesson to be learned: the importance of **diversification** — don't put all, or even most, of your investment "eggs in one basket." Financial experts say that the best way to invest for retirement is to spread your money over several different types of investments. Diversifying helps to smooth out the ups and downs of your total portfolio performance, since the good performance of some of your investments may offset the poorer performance of others.

A Smoother Ride

Combining stocks and bonds in a diversified portfolio can relieve some of the extremes of investing. As the graph below illustrates, in the two-year period from 1998 to 2000, the investors with a diversified strategy of 50 percent in stocks and 50 percent in bonds had smoother ride than the investors with only stocks and bonds — yet ended up much in the same place.

Diversification During Market Volatility

Asset Class Performance from December 1998 through December 2000



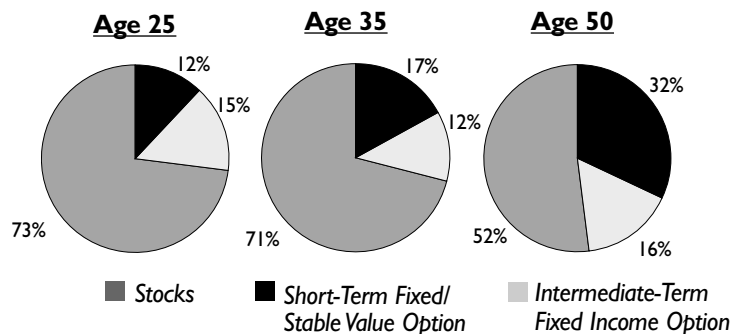
Dec 1998 - Dec 2000

Reducing the risk of investment losses through diversification can mean giving up some potential gains. You must weigh this possibility against the alternative risk of loss when you concentrate your portfolio in a single asset class, such as all stocks or all bonds. It may be a good idea to consider accepting more moderate returns in exchange for the relative stability that diversification offers, especially during volatile times in the market.

Diversifying with OSGP Investments

The OSGP investment lineup lets you balance your retirement portfolio by asset class (type of investment) and level of risk. The choice among the nine OSGP options means you can create a diversified investment mix that meets your needs at any time and adjust as your needs change over your career and in response to events in your life.

The pie charts below illustrate how you can choose plan options to achieve diversification and minimize the effects of market volatility as you get closer to retirement.



These numbers represent OSGP participant asset allocations and are for illustrative purposes only.

Taking Action

As your needs change, you can transfer money among any investment options at any time. To make an asset allocation change for existing balances or obtain additional information visit the participant web site at <http://osgp.csplans.com> or call the Information Line at 800-365-8494. Investment performance information is available at the participant web site and on the PERS/OSGP web site at <http://www.pers.state.or.us>.

ADVISORY CORNER

Member Introduction

Responsibilities of the seven sitting members of the Advisory Committee include advising the PERS Board on deferred compensation issues and contributing to the plan's education and communications programs. To continue *Plan Update's* series on Advisory Committee members, we would like to recognize **Barry S. Kast**. Administrator of the Mental Health and Developmental Disability Services Division of the State Department of Human Resources, Mr. Kast has a baccalaureate in English from Stanford University where he graduated Phi Beta Kappa. He earned a Masters of Social Work from Portland State University. He currently serves

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CONTACT OSGP AT:

Information Line
800-365-8494

Online Internet Site
<http://osgp.csplans.com>

PERS/OSGP Internet Site
www.pers.state.or.us

as a member of the board of directors of the National Association of State Mental Health Program Directors. Barry shares with us, "For those of us so engrossed in our work for the public, time for research needed to do our own investing is hard to come by. The OSGP is the best thing I have found to invest more or less painlessly with relative confidence."

Open Invitation

You are cordially invited to attend our open Deferred Compensation Advisory Committee meeting **August 14, 2002**, in Salem. The meeting will begin at 9:30 a.m.

PLANNING: ARE YOU ON TRACK?

Financial and pre-retirement planning are recommended for all current and potential plan participants, regardless of length of service. Effective retirement planning is ongoing, requiring periodic review of investment strategies to ensure that short-, medium- and long-term needs are addressed. The OSGP offers free workshops to employees throughout the year, in all regions of the state, to help participants with this. Workshop I and Workshop II focus on issues of interest to early-career and mid-career employees, while the Retirement Workshop reviews issues of concern to employees within five years of retirement.

Attendees had this to say about our workshops:

"I would recommend it to my co-workers, wish I'd started earlier."

"Very informative."

"I had workshops before, but this one made things more understandable. Thank you."

"Keeps me thinking of what I need to do for retirement."

"Extremely interesting and helpful."

"This is one of the best workbooks (Reach for the Top) on retirement planning I have ever seen and used – and I've used a lot! Should be a mandatory training for all state employees. Thanks."

"Excellent, informative, possibly life-changing workshop."

Advanced registration is required for all workshops and spouses are encouraged to participate. To learn more about each workshop, upcoming dates, and to register online, visit the PERS/OSGP Internet site at www.pers.state.or.us. If you are unable to register for a presentation by e-mail, please call 503-378-3730. Space is limited, so register as early as possible. Workshops are also held upon request at designated work sites for ten or more employees. To request a workshop, please call 503-378-3730 ext. 232.

Editorial Contributions

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Jon Springer, OSGP

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Marsha Bacon, PERS

The foregoing newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax, or investment advisor.

QUESTIONS PARTICIPANTS ASK

I will be leaving my job within the next month. I have seen ads that say upon separation from service that I must roll my deferred retirement savings into an IRA. Is that true?

No. Although you have the option of taking a distribution or rolling your Oregon Savings Growth Plan (OSGP) balance if it exceeds \$1,000, you are clearly not required to do so. As a matter of fact, if you do roll your account into an IRA, you might have to pay a tax penalty upon distribution, which will not happen if you leave your money in the plan. If your balance exceeds \$1,000 when you leave your job, you may keep those dollars in your account to remain invested tax deferred until as late as age 70½. Most investment advisors would strongly urge you to leave those dollars set aside for retirement and avoid using that money until you are actually retired.

If you decide to take payment, you will be liable for taxes on your distributions, but you will not be subject to the 10 percent early distribution penalty which may apply under certain conditions for distribution from an IRA or 401(k). Your payment options from the OSGP may be more flexible than those of an IRA. By leaving your account with the OSGP, you also keep the option of later rolling your IRA, 401(k) or other 457 accounts into the OSGP to more easily manage your deferred savings.

I have finally submitted my retirement paperwork to PERS. I'm not sure what I want to do with my OSGP account. I could use some money now, but I would like to leave the rest for a while. What are my choices?

You used the correct word, "choices." With OSGP you have very flexible choices. You may choose to take no payment now and defer payment until as late as age 70½. You may begin a stream of regular payments, which you may increase, decrease, or stop as long as money remains in your account. Or you may take a partial lump-sum payment now, leaving the rest of your account invested until you wish funds in the future.

If you complete the paperwork at retirement, your account will be active for distribution and you will be able to request payment over the phone. This is true whether or not you request payment now. Finally, if the PERS retirement option you have chosen is a lump-sum payment, the tax deferred portion can be rolled into your OSGP account along with any other tax deferred IRA, 403(b)/TSA, or 401(k) accounts. This is a great time to consolidate retirement assets in one convenient location and take advantage of the easy-to-use investment structure and low fees of the Oregon Savings Growth Plan. Whatever choices you make, have a great retirement!