



OFFICE OF LABOR RELATIONS

Deferred Compensation Plan/NYCE IRA

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UPDATE ON SECURITIES LENDING LOSSES

Dear Deferred Compensation Participant:

As indicated in the Annual Report, the New York City Deferred Compensation Plan has participated in a securities lending program since 2003 to defray administrative costs for its members. While the New York City Deferred Compensation Plan was established by the City of New York, it is not a City agency and its operations are not funded by the City. Accordingly, the costs for maintaining the program, including staffing, lease and investment manager costs, are borne by its members. The securities lending program has in recent years provided earnings that support almost half of the Plan's operating expenses, and in the past, we have been able to waive quarterly administrative fees that members would have paid in 2005, 2006 and 2007.

The New York City Deferred Compensation Plan's securities lending is operated pursuant to an agreement with the Bank of New York Mellon ("BNY Mellon"), the custodian of the Plan's assets, and involves the temporary transfer of securities to another investor or financial intermediary. The borrower posts collateral for the security of at least 102% of the value of the security, which is then invested in a short-term investment strategy. BNY Mellon and the New York City Deferred Compensation Plan then share in the earnings. Participation in securities lending is a prevalent practice amongst pension funds, retirement plans, mutual funds, banks and insurance companies.

The earnings of the New York City Deferred Compensation Plan's securities lending program were \$30 million as of December 31, 2009. However, in September 2008, the New York City Deferred Compensation Plan's securities lending program, like many others, suffered a loss as a result of an investment in Lehman Brothers notes. As you may be aware, at that time, Lehman Brothers declared bankruptcy. Accordingly, the Lehman Brothers investment is worth only a fraction of its initial value. This loss has to be recouped.

The New York City Deferred Compensation Plan is continuing to lend its securities and is applying those earnings to offset the Lehman Brothers losses. In addition, BNY Mellon has agreed to offer some support for these losses as well. However, as a result of the loss of income from the securities lending program to defray administrative costs, the New York City Deferred Compensation Plan had to increase administrative fees in the last quarter of 2009. We will not know the amount of the final loss that may need to be recouped, if any, until the Lehman bankruptcy is resolved. Resolution of the bankruptcy likely will not occur for several years. To give you a sense of the size of the potential impact on participants, if we were today required to charge members for the loss, and it were to be distributed evenly among plan members, the amount of the loss would be about \$100 per participant. We will keep you apprised of the status of this matter on a regular basis.

Sincerely,

Deferred Compensation Board

Fund Manager Update

Listing of the Plan's Fund Managers as of January 1, 2010

Investment Options*	Listing of Managers within the Investment Options	Expense Ratios*
Stable Income Fund	ICMA Fiduciary Capital Management NISA Investment Advisors BlackRock Pacific Investment Management Company (PIMCO) Wellington Management Company, LLP	0.26%
Bond Fund	Pacific Investment Management Company (PIMCO) BlackRock	0.27%
Equity Index Fund	The Bank of New York Mellon (I)	0.06%
Socially Responsible Fund	Aberdeen Asset Management, Inc.	0.47%
Mid-Cap Equity Fund	State Street Global Advisors (I) Earnest Partners, LLC (V) Wellington Management Company, LLP (G)	0.52%
International Equity Fund	State Street Global Advisors (I) Mondrian Investment Partners, Ltd. (V) Morgan Stanley Investment Management (G) Alliance Capital Management, LP (C)	0.40%
Small-Cap Equity Fund	State Street Global Advisors (I) Dimensional Fund Advisors, LP (V) T. Rowe Price Associates, Inc. (G) Wellington Management Company, LLP (C)	0.42%

Equity Funds' Style Indicators			
I	Index	G	Growth
V	Value	C	Core

* Expense ratios include investment management fees as well as a 0.05% administrative fee assessed against all Plan assets. The expense ratios shown above do not include the \$20 quarterly administrative fee.

Please Note: The material contained in this newsletter regarding financial planning is merely for informational purposes. The Deferred Compensation Plan/NYCE IRA is not an investment advisor, and is not holding itself out as such. Any references to rate of return and risk are based on past experience and, as such, there is no guarantee of the rate of return you may actually receive. Therefore, you may wish to consult a professional investment advisor before reaching any investment decisions.



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Deferred Comp/NYCE IRA UPDATE



The Newsletter for the 457 and 401(k) Plans and the NYCE IRA
Quarter Ended March 31, 2010



**You Serve the City
Now Let the
City Serve You**

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Administrative Fees

Just a Reminder...

After 15 years of maintaining the participant-paid \$12.50 quarterly administrative fee, the Plan needed to increase the fees. The flat dollar fee increased to \$20.00 per quarter on October 1, 2009. At the same time, the Plan's annualized asset-based fee increased from 0.03% to 0.05%.

Encouraging Retirement Savings

In order to encourage new enrollment in the Plan, the first year's administrative fee will be waived. Similarly, in order to encourage participants to take maximum advantage of the Plan's programs, the quarterly administrative fee covers all of the Plan's 7 (seven) programs.

For example:

- if you are in the 457 Plan and you want to join the 401(k) Plan, you get the second program free;
- if you are in either the 457 or 401(k) and you want to join the NYCE IRA, your quarterly fee covers that too;
- whether or not you choose to fund your own NYCE IRA account, if you open a spousal IRA that, too, is at no cost. This is a step that is **strongly** encouraged as it alone preserves all rights and benefits of the program for your spouse. Please note: The Spousal NYCE IRA does not need to be funded, only established. (Visit nyc.gov/nyceira and select *Establish Spousal NYCE IRA* for more information.)

Maximum Annual Contribution Amount remains unchanged for 2010

The table below explains the most you can defer into the Deferred Compensation Plan in 2010 based on in which plans you participate and your age.

If you participate in the...	Your maximum contribution amount will be...
457	\$16,500
457 and are at least 50 years of age	\$22,000
401(k)	\$16,500
401(k) and are at least 50 years of age	\$22,000
457 and 401(k)	\$33,000
457 and 401(k) and you are at least 50 years of age	\$44,000
457 and Deferral Acceleration for Retirement (DAR)	\$33,000 (\$16,500 regular deferrals and \$16,500 in DAR deferrals, if applicable)
457, 401(k) and DAR	\$49,500
457, 401(k), DAR and you are at least 50 years of age	\$55,000



The New York City Employee (NYCE) IRA

In 2006, the Deferred Compensation Plan began offering current and former employees of the City and their spouses the New York City Employee (NYCE) IRA which is available as both a Traditional and Roth IRA.

- NYCE IRA owners utilize the Plan's investment options (composed of separate accounts) and, therefore, take advantage of the Plan's size and institutional investment pricing.

It's important to note that one of the core investment options is the Stable Income Fund. The Stable Income Fund is an investment option that retirees won't find in retail IRA programs.

- NYCE IRA owners can consolidate all retirement assets in one account and continue building their retirement assets in an institutionally priced program.

The NYCE IRA is best utilized by retirees.

Set one up as you approach retirement!



*2010 is the
best year for
ROTH IRAs!*

Big Changes in 2010 for Roth IRAs

In 2009, you were eligible to convert to a Roth IRA only if your Modified Adjusted Gross Income (MAGI) was \$100,000 or less. In 2010, the IRS is lifting the MAGI limit, meaning everyone will be eligible to convert to a Roth IRA regardless of their income level. A conversion is usually reported as income for the tax year the conversion takes place. However, in 2010 only, you have the option of reporting your conversion amount as income in the tax years 2011 and 2012 unless you elect to report the entire conversion amount on your 2010 taxes.

What is a conversion?

A Roth conversion is the process of transferring assets from a pre-tax account (457, 401(k), traditional IRA) to an after-tax account (Roth IRA) with the benefit being that qualified distributions from the Roth account will be income tax free to you and your heirs. A conversion to a Roth IRA requires that you pay income taxes on any portion of the conversion that you haven't already paid taxes on.

When can you convert?

To ensure your conversion happens in a certain tax year (i.e., 2010), the deadline is December 31st of that year.

- During employment: You cannot convert your 457 plan before leaving City service. Your 401(k) plan can be converted after you reach age 59½, even if you are actively employed with the City. A traditional IRA can be converted to the Roth NYCE IRA at any time.
- At retirement: When you separate from City service you can convert both 457 and pre-tax 401(k) plan accounts to the Roth NYCE IRA. Roth 401(k) accounts can be transferred to the Roth NYCE IRA to avoid future Required Minimum Distributions. Special 401(k) Plans accounts can be converted to the Roth NYCE IRA without paying New York State or New York City income tax on the initial principal amount.
- In retirement: There is no age restriction on conversions. After age 70½ you must receive your annual required distribution amount (RMD) before converting your pre-tax account. You can leave amounts in your Roth NYCE IRA as long as you live.

Why Convert to the Roth NYCE IRA?

Roth IRAs are attractive from a tax standpoint. Contributions are made with after-tax dollars and neither principal nor earnings are taxed to you or your heirs when a qualified distribution is made. Retirees can be more certain of the amount they can withdraw at retirement since they needn't worry about the tax-rate change or how that may reduce their assets at the time of distribution. Many of us expect that tax rates are more likely to rise than fall in the future, so paying taxes at the time of contribution may reduce the long-term tax on these retirement assets.

Bottom line, Roth accounts allow participants to diversify their future tax risk.

Why might someone want to convert to a Roth within the Plan?

Consolidation is one reason they may find conversion desirable. Participants can combine both their Plan assets and assets from outside retail providers into the Roth NYCE IRA and thereby simplify the oversight of their accounts. They can also use this vehicle to continue to save for retirement if they have taxable compensation after severance from City service.

A majority of Plan participants are uniformed employees who retire from the City at a relatively young age and begin second careers. This type of IRA provides a way for them to continue to save for retirement at a place they trust. They value the Plan's oversight of the investment options, as well as offering asset allocation via the Pre-Arranged Portfolios.

Estate planning is another consideration. By paying tax on the conversion up front, you eliminate the income tax your heirs would otherwise have to pay on withdrawals from an inherited traditional IRA. Also, unlike Deferred Compensation retirement plans or traditional IRAs, which mandate withdrawals beginning at age 70½, Required Minimum Distributions (RMDs) do not apply to Roth IRA accounts, thus allowing your money to grow tax-free until you or your beneficiaries withdraw those assets.

The Roth IRA adds the advantage of the stretch allowing heirs to take money out of the account over their life expectancy.

Spousal NYCE IRA

A New York City employee may establish a NYCE IRA account on behalf of their spouse. In addition to making IRA contributions, this also allows his or her spouse to consolidate outside retirement assets into the Spousal NYCE IRA. Spouses, too, can gain access to the institutionally priced investments, as well as the Plan's oversight. With our programs, a couple can consolidate all of their retirement assets in one place.

The spousal account needs to be established during the lifetime of the participant. It actually doesn't even have to be funded, it just needs to be opened. If it is open and should the employee pass away, then the deceased employee's assets can roll immediately to the spouse's NYCE IRA. This can be a real advantage to the surviving spouse. It allows the surviving spouse to take distributions according to his/her own age and to name his/her own beneficiaries to insure a "stretch" to the next generation.

Financial Planning

People have to take time out of their day or weekend to sit down and to go through the choices available to them, but they don't have to do it alone!

Deferred Compensation has a retirement education department that provides free seminars on topics such as retirement planning and distribution planning. The seminars walk people through all of the different programs offered by the Plan and discuss the role and characteristics of each of "the different pots of money."

Online Tools

Personalized Financial Snapshot Software (available through the Plan's Web site) - This tool offers employees an introduction to retirement planning and their own printable retirement report. Based on their answers, the program will provide an estimate of how close participants are to meeting their goals and help explore options.

Go to http://nyc.gov/html/olr/html/deferred/dcp_planning_tools.shtml and select Preparing for Your Retirement to access the software.

A word about in-service use of the Roth 401(k)

From a tax standpoint, a participant is able to tax shelter more money via a Roth 401(k) versus the 457 or pre-tax 401(k). Since the money goes in after tax, the actual amount working for you for retirement is greater. Plus, the Roth 401(k) allows a higher contribution than the Roth IRA. If you are over age 50, in 2010 you can actually contribute \$22,000 into a Roth 401(k), whereas in a Roth IRA you're limited to \$6,000.