Please Note: The material contained in this newsletter regarding financial planning is merely for informational purposes. The Deferred Compensation Plan 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.

nycdcp

The City of New York
Deferred Compensation Plan is a division of the
Mayor's Office of Labor Relations'
Employee Benefits Program
40 Rector Street, 3rd floor
New York, NY 10006
(212) 306-7760
1 (888) DCP-3113 (outside of NYC)
TTY (212) 306-7707
http://nyc.gov/deferredcomp

Michael R. Bloomberg
Mayor
City of New York

James F. Hanley
Commissioner
Office of Labor Relations

Deferred Comp UPDATE

The Plan Newsletter for the 457 and 401(k) Plans Quarter Ended September 30, 2005

In this Issue...

About Your Investments

1985 - 2005
20th Anniversary
New York City
Deferred Compensation Plan

Roth 401(k) Plan

The Roth 401(k) Plan will become effective upon the issuance and implementation of final enabling Internal Revenue Service regulations. The Plan anticipates that it will be able to offer participants the Roth 401(k) Plan during the first half of 2006.

BEFORE AND AFTER...RETIREMENT

Have you given thought to whether your income taxes will be higher, lower, or even the same during retirement? Although not having a full-time job may lower your income and put you into a lower tax bracket, you may also have fewer deductions such as mortgage interest, dependent children, not to mention Deferred Compensation 457/401(k) Plan contributions. Pension benefits, plus social security and deferred compensation withdrawals may cause your income to remain the same, if not increase during retirement. You may retire elsewhere, where state and local taxes may be different. All of which can counteract the effects of a lower income. The solution?

Financial professionals say that in order to help combat the uncertainty of future taxation levels, investors may benefit from diversifying their investments over different tax categories. To that end, the Deferred Compensation Plan is pleased to announce the addition of the new Roth 401(k) Plan. The Plan anticipates that it will be able to offer participants the Roth 401(k) Plan during the first half of 2006.

A Roth 401(k) Plan allows you to make contributions to your Deferred Compensation Plan with after-tax money. Contributions grow tax-free and your withdrawals will not be subject to income tax provided you have attained age 59 1/2 and the assets have been held in your account for at least five years. There are no income restrictions with a Roth 401(k). The contribution limit for 2006 will be $15,000 ($20,000 if you are 50 or older). The contribution limit is coordinated with your traditional 401(k).

You may contribute anywhere from 1.0% - 50.0% of your post-tax income. Please keep in mind that since this deduction will occur post-tax, you may see a noticeable difference in your net pay. For example:

Annual Salary	$50,000
Bi-Weekly Salary	$1,924
Contribution Limit Amount	$15,000
Estimated Tax Rate (Before Retirement)	20%
Estimated Tax Rate (After Retirement)	20%

	Pre-Tax 457/401(k)	***After-Tax Roth 401(k)***
Deferral Percentage	30.0%	30.0%
Pre-Tax Payroll Deduction	$577	$0
Taxes	($270)	($385)
After-Tax Payroll Deduction	$0	$577
Net Pay	$1,077	$962
Annual Contribution to Plan	$15,000	$15,000

This example is for illustration purposes only. Changes in future tax rates will affect the potential comparative benefit of plan participation. The decision to contribute to a Roth 401(k) is a personal one and should be made carefully; we suggest you consult with an independent financial advisor to better understand the complexities of taxation in retirement.

How is a Roth 401(k) different from a Roth IRA

The benefits that can be provided by allowing you to make designated Roth contributions to an employer retirement plan can not be replicated on your own through a Roth IRA.

- High-income individuals (modified AGI of $110,000 for single individuals, $160,000 for married individuals) are prohibited from contributing to Roth IRAs. This restriction does not apply to Roth contributions made to a 401(k) plan.
- Designated Roth contributions to employer-sponsored plans are not subject to the substantially lower contribution limitations that apply to Roth IRAs -- $4,000 in 2006, or $5,000 for people age 50 or older.

Is the Roth 401(k) Plan right for me?

The key then is to determine if it would be better to pay taxes now, or later. Receiving a little less in net pay now, may result in considerable savings later. Are you curious as to what such a difference in net pay could potentially result in over time? Visit the Personal Financial Snapshot interactive software available in the Planning Tools section of the Plan's Web site at nyc.gov/deferredcomp and try different scenarios. (See page 7 of this newsletter.)

Since you are not limited to one or the other Plan, are you better off contributing some money to each Plan in order to diversify your tax liability?

Just as you have recognized the need to diversify your portfolio, perhaps you should consider the feasibility of diversifying the tax categories of your investments as well.

You will need to think about these and other factors when considering which plan (or plans) is right for you. You may wish to consult with an independent financial advisor to better understand the complexities of taxation in retirement.

Comparing Programs

Because future tax rates are uncertain, your tax rate could be higher in retirement. To diversify against this risk, it may help to hold a combination of regular pre-tax savings (which will benefit you if tax rates fall in retirement) and after-tax Roth 401(k) savings (which will benefit you if tax rates rise).

	Pre-Tax Deferrals 457 Plan	Pre-Tax Deferrals 401(k) Plan	After-Tax Deferrals Roth 401(k) Plan
Contributions	You may choose to put money in the 457 Plan or the 401(k) Plan, or both, for a combined deferral of $30,000. ➢ 2006 annual limit of $15,000; $20,000 if age 50 or older	You may choose to put money in the pre-tax 401(k) Plan or in the Roth 401(k) Plan or both. However, the combined deferral cannot exceed $15,000. ➢ 2006 annual limit of $15,000; $20,000 if age 50 or older	➢ 2006 annual limit of $15,000 after-tax; $20,000 after-tax if age 50 or older
Income Limitations	None	None	None, the contribution limits and the income limits of Roth IRAs do not apply.
When are you taxed?	Pay Later: Savings and earnings are taxed upon distribution.		Pay Now: Savings and earnings are tax free upon distribution.
Things to consider when choosing a plan...	➢ No tax penalty for withdrawals taken before age 59 1/2 ➢ Account can be withdrawn without penalty after severance from City service, regardless of age (subject to income taxes) ➢ If your tax rate will be lower at the time of distribution from the 457 or 401(k) than at the time contributions were made, contributing to a tax deferred account may be better than contributing on an after-tax basis.	➢ Account can be withdrawn after severance from City service but is subject to income taxes and, in most cases, to a 10% penalty for withdrawal before age 59 1/2	➢ Distributions are tax-free if the account has been held for a minimum of five years since the first contribution and withdrawn after age 59 1/2 ➢ If your tax rate will be higher at the time of distribution from the Roth 401(k) than at the time contributions were made, contributing to a Roth 401(k) may be better than contributing on a pre-tax basis. Note: If in the future you will be receiving a City pension, your tax rate at that time is unlikely to be lower. ➢ Estate planning: At severance from City employment, you can roll your Roth 401(k) account into a Roth IRA - The Roth IRA has no Required Minimum Distributions (RMDs) at age 70 1/2. - You can delay distributions indefinitely until death, at which time your heirs have the option to receive distributions throughout their lifetime.

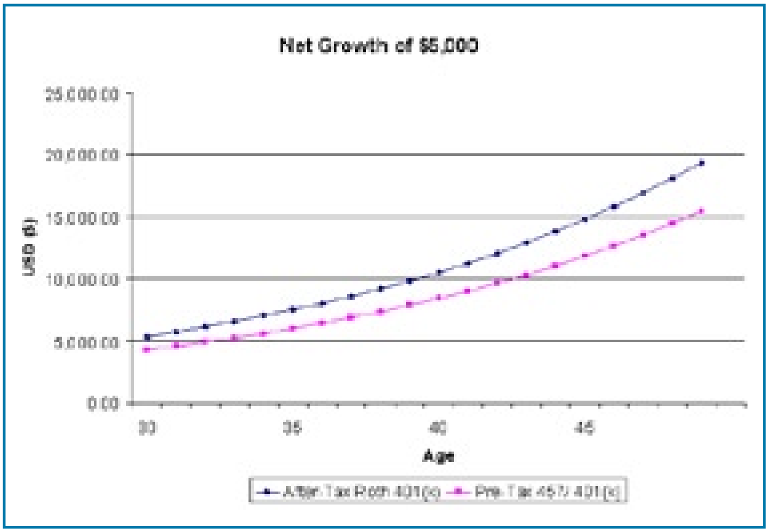
Examples of Investing with Pre-Tax vs. After-Tax Roth Dollars

Leaving aside the issue of what tax bracket you might be in during retirement (refer to table on page 4), you would be better off investing in the Roth 401(k) because you never have to pay taxes on the investment earnings. There is a **trade-off** however: With the Roth 401(k), you must be willing to take a larger hit in your paycheck up-front for taxes.

The example below illustrates this. The contribution amount to the pre-tax 457/401(k) is the same as to the after-tax Roth 401(k) and the account value in the end is the same. However, after taxes have been satisfied, the difference is significant.

	Pre-Tax Plan	***After-Tax Roth (Same Contribution)***
Gross Salary	$ 50,000	$ 50,000
Pre-Tax 401(k)/457 Contribution	(5,000)	
Taxable Income	45,000	50,000
Taxes @ 20% of taxable income	(9,000)	(10,000)
After-Tax Roth 401(k) Contribution		(5,000)
Net Cash Flow (take home pay)	$ 36,000	$ 35,000
Hypothetical Investment Results		
Account value after 20 Years at 7%	$ 19,348	$ 19,348
Taxes due upon withdrawal	3,870	0
After-tax spendable withdrawal	$ 15,478	$ 19,348

The chart below illustrates how investing in the Roth 401(k) Plan gives better results than pre-tax savings, after taxes at distribution have been paid. With the after-tax Roth 401(k) account, you end up with $19,348 and with the pre-tax 457/401(k) account, you end up with $15,478. However, with the after-tax Roth 401(k) account, you must be willing to accept taking a larger amount out of your paycheck up-front for taxes which results in less take-home pay.



Assumptions used in the above examples: A one-time contribution of $5,000 made at age 30, 20% tax rate throughout, 7% annual growth rate

Notes:

1. Pre-Tax 401(k) and 457 plan contributions are tax deferred and taken before federal, state and local taxes are deducted. Withdrawals of contributions and all accumulated growth are considered taxable income.

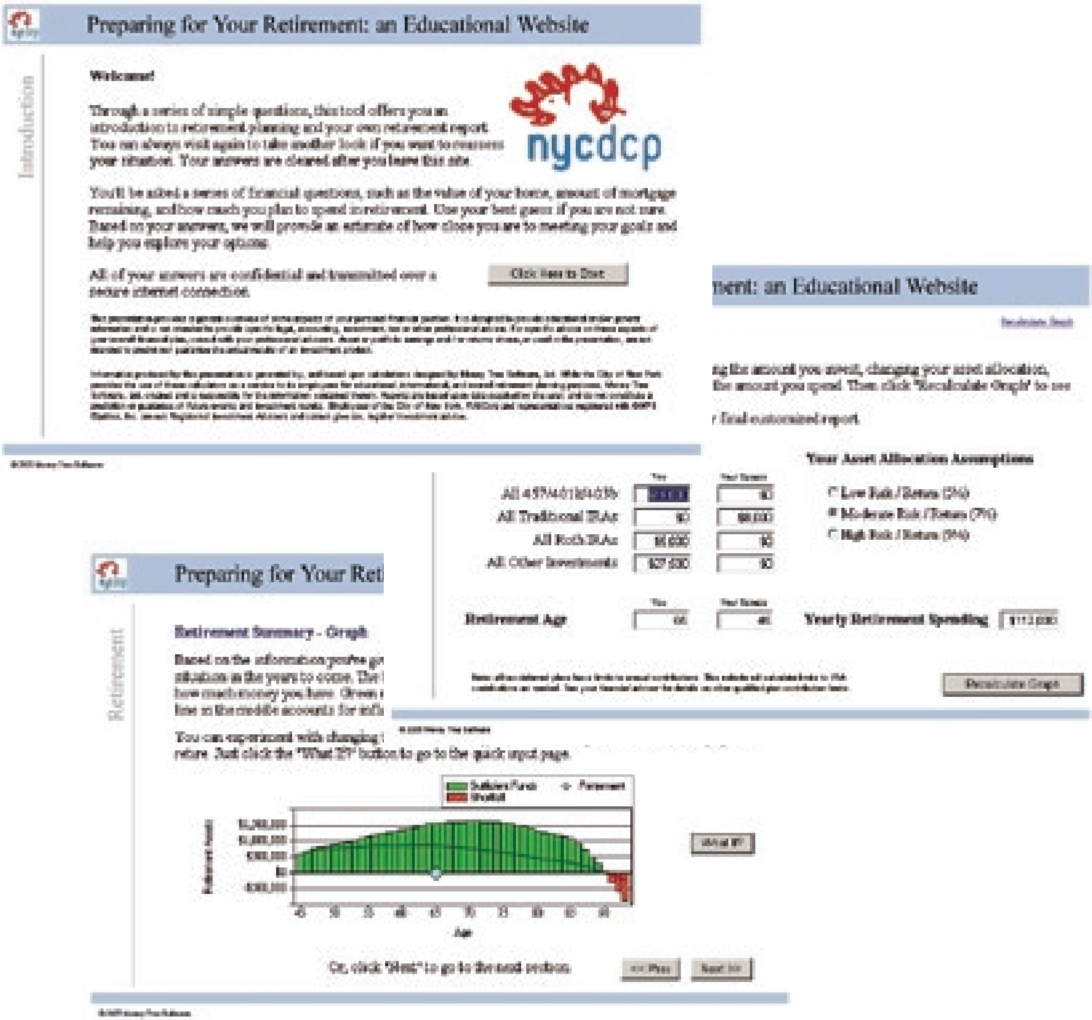
2. After-tax Roth 401(k) plan contributions are taxed. Contributing the same salary percentage to a Roth 401(k) lowers take home pay and increases after tax retirement assets.

Personalized Financial Snapshot (PFS) Software

Use the PFS software to help understand the plans differences

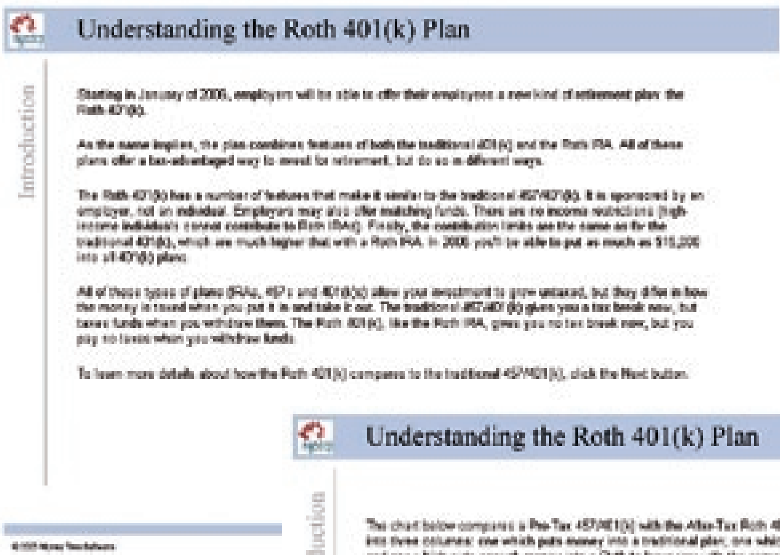
Personalized Financial Snapshot (PFS) is a retirement planning interactive software tool which was developed to help participants get started in planning for retirement and devising a plan.

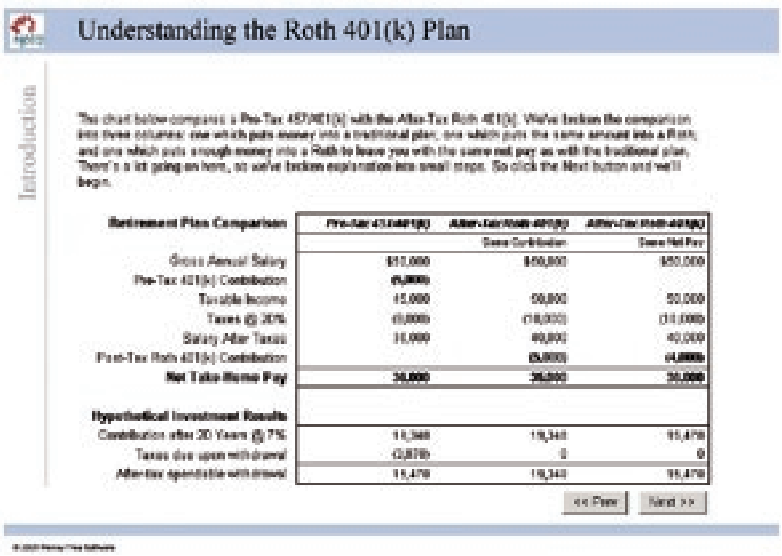
Through a series of simple questions, Personalized Financial Snapshot offers you an introduction to retirement planning and your very own printable retirement report. Based on your answers to simple financial and retirement questions, the program will provide an estimate of how close you are to meeting your goals and help you explore your options.



The interactive software now has been enhanced to illustrate the differences between traditional pre-tax 457/401(k) investing and after-tax Roth 401(k) investing. The new version of the software will be available in mid-October, although the Roth 401(k) will not go into effect until 2006.

You can access the software from the Plan's website at nyc.gov/deferredcomp. Links are located on the homepage and in the Planning Tools section of the Plan's website.





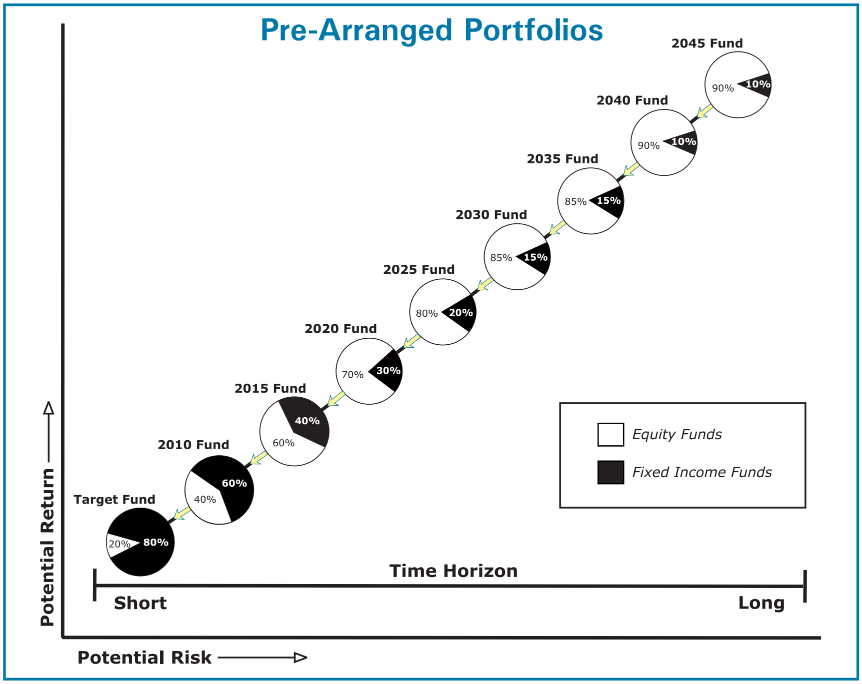
Pre-Arranged Portfolio Update

Portfolio conversion complete

The conversion of the portfolios from the risk-based portfolios to the time-based portfolios was completed on October 14, 2005. If you had a balance in any of the risk-based portfolios (Portfolio A - Conservative, Portfolio B - Moderately Conservative, Portfolio C - Moderately Aggressive, or Portfolio D - Aggressive), your balance was automatically transferred to the structurally equivalent time-based portfolio on October 14, 2005 as follows:

Portfolio A balances were moved to the Target Fund
Portfolio B balances were moved to the 2010 Fund
Portfolio C balances were moved to the 2015 Fund
Portfolio D balances were moved to the 2025 Fund

These portfolios are an easy, professionally managed and diversified way to invest. You just choose the portfolio whose name is closest to the year in which you intend to begin distributions and you're done!



Common time-based pre-arranged portfolio misconceptions

As the Plan completes its transition to time-based portfolios, we feel it bears repeating that these portfolios do NOT mean that...

- you can no longer invest in the core options
- the assets in your other core options will be transferred into the portfolios
- you cannot change your mind and transfer into another fund at any time
- you cannot receive distributions until the year of the portfolio's name
- you are forced to take distributions in the year of the portfolio's name