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New York City DEFERRED COMPENSATION PLAN

Summary Guide of 457 and 401(k) Plan Provisions

OFFICE OF LABOR RELATIONS

Deferred Compensation Plan

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Dear Prospective Participant;

This booklet describes the New York City Deferred Compensation Plan, an umbrella for two programs: the 457 Plan and the 401(k) Plan. Deferred Compensation is a retirement savings plan which lets you save for the future with before-tax dollars through easy payroll deductions.

If you requested a personal identification number (PIN) in order to enroll in one of the programs of Deferred Compensation, please be advised that your PIN should arrive approximately one week from this mailing. In the interim, we ask that you read over this material carefully.

The Plan allows you to put aside a portion of your pay before federal, state and local income taxes are taken out. Your taxes will be reduced as a result of the contributions you make, and your contributions and the earnings on them will accumulate tax-free until you withdraw them. Please note that there are restrictions on when you can withdraw your money from the Plan, so please act accordingly.

The programs contain many attractive features. They offer you an easy way to save, tax advantages, and a choice of several investment funds with different financial objectives, as well as pre-arranged portfolios composed of those funds.

The material contained in this booklet regarding financial planning is merely for informational purposes. The Plan is not a financial planner or 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 there is no guarantee of the rate of return you may actually receive. Therefore, you may wish to consult a professional financial planner and/or an investment advisor before reaching any investment decisions.

We are pleased to offer you these programs and feel they are an excellent opportunity for you to save now and for the future.

Sincerely,

Georgette Gestely
Director

City of New York 457 Plan compared to City of New York 401(k) Plan

Rules Effective January 1, 2002
Subject to Enactment of Applicable Regulations

	457 PROGRAM	*401(K) PROGRAM*
Contributions	• 2002 Annual limit of $11,000; $12,000 if age 50 or older	• 2002 Annual limit of $11,000; $12,000 if age 50 or older
Rollovers INTO the plan	• Rollovers accepted only from another plan governed by section 457 of Internal Revenue Code	• Rollovers accepted from 401(k) plans, IRAs, 403(b) and 457 plans • City 457 and 403(b) assets cannot be rolled into the City's 401(k) plan while the employee is still working for the City.
Rollover distributions OUT OF the plan at separation from City service	• Rollovers available to 457 plans, 401(k) plans, 403(b) plans and IRAs*	• Rollovers available to 457 plans, 401(k) plans, 403(b) plans and IRAs*
Deferral Acceleration for Retirement ("Catch up")	• Annual contribution limit is $22,000 for each of the three calendar years before reaching "Normal Retirement Age"	• None available
Loans	• Loans not available	• Contemplated for 1/1/03
In-service withdrawals	• Hardship withdrawal available only in the event of an unforeseeable emergency (subject to income taxes) • Small account withdrawal available if the account does not exceed $5,000, there have been no contributions to the plan for two years, and there has not been a previous small account withdrawal (subject to income taxes)	• Hardship withdrawal available only in the event of an immediate and heavy need and only in the amount necessary to satisfy the need (subject to income taxes and 10% tax penalty for withdrawal before age 59½) • In-service withdrawals available when participant reaches age 59½ (subject to income taxes but no 10% tax penalty)
Withdrawals after separation from City service	• No election is required until a distribution is requested • Distributions can be requested as needed • No tax penalty for withdrawals taken before age 59½ • Account can be withdrawn without penalty after separation from service, regardless of age (subject to income taxes)	• No election is required until a distribution is requested • Distributions can be requested as needed • Rollover contributions can be withdrawn in a lump sum at any time (subject to income taxes and 10% tax penalty for withdrawal before age 59½, if applicable) • Account can be withdrawn after separation from service but is subject to income taxes and, in most cases, to a 10% tax penalty for withdrawal before age 59½

**** Subject to rules of the plan to which money is being rolled.***

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If you have additional questions after reading this guide, please contact the Plan's Client Service Department between the hours of 9 a.m. and 5 p.m., Monday through Friday, at (212) 306-7760.

Also available:

- Investment Planning Video
- Investment Guide
- Savings Guide
- Guide to Building Retirement Assets
- Distribution Guide
- Beneficiary Guide
- Internet Site: nyc.gov/deferredcomp

Please Note: The material contained in this booklet regarding financial planning is merely for informational purposes. This information has been obtained from sources believed to be reliable, but we do not guarantee its accuracy or completeness. 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.

Participation in the City of New York Deferred Compensation Plan offers an easy way to save for your retirement while providing an immediate tax advantage. The Plan is comprised of two programs: a 457 plan and a 401(k) plan, named after the applicable sections of the Internal Revenue Code that govern their operation. Eligible employees may choose to join the 401(k), the 457, or both, up to the annual maximum contribution limit.

Through convenient payroll deductions, both programs allow you to save regularly with before-tax dollars while deferring federal, state and local income taxes. All amounts contributed to the Deferred Compensation Plan, and all earnings on those amounts, are held in a custodial account for the exclusive benefit of Deferred Compensation Plan participants. You choose how you want your money invested from professionally-managed investment options or choose among pre-arranged portfolios comprised of those options. Because earnings on your investments in the Plan are tax-deferred, the potential for growth of your money in the Deferred Compensation Plan is likely to be greater than in conventional savings accounts. Please be aware, however, that these are not savings accounts, as there are significant restrictions on your ability to withdraw your money prior to retirement, as discussed later.

The 457 and 401(k) Plans vary in terms of contribution limits and withdrawal conditions, so you must read the information contained in this Summary Guide carefully to see which plan makes sense for you. *457 Plan Mechanics* begin on page 6; *401(k) Plan Mechanics* begin on page 9. The investment program, the description of which begins on page 11, is the same for both the 457 Plan and the 401(k) Plan. You will need to make separate investment elections for each plan in which you participate. Your investment election may, but does not have to be, the same for each plan.

Employees of the Board of Education, the Health and Hospitals Corporation and the City University of New York are not eligible to participate in the 457 Plan, but may participate in the 401(k) Plan.

How to Join the Plan

In order to defer a portion of your compensation and contribute it to the Deferred Compensation Plan, you must enroll in either the 457 Plan, the 401(k) Plan, or both. If you are an eligible employee, you may become a participant in the month following your enrollment.

Instructions for enrolling online will be included with your PIN letter. You can enroll by either visiting our Web site at nyc.gov/deferredcomp or via the telephone by accessing KeyTalk™ at (212) 306-7760.

As a Deferred Compensation Plan participant, you may contribute from as little as 1% of your pay up to as much as 50% (in increments of 0.5%), subject to the maximum annual limit ($11,000 for 2002). This choice allows you to tailor your contributions to fit both your current needs and your future financial goals. If you enroll in both the 457 and 401(k) Plans, you may contribute the maximum annual limit to each program. When calculating your deferral percentage for each plan, keep in mind that you must allow for taxes and other deductions including any post-tax deductions such as a pension loan and union dues.

Deferred Compensation Plan Contributions in Lieu of Paying FICA Tax

If you are contributing 7.5% or more of your pay to *either* the 457 Plan or the 401(k) Plan and you are not in the pension system, you will not pay Social Security (FICA) tax. Please note: if you contribute to both the 457 plan and the 401(k) plan, FICA deductions will not cease if you contribute 4% to one plan and 3.5% to the other; You must contribute at least 7.5% to a single plan.

You may not contribute to both the Deferred Compensation Plan and FICA unless you contribute less than 7.5% to the 457 plan or 401(k) plan or are a member of the pension system. If you wish to contribute only the minimum amount per year to the 457 or the 401(k) that is required in order to avoid paying FICA tax, you must indicate that at the time you are enrolling when you are selecting your "Annual Goal Amount."

Choosing a Beneficiary

You must name a beneficiary when you enroll in either the 457 Plan or the 401(k) Plan, they may be different for each plan you enroll in and you may change that selection at any time. If you die, your account balance or remaining payments will be paid in this order:

1. To your surviving primary beneficiary(ies);
2. If there are no surviving primary beneficiaries, to your surviving contingent beneficiaries;
3. If there are no surviving primary or contingent beneficiaries, to your surviving spouse;
4. If there is no surviving spouse, to your estate.

About Your 457 Contributions

Types of contributions that you can make to the 457 Plan:

A) Payroll Deductions

These are contributions you elect to have deducted from your pay as a percentage of compensation. These contributions will be taken from before-tax dollars so you will be deferring income taxes on the amounts you contribute and earning on those amounts.

You can contribute as little as 1% of your paycheck or as much as 50% (in increments of 0.5%), up to $11,000 in year 2002, $12,000 in 2003, $13,000 in 2004, $14,000 in 2005 and $15,000 in 2006. If you will be age 50 or older during the calendar year, your deferral limit will be $12,000 in 2002, $14,000 in 2003, $16,000 in 2004, $18,000 in 2005 and $20,000 in 2006 . Your payroll deductions will automatically cease once you reach the contribution limit for the year, and will restart automatically in January of the following year.

B) Rollover Contributions

If you have a balance from a previous employer in another 457 plan, you may be able to transfer this amount into the 457 Plan. You can make rollover contributions to the 457 Plan even if you do not want to actively contribute to the plan.

Deferral Acceleration for Retirement ("Catch up")

Deferral Acceleration for Retirement (DAR) is the catch-up provision of the 457 Plan. It permits you to increase the maximum amount you may contribute to the Plan in each of the three years before the year in which you reach your "Normal Retirement Age." Normal Retirement Age (NRA) is any age designated by you in the range of years beginning with the earliest age at which you may retire with full pension benefits up until age 70 1/2. Or, if you are not in the pension system, NRA may be any age chosen by you in the range of ages from 65 to 70 1/2. You may choose an NRA greater than age 70 1/2 if you continue to work past age 70 1/2. If you take advantage of DAR and do not separate from City service upon attainment of Normal Retirement Age, you may continue to work and participate in the Plan, but you may not use DAR a second time.

This provision only allows you to catch up on contributions for previous years in which you were eligible to participate in the Plan but did not contribute the maximum amount. You may not elect the provision if you have already elected a catch-up provision while with a previous employer.

The absolute **maximum** deferral for <u>each</u> of the three years is twice the applicable regular contribution limit for the year. This means that total Plan deferrals (regular *plus* DAR) may not exceed $22,000 in 2002, $24,000 in 2003, $26,000 in 2004, $28,000 in 2005 and $30,000 in 2006. There is no additional fee for DAR and the amounts deferred under the DAR provision will be deducted from the current year's gross earnings. Amounts deferred under DAR will be invested in the same manner as your regular contributions. If you wish to take advantage of the DAR provision, you should contact the Plan's Administrative Office for the necessary form.

Withdrawal of Funds: 457 Plan Distributions

1. Active Employees

You may not withdraw funds from the 457 Plan while you are still employed by the City, *except* for the distribution of small accounts or through an unforeseeable emergency withdrawal. Any in-service withdrawals paid to you will be subject to income taxes.

Small Account Withdrawal

Under this provision, you may receive a distribution from the 457 Plan prior to separation from City service only if all the following criteria are met:

(1) the total amount payable to you does not exceed $5,000;
(2) you have not deferred any compensation during the two-year period ending on the date of distribution; and
(3) you have had no prior small account withdrawal.

Every January, the Plan identifies those participants who meet the criteria for a small account withdrawal. If you fall into this category, you will be notified that you may elect to receive your account in a lump sum distribution. You may rejoin the Plan at any time in the future.

Unforeseeable Emergency Withdrawal

Any request for an unforeseeable emergency withdrawal must be pursuant to the guidelines established under Section 457 of the Internal Revenue Code, which governs the Plan. An "unforeseeable emergency," according to section 6.2(a) of the Plan Document, is defined as:

> "a severe financial hardship to a Participant, Beneficiary or Alternate Payee resulting from a sudden and unexpected illness or accident of the Participant, Beneficiary or Alternate Payee or of a dependent, loss of the Participant's, Beneficiary's or Alternate Payee's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, Beneficiary or Alternate Payee. In accordance with the Treasury Regulations, the need to send a child to college or the desire to purchase a home does not constitute an unforeseeable emergency."

If you suffer an unforeseeable emergency, you must apply to the Deferred Compensation Board for a withdrawal of the portion of your account necessary to meet this need. You must submit proper documentation with your request. A determination will be made on the basis of your total financial condition.

2. *Employees Separating from City Service*

Once you elect to begin your distribution payments, you must notify the Plan's Administrative Office of your effective termination date. The Administrative Office will send you a complete package describing the distribution choices available to you under the 457 Plan.

These are the distribution options available to you:

Commencement Date

Distribution need **<u>not</u>** begin immediately. You can choose to delay your distributions up until April 1st of the year following the later of the year in which you attain age 70½ or the year in which you retire from City service.

No election is required until a distribution is requested. The distribution of your account may commence any month after payroll has verified your terminated status as long as it is at least 60 days after your separation from City service.

Payment

You must decide whether you want payment made to you or to an eligible plan. Your choices are:

(1) Payment directly to you — you can choose to have all or part of your account paid to you directly. Most amounts paid to you will be subject to Federal tax withholding.

(2) Direct rollover to an Eligible Retirement Plan — Your balance may be eligible for a rollover to another employer plan or to an individual retirement account. If you choose a direct rollover, you will continue to defer income taxes on your account until you withdraw it from the rollover plan.

Method

If you would like to set up a schedule of the distribution of your account these are your choices:

(1) Lump Sum Payment — A check will be issued for the total balance of your account.

(2) Amount Certain — A check will be issued for an amount that you specify.

(3) Periodic Payments — You may elect to receive distribution of your funds on a monthly, quarterly, semi-annual, or annual basis. During the distribution process, your account will continue to be valued daily. You can continue to request account transfers at any time, and you will still receive quarterly statements and be charged administrative fees. (See "Plan Costs" on page 19.) Electronic fund transfers for your periodic payments are available.

(4) Amount Certain with Periodic Payments — You may elect to receive a portion of your account in the amount you specify with the balance made in periodic payments.

Length

If you choose periodic payments, you may select the number of payments or the dollar amount you want to receive. You may receive payment over your life expectancy.

Taxes

(1) Generally, all distributions not rolled over to another eligible retirement plan will be subject to a 20% mandatory Federal tax withholding. You should consult your tax advisor for details.

(2) At the end of every year in which you receive distributions, the Plan's recordkeeper will issue you a tax statement reflecting the amount which has been paid to you from your account and the amounts withheld for taxes.

3. Distributions on Account of Death

If you die prior to receiving the distribution of your account, your primary beneficiary will receive your account. If there is more than one primary beneficiary, than the money will be distributed according to the percentages specified by you for your beneficiary election. If there are no primary beneficiaries living, than your account will be distributed to your contingent beneficiary. Please refer to the Distribution Guide or the Beneficiary Guide for detailed information regarding the distribution options available to beneficiaries.

About Your 401(k) Contributions

Types of contributions that you can make to the 401(k) Plan:

A) Payroll Deductions

These are contributions you elect to have deducted from your pay as a percentage of compensation. These contributions will be taken from before-tax dollars so you will be deferring income taxes on the amounts you contribute and earning on those amounts.

You can contribute as little as 1% of your paycheck or as much as 50% (in increments of 0.5%), up to $11,000 in year 2002, $12,000 in 2003, $13,000 in 2004, $14,000 in 2005 and $15,000 in 2006. If you will be age 50 or older, your deferral limit will be $12,000 in 2002, $14,000 in 2003, $16,000 in 2004, $18,000 in 2005 and $20,000 in 2006 . Your payroll deductions will automatically cease once you reach the contribution limit for the year, and will restart automatically in January of the following year.

If you are an employee of the Board of Education, the Health and Hospitals Corporation, or the City University of New York and you also participate in a IRS code section 403(b) plan with your employer, your combined payroll deductions under the 403(b) plan and the 401(k) Plan cannot exceed $11,000. You must let us know if you participate in a 403(b) plan with your employer and the amount you contribute under that plan through payroll deductions. Your 401(k) Plan contributions will be limited so that your combined 403(b) plan and 401(k) Plan contributions do not exceed $11,000.

B) Rollover Contributions

If you have an individual retirement account (IRA) or a balance from a previous employer in another 401(k) plan, a 457 plan or a 403(b) plan, you may be able to transfer this amount into the 401(k) Plan. You can make such rollover contributions to the 401(k) Plan even if you do not want to actively contribute to the Plan.

Please note that if you roll your 457 plan assets, from a previous employer, into the 401(k) Plan, you will lose the exemption from early withdrawal penalties on those assets. The assets may, therefore, be subject to a 10% tax penalty if withdrawn before age 59½.

Withdrawal of Funds: 401(k) Plan Distributions

1. Active Employees

In general, you may not withdraw funds from the 401(k) Plan while you are still employed by the City. However, there are certain exceptions as discussed below.

Loans

Although the City's 401(k) Plan does not currently allow loans, it is anticipated that loans will be allowed commencing in January 2003.

Hardship withdrawals

You may apply for a withdrawal from your account if you have an immediate and heavy need to draw on financial resources. Hardship withdrawals are within the sole discretion of the Deferred Compensation Board in accordance with the Internal Revenue Code. You must submit proper documentation with your request. A determination will be made on the basis of your total financial condition.

Withdrawals after age 59½

If you have reached age 59½, you can withdraw funds from your account without penalty. Most withdrawals will be subject to Federal tax withholding, but will not be subject to the 10% tax penalty.

2. Employees Separating from City Service

Once you elect to begin your distribution payments, you must notify the Plan's Administrative Office of your effective termination date. The Administrative Office will send you a complete package describing the distribution choices available to you under the 401(k) Plan.

If you have made both rollover contributions and contributions from payroll deductions to the 401(k) Plan, your distributions will be taken proportionately from each. These are the distribution options available to you:

Commencement Date

Distribution need **not** begin immediately. You can choose to delay your distributions up until the April 1st of the year following the later of the year in which you attain age 70½ or the year in which you retire from City service.

No election is required until a distribution is requested. The distribution of your account may commence any month after payroll has verified your terminated status as long as it is at least 60 days after your separation from City service.

Payment

You must decide whether you want payment made to you or to an eligible plan. Your choices are:

(1) Payment directly to you — you can choose to have all or part of your account paid to you directly. Most amounts paid to you will be subject to Federal tax withholding and, if you are younger than age 59½, a 10% penalty. No 10% penalty applies, however, if you were at least age 55 to the time you separated from City service. You should consult your tax advisor for details.

(2) Direct rollover to an Eligible Retirement Plan — Your balance may be eligible for a rollover to another employer plan or to an individual retirement account. If you choose a direct rollover, you will continue to defer income taxes on your account until you withdraw it from the rollover plan.

Method

If you would like to set up a schedule of the distribution of your account these are your choices:

(1) Lump Sum Payment — A check will be issued for the total balance of your account.

(2) Amount Certain — A check will be issued for an amount that you specify.

(3) Periodic Payments — You may elect to receive distribution of your funds on a monthly, quarterly, semi-annual, or annual basis. During the distribution process, your account will continue to be valued daily. You can continue to request account transfers at any time, and you will still receive quarterly statements and be charged administrative fees. (See "Plan Costs" on page 19.) Electronic fund transfers for your periodic payments are available.

(4) Amount Certain with Periodic Payments — You may elect to receive a portion of your account in the amount you specify with the balance made in periodic payments.

Length

If you choose periodic payments, you may select the number of payments or the dollar amount you want to receive. You may receive payment over your life expectancy.

Taxes

(1) Generally, all distributions not rolled over to another eligible retirement plan will be subject to a 20% mandatory Federal tax withholding. In addition, a 10% tax penalty may apply to distributions taken before age 59½. However, there are certain exceptions to this tax penalty. For example, no 10% penalty applies if you were at least age 55 to the time you separated from City service. You should consult your tax advisor for details.

(2) At the end of every year in which you receive distributions, the Plan's recordkeeper will issue you a tax statement reflecting the amount which has been paid to you from your account and the amounts withheld for taxes.

3. Distributions on Account of Death

If you die prior to receiving the distribution of your account, your primary beneficiary will receive your account. If there is more than one primary beneficiary, than the money will be distributed according to the percentages specified by you for your beneficiary election. If there are no primary beneficiaries living, than your account will be distributed to your contingent beneficiary. Please refer to the Distribution Guide or the Beneficiary Guide for detailed information regarding the distribution options available to beneficiaries.

You determine how you want your 457 and/or 401(k) Plan contributions (deferrals) invested. The Deferred Compensation Plan offers you four pre-arranged portfolios which consist of the Plan's core investment options for convenience and simplicity. Or, you may choose to design your own portfolio using the Plan's core investment options. We recommend that you choose to invest in **either** <u>one</u> of the four pre-arranged portfolios **or** create your own portfolio from the core investment options offered, although, if you wish, you may invest in any combination of pre-arranged portfolios and/or core investment options that you choose. If you participate in both the 457 Plan and the 401(k) Plan, you must make a separate investment election for each plan, although the elections may be the same.

Your selection of investment options depends on many factors and should be considered carefully. It is advisable that you consult with a professional financial planner and/or investment advisor before making investment decisions.

Creating Your Portfolio

When creating your portfolio, you should keep <u>two</u> goals in mind:

1. Develop a long-term objective: The Deferred Compensation Plan is a *long-term savings and supplemental retirement plan.* Therefore, you should set investment goals that ensure your money grows over the long rather than the short term. Long- and short-term investments have very different objectives. By investing for the long term, you are better able to "ride out" fluctuations in your account's value, should they occur. Of course, if you are already close to retirement, shorter-term investments may be more suitable to your needs. Again, you should consult an investment advisor or financial planner if you are unsure which investment strategy is right for you.

2. Determine your ability to accept risk: Risk is the possibility that you may lose money on your investments. Certainly all investments carry some sort of risk. The higher the risk you are willing to take with your investment, however, the higher the reward you are likely to earn over the long term.

Your ability to absorb risk can change with your age and the length of time you are employed by the City. For example, if you are 25 years old and have another 20 years before you retire from City service, you are able to absorb considerable risk (and realize its rewards), since you have another 20 years before you need to rely on retirement funds. Conversely, if you are 55 years old and have only 5 years left until you leave City employment, your ability to absorb risk is greatly reduced. Therefore, you may want to consider lower risk and, consequently, lower reward investments.

Once you have determined your portfolio, look at it on a regular basis and reassess your long-term goals, making investment changes only if necessary.

Selecting Your Investment Strategy

The Plan currently offers four pre-arranged portfolios and a variety of core investment options from which to choose. The pre-arranged portfolios help answer the question: Where should I invest my money? They offer you a mix of diversified investments and help you if you are not comfortable with creating your own portfolio.

Although you are free to invest your money in any combination of pre-arranged portfolios and/or core investment options that you choose, we recommend that for each program in which you participate you pick either:

1) <u>One</u> pre-arranged portfolio (portfolios range from conservative to aggressive), or
2) Create your own portfolio by selecting from the Plan's core investment options (see page 14).

Choice #1. Pick a pre-arranged portfolio

Pre-Arranged Portfolio Expressway

Pre-arranged portfolios are a kind of "cruise control" for your retirement plan. Once you choose your pre-arranged portfolio, you can let the diversified investment mix in that pre-arranged portfolio move you steadily down the road towards your goals as long as your investment objectives haven't changed.

Pre-arranged portfolio expressway has three advantages:

1. Convenience – Investment professionals select the asset class mixes, monitor performance and make adjustments as needed. If you don't have the time or interest to select and monitor your investments, these pre-arranged portfolio options are designed for you.

2. Professional Management – The pre-arranged portfolio options provide professional investment analysis of the underlying funds in each type of asset class. These professionals "rebalance" the pre-arranged portfolio options quarterly to assure that the portfolios are invested consistently with the investment style selected. (*Rebalancing does not assure profit and does not protect against loss in declining markets.)*

3. Professionals use what is called "portfolio optimization" to build diversified portfolios that seek the highest rate of return with the least amount of risk. While the result cannot be guaranteed, these professionals use one of the most widely accepted formulas in the academic world for determining portfolio composition.

Take three easy steps: 1) Complete the Risk Tolerance Quiz, 2) Determine which pre-arranged portfolio option is right for you, and 3) Select one of the pre-arranged portfolio options

Step 1 - Take the Risk Tolerance Quiz

Circle the number that describes how strongly you agree or disagree with the following statements:

1. I am a knowledgeable investor who understands the trade-off between risk and return, and I am willing to accept a greater degree of risk for potentially higher returns.

   Strongly Disagree 1 2 3 4 5 **Strongly Agree**

2. I am willing to invest on a long-term basis.

   Strongly Disagree 1 2 3 4 5 **Strongly Agree**

3. If one of my investments dropped 20% in value over six months due to a stock market fluctuation, I would hold on to that investment, expecting it to recover its value.

   Strongly Disagree 1 2 3 4 5 **Strongly Agree**

4. I have savings vehicles other than this retirement plan that make me feel secure about my financial future.

   Strongly Disagree 1 2 3 4 5 **Strongly Agree**

Add up the numbers you circled above for your total score. Match your score to one of these three risk tolerance boxes and circle your <u>personal risk tolerance</u>:

4-8 **Conservative Risk Tolerance**	**9-14** **Moderate Risk Tolerance**	**15-20** **Aggressive Risk Tolerance**

Step 2 - Determine Which Pre-Arranged Portfolio is Right for You

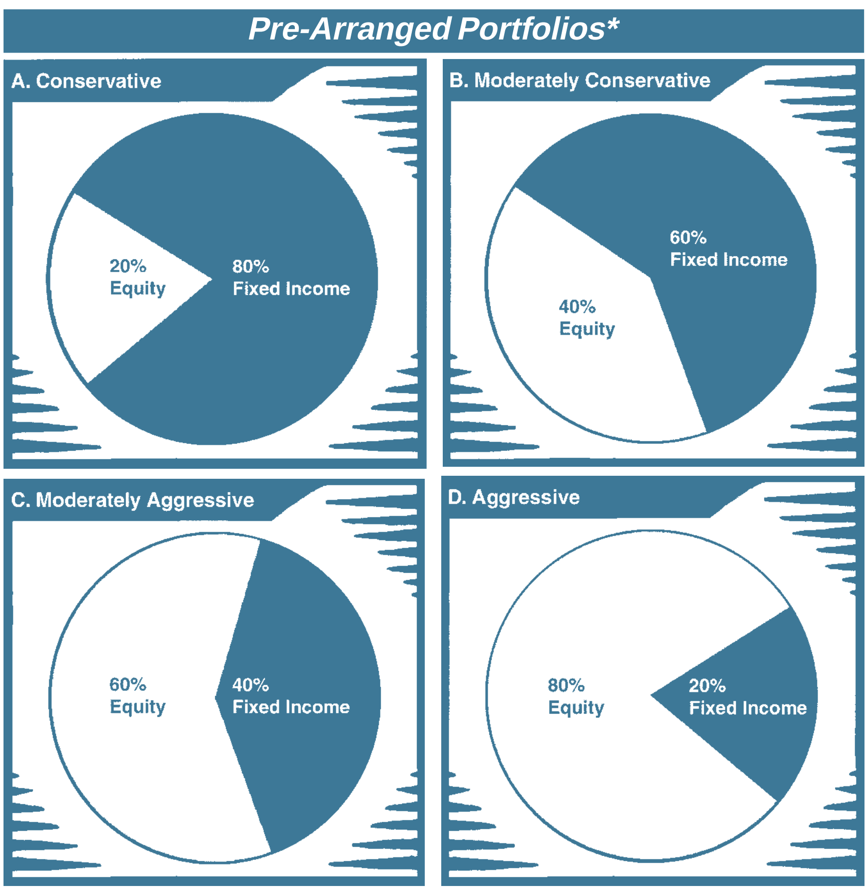
Using your personal risk tolerance and the number of years to retirement, find your pre-arranged portfolio option below.

Years to Retirement	Conservative Risk Tolerance (4-8)	Moderate Risk Tolerance (9-14)	Aggressive Risk Tolerance (15-20)
30 or more	Moderately Aggressive Portfolio (portfolio C)	Moderately Aggressive Portfolio (portfolio C)	Aggressive Portfolio (portfolio D)
11 to 29	Moderately Conservative Portfolio (portfolio B)	Moderately Aggressive Portfolio (portfolio C)	Aggressive Portfolio (portfolio D)
10 or fewer	Conservative Portfolio (portfolio A)	Moderately Conservative Portfolio (portfolio B)	Moderately Aggressive Portfolio (portfolio C)

For example, if you have a Moderate Risk Tolerance and 15 years to retirement, then you might consider the Moderately Aggressive pre-arranged portfolio option.

Step 3 - Select a Pre-Arranged Portfolio

If you are ready to select your pre-arranged portfolio option and put your account on cruise control, you can pick the pre-arranged portfolio of your choice at the time you enroll.



* The funds that make up the four pre-arranged portfolios are varying percentages of the Plan's core investment options. All percentages are approximate.

Portfolio A - Conservative:
Equity Funds - 20%
12.5% Equity Index Fund
7.5% International Equity Fund
Fixed Income Funds - 80%
65% Stable Income Fund
15% Bond Fund

Portfolio B - Moderately Conservative:
Equity Funds - 40%
17.5% Equity Index Fund
7.5% Mid-Cap Equity Fund
10% International Equity Fund
5% Small-Cap Equity Fund
Fixed Income Funds - 60%
45% Stable Income Fund
15% Bond Fund

Portfolio C - Moderately Aggressive:
Equity Funds - 60%
30% Equity Index Fund
7.5% Mid-Cap Equity Fund
15% International Equity Fund
7.5% Small-Cap Equity Fund
Fixed Income Funds - 40%
25% Stable Income Fund
15% Bond Fund

Portfolio D - Aggressive:
Equity Funds - 80%
40% Equity Index Fund
10% Mid-Cap Equity Fund
20% International Equity Fund
10% Small-Cap Equity Fund
Fixed Income Funds - 20%
10% Stable Income Fund
10% Bond Fund

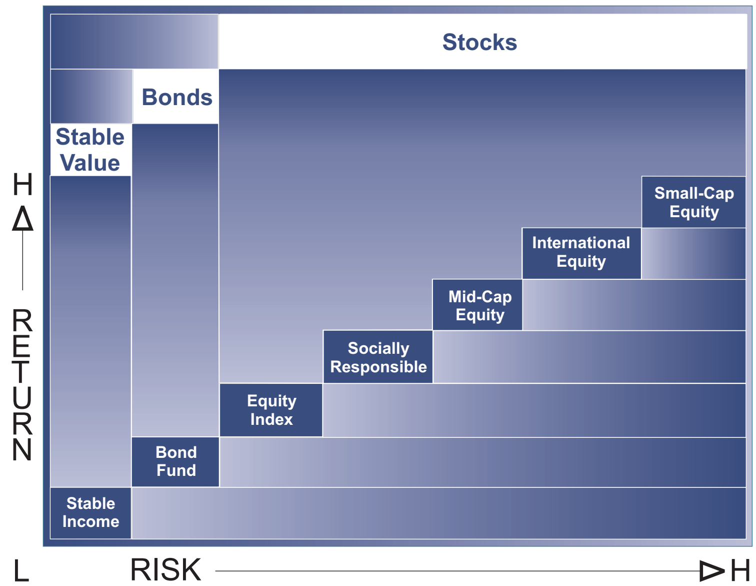
Choice #2. Create your own portfolio

Your Core Investment Options

If you prefer to create your own portfolio, you can select from the Plan's core investment options. When creating your own portfolio, keep in mind that your total allocation must add up to 100%. You can choose to be invested in any combination of the investment options offered. You determine the mix that's right for you.

The Stable Income Fund is a stable value option that offers a current rate of return for a specified period of time. All the other funds are variable options, the values of which fluctuate daily based on their price per share/unit. You may obtain descriptions and/or prospectuses for any of the Plan's options by calling the Administrative Office at (212) 306-7760.

Risk/Return Spectrum



Risk: Is the measurable possibility for gain or loss. All investments involve some degree of risk.

Return: Is the gain or loss on your investment, usually expressed as an annual percentage rate.

Rule: You can generally increase your chances of achieving higher returns over the long term through assuming higher risk. By assuming higher risk you also increase your chances of sustaining losses on your investment. No investment can guarantee a positive return or fully protect you against loss. It is possible to lose money on even the lowest risk investments.

Stable Income Fund

Investment Objective

The investment objective of the Stable Income Fund is to conserve principal and to provide interest income through investment in an internally managed portfolio of traditional guaranteed investment contracts (GIC's), synthetic stable value investments and cash. Fund investments will have durations of between one and five years. Fund investments on average will have maturities of between three and five years. Further, the duration of the fund's synthetic investments will not exceed seven years. The weighted average maturity of the Stable Income Fund is expected to be between two and three years. The fund is structured to gradually track the general level of interest rates and reduce interest rate volatility. Investments held in this portfolio will be limited to those issuers which meet stringent criteria with respect to diversification and credit quality. The level of risk and return is expected to be lower than that of the Plan's other investment options. Investment return will be from interest income.

Investment outlook over the short term

Over the short term, the fund is expected to provide a steady rate of return.

Investment outlook over the long term

Over the long term, the fund should keep pace with or slightly outpace inflation.

Bond Fund

Investment objective

The investment objective of the Bond Fund is to provide interest income while seeking to maintain a limited fluctuation in principal. The fund invests in a well-diversified portfolio of fixed income securities, including non-investment-grade and non-U.S. dollar-denominated securities. The Fund will maintain an average quality of at least "A" and will invest in securities rated "B" or higher. With the exception of the Stable Income Fund, the Plan expects this investment option to exhibit the lowest risk of the options included in the Plan in terms of standard deviation of quarterly returns. Investment returns will be primarily from interest income with some capital appreciation.

How investing in bonds differs from stocks

Investing in bonds provides lower risk and lower return than stocks. Stocks involve ownership of a company and sharing of the company's profits. Bonds, on the other hand, are a loan to a company providing the investor with interest payments at an agreed-upon rate and the repayment of the bond's principal amount at an agreed-upon maturity date.

A bond's value is affected by the rise and fall of interest rates. While the interest rate is fixed, the value of the bond's principal amount will fluctuate with interest rate movements. Here's an example: assume that today you buy a $10,000, 5-year bond paying 6% interest. Your bond will pay you $600 per year in interest. Let's say that in six months you want to sell that bond and interest rates have gone up to 8%. The market yield of 8% on your $600 annual revenue pushes the market value of your bond down to $9,256. Conversely, when interest rates fall, the market value of your bond will rise.

Investment outlook over the short term

This option is expected to provide income at a higher return than the Stable Income Fund. The value of the fund will increase and decrease over time as the value of the fund's investments increase and decrease with the movement in market interest rates. As a result, at any point in time, the value of your investment in the fund may be greater than or less than the contributions which you have allocated to the fund.

Investment outlook over the long term

This option should provide a positive return which will outpace inflation over the long term.

Equity Index Fund

Investment Objective

The objective of the Equity Index Fund is to replicate the return of the Standard & Poor's 500 Composite Stock Price Index. This option is intended to provide participants with exposure to the broad domestic equity market by replicating the market index consisting of the common stock of large domestic companies. Investment returns are expected to result primarily from capital appreciation rather than through current income from dividends.

Why invest in this option?

This option invests in the common stock of large corporations. Investing in stocks is expected to provide you with long-term growth that significantly exceeds the rate of inflation.

Investment outlook over the short term

Since this option is invested in the stock market, there could be substantial fluctuations in the share value of the fund.

Investment outlook over the long term

Historically, this option has provided a substantial rate of return in excess of inflation and is expected to do so in the future.

Socially Responsible Fund

Investment Objective

The Socially Responsible Fund is designed to give participants the opportunity to invest in companies that are equal opportunity employers, are environmentally responsible, have a strong record regarding occupational health and safety, manufacture goods which contribute to the quality of life and rate highly in terms of product purity and safety. Substantial fluctuations in the unit value of this option are possible, as this option is invested in the stock market. It is expected that this option will exhibit a level of risk greater than that of the Equity Index Fund. Investment returns are expected to result from capital appreciation rather than from current income through dividends.

Why invest in this option?

It is expected that the stocks of these companies, which have strong records of social responsibility, will over time earn returns substantially above inflation.

Investment outlook over the short term

Since this option is invested in the stock market, there could be substantial fluctuations in the unit value of the fund.

Investment outlook over the long term

Historically, this option has provided a substantial rate of return in excess of inflation and is expected to do so in the future.

Mid-Cap Equity Fund

Investment Objective

The Mid-Cap Equity Fund's objective is to provide long-term growth of capital by investing primarily in the stocks of medium-sized, U.S. companies. The Fund is expected over time to provide greater returns and volatility than either the Equity Index Fund or the Socially Responsible Fund but lower returns and volatility than the Small-Cap Equity Fund. Investment returns are expected to result from capital appreciation, rather than from current income through dividends.

What is meant by a mid-cap fund?

Equity funds are often described by the size of the companies in which the funds invests. "Cap" is an abbreviation for a company's "market capitalization" or size. Mid-cap funds invest in the stock of medium-sized companies, with market capitalization generally between $2.0 and $15.0 billion.

Investment outlook over the short term

Since this option is invested in the stock market, there could be substantial fluctuations in the unit value of the fund over short-term periods.

Investment outlook over the long term

Over longer time periods, mid-cap equity funds have provided substantial returns above inflation. Specifically, the Mid-Cap Equity Fund is expected to outperform the Plan's large cap equity funds (i.e., the Equity Index Fund and Socially Responsible Fund) without the volatility of the Small-Cap Equity Fund. In addition, the Mid-Cap Equity Fund provides a source of diversification relative to other equity fund investments.

International Equity Fund

Investment Objective

The International Equity Fund enables participants to invest in the common stocks of companies which are not based in the United States and whose stocks, in the opinion of the investment manager of the fund, show good prospects for appreciation. Returns to the stock of non-U.S. companies tend to exhibit less than 100% correlation with returns to domestic stock portfolios. Therefore, the Plan expects this option to provide possible diversification opportunities to participants relative to the Plan's other investment options. Investment returns are expected to result from capital appreciation rather than from current income through dividends.

What makes international funds attractive?

Diversification is one of the advantages of investing in an international fund. The economic and stock market cycles of other countries often differ from those in the United States. Also, an international fund can potentially offer a higher return than a U.S.-based equity fund since less mature economies have a greater potential for growth.

Investment outlook over the short term

Since many international economies are not as well established as that of the United States, there may be a higher risk with this option than if you invested in a U.S.-based equity fund. Over the short run, major fluctuations in price per unit of these stocks is not uncommon and should be expected. In addition to price fluctuations due to stock market movements, currencies may also impact fund performance.

Investment outlook over the long term

Historically, international equity investments have provided a source of diversification relative to the U.S. stock market. As a result, it is expected that international stocks will provide incremental returns above the returns available from the U.S. stock market. There will also be periods where international stocks will underperform the U.S. stock market.

Small-Cap Equity Fund

Investment Objective

The Small-Cap Equity Fund seeks long-term growth of capital by investing primarily in the common stocks of small-sized companies which are believed to have good prospects for capital appreciation. Consistent with the objective for this fund, returns to small company stock portfolios tend to be higher but more volatile than those to portfolios of larger company stocks. Moreover, returns to small company stock portfolios tend to exhibit less than 100% correlation with returns to large company stock portfolios. Therefore, the Plan expects this option to provide possible diversification opportunities to participants relative to investments in the Plan's other equity funds.

Why small-sized companies?

This option invests in companies of this size because they have a greater potential for appreciation than large companies. These companies are expected to have rapid growth in sales and earnings.

Investment outlook over the short term

This option has the potential for the highest return of all Plan options but also carries the highest risk. Over the short run, there could be major fluctuations in the price per share of this fund.

Investment outlook over the long term

Historically, this type of fund outperforms the stock market average of large companies and could be expected to perform well over the long term.

Making Changes to Your Account

You are not locked into any of your enrollment choices.

1. Changing Percentage of Deferrals

You may increase or decrease your deferral percentage within Plan limits in multiples of 0.5% of your salary. You can change your deferral percentage by accessing KeyTalk™ through the Plan's telephone voice response system at (212) 306-7760 or online at http://nyc.gov/deferredcomp. Your Social Security number and personal identification number (PIN) are required. You may also elect to suspend or reinstate your deferrals at any time. Deferral percentage changes will take effect within 30 days. Please note, if you are substituting Deferred Compensation Plan participation for Social Security (FICA) taxes, you must contribute at least 7.5% of your annual salary to the Plan.

2. Changing Investment Options

You can change the investment direction(s) of your deferrals in the 457 Plan, the 401(k) Plan, or both, at any time. You may elect an investment allocation change which will direct *future* deferrals and you may elect an account transfer to move *existing* funds among the Plan's investment options. Investment changes must be made in whole percentages.

Remember, changing investment directions for one Plan will not automatically change your investment direction for the other Plan.

You can make investment changes by accessing KeyTalk™ through the Plan's telephone voice response system at (212) 306-7760 or online at http://nyc.gov/deferredcomp. Your Social Security number and personal identification number (PIN) are required. A request will generate a confirmation number and will be followed up by a confirmation letter. If you make an investment change prior to 4 p.m. on a business day, it will be effective the same day and reflected in your account the following business day. If you make a change at 4 p.m. or later, it will be effective the next business day and reflected in your account two business days later.

Plan Accounting

At the end of each calendar quarter, you will receive a statement reflecting your account balance as of the end of that quarter. Statements are mailed during the month following the close of the quarter. The statements express your balances in dollars and, if applicable, in shares or units. The dollar value reflects the current market value (the amount of money you would have received if you had withdrawn from the Plan as of the closing date on the statement). The quarterly statement reflects your contributions and your share of the investment gains or losses experienced by the Plan during the quarter.

The Deferred Compensation Plan is a group or "pooled" arrangement: the funds of all participants are "pooled" together for investment purposes. This "pooling" enables you to receive favorable returns on your money and reduces administrative expenses, such as management fees, through the investment in institutional funds.

When deferrals are deducted from your paycheck, the money is allocated among the various investment vehicles you select. Monies remain in the investment vehicles until they are withdrawn by you through a fund transfer, an in-service withdrawal (if permitted), or as a distribution when you terminate City service.

On a daily basis, the Plan's recordkeeper computes the value of each participant's account including any deferrals, investment income, unrealized gain or loss, or distributions that have occurred in the account. This daily accounting enables you to have daily transaction capability in the Plan through the telephone or Internet.

Plan Costs

While the Deferred Compensation Plan is a benefit offered to you by the City of New York, it is a wholly self-funded Plan. The cost for the administration of the 457 Plan and/or the 401(k) Plan will be charged to your account each quarter, deducted on a proportional basis from your investment option balances. Administrative charges are currently $12.50 per quarter per plan for each participant.

Services to Employees

The Deferred Compensation Plan provides the following services:

Voice Response System — The Plan has a telephone voice response system which allows 24-hour access to your account for information and transactions. To use the system, call 212-306-7760 and have your Social Security number and PIN ready.

Internet Site — You may access the Plan online for information and to make transactions. You can receive forms and brochures, download financial planning software, or order an investment planning video. The Web site address is nyc.gov/deferredcomp. To access your account online, you will need your Social Security number and personal identification number (PIN).

Investment Planning Video — The Plan has an investment video for home use which describes the basics of investing. You can order your **free** video from the Plan's Web site at http://nyc.gov/deferredcomp or by calling (212) 306-7760 for your copy. You can also pick up a copy at the Plan's Administrative Office at 40 Rector Street, 3rd Floor, New York , N.Y.

On-Site Presentations — You can request a presentation at your agency or work-site by contacting your payroll benefits office or the Plan's Administrative Office.

In-Office Counseling — Enrollment, catch-up, and distribution counseling appointments can be requested by calling the telephone number listed above. If your inquiry requires additional research, you may be requested to submit your inquiry in writing.

Quarterly Newsletters — You will receive quarterly newsletters along with your statements. These newsletters detail all Plan news with respect to investments and administration.

Annual Report — You will receive a copy of the Plan's comprehensive annual financial report.

Parties agree as follows:
Effective with respect to compensation paid in the calendar month following the date the enrollment is received by the Plan Administrator, the employee's compensation will be reduced by the percentage specified. Said amount shall be deferred in accordance with the Deferred Compensation Plan for Employees of the City of New York and Related Agencies and Instrumentalities or The 401(k) Plan for the City of New York and Related Agencies and Instrumentalities depending on which Plan or Plans the employee elects to enroll in. Investment options offered under the Plan are subject to change. By accepting the terms of this agreement, either through the Internet or the telephone, the employee authorizes the employer to make payroll deductions of said amount from the compensation otherwise payable to the employee. Deferrals to a 403(b) plan reduce the amount the employee may defer to the 401(k) plan and vice versa.

The employee understands that his or her participation in the Deferred Compensation Plan is governed by the applicable Plan Documents, the Internal Revenue Code, and state and local laws and regulations.

This Participation Agreement shall be legally binding and irrevocable with respect to compensation earned while it is in effect. The employee may make changes to the Agreement which are allowed under the Plan by completing a Change Form, by calling the Plan's automated telephone voice response system, or through the Internet, whichever is applicable. The employee shall be responsible for any changes made through the voice response system and the Internet and for safeguarding the personal identification number (PIN) which will be required to access the account through the voice response system or the Internet.

While this booklet briefly reviews and broadly describes the highlights of the Plan, all aspects of the Plan are governed by the applicable Plan Documents and federal, state and local laws and regulations, which shall control all determinations concerning the operation of the Plan. The Deferred Compensation Board reserves the right at any time to amend, suspend or terminate the Plan, any deferrals thereunder, and any option, in whole or in part, for any reason without the consent of any employee. Tax rules affecting savings and distributions are subject to changes in the applicable laws and regulations. The Plan also reserves the right to recover any amount erroneously credited to your account.

Is the Deferred Compensation Plan for You?

		YES	NO
Question #1:	Do you have enough money to meet your monthly needs and save a portion of your income? (Use worksheet below.)	☐	☐
Question #2:	Do you have enough liquid savings to cover short-term emergencies? (This is usually 5 - 10% of your annual income, depending on your obligations, including: the number of your dependents, whether or not you are the main support for your family, whether you own your home, the state of your health, etc.)	☐	☐
Question #3:	Are you interested in a long-term savings plan?	☐	☐
Question #4:	Are you interested in supplementing your retirement income?	☐	☐
Question #5:	Are you interested in saving on taxes now?	☐	☐

If you can answer 4 out of 5 of the above questions YES, then you should probably consider joining the Deferred Compensation Plan.

If you can answer only 1 or 2 of the above questions YES, then you should reevaluate your financial goals for the future.

If you cannot answer any of the above questions YES, then the Plan is not for you at this time.

Remember, as this is a long-term savings plan, money typically cannot be withdrawn by employees except in the case of severe financial hardship or, in the case of the 401(k) Plan, after attaining age 591/2.

Approximately How Much Excess Income Do You Have Available for the Deferred Compensation Plan?

Use this worksheet to get an estimate of your current financial status. It is important to be able to meet short-term needs before planning long-term savings.

a. Monthly gross income — a. ______________

Monthly expenses:

b. Rent/Mortgage — b. ______________

c. Loan Payments — c. ______________

d. Insurance & Medical — d. ______________

e. Taxes — e. ______________

f. Pension — f. ______________

g. Payroll Deductions — g. ______________

h. Utilities — h. ______________

i. Food — i. ______________

j. Clothing — j. ______________

k. Child Care/ School Expenses — k. ______________

l. Entertainment — l. ______________

m. Miscellaneous — m. ______________

n. Total Expenses (b THROUGH m) — n. ______________

o. Discretionary Income (a-n) — o. ______________

p. Enter your existing liquid savings to cover short term emergencies — p. ______________

q. Estimated liquid savings needed to cover short-term emergencies (about 3 to 6 months of monthly gross income). Multiply your monthly gross income by the number of months (a x 3, for an amount equivalent to 3 months of average annual income). — q. ______________

Note: Multiply your monthly gross income by “4”, “5” or “6” if you estimate that you need 4, 5 or 6 months of your monthly gross income for short-term emergencies.

r. If p is greater than q, you have adequate liquid funds to cover short-term emergencies. Go to step t. — r. ______________

s. If p is less than q, you do not have enough funds to cover short-term emergencies. The Plan is not for you at this time and your discretionary income (o) should be used as liquid savings. Once your liquid savings equals 3 to 6 times your gross monthly income, redo this worksheet to estimate how much excess income you have for deferred compensation. — s. ______________

t. Income available for investment (from step o) — t. ______________

As your contributions to Deferred Compensation are a percentage of your income, calculate your available percentage of income.

u. Available Percentage of Income ((t ÷ a) x 100) — u. ______________

457 Plan maximum annual contributions are $11,000 or 50% of your annual salary, whichever is less. 401(k) Plan maximum annual contributions are $11,000 or 50% of your annual salary, whichever is less. You may contribute $11,000 to each Plan, but together such contributions may not exceed 50% of your annual salary. If you also contribute to a 403(b) plan, your combined 403(b) and 401(k) plan contributions cannot exceed $11,000.

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The City of New York Deferred Compensation Plan
A Division of Pre-Tax Benefits & Citywide Programs within the
Mayor's Office of Labor Relations' Employee Benefits Program

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