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)
Quarter Ended
March 31, 2005

In this Issue...

About Your Investments

Participants Use Pre-Arranged Portfolios for Simplicity and Sophistication

Introduction

What is the goal of investing in the Deferred Compensation Plan?

Planning for retirement is one of the most important, and most overlooked, financial tasks facing participants today. An employer sponsored, tax-deferred plan like the Deferred Compensation Plan is the most efficient vehicle to save money and reach your retirement goals of:

- **Wealth Accumulation**
  The sooner you start saving, the more time your money has to grow. Although it is never too late to start saving money for retirement, it is important to start saving and investing for your future retirement needs at the earliest possible age.
- **Income Replacement**
  Experts estimate that you will need at least 70% of your pre-retirement income to maintain your current standard of living. The earlier you start saving, the better the chance you'll achieve your goal of adequate income replacement for a comfortable retirement.

You may be one of the many participants who feel overwhelmed by the idea of creating your own portfolio out of the options available in the Plan. The Pre-Arranged Portfolios were created to meet your objectives by letting you select a single, well diversified, professionally managed portfolio.

The Plan Moves to Time-Based Portfolios

Pre-Arranged Portfolios (PAPs) to Get a Face Lift

In keeping with industry trends, the Deferred Compensation Plan will be converting its Pre-Arranged Portfolios this summer. The current PAPs, commonly referred to as "risk-based" portfolios, will be changed over to "time-based" portfolios. Risk-based portfolios have names like Conservative, Moderately Conservative, Moderately Aggressive and Aggressive. Time-based portfolios, on the other hand, have names which describe a future year when you will begin receiving payments from the Plan like 2010, 2015, 2020, 2025 or 2030. There are two main differences between the two types of portfolios:

<u>The First Difference Lies in the Selection of the Portfolios</u>

To pick a risk-based portfolio, you need to fill out a risk assessment questionnaire. In this way, you ascertain your ability to accept risk based on factors such as age, years to retirement and your personal attitudes toward risk. You pick the portfolio that most closely resembles your risk profile.

By contrast, to pick a time-based portfolio, you only need to find the fund whose date most closely matches the year in which you expect to begin receiving distributions from your account. *Note: The date you plan to begin distributions may be later than your retirement date.*

The Second Difference Pertains to the Management of Your Account

With a risk-based portfolio, you need to revisit your selection and your risk tolerance and move your assets to lower and lower risk portfolios as you get closer to retirement.

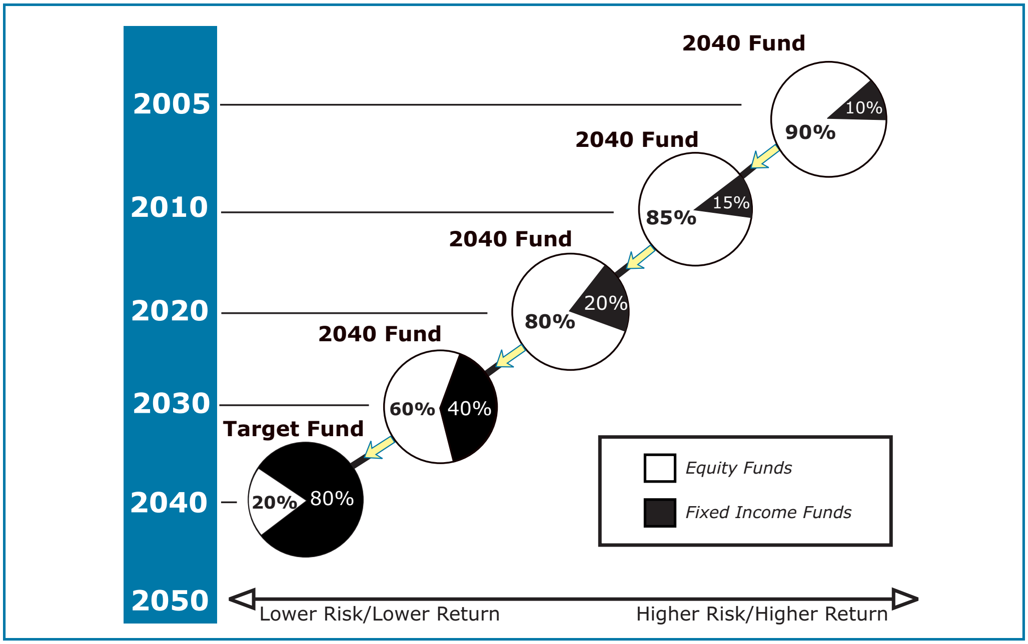
By contrast, once you choose a time-based portfolio, you are done! That portfolio will be periodically rebalanced to lower its equity exposure as it nears your payout date. Each portfolio's investment mix at any point in time depends upon how many years are left until you begin to receive distributions from your account. For example, the further you are from your payout date, the greater the percentage of equity in the portfolio.

Example of How a Time-Based Portfolio Changes Over Time:

Question: How will time-based portfolios change over time and will I need to do anything?

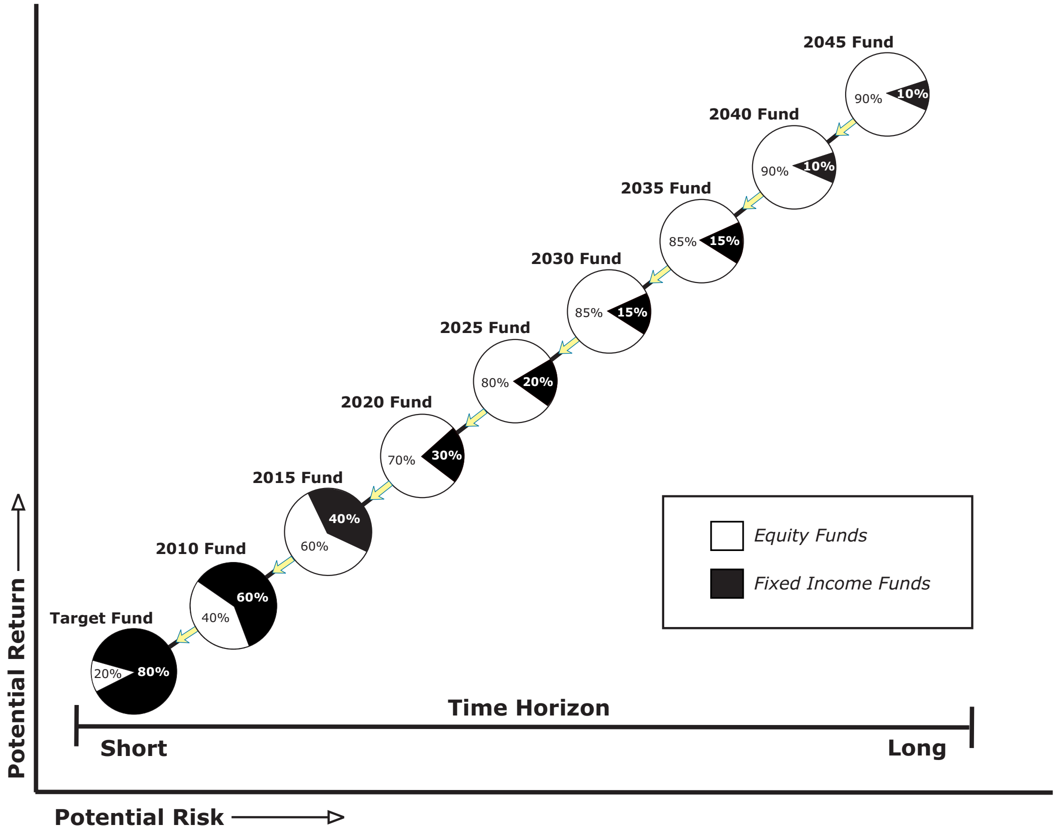
Answer: They will be automatically adjusted annually to lower the equity exposure and increase the fixed income portion. The final portfolio, the Target Fund, will receive the proceeds of each portfolio as it is merged in at the year designated by the name of the fund. Participants remain in the Target Fund throughout their payout years. This portfolio is designed to be a relatively stable source of regular income during your retirement years, as well as provide capital preservation with some opportunity for growth.

Example of How the 2040 Fund Would Change Over Time



Time-Based Portfolios offer a different approach to investing versus doing it yourself.

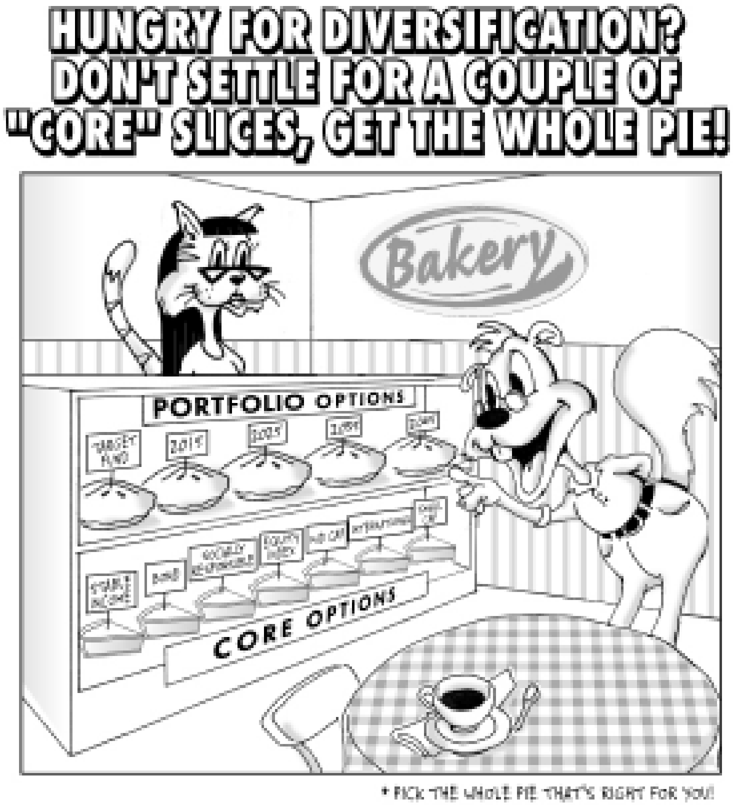
Array of Time-Based Portfolios (Available June 29, 2005)



Disclaimer

A time-based portfolio does not imply that investors will have enough retirement funds to retire on the specific target date. Investors should realize that these funds are not a complete solution to their retirement needs. Investors must weigh many factors when considering when to retire, what their retirement needs will be, and what sources of income they may have. Performance of these funds depends on performance of the underlying funds in which it invests. Performance of the underlying funds, in turn, depends on performance of equity, fixed-income, and money markets in the U.S. and abroad. The value of these funds will vary from day to day, reflecting changes in these markets and in the values of the underlying funds. When you sell the fund you are invested in, it may be worth more or less than what you paid for it.

How Do I Pick the Time-Based Portfolio That's Right for Me?



You Choose the Fund Closest to Your Payout Date: Examples

Years to Your Payout Date	Fund Name
About 25	2030 Fund
About 20	2025 Fund
About 15	2020 Fund
About 10	2015 Fund
About 5	2010 Fund
Payout or Retirement	Target Fund

If you are currently in one or more PAPs…

As a participant who is enrolled in one of the present portfolios, please note that between June 29, 2005 and October 14, 2005, you need to transfer your present portfolio balance to one of the new funds.

Structurally Equivalent Portfolios

Risk-Based Portfolios		Time-Based Portfolios
Portfolio A – Conservative	⇒	Target Fund
Portfolio B – Moderately Conservative	⇒	2010 Fund
Portfolio C – Moderately Aggressive	⇒	2015 Fund
Portfolio D – Aggressive	⇒	2025 Fund

IMPORTANT:

A common mistake participants make is to select several portfolios. If you are in several portfolios, now is the time to analyze your needs and make sure you select only one portfolio that's appropriate for your time horizon. Additionally, make sure you do not have core funds in addition to a time-based portfolio because this could result in over-diversification. Remember that the portfolios are made up of core funds and are designed as single investment vehicles with the benefit of exposure to different asset classes and efficient allocations.

If you have never been in a PAP…

Now is the perfect time for you to take advantage of the Plan's portfolios. Time-based portfolios have the following advantages:

Portfolio Diversification - The Plan's time-based funds are made up of the Plan's core investment options and are appropriately diversified for the time horizon specified. Studies show that most participants' portfolios are significantly under diversified. These funds offer the simplicity of a single investment vehicle with the benefit of exposure to different asset classes and efficient allocations.

Risk Management - The Plan's time-based portfolios are designed to meet certain rate of return requirements over time horizons, and balances the rate of return needs with the appropriate amount of risk.

Portfolio Rebalancing - The Plan's time-based portfolios are professionally rebalanced. The asset mix of the portfolio is looked at relative to the strategic allocations and changed accordingly. This ensures that the risk and return characteristics remain consistent with the appropriate time horizon.

If you are planning to begin taking distribution in 5 years or less or you are already in payout or have severed employment with the City and will begin payout within 5 years...

You can transfer all of your assets into the Target Fund. It is an all-in-one solution for the regular income you want during your retirement.

Transition

Please note the time line for conversion to time-based portfolios

Beginning June 29, 2005 (New Contributions Transferred)

- Risk-Based Pre-Arranged Portfolios will be closed to new contributions and incoming transfers.
- Time-Based Portfolios will receive all new contributions. Participants who are contributing to a risk-based portfolio will have their new contributions automatically redirected to the structurally equivalent time-based portfolio, and can thereafter change the direction of those contributions through an "allocation change" if they desire.

June 29, 2005 through October 14, 2005 (Balances Transferred)

- Participants who have a balance in a Risk-Based Pre-Arranged Portfolio will be directed to transfer their balances through an "account transfer" to a Time-Based Portfolio.

October 14, 2005

- Risk-Based Pre-Arranged Portfolios will be discontinued.

Next Steps

If you have any assets in the Pre-Arranged Portfolios, you will shortly receive a personalized letter indicating your participation in the Pre-Arranged Portfolios, asking you to transfer your balance into the time-based portfolio which is closest to the year in which you expect to begin receiving payouts from the Plan. Also, if you are currently contributing to the Pre-Arranged Portfolios, you will need to change your allocation for future payroll deductions to the appropriate time-based portfolio, as well. You will be able to accomplish that transfer and allocation change either through the Plan's Web site at nyc.gov/deferredcomp or through the telephone by calling KeyTalk® at (212) 306-7760. You will need your PIN in order to access your account. If you do not remember your PIN, you can request a reminder PIN through the Web site or KeyTalk®. The PIN will be mailed to you via regular mail.

Deferred Compensation Loans: What You Need to Know

401(k) Loans: June 2005 ***457 Loans: September 2005***

Ideally, you will never touch your Deferred Compensation funds, allowing them to grow continuously until you retire. But we don't live in an ideal world! In case of need, the funds in your Deferred Compensation Plan may now be available to you in the form of a loan.

Effective June 2005, 401(k) plan participants may apply for a loan from their 401(k) Plan accounts. The minimum loan amount is $2,500. Participants may apply for the lesser of: one-half the present value of the 401(k) balance or $50,000, reduced by the highest outstanding balance of loans from all qualified employer plans such as pension loans, 403(b) and other deferred compensation plan loans. Certain fees and other restrictions apply. The 401(k) Plan Loan Guide will be available in June for download through the Plan's Web site, or contact a client service representative for more information.

Warning: Deferred Compensation Loans Could Decrease Your Wealth

Borrowing from your Deferred Compensation Plan account should be your last solution, not your first. Here's a look at the pros and cons of a Deferred Compensation Plan loan:

The pros:

- There is no credit check.
- There is an attractive short-term interest rate which is one percentage point above the prime rate. The prime rate is currently 5 1/2%.
- The loan becomes an asset of your Plan account earning about 6 1/2%.
- If you have your money invested in the Stable Income Fund, currently earning 4 1/2%, then the 6 1/2% earned by your Plan loan is attractive.

The cons:

- About that credit check: There isn't one because you are not actually borrowing anything. *You're spending your own money.*
- If your money is invested in the Plan's options earning more than the current loan interest rate of 6 1/2%, your retirement assets are losing ground.
- Since you aren't really borrowing, all you are doing is using money from one account, such as your checking or savings account, to repay the money you borrowed from your 401(k). And when you take money out of that checking or savings account, that money loses interest, too.
- Loss of pre-tax benefit! The payments made back into the 401(k) are made with **after-tax** dollars. You are losing the benefit of building your retirement saving with pre-tax dollars.
- If you default, you would owe federal and state income taxes as well as a 10% penalty if you are under age 59 1/2.
- The loan interest isn't tax deductible. It's considered a consumer loan, so there is no tax advantage.

A better option is to take a loan from your pension system.