CHARTING YOUR COURSE

A Retirement Planning Guide for Public Sector Employees

Table of Contents

Introduction to Retirement Planning 3
No matter what your stage in your career, you want to be sure you have laid the financial foundation to make your retirement goals come true.

Saving for Your Retirement 11
Now that you have an idea of your retirement income from pensions and Social Security, let's compare this amount to what you will actually need when you reach retirement.

Understanding Investing 19
Now that you have set goals, gathered your data and done the basic savings calculation, the next steps are to save and invest.

Determining Your Investment Portfolio 35
You've seen how allocating asset classes affects return potential as well as risk. Now you must decide the combination that's right for you.

The Most Important Step 41
Taking the steps needed to meet your goals.

Resources 41
Where to Go for More Information

Worksheets 45
Worksheets to use as your personal pension plan checklist, to estimate your retirement budget, to create your balance sheet, and to determine how much you need to save.

Please consult both the current Vantagepoint Funds Prospectus *and* Making Sound Investment Decisions: A Retirement Investment Guide *carefully for a complete summary of all fees, expenses, charges, financial highlights, investment objectives, risks and performance information. Investors should consider the Fund's investment objectives, risks, charges and expenses before investing or sending money. The prospectus contains this and other information about the investment company. Please read the prospectus carefully before investing. Vantagepoint Funds are distributed by ICMA-RC Services LLC, a wholly owned broker-dealer subsidiary of ICMA-RC, member NASD/SIPC. For a current prospectus, contact ICMA-RC Services LLC, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-669-7400.*

Introduction to Retirement Planning

Your retirement may seem far away or maybe it's just around the corner. You may have been planning for some time or maybe you are just getting started. No matter what your stage in your career, you want to be sure you have laid the financial foundation to make your retirement goals come true.[1]

Preparing for a comfortable retirement isn't complicated. It just means putting away enough money every month and then investing it wisely.

If you start early, your retirement assets probably will grow more through the earnings on your investments than by how much you have set aside. So it's important to start now to develop an investment strategy that works for you. While your retirement planning should take into consideration all of the sources of possible income—Social Security, pensions, etc.—the amount you save and how you manage your investments may have a significant impact on your retirement lifestyle.

Some studies have shown that the most important decision an investor can make, after putting a regular savings plan in place, is how he or she allocates assets among different asset classes, such as stocks, bonds and cash equivalents. This decision is important because different types of investments generally behave differently through economic cycles. In addition, certain asset classes tend to perform consistently better over long periods of time, but the same investments will likely have times of disappointing returns or even losses.

ICMA-RC's Certified Financial Planners™ developed this guide to help identify some key decisions and outline steps you may need to develop your retirement savings and investment program. The guide also addresses special issues of concern such as how Social Security may affect you as a public sector employee.

Before you design your own retirement investment strategy, first determine how much you'll need to meet your retirement goals, and, based on your current situation, how much will be available. That way you can wisely set a goal for return on your portfolio—a key consideration in assessing how much risk you should take.

This section will help you assess your retirement plan:

- Understand your pension. (Worksheet 1, page 45)
- Estimate your expenses at retirement. Looking at your current expenses may help you do this. (Worksheet 2, page 46)
- Identify assets you may already have available. (Worksheet 3, page 47)
- Estimate how much more is required to meet your retirement needs. Calculate the difference between your retirement expenses and your estimated income, and determine how much you should contribute today to reach your goals. This will require an estimate of how much your investments must earn to meet your expectations and how much risk you are willing to take. (Worksheet 4, page 48)

With this information you'll be able to set your retirement savings goal. Then, you can make decisions about what kind of investment program to follow.

[1] *See Disclosure on page 42.*

Planning for the Good Life

Meet George and Martha Smith. George has worked as a building inspector for the City of Midvale for almost 20 years. Martha enjoys her part-time work as a teacher's aide, but has no employer-provided pension. Their children are grown. They worry that they have not started planning early enough for retirement.

So as a first step, George and Martha sat down and wrote out their retirement goals:

- Retiring in 10 years at age 62, on an income of 80 percent of their current earnings;
- Moving to a home that meets their retirement lifestyle;
- Traveling at least twice a year.

In good health now, they anticipate being retired 25 years or more. They plan to work until age 62 and contribute to their supplemental retirement plan.

Will George's pension and these savings, combined with any Social Security, be enough? Read on and find out.

Setting Your Retirement Goals

The place to start your planning is by setting your retirement goals.

Most people define "successful retirement" as not having to worry about finances. Financial security allows you to dedicate your life in retirement to achieving your dreams. If you are using this guide and you face many years until retirement, congratulations on starting early. The assumptions you make now about your future will be general guesses that you can revise as you approach actual retirement. If you are just a few years from retirement, this guide will help you fine tune your plan. The assumptions you make should be as accurate and specific as possible; they will help you fill out Worksheets 1-4 starting on page 43. Here are six key areas to consider while designing your financial plan:

1. When will you retire? Will you work part-time during retirement? If you are married, will you and your spouse retire at the same time?

2. Where will you live? You may dream of moving to the mountains or seashore, or to a different climate. If you plan to move, you must consider not only direct living costs in the new location but also indirect costs such as trips to visit friends and family "back home".

3. What activities do you desire and what will they cost? Retirement should be a time to realize your goals: travel, hobbies, community or religious activities.

4. What is your life expectancy in retirement? Today's retirees are living longer, are healthier, and are leading more active lives than in the past. Many will be retired for 30 years or more. So in your planning, anticipate a long and vigorous retirement.

5. What are your views on future economic matters? If you plan on a long retirement, you may need to consider the impact of inflation. Over the last 20 years, inflation has averaged 3 percent. Your plan should reflect your best guess about probable investment earnings before and after you retire. These economic factors require you to make your own informed forecasts about the future.

6. How will you pay for health care and long term care? As we get older, it is natural to expect our health care costs to go up. These costs are often underestimated by those planning for retirement. Although some retirees expect to have help from their employer paying for health care, fewer employers are offering this benefit, and retirees are paying a greater share of the cost. Long term care, at home or a nursing home, can be a considerable cost, if needed. Your plan should consider how you will pay for these costs.

Understanding Retirement Plans

It is likely that your basic retirement income will combine a pension, Social Security, and your own investments. Understanding your pension will help you get all of the retirement income you have earned.

A defined benefit plan is an employer-provided plan that supplies a specific annual retirement benefit to a participant. A defined contribution plan, also an employer sponsored plan, is a plan providing an individual account for each participant that pays benefits upon retirement based on amounts contributed by the participant and/or the employer plus returns on investments.

Your Employer-Provided Retirement Benefits

Most people should expect a large share of their retirement income to be from their own savings and investments. As a public employee, you have a unique opportunity to supplement your retirement income. For example, you may invest pre-tax dollars through a 457 deferred compensation plan, such as the one ICMA-RC administers for hundreds of thousands of public employees. A 457 deferred compensation plan is a retirement investment plan that permits public employees to contribute to a investment account without paying income taxes on those investments or associated earnings until they are withdrawn. Deferred compensation should figure prominently in your overall retirement investing program.

For many retirees, the largest single source of post-retirement income is their employer-sponsored pension/retirement plan. Your pension/retirement plan may be in the form of either a defined benefit plan or a defined contribution plan. Your employer should be able to provide you with a summary plan description, and most can also help estimate the benefit you should expect. You will need to know how much income you can expect to receive from your pension when you retire and what payment options are available.

Most public sector employers offer pensions in the form of defined benefit plans, which use a formula to determine your first year's pension. These plans generally use three factors: years of service with the employer, the average of the highest one, three or five years' salary, and a percentage multiplier. For example, if your final average salary is $40,000, you have 20 years of service with the employer and your plan uses a multiplier of 1.5 percent, your first year pension could be $12,000 ($40,000 x 20 years x 1.5 percent = $12,000). If you are married, the pension you receive may be adjusted down to provide for two beneficiaries, not one.

Often the retiree will have several options for payment, depending on whether (and at what level) plan benefits are to be continued to a spouse after the death of the plan participant. The pension amount will be less for married retirees using the joint and survivor option (see text box on this page).

The Joint and Survivor Dilemma

Most of us think of a pension as regular monthly payments over the single life of a retiree. Qualified retirement plans must provide at least a 50 percent ***joint and survivor pension option*** to assure that a retiree's surviving spouse continues to have pension income equal to at least 50 percent of the benefit received prior to the retiree's death. Public pension plans typically offer several joint and survivor options. The retiree's spouse may be required to give written consent for the single life option. Your retirement income estimate should reflect the appropriate option.

If George Smith (from page 4), with his wife Martha's consent, chose to receive a single life pension of $1,510 per month, payments would stop at his death. Martha would receive only Social Security for which she is eligible and proceeds of George's deferred compensation savings. Instead, he elected a joint and survivor pension option that pays $1,208 per month. It will continue to pay a reduced amount to his wife should he die first.

How you decide your benefits are handled after your death depends on your expectations about your life span, that of your spouse, and other factors particular to you.

Some government plans also adjust payments for inflation, but many limit this cost-of-living adjustment, for example, to the lesser of 60 percent of the Consumer Price Index (CPI) or a maximum of 2%. The CPI is an index of prices used to measure the change in the cost of basic goods and services over time compared with a fixed base period.

With defined contribution plans, you as a participant have an individual account to which both you and your employer may contribute. The value of this individual account determines the amount of benefits which will be available. These plans may take the form of pension plans (money purchase plans) or profit-sharing plans such as 401(k) or thrift savings plans. Defined contribution plans typically allow participants to direct investment of their individual accounts among several options. The plans may have flexible payment options, providing for benefits in a series of equal or unequal payments or a lump sum.

The federal tax code requires a minimum annual distribution after age 70 1/2 from certain retirement accounts, including defined contribution plans and some Individual Retirement Accounts (IRAs). The distribution is calculated to deplete the account over your life expectancy or over a joint life expectancy of you and a named beneficiary.

Worksheet 1 will help you understand the features of your retirement plan.

Knowing What to Expect from Social Security

Though not all public employees qualify for Social Security retirement benefits, your eligibility for Social Security benefits should be factored into retirement planning.

The Social Security Administration (SSA) will estimate your retirement benefits on your "Social Security Statement". The SSA sends you this statement approximately three months before your birthday. You may want to request your own statement to reflect your expectations of your future salary and retirement age. To request an estimate call the SSA at 1-800-772-1213 or go to www.ssa.gov on the Web. Your benefits are determined by a complex formula based on your 35 highest years of lifetime earnings, when the earnings occurred, your birth date, and retirement date. Normal retirement age is increasing from age 65 to age 67 for those born after 1938. Retiring before your normal retirement age will reduce the Social Security benefits you can collect. Waiting until later may increase them.

The table on page 8 gives you an idea of the annual retirement benefit you could expect to receive (in today's dollars) at your normal retirement age. (You should use your estimate from the SSA on Worksheet 4.)

Special Issues Affecting Social Security Benefits

Working During Retirement

If you work prior to your normal retirement age while receiving Social Security benefits, your benefits may be reduced based on your earnings. You should check carefully to see how these rules affect your income.

Special Eligibility Rules

Even if you are not covered by Social Security in your government job, you may be eligible for Social Security benefits. In such cases, the benefits estimated on your Social Security statement will be wrong.

First, as the spouse of a covered worker, you may receive a benefit, but the normal amount may be reduced by $2 for each $3 in government pension you receive. See ***Government Pension Offset*** Social Security publication 05-10007 or go to www.ssa.gov/retire2/gpo.htm.

Second, you may qualify for Social Security from other covered employment. Your benefits may be figured under a modified formula that may reduce your ordinary benefits. See Social Security publication 05-10045, ***A Pension from Work Not Covered by Social Security*** or go to www.ssa.gov/retire2/wep.htm.

Medicare and the Public Sector Employee

Health care is increasingly costly to all. Those hardest hit are retirees, who spend twice as much on health care as the rest of the population.

Some employers continue eligibility for health insurance after retirement, and a few even pay for the coverage. However, this trend is declining.

Medicare, the federal health care program for individuals 65 and older, has two parts: Part A covers hospital expenses and is provided to you at no current charge unless your governmental employment was not covered by Social Security and you were hired before April 1, 1986. Part B covers physicians' services and other medical services and is provided to individuals receiving Social Security who are 65 and older unless the coverage is declined. Part B participation must be purchased and is available to participants who are not automatically eligible for Part A. Part D is an optional benefit to help pay prescription drug costs.

Since Medicare typically pays only about 50% of a retiree's health costs and provides virtually no long-term care protection, the Smiths plan to purchase additional health care coverage, either Medigap or Medicare+Choice insurance, to help make up the difference.

ESTIMATED MONTHLY SOCIAL SECURITY BENEFIT*
at Normal Social Security Retirement Age
(in year 2006 Dollars)

	PRESENT YEAR EARNINGS				
Age in 2006	**$30K**	**$40K**	**$50K**	**$60K**	**Max.**
60	$978	$1177	$1376	$1576	$2116
55	$1031	$1248	$1464	$1662	$2162
50	$1077	$1309	$1541	$1705	$2182
45	$1123	$1370	$1618	$1748	$2203
40	$1152	$1409	$1656	$1776	$2216
35	$1173	$1437	$1672	$1796	$2226

Notes:

1. This benefit estimate may differ significantly from the estimate received from Social Security, which is based on your actual work record. If available, use the estimate from Social Security or apply for your estimate by calling 1-800-772-1213 or going to **www.ssa.gov**.
2. If you get your benefits from Social Security earlier than your Social Security normal retirement age, your benefit may be reduced by as much as 30%.
3. If you will earn retirement benefits in a job not covered by Social Security your benefit will be figured with a different formula. See Social Security publication 05-10045, ***A Pension from Work Not Covered by Social Security***.
4. A spouse (and sometimes former spouses) may be eligible for an additional benefit equaling the greater of the amount calculated on his or her own work record or 50% of the higher earning spouse's benefit, adjusted for beginning age. Benefits for which you may be eligible, based on your spouse's work record, may be substantially reduced if you receive a pension from work not covered. See ***Government Pension Offset*** Social Security publication 05-10007.

"FULL" SOCIAL SECURITY**

Birth Year	Age "Full" Social Security Starts
1937 & earlier	65
1938	65 + 2 mo.
1939	65 + 4 mo.
1940	65 + 6 mo.
1941	65 + 8 mo.

Birth Year	Age "Full" Social Security Starts
1942	65 + 10 mo.
1943-54	66
1955	66 + 2 mo.
1956	66 + 4 mo.

Birth Year	Age "Full" Social Security Starts
1957	66 + 6 mo
1958	66 + 8 mo.
1959	66 + 10 mo.
1960 & later	67

*http://www.socialsecurity.gov/planners/calculators.htm
**http://www.ssa.gov/retirechartred.htm

Saving for Your Retirement

Saving for Your Retirement

Now that you have an idea of your retirement income from pensions and Social Security, let's compare this amount to what you will actually need when you reach retirement.[1]

Estimating Your Retirement Expenses

Worksheet 2 helps you estimate your retirement expenses. After completing it, you can compare your living costs today with the expected costs at retirement.

The starting point for understanding your retirement expenses is your current spending. Careful consideration of current spending can help you increase your savings.

Here are some factors to consider:

- Will you need to replace employer-provided benefits such as life or medical insurance?
- Will both you and your spouse be eligible for Medicare immediately on retirement, or will you need to provide other coverage in case of a delay in eligibility? How would you pay for long-term care (nursing home) needs?
- Will you have paid off your mortgage? In your area, have there been increases in the carrying costs of your property such as taxes, property insurance, utilities, and upkeep?
- Can you get by with less life insurance, especially term insurance that tends to become costly in retirement? Would it make sense to use the cash value of an old insurance policy, considering the tax consequences?
- Will you have new expenses for retirement activities such as travel, sports, or hobbies?
- Will you have financial responsibilities to dependents or elderly parents?
- Do you plan to make significant charitable or family gifts?
- If you plan to move, especially to another area, have you researched costs? Have you provided funds for trips to visit family and friends "back home"?
- Do you have funds to meet emergencies or to maintain purchasing power of your income over time?

The example of the Smith family on Worksheet 2 shows how these considerations may affect retirement. The Smiths completed a retirement budget even though they still have 10 years to retirement.

Inflation

One of the most serious financial issues for retirees is the effect over time of inflation on income and expenses. Inflation is a measure of how much purchasing power your dollar loses over time.

At a modest 3% inflation rate, the purchasing power of a fixed $30,000 annual retirement income will gradually erode to the equivalent of just $14,000 in purchasing power over 25 years. Even at that low inflation rate, an item costing $10 today will cost over $20 after 25 years.

George Smith's government pension will be inflation-adjusted by one half the rate of inflation, e.g., if inflation rises by 4%, his pension will be adjusted by 2%. To protect against this potential shortfall, they will save about 8 percent of George's monthly pension distribution during the first years of retirement. They would have to save even more if George's pension was not inflation-adjusted.

If you believe inflation will return to higher levels, your plan must accommodate an even greater impact.

[1] *See Disclosure on the back cover.*

Seeking a Balance

Worksheet 3 shows the Smiths' balance sheet. They are satisfied with their net worth, but realize in their retirement investing planning they must increase their assets available at retirement. So they decided to accelerate payments on their mortgage, with the goal of paying it off by the time they retire in 10 years.

In doing so, they accept the increased income taxes they will pay due to the faster reduction of their mortgage income tax deduction.

Preparing Your Personal Balance Sheet

You have determined your retirement expenses as well as the income you can expect from pensions and Social Security. Now let's see what other funds you have available for retirement and what your long-term debt looks like.

Using Worksheet 3, list the current market value of what you own and what you owe. After you subtract your liabilities (financial obligations or debts) from your assets (anything owned that has a financial value), you will know your net worth. Drawing up a new balance sheet each year helps you track your progress toward your retirement goals.

Take a look at your list of assets:

- Do you have an emergency fund equal to at least 3 months expenses?
- Have you earmarked specific assets as retirement savings?
- Are your assets invested in a variety of ways (that is, are they diversified), or do you have too many of your investment "eggs" in one investment "basket"?
- Do these investments reflect your need for reasonable return, or are you depending too much on low-interest savings accounts? Or, are your investments too risky for your comfort?

Now look at your liabilities:

- Are you comfortable with the amount of debt that you are carrying?
- What can you do to reduce your total debt?
- What can you do to pay off your debts (or reduce them substantially) by the time you retire?

Worksheet 3 will help you figure out your net worth, just as the Smiths did.

Putting it all Together

You have assembled the information you'll need for your plan. Let's put it together and see how close you are to meeting your retirement income goals. Worksheet 4 helps you do this. Remember to use current value dollars. The effect of inflation is already taken into account.

- On line 1, put in the annual income you think you will need in your first year of retirement. Use the figure you calculated on Worksheet 2.
- On line 2, put in the annual amounts you expect from your defined benefit pension plan(s) and/or Social Security. Your defined contribution and deferred compensation balances will go on line 8.
- Line 3 (line 1 minus line 2) is your retirement income gap, the additional income you will need to meet your retirement income objectives.
- On line 4, put in the inflation factor from Table I, found on the inside back cover. The left side of the table lists the number of years until you retire. Across the top are several possible rates of inflation. Determine where your number of years to retirement meets your expected rate of inflation. This is your inflation factor.
- Multiply line 3 times line 4 to get line 5. This is the value of your retirement income gap after inflation.
- Line 6 helps you determine the amount you'll need to save each year to close your retirement income gap. Use Table II to find your payment factor. On the left side is the number of years you will be getting payments. On the top is the expected rate of earnings on your investments. *This table assumes a 3 percent annual increase in your payments to protect the purchasing power of your investments from inflation.*
- Line 7 (line 6 times line 5) is the total amount of investments you will need when you retire.
- On line 8, put in your current retirement savings including defined contribution plans and section 457 deferred compensation balances, IRAs and other assets available for retirement.
- On line 9, insert a savings compounding factor from Table I. Line 10 (line 8 times line 9) estimates the value of your current investments at retirement.
- Line 11 (line 7 minus line 10) is the amount of additional investments you'll need at retirement. Line 11 is your savings gap.
- Use line 12 and Table III to help figure what you will need to save today to meet that goal. On the left side of the table is the number of years until you retire. Across the top is the expected rate of return on your tax-deferred savings account.
- On Line 13, multiply line 11 by line 12. This is the amount you must save annually to reach your retirement goals.

"What if…" Planning

Use Worksheet 4 to do "what if" planning, trying out various retirement planning assumptions.

It is a good idea to make a few copies of the blank worksheets so you can try out several combinations of assumptions.

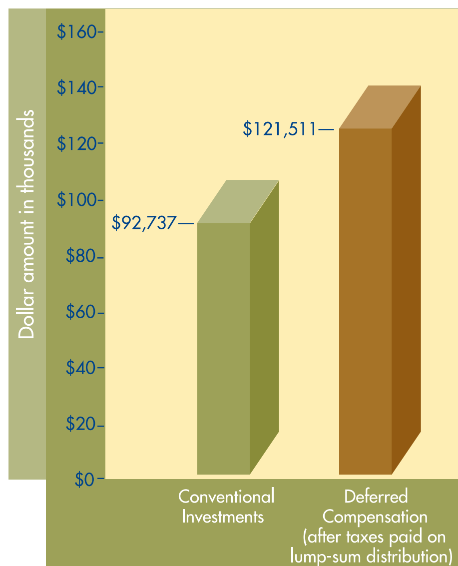
The first time the Smiths went through this worksheet they discovered that meeting their retirement goals would require adjustments to their plans. They used Worksheet 4 to do "what if" planning, trying several combinations of assumptions about their planned date of retirement, amount invested and expected earnings on those investments.

Rather than delaying their planned retirement date, the Smiths discovered that by investing just a bit more now and shifting their investments to a more aggressive portfolio, they can expect to be able to retire with their desired income as they planned.

If you are married you will benefit from completing Worksheet 4 three times, once for each spouse individually, as a survivor and once jointly.

You can also use the retirement income calculator on the ICMA-RC Internet site to do "what if" planning. Visit **www.icmarc.org**.

Advantage of Tax Deferral



In the example above, George Smith deferred $200 per month of his gross income into a 457 plan over 25 years. George's co-worker, also using $200 per month, has $150 after taxes each month to invest. By investing through a 457 plan, George Smith has 29 percent more at retirement than his co-worker who saved in a conventional investment plan. The retiree who uses a 457 plan could have both a higher living standard and better financial security than the person who uses only conventional investing methods.

Assumes you contribute $200 monthly, earn 7% and are in the 25% pre-retirement tax bracket.

Deferred Compensation: $200 per month saved for 300 months earning 7% annually = $162,014. Less lump-sum tax at 25% = $121,511.

Conventional Investments: $200 per month after tax at 25% = $150. $150 per month invested for 300 months, which provide earnings of 7% annually which are taxed at 25% = $92,737.

For illustrative purposes only. Actual results may be higher or lower. Past performance is not indicative of future returns.

Achieving Your Retirement Investment Goals with Deferred Compensation

The investing calculation discussed above assumes that you use a tax deferred plan to invest, such as deferred compensation. A 457 deferred compensation plan allows public employees to invest before taxes are deducted. Not only is this money saved before taxes, but earnings that accumulate on your deferred compensation investments are tax-deferred. The impact of this tax deferral is substantial, compared to traditional after-tax savings.

An IRA May Be A Complement To Your Retirement Plan

An Individual Retirement Account (IRA[2]) is a tax-deferred account that allows you to build assets for your retirement. Both you (and your spouse) may contribute to an IRA every year that you have earned income, regardless of your participation in pensions or deferred compensation. Depending on your income, eligibility to participate in a pension plan and type of IRA, contributions may be pre-tax or after-tax.

One of the primary benefits of an IRA is that your investment's earnings compound tax-deferred. Other potential tax benefits are tax-deductible contributions or, in the case of the Roth IRAs, tax-free withdrawals.

Your retirement plan, personal investments and Social Security may provide only part of the income you'll need at retirement. By opening a Vantagepoint IRA with ICMA-RC, you may be adding an important component to your retirement income sources and build for a more secure future.

ICMA-RC offers Vantagepoint Individual Retirement Accounts (IRAs) to public employees and their family members in addition to the retirement investing plans it provides to public sector employees. The expanded lineup of ICMA-RC investment vehicles means investors will have an additional low cost method of investing for retirement that may complement your current retirement savings plan. Opening a Vantagepoint IRA is easy. Just click on www.icmarc.org/ira and use the IRA Wizard.

[2] *See Disclosure page 42.*

Revising Your Retirement Goals

As a result of this retirement planning process, the Smiths now know where they are headed financially and what they must do to get there. But they, like you, need to monitor and update their retirement program to account for changing circumstances. The closer you are to retirement, the more often you will want to review your objectives.

You may find that some adjustments to your objectives and action plans are needed to assure that your goals are realistic and attainable.

1. Look again at your balance sheet. Are there assets available that you can earmark for retirement savings now? Do you have other assets, such as part of the equity in your home (if you plan to rent or purchase a less expensive retirement home), or cash value life insurance?

2. Examine how your investment portfolio is allocated among investment types. Could you invest some of your savings in ways that may improve your rate of return consistent with your personal risk tolerance? (The next sections of this booklet discuss retirement investing.)

3. Can you adjust your retirement date? Even one more year of working may help you boost your savings significantly. Your pension and Social Security benefits will continue to grow, too.

4. Consider using the 457 deferred compensation plan "catch-up" provision. Call Investor Services at 800-669-7400 to see if you are eligible to save more in the three years before you are eligible to retire. This additional amount will continue to work for you during your retirement, improving your retirement income.

5. Review your current spending. Most of us can save more than we think, especially if we commit to a regular payroll investment plan.

6. Review your retirement budget estimate. Are there expenses you have over or under estimated?

7. Check your retirement income estimate. Have you included both spouses' pensions and Social Security?

8. Consider part-time work during the first years of retirement. The extra income will be helpful, and many retirees find that part-time work helps ease adjustment to a new retirement lifestyle. Beware that earned income after retirement can affect Social Security (before your "full" Social Security retirement age) and other retirement income.

9. After you have reached the maximum contribution level in your 457 plan, consider other tax-deferred investment vehicles. Although IRAs may not be pre-tax for you, the income is deferred and in the case of a Roth IRA, may be entirely tax free.

10. Contribute to an IRA for an additional retirement income investment account.

Understanding Investing

Now that you have set goals, gathered your data and done the basic savings calculation, the next steps are to save and invest.[1]

Personal Investing Principles

Government statistics show that 60 percent of the average retiree's income comes not from pensions or Social Security, but from his or her own savings and investments and post-retirement work.

Investing requires discipline. Investing requires knowledge and patience. A retirement investing plan is one of the most important approaches you can take to assure your retirement security. Here are eight saving and investing tips to guide you:

Don't Dip Into Your Retirement Account

Regardless of the type of retirement plan in which you participate, you should reserve those invested assets for your retirement.

Although some types of plan assets may become available if you change jobs, don't draw upon them at that time if at all possible. You may regret your decision when it comes time to retire.

1. **Use a payroll deduction plan to "pay yourself first".** By having a regular amount taken out of your paycheck, investing is automatic. You may be surprised how little you miss the saved money.
2. **Understand your tolerance for taking investment risk.** If fluctuations in the value of your investments make you uncomfortable, you may be better off with a lower risk alternative, even though the longer term return may be less.
3. **Invest in what you understand.** Do not hesitate to ask questions. Find out about all fees and charges for buying, maintaining, redirecting, and getting your money out of an investment. Read all disclosure documents, including the prospectus, which are associated with the investment.
4. **Invest a regular dollar amount each month.** This way you take advantage of what professional investment advisers call "dollar cost averaging", acquiring more of a security when the price is low. This method is especially important when you direct your savings to higher risk/higher return investments such as stock funds.[3]
5. **Diversify.** By investing in more than one fund option and type of asset, you may reduce investment risk over time.
6. **Especially for retirement investing, invest for the long haul.** Some of the best long-term investments may have the greatest volatility in the short term. So use the "buy and hold" strategy rather than trying to outguess short-term changes in the market.
7. **Maximize your tax-deferred investing.** By deferring income taxes, you earn money on the full pre-tax amount, not just the amount left over after you pay taxes. Consider the benefits of an IRA, too.
8. **Use the power of time.** The first dollar you invest will have more time to grow and will be worth far more than the last dollar saved.
9. **Rebalance.** Annually restore the balance among funds and asset classes to assure that your portfolio continues to reflect your risk tolerance as it changes.

A deferred compensation program lets you take advantage of all of these investing tips.

[1, 3] *See Disclosure on page 42.*

Risk and Reward

Risk measures the uncertainty of the timing and volatility of return on a given investment. No investment is entirely risk-free. But with the right tools and information you may be able to manage risk.

Risk and reward usually go hand in hand. An investment with greater risk, or uncertainty, has the potential for greater long-term reward. Lower-risk investments that offer you more comfort day-to-day could lead to disappointment at retirement, especially if the returns do not out-pace inflation. As is shown on this page, stocks historically have far outpaced long-term government bonds, short-term Treasury bills and inflation.

While the line representing stocks rises dramatically, its short-term moves are very uneven. On the other hand, the historical line for short-term Treasury bills is smooth—but barely beats inflation.

Your challenge is to match your financial goals with the level of risk you're willing to accept over various periods of time.

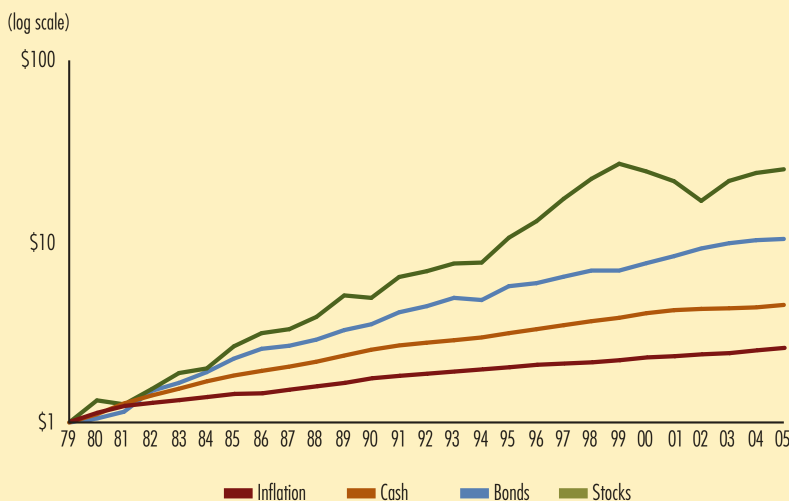
Over the long term, the stock market consistently outperformed every investment vehicle represented on the illustration here.

The graph at right shows the growth of $1 invested in four different asset classes in December 1979. After 26 years, $1 would have grown to $25.04 if it had been invested in stocks. But, $1 invested in Treasury bills would have only grown to $4.46.

The S&P 500 is an Index of 500 Stocks, a widely recognized, unmanaged index of common stock prices. The U.S. Long Term Government Bond index represents securities 10 to 30 years in maturity. A fund's portfolio may differ significantly from the securities held in the indices. Indices are not available for direct investment; therefore their performance does not reflect the expenses associated with the active management of an actual open-ended investment company portfolio.

Stocks, Bonds, Cash and Inflation

26 Years Ending December 2005



Stocks represented by the S&P 500 Index; Bonds represented by U.S. Long Term Government Bond Index; Cash represented by 30-Day Treasury bills.

Past performance is no guarantee of future results.

Source: Ibbotson Associates, Chicago. Used with permission. All rights reserved.

Focus on the Long Term

Consider Your Time Horizon When Investing

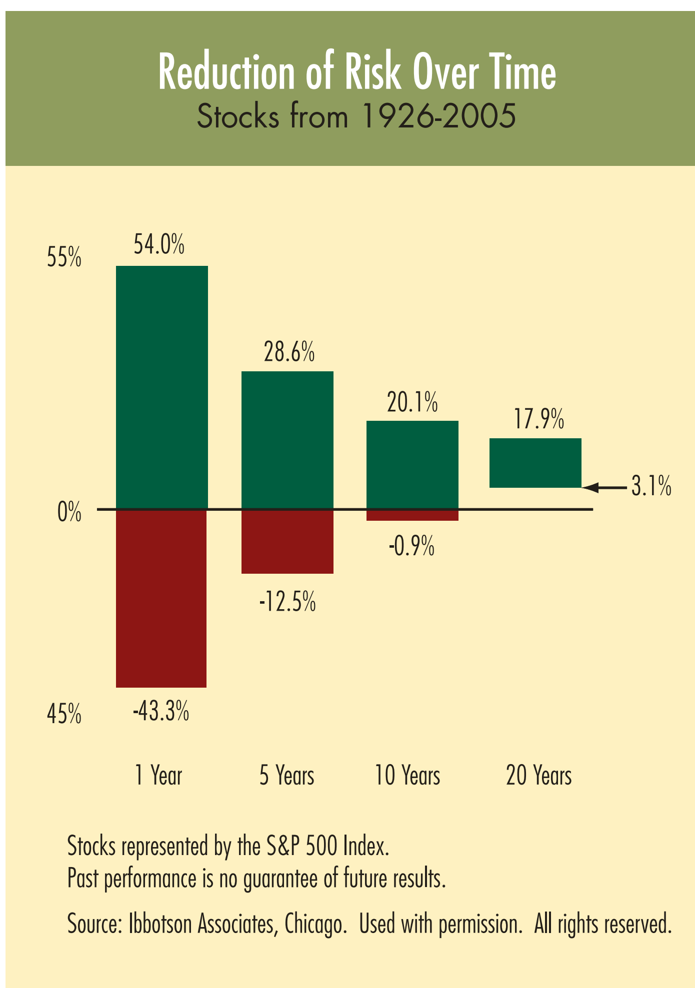
It's important to match your time horizon with your investments. If you'll need some of your retirement savings soon, you should invest that portion so that its value won't fluctuate much over the short term.

However, if you have five or more years until you must withdraw all or a portion of the assets, you should consider investments with more risk.

While volatility is always a concern, time reduces its impact. Some studies have shown that as the holding period of an investment increases, its average annual return becomes more predictable.

That's especially true for common stocks. Investors who held stocks for one-year periods since 1926 received returns ranging from a 54% gain to a 43% loss (see chart below). But historically those who held stocks for 20-year periods (1926-1945, 1927-1946...) averaged as much as 18% and never less than 3% gain,.

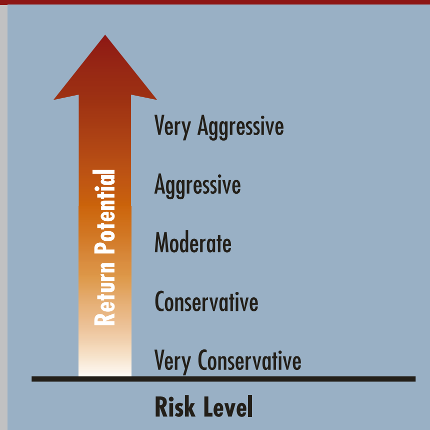
Additionally, accepting greater risk and holding that investment over a long period of time could pay off handsomely. Suppose you invested $4,000 and earned 4%. After 20 years your account would be worth $8,764. But if you earned 7% over that same period, the same investment would be worth $15,479. Time and compounding may be able to work for you.



Each bar shows the range of compounded annual returns for the S&P 500 Index for varying holding periods from 1926–2004.

Investors who held stocks for one-year periods since 1926 received returns ranging from a 54% gain to a 43% loss (see chart to the left). But those who held stocks for 20-year periods (1926-1945, 1927-1946...) averaged as much as 18% and never less than 3%.

The S&P 500 is an Index of 500 Stocks, a widely recognized, unmanaged index of common stock prices. A fund's portfolio may differ significantly from the securities held in the indices. Indices are not available for direct investment; therefore their performance does not reflect the expenses associated with the active management of an actual open-ended investment company portfolio.



Sources of Investment Risk

Let's explore some of the types of investment uncertainty.

Inflation Risk

Inflation risk is sometimes called purchasing power risk because inflation reduces what your money can buy. If your investments consistently earn less than inflation, your money buys less. For example, if you invest in securities that earn 3% and inflation is rising at 4%, you actually lose purchasing power. The only way to beat inflation is to earn greater returns on your investments.

Market Risk

Securities traded in the public markets change in value every day. These price swings can be caused by factors beyond the control of the company's management. For example, the market as a whole may react to political developments at home and abroad, investment fads, tax code changes, rumors, investor reaction to economic news or a shift in market psychology.

Security-Specific Risk

How the market values the securities of a particular company also depends a great deal on factors unique to that company. If you own shares in a company with disappointing earnings or whose only factory burns down, you can anticipate that the stock's price will fall. Security-specific risk is reduced considerably by investing in diversified funds that include securities of many different firms and types of businesses.

Credit Risk

Credit risk refers to the ability of individual bond issuers to repay principal and interest to the bondholder. The greater the risk of default, the higher the yield on a bond. Among bonds of comparable maturities, U.S. government issues offer the lowest yield because of their credit safety.

Interest Rate Risk

Changes in interest rates affect the value of marketable interest-sensitive investments, such as bonds, high-dividend stocks and short-term securities. When interest rates rise, bond prices drop and vice versa. The longer the period until an issue is due, the greater impact changing interest rates will have on the bond's value. When investing in bonds, you should consider total return (appreciation or depreciation of the principal plus interest) rather than just interest income.

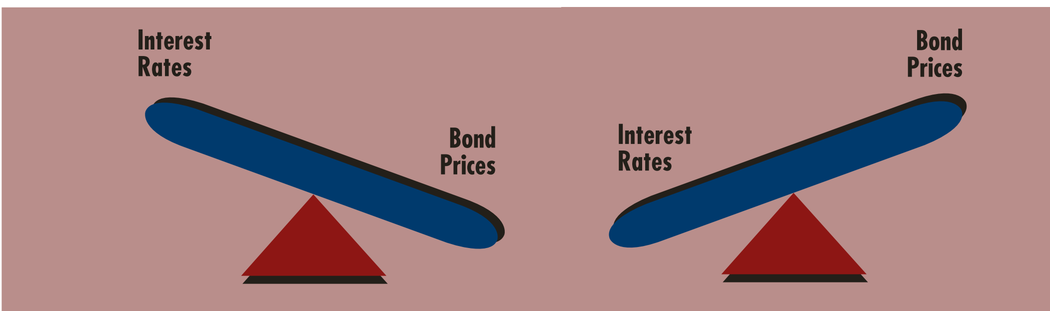
Currency Risk

In international stocks and bonds, the value of the investments must be translated between currencies. Because currency values fluctuate with respect to each other, the value will reflect these changes. Country diversification and time help to moderate this risk.

Bond Prices and Interest Rates: an Inverse Relationship

Bond prices rise and fall inversely to interest rates. An investor won't pay full price for a bond yielding 6% when a similar newly issued bond is paying 9% interest. The market will mark down the price of the 6% bond.

At the same time, an investor would be willing to pay more for a bond yielding 9% when newly issued bonds are yielding 6%. Investors who buy and sell bonds can make or lose money on the value of the bonds depending on the movement of interest rates.



The Benefits of Diversification

We all know the saying "Don't put all of your eggs in one basket". Experienced investors know this to be particularly important.

If you place all of your money in the stock of a single company and that company fails, you could lose your entire investment. But if you invest in many companies, you may reduce the potential for loss due to any single company. Similarly, spreading your assets among stocks, bonds, other classes of investments and different managers, helps even out the short-term ups and downs as your money grows over time.

How you mix your investments will have a great impact on your long-term returns. By combining investments that react differently to market conditions, inflation and interest rate changes, you may be able to protect against down-side risks, while you attempt to maximize your potential for return.

Additionally, a fund that uses multiple professional investment managers with different investment styles offers a greater level of diversification. That's because investment styles, like asset classes, react differently to market conditions. This is the approach ICMA-RC uses in its actively managed Vantagepoint Funds.[2]

[2] *See Disclosure on page 42.*

Common Investment Terms

Interest
The amount a borrower pays the lender for the use of the lender's money. The rate of interest varies by the length of the loan, the assurance that the loan will be repaid and the rate of inflation, which diminishes the value of the interest payments and the repayment of principal. The "real" interest rate takes into account how much interest remains after inflation.

Principal
The amount of money you put into an investment. It does not include appreciation, dividends or interest.

Dividends
The portion of a company's profits paid to shareholders.

Total Return
The amount of interest or dividends your investment earns plus any increase or decrease in principal.

Volatility
An investment's volatility refers to how much and how often its price changes. Common stocks, whose price can change sharply, are said to be more volatile than bonds.

Earnings
The profit a company makes after all expenses are deducted from revenues. Companies often distribute a portion of the earnings to shareholders in the form of dividends.

An Example of Dollar Cost Averaging

MONTH	AMOUNT INVESTED	PRICE/ SHARE	SHARES PURCHASED
JANUARY	$600	$20	30
FEBRUARY	$600	$30	20
MARCH	$600	$24	25
APRIL	$600	$40	15
TOTAL	**$2,400**		**90**

Average Share Price = $28.50
The average share price equals the total of the price per share for four months ($114) divided by the number of months (4), for an average of $28.50 per share.

Average Cost Per Share Price = $26.67
The average cost per share price equals $2,400 divided by 90, or $26.67 per share.

Your Savings: $1.83 Per Share
You've reduced your cost through dollar-cost averaging by $1.83 per share.

Not an actual account. For illustration purposes only. Past performance is not indicative of future returns.

Steady Investing Pays Off

Patience is the Best Way to See a Return on Your Investment

Trying to outguess the stock and bond markets by frequently shifting money between types of asset classes (e.g. stocks to cash, bonds to stocks) is very difficult, even for seasoned professionals using sophisticated techniques.

Attempts to time the market probably won't help you very much since securities markets are unpredictable and often move in short, powerful bursts. Successful market timing requires not only moving out at the right time, but also deciding when to move back in. It's better to be patient, recognizing that short-term market changes are far less important than long-term trends.

The two-year period during 1973-74 provides a good illustration of the benefits of patience. During this period, the market, as measured by the Standard & Poor's 500 Stock Index, fell 37%. But selling then would have been a mistake. Despite the steep decline during this bear market, staying with a $1,000 investment in stocks made in 1973 resulted in a $26,893 "harvest" at the end of 2003. Those who sold out at the bottom of the market and invested in safer Treasury bills would have earned only $6,831.

Dollar-Cost Averaging*

When making contributions to your account, you should consistently invest the same amount of money on a regular basis regardless of market fluctuations. This is called dollar-cost averaging.

When the price of a share of a stock or fund is low, your contribution buys more shares. Conversely, when the price is high your contribution buys fewer shares. Over time, this system tends to reduce the average cost of your shares. Dollar-cost averaging is especially important when you are investing in more volatile investments, such as stock funds.

Regular investing through payroll contribution to your 457 deferred compensation program, 401 defined contribution plan, or IRA is one of the ways to take advantage of volatile markets through dollar-cost averaging.

**Dollar cost averaging does not assure profit or protect against loss in a declining market. Since dollar cost averaging involves continuous investing, regardless of fluctuating prices, investors must consider financial ability to continue to invest during low price levels.*

Investment Options

Diversified Funds

One of the greatest advantages of investing in a mutual fund is diversification. By pooling the money of many investors, a fund can buy many securities in a variety of industries, companies and locations.

Another advantage of a fund is professional management. Most individuals don't have the time or the expertise for research and daily monitoring. Through funds, individual investors "hire" professionals to research basic trends in the economy and assess how specific securities will be affected by those trends. Fund managers draw on this information for their buy and sell decisions for their portfolios.

By working with large amounts of money, these professionals purchase large blocks of securities at reduced commission rates, have greater access to corporate management and use the latest technology to help them make investment decisions.

Stock Funds

Stock funds reflect the share price of the stocks held in the fund along with the reinvestment of any dividends paid.

Some of the factors fund advisers consider in selecting stocks are new products, the business environment, projected future earnings and growing dividend payouts.

Certain funds concentrate on specific factors. A growth stock fund seeks companies with strong earnings growth while an equity income fund looks for strong dividend history. International funds expand their search to overseas companies.

Bond Funds

Bond funds offer many of the same advantages as stock funds. Professional managers select bonds from a variety of issuers, which reduces the impact if an individual company fails to repay its debt. Bond funds also diversify among different maturities and types of bonds, so prices may fluctuate less when interest rates change.

Making judgments about bonds requires a great deal of expertise and information. Most bonds are not traded like stocks on exchanges, so negotiating for good prices is essential. Through bond funds, individual investors benefit from the skills of professionals.

Investors in bond funds should understand the close relationship between total return (interest payments plus appreciation or depreciation of principal) and changes in interest rates. Bond funds lose value when interest rates increase and rise in value when interest rates fall. Short-term bonds fluctuate less than long-term bonds.

What is a Stock?
Stock represents ownership interest in the issuing company.

Owners of common stock are entitled to dividends, if paid by the company.

Investors buy stock for two reasons: they want the income from the dividends and they believe the value of the company will rise and be reflected in the share price.

What is a Bond?
Bonds are loans–and the bondholder becomes a creditor. Whenever an investor buys a corporate bond, he or she is actually lending money to a company, or in the case of a Treasury security, lending to the U.S. government.

U.S. government bonds are backed by the full faith and credit of the federal government, so there is minimal risk of default. Corporate bonds are backed by the issuer, so default risk is greater than it is for government bonds, but minimal if the company is strong. Bond funds–even those that invest exclusively in government bonds–are not technically federally guaranteed and may experience risk to principal.

Common Investment Terms

Asset Classes
The different types of investments available to investors. The three principal classes are stocks, bonds and cash.

Asset Allocation
How your investments are divided among the different asset classes to obtain the best risk/return trade-off.

Diversification
The investment technique of spreading risk among securities and asset classes.

Portfolio
A grouping of your investments. You can think of all of your individual stocks as a portfolio. You can also think of the combination of all of your different investments–stocks, bonds, etc.–as part of a total portfolio.

Because bond funds often act differently than stock funds during a given economic period, they can help diversify a total portfolio. Most bond funds carry less risk than stock funds, but they have also historically produced lower returns.

Bond funds are not federally guaranteed, even if they invest only in government bonds. All are subject to gains or losses due to fluctuating interest rates. Government bonds, though, carry minimal credit risk.

Short-Term Bond Funds

Short-term bond funds invest in debt that matures within three years.

The value of the funds does not generally fluctuate much because there is less uncertainty about what can happen to a bond over two years than over 30 years.

Investors use these funds when they believe they will need the assets soon.

Balanced/Asset Allocation Funds

Balanced funds invest in a mixture of stocks, bonds and cash. Their goal is to balance volatility and return by blending capital appreciation from stocks with steady income from bonds and cash. The mix of the balanced fund remains relatively unchanged over time although the securities in the fund may be actively traded.

By contrast, asset allocation funds regularly alter the blend of stocks, bonds and short-term cash investments.

Professional asset allocation managers use sophisticated tools to shift money among asset classes in response to changing market conditions. The managers attempt to reduce overall risk while achieving returns equal to the fund's investment objectives.

Capitalization

Market capitalization is determined by multiplying the price of a stock by the number of shares outstanding. So, for example, a company that trades at $50 per share and has 100 million shares outstanding would have a market cap of $5 billion. Generally speaking, small-cap companies have a market capitalization of less than $1 billion. Mid-cap stocks are generally between $1 and $8 billion, and large-cap are over $8 billion. Historically, smaller capitalization companies exhibit higher volatility than larger companies. Generally large, mid and small capitalization stocks cycle in and out of favor over different intervals. Since it is impossible to predict with any accuracy who tomorrow's leader will be, it is important to build a portfolio providing exposure to stocks of all sizes.

Growth vs. Value

Value and growth can be used to describe companies, stocks, or mutual funds. However, the value style of investing is not the opposite of the growth style, but rather a different investment approach. A growth stock represents a company whose earnings are expected to grow faster than the average growth of the stock market itself. A value stock, as a term used in the financial markets, means that the market does not recognize the true potential of a company and its assets.

Characteristics of a value stock include:

1. ***Low Price*** – its price relative to earnings, dividends, total asset value, or the market as a whole is usually low;
2. ***High Dividend Yield*** – A stock's dividend yield is its' annual cash dividend divided by its price. The lower the price, the higher the yield; and,
3. ***Generally Lower Volatility*** – The fact that prices of value stocks are already low means they usually do not have as far to drop in a downturn. In addition, the dividend cushion acts as another potential insulating factor.

Characteristics of a growth stock include:

1. ***High-Price*** – Investors are usually willing to pay a premium for the fast earnings growth;
2. ***Low Dividend Yield*** – Fast-growing companies need money to pay for expansion and typically reinvest any excess earnings in their own operations; and,
3. ***Relatively High Volatility*** – Since investors pay a premium for growth stocks based on projected earnings expectations, failure of companies to deliver these earnings expectations can cause negative market response.

In the end, the decision to invest in either growth or value types of funds is very personal. Much of that decision depends on your individual investment objectives and unique financial situation, including your time horizon and risk tolerance.

Price/Earnings Ratio

One of the most useful measures to apply when comparing equity investment opportunities is the Price/Earnings ratio, or P/E ratio.

The following hypothetical example illustrates how to use P/E ratios to identify whether a stock has either growth or value characteristics, based on its price and earnings.

If a company earns $2/share and is selling at $20/share, its P/E ratio is 10. (20/2=10) This is also sometimes referred to as a stock's earnings multiple. If the P/E of the market was running at an average of 20-25, then this may be considered a value stock.

If a company earns $2/share and is selling at $100/share, its P/E ratio is 50. (100/2=50) This would be an example of a growth stock.

Index Funds and Specialty Funds

An index fund seeks to provide similar if not identical risk and return characteristics to a specific market index, such as the S&P 500 Index. It does this by holding the same securities in the same proportion as the index it seeks to replicate. In contrast, an active fund's manager has complete control over what securities the fund owns and when securities are bought and sold. An index fund manager simply owns the index. Indexing is a passive investment strategy. A primary benefit to this approach is reduced fees relative to non-index funds. This is due to the low turnover in the Fund and lack of research costs.

A specialty fund invests in one specific segment of the total market.* Sector funds may focus on one of the following segments of the equity market: communications, financials, health care, natural resources, precious metals, real estate, technology, or utilities. A high-yield bond fund or an emerging markets fund will also pinpoint a small area in which to concentrate. Very high returns are often the attraction to specialty funds. The prospect of high returns also brings the likelihood of large losses showing the extreme risk of investing in an undiversified portfolio. The standard deviation, a common risk measure, of the average technology fund is more than double the S&P 500's. Keep clear of sectors that are already outperforming the total market. By the time a fund is hot enough to catch investors' attention, it may already be close to peaking. Investors chasing such hot funds often end up losing money as they tend to buy near the top of a cycle. If you do choose to add a sector fund to your portfolio, some financial advisors suggest that you limit your allocation to any one sector to no more than 10%. Total sector fund allocation should probably not exceed 25% of an otherwise diversified portfolio.

**Funds that concentrate investments in one industry may involve greater risks than more diversified funds, including greater potential for volatility.*

Multi-management

A typical mutual fund is managed by one or more investment professionals who are employees of the Fund company. The Vantagepoint Funds' structure differs from this run-of-the-mill single-manager mutual fund. Our professional staff does not select individual securities held in our funds. Rather, we search the marketplace for nationally recognized portfolio managers available and hire them as subadvisers. We manage the managers.

Additional benefits of this independent, multi-management strategy include:

Diversification – A multi-manager fund is more diversified than the portfolio of any single subadviser.

Consistency – While a single manager may produce superior long-term performance, short-term volatility is usually higher. Some multi-management funds have delivered historically competitive and steadier returns than if any one of the same managers had been used exclusively. ICMA-RC has historically been able to retain these competitive fund managers, many of whom are not otherwise accessible to retail investors. In addition, by pooling plan assets, we are able to negotiate lower fees for our participants.

Stable Value Funds

Stable value funds buy stable value contracts from financial institutions. The funds provide only interest on your investment.

Stable value contracts resemble bonds because they have a fixed face value and pay a predetermined rate of interest. However, they cannot be sold in a secondary market and therefore do not "enjoy" the liquidity found with individual bond issues and bond funds. Therefore, stable value funds do not have a market value and do not fluctuate in price.

Although stable value contracts have no market risk, inflation risk is a major concern, because there is no chance for price appreciation.

What is a Stable Value Contract?

A stable value contract is a contract between the buyer and a financial entity, usually an insurance company, that promises to pay a specific rate of return on the invested assets over the life of the contract.

The contracts are backed by the strength of the issuing financial institution and are not otherwise guaranteed.

The contract cannot be sold, and therefore its value does not fluctuate with the market.

What Type of Investor Are You?

As a participant in a retirement investment plan, you have already recognized the need to build your retirement nest egg. By reading this brochure you have a better understanding of some basic principles of investing.

Now you must decide how you will invest for the future.

Critical to your success is how you weigh your objectives against your ability to accept uncertainty of investment results.

You must match your goals with the amount of risk you are willing to accept. If you shy away from greater risk, you may need to adjust your retirement income expectations.

Time is also an important consideration. If you will need your assets relatively soon, you may want to assume less risk. On the other hand, when you have a longer investment horizon, you should consider accepting greater risk.

Now you must make the decision of how to allocate your investments, consistent with your attitudes toward risk and investing.

Thinking About Your Situation

Choosing investments for your retirement plan requires careful consideration of your personal situation and preferences.

To help you in this process, complete the Personal Investment Profile to identify two key decision factors: your investment time horizon and your attitude toward investment risk.

Time Horizon...

or how long do you have to invest for retirement?

Personal Investment Profile

Factor	**Write Answers Below**
How many years remain before your planned retirement?	______ Years
After you retire, how long will you be withdrawing funds from your defined contribution account?	+______ Years
	=_____ Total Years

Assessing Your Time Horizon

Total Years

0	3	6	15	25	40 or more

Conservative **Moderate** **Aggressive**

By matching your total years on the time horizon to the risk spectrum, you can begin to build a portfolio to fit your needs. Remember this is only one consideration in your investment process.

Personal Risk Profile

How comfortable are you with investment risk? For each set of statements, consider which one sounds more like you—the one on the left or the one on the right. Circle the number that best describes where you fall between the two statements.

My primary goal is to protect my retirement savings. I am most concerned about not losing what I have and I am not willing to accept any market risk, even to keep up with inflation.	1 2 3 4 5	My primary goal is to maximize my retirement income. I am willing to take on sufficient investment risk to do so.
I would worry over short-term investment declines, even if I didn't need my retirement savings for 20 years.	1 2 3 4 5	I wouldn't worry about short-term investment declines, because I expect there to be growth potential in five- or 10-year holding periods.
If the stock market dropped dramatically tomorrow, I'd probably take my losses and pull my savings out of stocks to keep from losing more money.	1 2 3 4 5	If the stock market dropped dramatically tomorrow, I'd probably put more of my money into the market, to catch it before it moves back up.
I would be upset if my quarterly financial report showed a loss.	1 2 3 4 5	A loss on my quarterly financial report wouldn't bother me, as long as I had plenty of time until I needed my savings.
I would prefer a conservative investment that kept me from losing money in a market downturn to a riskier investment with higher returns.	1 2 3 4 5	I would prefer an aggressive investment with the potential to earn a lot of money over a 10-year or more period to an investment offering more stability.
I wouldn't invest in a start-up company, even one with a promising idea. The risk of losing my entire investment is just too great.	1 2 3 4 5	I'd invest in a start-up company if it had a promising idea. I'm willing to take some chances to earn a good return.

Assessing Your Risk Profile

Risk Spectrum

Conservative	Moderate	Aggressive
If your answers are mostly 1s and 2s, you're at this end of the risk spectrum with a low risk tolerance.	If your answers are mostly 3s, you're in the middle of the risk spectrum.	If your answers are mostly 4s and 5s, you're at the aggressive end of the risk spectrum with a high risk tolerance.

For an interactive analysis more tailored to your specific needs, visit our Web site at **www.icmarc.org** to obtain a profile and portfolio recommendation.

Determining Your Investment Portfolio

What Type of Investor Should You Be?

The Right Mix

Although it is important to be comfortable with your investments, you should understand how your investment choices will affect your results. Though conservative investors may sleep soundly with the "safest" investments, they may be very unhappy years from now if their savings have been eroded by inflation. Moderate and aggressive investors may be satisfied when the results are in, but they may be unsettled by the volatility they have experienced along the way.

You Should Be a Knowledgeable Investor

Understanding investment risks and asset allocation will help you lay out your investment plans and avoid poor decisions based on short-term events.

While diversification and time can't eliminate risk, they can help you reduce your vulnerability to the extremes of performance. Remember, though, that no system can guarantee success. You have to find or create the model that's right for you.

Deciding What is Right for You

You've seen how allocating asset classes affects return potential as well as risk. Now you must decide the combination that's right for you.

Finding Your Starting Point

Start with the asset mix on page 37 closest to your position on the risk spectrum, as determined by the Personal Investment Profile on page 31. Also, take your investment time horizon from page 31 into account. Then, "try it on!" If you would be more comfortable with a lower level of risk, look to a more conservative fund.

If you would like the opportunity for higher earnings, consider more aggressive portfolios.

How To Read The Diversification Chart

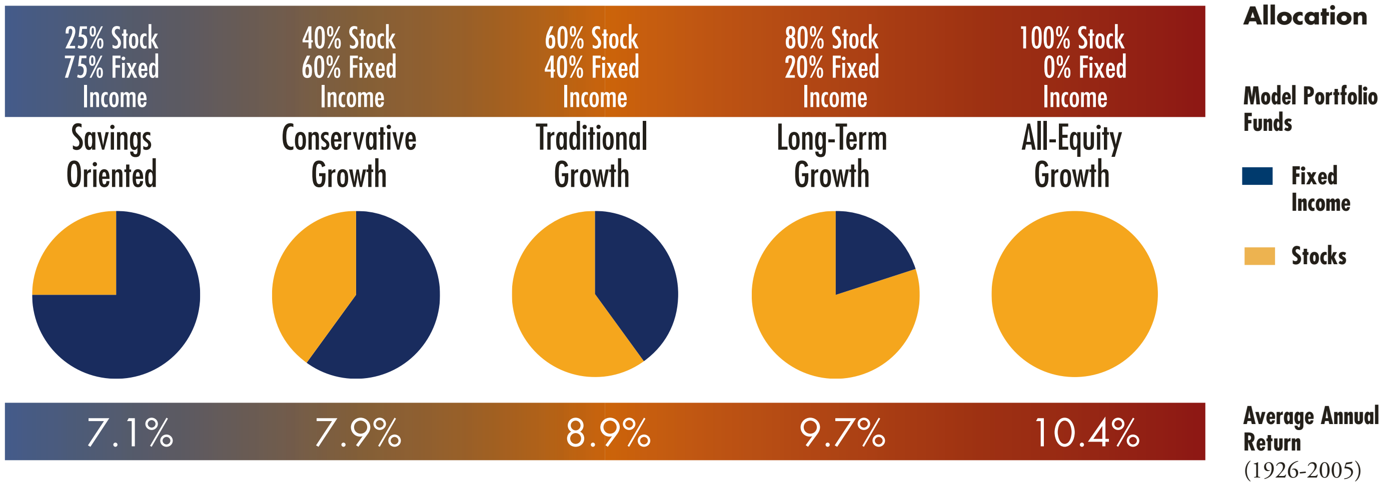
The Risk Spectrum at the bottom of the chart on page 37 indicates the degree to which a portfolio may fluctuate with the ups and downs of the market. Risk is measured here by the degree to which investment performance varies from the average over different time periods. Portfolios near the conservative end of the spectrum are less volatile and more predictable; portfolios near the aggressive end of the spectrum are more volatile and less predictable. Note that even the conservative strategy will result in loss in some periods.

The pie charts show how each portfolio is allocated between stocks and fixed income. Remember, the mix of stocks and fixed income in a portfolio affects both risk and return opportunity.

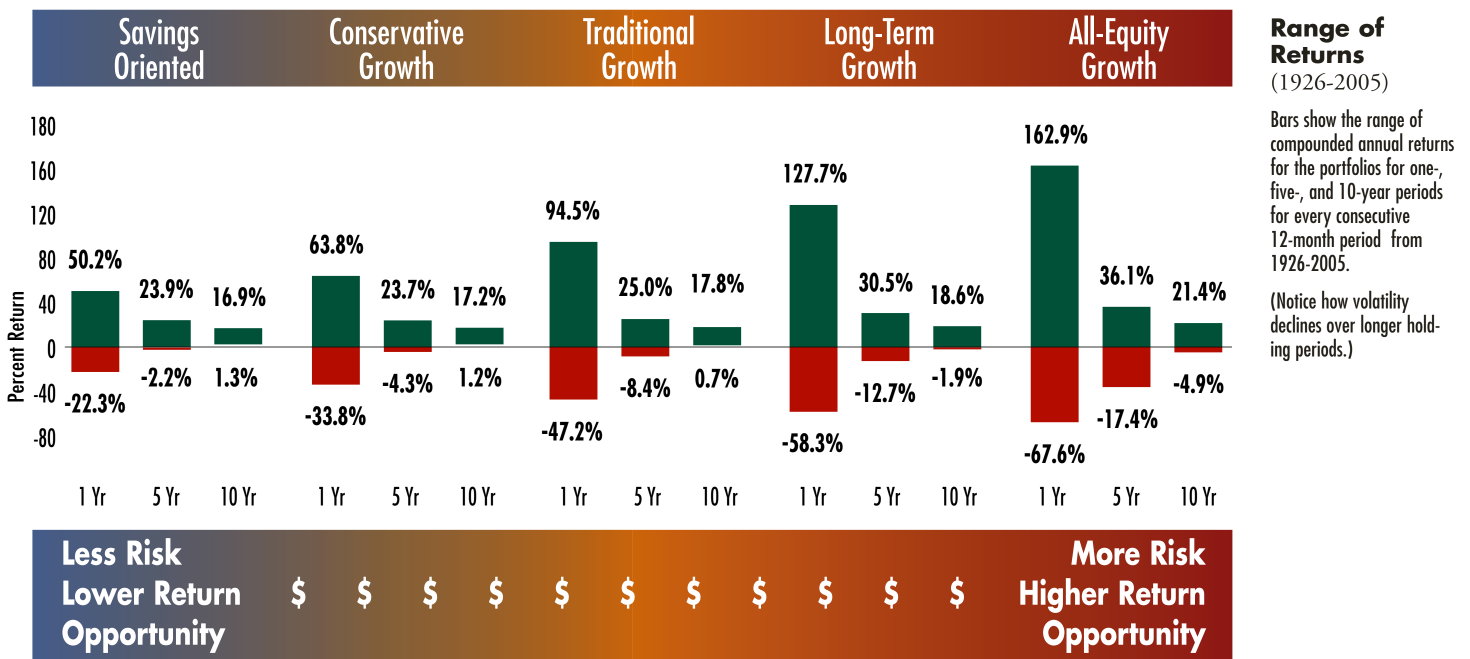
The bar charts under each mix show the range of compounded annual returns for one-, five- and 10-year periods from 1926 to 2005. (For example, 10-year periods run from 1971-1980, 1972-1981...)

Diversification Chart

Asset Mixes



Risk and Return Over Time[4]



The above returns are not inflation-adjusted. Future returns may be lower than those depicted in the illustrations above.

The Bar Charts under each mix show the range of compounded annual returns for one-, five- and 10-year periods from 1926 to 2005. (For example, 10-year periods run from 1971-1980, 1972-1981...).

For example, the Savings Oriented mix had a worst one-year return of -22.3% but never earned less than 1.3% over a 10-year period.

Source: Ibbotson Associates, Inc.

Performance figures on this page were calculated using historical returns of the Standard & Poor's 500 Index and U.S Long Term Government Bonds. These indexes were used as proxies for equity and fixed income asset classes respectively, and are not intended to predict actual future performance of the Vantagepoint Model Portfolio Funds.

[4]Past performance does not guarantee future results. Investment returns and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data illustrated. For performance data current to the most recent month end, contact ICMA-RC Services, LLC, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-669-7400.www.icmarc.org.

The Most Important Step…

Using this booklet, you have charted your course down the road to your retirement dreams. But the most important step in this process is up to you alone: ***taking the steps needed to meet your goals***. Saving is never easy, but the most effective way is to set aside a regular amount from your paycheck in a tax deferred investment plan. The money you invest now has the most time to grow. Even if you must start with a small amount now, you can increase your saving later. Investing can never be without risk, but a well-diversified portfolio, appropriate for your long term objectives and personal risk tolerance is the best way to make your money grow. Now you know the way: only you can take the steps to make your retirement goals come true.

Resources

Where to Go for More Information

Your retirement plan should provide a basic roadmap for attaining your financial retirement goals. Some suggested additional resources are:

- As one of our clients, you can obtain a "benefits illustration" for your 457 plan accommodating special circumstances such as increasing your contributions by a certain percentage or dollar amount each year or using the catch-up provision. For more information, ask your local representative or call us at 1-800-669-7400 and ask about a "benefits illustration."

- At the number above you may also obtain copies of the following brochures:

  Making Sound Investment Decisions: A Retirement Investment Guide
  Investing For Retirement Goals: A Summary of Your Deferred Compensation Retirement Plan
  Present and Future Benefits: A Summary of Your Money Purchase Plan
  Building Your Portfolio: A Guide to Asset Allocation
  Vantagepoint Funds Prospectus

- For general information on Social Security and Medicare and to request your Social Security statement, call 1-800-772-1213, or visit www.ssa.gov.

- ICMA-RC's Web site at www.icmarc.org has several investing and retirement calculator tools and information to help you with your financial and retirement planning. You may also access the Internet sites for Social Security (ssa.gov) and Medicare information (medicare.gov) from this site.

- You may want to have the help of a Certified Financial Planner™. ICMA-RC's own staff planners may be able to help you with your retirement planning for a modest fee. Call 1-800-669-7400 for information on this service.

Time is On Your Side*

Retirement may be many years away, but that means now is the best time to start preparing. Time may be the most important asset that you have in your retirement investing program.

Take twin brothers at age 30. John now starts investing $815 monthly in a tax deferred account (such as deferred compensation) and invests aggressively for a 7% average annual return. If he stops investing at age 44, he will have contributed only $146,000 in those 15 years of investing. But by the time he retires at 65, his $146,000 contribution plus earnings will be worth over $1 million!

John's twin brother, Jake, gets started saving at 45, just when John stops. Because he started later he decides to catch up with his brother by investing $1000 monthly for the 20 years he has until retirement at 65, a total of $240,000. Like his brother, he is an aggressive investor and gets the same 7% return... but at age 65 his account is worth only $520,000—significantly less than his twin after investing much more.

The difference: Starting early!

** Not an actual account - example for illustrative purposes only. Past performance is not indicative of future returns.*

Disclosures

[1] *This information is being provided for educational purposes and is not intended to be construed as or relied upon as investment advice. The ICMA Retirement Corporation does not offer specific tax or legal advice. Individuals are advised to consider any new investment strategies carefully prior to implementing. Please consult both the current Vantagepoint Funds prospectus and Making Sound Investment Decisions: A Retirement Investment Guide carefully for a complete summary of all fees, expenses, charges, financial highlights and investment objectives, risks and performance information prior to investing any money. Vantagepoint securities are distributed by ICMA-RC Services LLC, a broker dealer affiliate of ICMA-RC, member NASD/SIPC. For a current prospectus, contact ICMA-RC Services LLC, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-669-7400.www.icmarc.org. VantagePlanning fee based financial planning services are offered through the ICMA Retirement Corporation, a federally registered Investment Adviser. Please consult all disclosure documents carefully prior to initiating any plan. Before making any investment decisions, you are encouraged to consult with your own financial, tax or legal advisor. ICMA Retirement Corporation does not provide specific tax or legal advice and does not guarantee that you will achieve any specific results if you follow the plan.*

[2] *Please consult both the current* Vantagepoint Funds Prospectus *and* Making Sound Investment Decisions: A Retirement Investment Guide *carefully for a complete summary of all fees, expenses, charges, financial highlights, investment objectives, risks and performance information. Investors should consider the Fund's investment objectives, risks, charges and expenses before investing or sending money. The prospectus contains this and other information about the investment company. Please read the prospectus carefully before investing. Vantagepoint Funds are distributed by ICMA-RC Services LLC, a wholly owned broker-dealer subsidiary of ICMA-RC, member NASD/SIPC. For a current prospectus, contact ICMA-RC Services LLC, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-669-7400.*

WORKSHEET 1

Pension Plan Checklist

It is vital you know what to expect from every employer's retirement plan in which you have vested benefits. Take the time to find out the answers to these questions by reviewing your plan's summary plan description or by asking your employer's benefits office.

Are you covered by a pension/retirement plan? . . . . .yes ______ no ______

What type of plan(s) does your employer offer?

- ☐ defined benefit
- ☐ defined contribution

Are you required to contribute to the plan?. . . . . .yes ______ no ______

What percentage of salary or dollar amount? ______

Do you have the option of making additional voluntary contributions to the plan? ______

What is the vesting schedule? ______

Are you fully vested? . . . . .yes ______ no ______

If not, when will you be fully vested? ______

If you leave employment before retiring,
what happens to your vested benefits? ______

Can you roll benefits over to your new
employer's plan or an IRA? . . . . yes ______ no ______

What are the age and service requirements to qualify
for benefits? ______

When will you qualify for full benefits? ______

What is the plan's normal retirement age? ______

Can you retire early, and if you do, will
you qualify for full benefits? . . . . yes ______ no ______

Will working past retirement age
increase your benefits?. . . . . yes ______ no ______

Does the plan provide a survivor
benefit option? . . . . yes ______ no ______

Is the cost of this provision reasonable
in terms of the reduction in the normal
benefit and your need for it? . . . . yes ______ no ______

Does the plan include disability/death
benefits? . . . . yes ______ no ______

Does the plan include retiree
medical benefits?. . . . . yes ______ no ______

Additional Questions To Ask Depending On The Plan Offered By Your Employer

For Defined Contribution Plans

- Does your plan provide illustrations of potential benefit levels? What is your projected benefit?
- What are the investment options?
- What is the employer contribution level?
- What payout options are available?
- Can you take a lump-sum benefit payment?
- Can you tailor the benefit payment schedule to meet retirement income needs as they may change?

For Defined Benefit Plans

- What is your projected retirement benefit (in today's dollars) if you retire on your desired retirement date?
- What formula is used to calculate pension payments?
- Will your pension be adjusted for the cost of living?
- What formula is used to calculate these adjustments?
- Does your plan have such features as Deferred Retirement Option Plan (DROP) or allow purchase of services credits

WORKSHEET 2

Your Retirement Budget Estimate

Make all annual retirement expense estimates in terms of today's dollars. Later in this process you will adjust estimates for inflation.

	Current		Retirement	
	You	Smith Family	You	Smith Family
Housing				
Mortgage payment/rent	$	$ 7,800	$	$ 0
Real estate taxes		2,475		2,475
Home insurance		550		550
Utilities		1,320		1,320
Property maintenance		700		1,200
Other Essentials				
Food		2,100		2,500
Clothing		1,375		1,200
Savings		5,500		1,200
Transportation				
Car payments		3,000		
License/tax		750		3,000
Maintenance		500		750
Gas/oil		1,300		1,200
Auto insurance		1,250		2,500
Other		350		1,250
				0
Travel		1,850		5,000
Hobbies and Entertainment				
Self		500		1,000
Spouse		500		1,000
Taxes				
Federal income tax		4,910		3,900
State income tax		1,650		1,300
Social Security		3,825		0
Other		75		75
Insurance				
Life		840		600
Health		4,200		5,280
Other		780		0
Miscellaneous				
Gifts		1,200		1,500
Other		700		1,200
TOTAL		50,000		40,000

WORKSHEET 3

Your Balance Sheet

	You	Smith Family
Assets at Current Market Value		
Property Assets		
Home	$	$104,000
Other real estate		0
Automobiles		14,500
Collections, jewelry, etc.		500
Liquid Assets and Other Investments		
Cash & checking accounts		2,300
Savings accounts		4,125
Money market funds		0
Mutual funds & stocks		0
Bonds		0
Cash value of insurance		18,000
Savings bonds		500
Other		0
*Vested pension**		42,000
Tax Deferred Retirement Assets		
457 deferred compensation		60,000
IRA		5,000
Other		0
TOTAL ASSETS	$	$250,925
Liabilities		
Short-Term Debt		
Outstanding bills		3,225
Credit card balances		1,765
Auto loans		9,857
Bank & installment loans		0
Other		500
Mortgages and Long-Term Debt		
Home mortgage balance		52,425
Other long-term debt		0
TOTAL LIABILITIES	$	$67,772

	You	Smith Family
TOTAL ASSETS		**$250,925**
– TOTAL LIABILITIES		**$67,772**
= PERSONAL NET WORTH		**$183,153**

* *Vested Pension—Amount that you could be paid in a lump sum if you left work.*

WORKSHEET 4

How Much Do You Need to Save?

On this worksheet you will determine how much your current savings, pension, and other assets will provide for your retirement. You will also calculate how much more, if any, you will need to save annually to meet your retirement goals.

So far, all of your estimates and calculations were done using the current value of the dollar. The value of today's dollar must be adjusted for inflation because it is real purchasing power at retirement or later that is important. This worksheet will incorporate the effects of inflation on your financial plans.

You may want to change the variables to try out several different plans—different retirement dates, savings amounts, and earnings or investments. See page 13 for instructions.

	Your Numbers	Smith Family
1. **Desired first year retirement income** in today's dollars (See **Retirement Budget Estimate** on **Worksheet 2** or 75 percent to 85 percent of your current gross income.)	$	$ 40,000
2. **Less:** Total annual estimated Social Security and defined benefit pension income in today's dollars (See **Pension** and **Social Security** on pages 5-8.)	$	$ 32,000
3. **Equals:** Additional income needed (today's dollars)	$	$ 8,000
4. **Inflation factor** (Table I)		1.48
5. **Line 4 times line 3:** Future value of additional income needed	$	$ 11,840
6. **Payment factor** (Table II)		15.82
7. **Line 6 times line 5:** Funds needed at retirement to generate additional income	$	$ 187,309
8. **Retirement savings available now** (Including defined contribution and deferred compensation)	$	$ 65,000
9. **Compounding factor** (Table I)		2.16
10. **Line 8 times line 9:** Future value of available savings	$	$ 140,400
11. **Line 7 minus line 10:** Additional savings needed at retirement	$	$ 46,909
12. **Savings factor** (Table III)		.069
13. **Line 11 times line 12:** Annual savings needed to meet retirement income goal	$	$ 3,237

Figures in the example are based on these assumptions:

- 10 years until retirement
- Savings will earn 8% before retirement and 7% after
- Payouts will last 25 years
- 4% pre-retirement inflation (3% post-retirement inflation rate is built into the tables.)

Tables

Table I: Inflation Factors/Compounding Factors

This table does two things. First, it gives factors to adjust your retirement income needs for the effects of pre-retirement inflation. To maintain the same purchasing power with 10 years until retirement, the inflation factor used is 1.48 MULTIPLIED by the additional income needed in today's dollars.

Years Until Retirement	Inflation Factor or Compounding Factor if Inflation Rate Is:								
	3%	4%	5%	6%	7%	8%	9%	10%	11%
2	1.06	1.08	1.10	1.12	1.14	1.17	1.19	1.22	1.24
3	1.09	1.12	1.16	1.19	1.23	1.26	1.30	1.33	1.37
4	1.13	1.17	1.22	1.26	1.31	1.36	1.41	1.46	1.52
5	1.16	1.22	1.28	1.34	1.40	1.47	1.54	1.61	1.69
6	1.19	1.27	1.34	1.42	1.50	1.59	1.68	1.77	1.87
8	1.27	1.37	1.48	1.59	1.72	1.85	1.99	2.14	2.30
10	1.34	1.48	1.63	1.79	1.97	2.16	2.37	2.59	2.84
12	1.43	1.60	1.80	2.01	2.25	2.52	2.81	3.14	3.50
14	1.51	1.73	1.98	2.26	2.58	2.94	3.34	3.80	4.31
16	1.60	1.87	2.18	2.54	2.95	3.43	3.97	4.59	5.31
18	1.70	2.03	2.41	2.85	3.38	4.00	4.72	5.56	6.54
20	1.81	2.19	2.65	3.21	3.87	4.66	5.60	6.73	8.06
25	2.09	2.69	3.39	4.29	5.43	6.85	8.62	10.83	13.59
30	2.43	3.24	4.32	5.74	7.61	10.06	13.27	17.49	22.89

The table also shows the effect of compounded earnings on the retirement savings you may already have. In the example on Worksheet 4, $65,000 is already saved toward retirement. It is assumed that this money will earn 8% (tax deferred) prior to retirement in 10 years, so these savings are MULTIPLIED by the compounding factor 2.16. (When using this table to fill out Workseet 4, use your inflation estimate from page 4.)

Table II: Payment Factors

This table gives you factors to calculate the lump-sum balance you will need at retirement so you can receive inflation-adjusted payments for a given number of years with a given rate of earnings assumption.

Note that the table builds in a 3% cost of living annual inflation adjustment, so the second and each subsequent year payment will increase by 3% to assure that there is no loss of purchasing power over time.

Years of Payments	Rate of Earnings						
	5%	6%	7%	8%	9%	10%	11%
5	4.72	4.59	4.47	4.35	4.23	4.12	4.02
10	9.01	8.57	8.16	7.78	7.42	7.09	6.78
15	12.91	12.01	11.21	10.48	9.82	9.23	8.68
20	16.44	15.00	13.73	12.62	11.63	10.76	9.99
25	19.66	17.58	15.82	14.30	13.00	11.87	10.89
30	22.58	19.82	17.54	15.63	14.03	12.67	11.51
35	25.23	21.76	18.96	16.68	14.80	13.24	11.94

Table III: Savings Factors

This table shows how much you will need to save each year to reach your retirement goals. In this example, this factor is MULTIPLIED by the $46,909 needed at retirement to support the annual income goal.

Years Until Retirement	Annual Interest Rate on Tax Deferred Investments					
	6%	7%	8%	9%	10%	11%
2	.485	.483	.481	.478	.476	.474
3	.314	.312	.308	.305	.302	.299
4	.229	.225	.222	.219	.216	.212
5	.177	.174	.170	.167	.164	.161
6	.143	.140	.136	.133	.130	.126
7	.119	.116	.112	.109	.105	.102
8	.101	.097	.094	.091	.087	.084
9	.087	.083	.080	.077	.074	.071
10	.076	.072	.069	.066	.063	.060
12	.059	.056	.053	.050	.047	.044
14	.048	.044	.041	.038	.036	.033
16	.039	.036	.033	.030	.028	.026
18	.032	.029	.027	.024	.022	.020
20	.027	.024	.022	.020	.017	.016
25	.018	.016	.014	.012	.010	.009
30	.013	.011	.009	.007	.006	.005

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