

Keystone News

Spring 2017 Newsletter

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¹ You are encouraged to discuss rolling money from one account to another with your financial advisor/planner and to consider any potential fees and/or limitations of available investment options.

² Rebalancing does not ensure a profit and does not protect against loss in declining markets.

Get to know your investments: The stable value fund

Participants in the Program have access to a wide array of investment options, ranging from aggressive growth funds for those with a higher risk tolerance to funds more appropriate for employees seeking lower risk and predictability as they approach retirement.

Among the latter is the stable value fund. It's an investment mix that is consistent with that of a high-quality blend of short and intermediate fixed income securities, with the flexibility to move to cash alternatives to preserve principal.

This investment option may be most appropriate for participants looking to safeguard their principal value or balance a portfolio that contains more aggressive investments. The fund seeks to protect what you have contributed and generates a stable income, or yield, from your investment.

Yield is the amount credited to a participant's account every day. The amount of yield reflects something called the crediting rate of the fund and applies to the fund's book value. Book value is the total value of all participants' accounts in the fund.

The crediting rate is a result of the underlying bond portfolio's performance, except that any gains and losses are spread out over time, resulting in a smoothing effect on the overall performance of the stable value fund.

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Our Retirement Plan Counselors are here for you!

How prepared am I for retirement? What is retirement readiness? Am I saving enough? Do I have an effective retirement strategy?

A one-on-one meeting with one of our Retirement Plan Counselors can help you answer these questions and more. Let our Retirement Plan Counselors apply their experience on your behalf. They are available to provide you insight about the Program and a wide variety of retirement topics including:

- Enrollment.
- Contributions.
- Rollovers.¹
- Retirement readiness.
- Understanding fees.
- Investment choices.
- Account reviews.
- Benefits of investing early.
- Sick and annual deferrals.
- Rebalancing for your retirement date.²
- Catch-up payments and contribution increases.

Offered at no cost, a meeting with a Retirement Plan Counselor can help you assess where you stand today and the current path you are taking toward retirement. Set up your appointment today by calling toll free **(866) SERS457 (866-737-7457)** or visit **www.sers457.com** to find the local plan counselor in your area.

Stable value fund *(continued)*

While the crediting rate will change quarterly to reflect the performance of the underlying portfolio, the fund and participants gain some insulation from the market's periodic ups and downs. To accomplish this smoothing of returns, the crediting rate calculation uses the following factors:

- The yield earned on the underlying bond portfolio;
- The market value of the underlying bond portfolio; and
- The contract value of the insurance contract associated with the fund, usually referred to as book value.

How does it work in practice?

For example, as interest rates rise, the bond market generally experiences a decline, meaning a negative market value adjustment for the fund.

However, not counting contributions and withdrawals, participants' stable value fund account assets remain unchanged since their values are based on the book value, quarterly crediting rate and fees. The negative market value adjustment is instead reflected through a reduction in the crediting rate.

As the underlying bond portfolio re-invests in higher interest-yielding bonds, the crediting rate should increase, but with a lag given the smoothing effect. The opposite would occur if interest rates fell.

What does this mean for you?

For Program participants, it means you don't have to react to what you see in the headlines every day.

Name changes effective April 17 for some investments

Effective April 17, 2017, the names of some of the investment funds changed for the Commonwealth of Pennsylvania Deferred Compensation Program. This change was made to more closely align the name of the fund to the fund objective so that it is easier for participants to understand.

There is no action that you have to take. The investment fund, fees, unit price and your account balance will not be impacted. Please review the list below to see which funds' names changed effective April 17, 2017.

Old fund names		New fund names
Stock Index Fund	➔	U.S. Large Company Stock Index Fund
Extended Market Fund	➔	U.S. Small/Mid Company Stock Index Fund
EAFE Equity Index Fund	➔	International Company Stock Index Fund
Aggregate Bond Fund	➔	U.S. Bond Index Fund
Stable Value Fund		Stable Value Fund
Short Term Money Market Fund	➔	Short-Term Investment Fund
Aggressive Portfolio Fund		Aggressive Portfolio Fund
Moderate Portfolio Fund		Moderate Portfolio Fund
Conservative Portfolio Fund		Conservative Portfolio Fund
60/40 Balanced Fund	➔	60/40 Balanced Stock & Bond Fund

Please contact your Retirement Plan Counselor if you have questions.



Five steps to control debt and get on the road to recovery

If bills and credit card payments are eating up most of your income, you need a plan to help get your financial house in order. With a little self-discipline and some faith in yourself, your financial picture can potentially change for the better in about six months. The steps below can help you get on the right track.

STEP 1: Track your spending

The first step to help you put a lid on your spending is to itemize your typical expenses for one month to find out where your money is going. Be sure to include necessities like housing, groceries and utilities, as well as less essential items like your morning coffee fix or weekly lottery ticket splurge. You'll be surprised how much those little daily purchases can add up to every month. It's also a good idea to estimate your unexpected expenses (auto and home repairs, gifts, vacations, medical emergencies, etc.) for a year's time.

STEP 2: Allocate an amount to spend on debt

Once you have a record of your spending, compare your monthly outlay to your monthly income. If you have a surplus, this is the amount you can apply each month to paying down debt and building savings. If you have a shortfall, you'll need to cut expenses. Go through your list and pare back on those non-essential expenditures. Even an extra \$25-\$50 each month can help you implement a plan to reduce your debt.

STEP 3: Tackle those high-interest credit cards

Now that you have a fixed amount to use specifically on debt, focus on paying off your highest interest credit card first, making sure you avoid making only the minimum payment. Rule of thumb: Always double the minimum payment due wherever possible.

Double and save

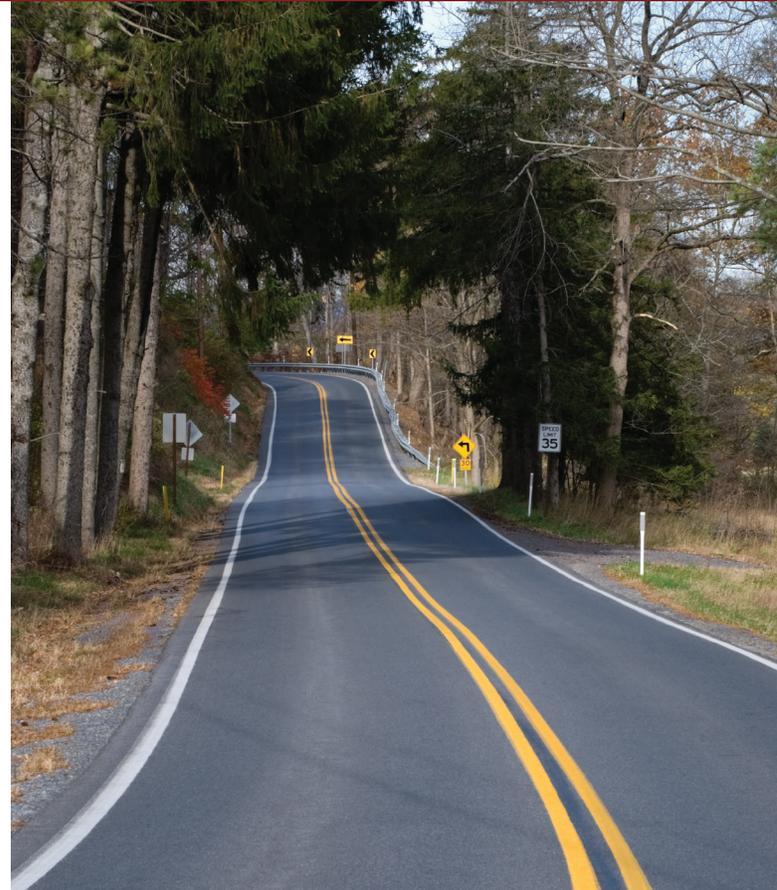
The table below shows the difference between making a \$20 minimum monthly payment on a \$1,000 debt versus paying \$40 a month.*

Monthly payment	Months needed to fully pay off debt	Total amount paid (principal + interest)
\$20	93	\$1,862.20
\$40	32	\$1,262.70

* FOR ILLUSTRATIVE PURPOSES ONLY. Assumptions: 18% monthly compounding interest rate; the amount due (principal plus interest) must be paid in full.

STEP 4: Consolidate your balances

Homeowners can look into a home equity loan to consolidate high-interest credit cards. The rates can be much lower than a credit card, and the interest could be tax deductible. If that's not an option for you, look into transferring all balances to the card that offers the lowest rate. These days, the competition between credit card issuers



is so intense that you can often negotiate your interest rate. Shop around: Chances are that your current credit card company will match the interest rate of a competitor. Just be aware that some of the low rates available are teaser rates, which only apply during the first six to 12 months you have the card.

Then, set up a realistic payment timetable and stick with it. If you need to readjust your timetable, do so. If you still have trouble making your payments, consider talking to a certified financial planner immediately. Don't delay: The longer you wait for help, the fewer options you may have to get yourself out of trouble.

STEP 5: Start thinking about savings

Once you have a plan in place to reduce debt, focus on a strategy to help build your savings. Here are some tips.

- Keep only what you need to live on for one month in your checking account. If you put in more, you'll probably spend it.
- Start a separate savings account for unexpected bills. The idea is to build a small stash (say, a month's salary) so you're less likely to use your credit card if your car needs new tires.
- Begin building a bigger emergency fund by depositing a portion of each paycheck into another savings account. You may accumulate three months' living expenses in less than three years by saving 10% of each month's pay.

Investing during life's milestones

If you recently reached a milestone such as marriage or starting a new job, you may have thought about how it could affect your financial goals. A significant change in your life can have a major impact on your retirement plan, your asset allocation and other financial matters.

Investors often have common needs at certain points in their lives. You may want to talk to an investment professional about the following ideas when planning your financial affairs.

When you start your first full-time job:

- Build a cash reserve – perhaps enough to meet your income needs for up to three months.
- Begin investing as much as you can afford each month for retirement.

When you receive a raise:

- If you can afford it, consider making a bigger contribution to the Commonwealth of Pennsylvania Deferred Compensation Program.

If you marry:

- Review your and your spouse's investments and retirement plans, taking into account your combined income and expenses.

If you have a family:

- Increase your cash reserves.
- Increase your life insurance.
- Start investing for college costs.

If you want to purchase a home:

- Perhaps consider investing a portion of your assets in a short-term investment, such as bond or money market funds, to help fund a down payment along with closing and moving costs.

If you change jobs:

- Review your investments and your asset allocation in light of your new salary and benefits. Try to contribute at the maximum level to your Commonwealth of Pennsylvania Deferred Compensation Program. Visit www.irs.gov for more information about contribution limits.
- If you participated in a retirement plan at your old job, decide what to do with the money. Consider rolling the money into your Commonwealth of Pennsylvania Deferred Compensation Program to manage your retirement savings in one place.¹

When your children become self-supporting:

- Increase contributions to your Commonwealth of Pennsylvania Deferred Compensation Program.

When you reach age 55:

- Consider changing your asset allocation to accommodate a shorter time frame as you approach retirement.²



When you retire:

- Study your options for taking withdrawals.
- Review your portfolio with your local Retirement Plan Counselor. You'll need to strike the right balance between generating adequate income and maintaining enough growth potential to fund your later years.

Additional considerations may be appropriate regardless of your age and circumstances. For example, understanding the tax considerations of your investments can help you avoid paying more taxes than you are required to.

It's important to note that many people's lives don't follow the exact milestones listed here. Establishing a long-term relationship with a local Retirement Plan Counselor can play a significant role in ensuring that your financial plan follows the seasons of your life.

¹ You are encouraged to discuss rolling money from one account to another with your financial advisor/planner and to consider any potential fees and/or limitations of available investment options.

² Asset allocation does not ensure a profit and does not protect against loss in declining markets. Asset allocation and balanced investment options and models are subject to the risks of the underlying funds, which can be a mix of stocks/stock funds and bonds/bond funds. For more information, see the prospectus and/or disclosure documents.

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