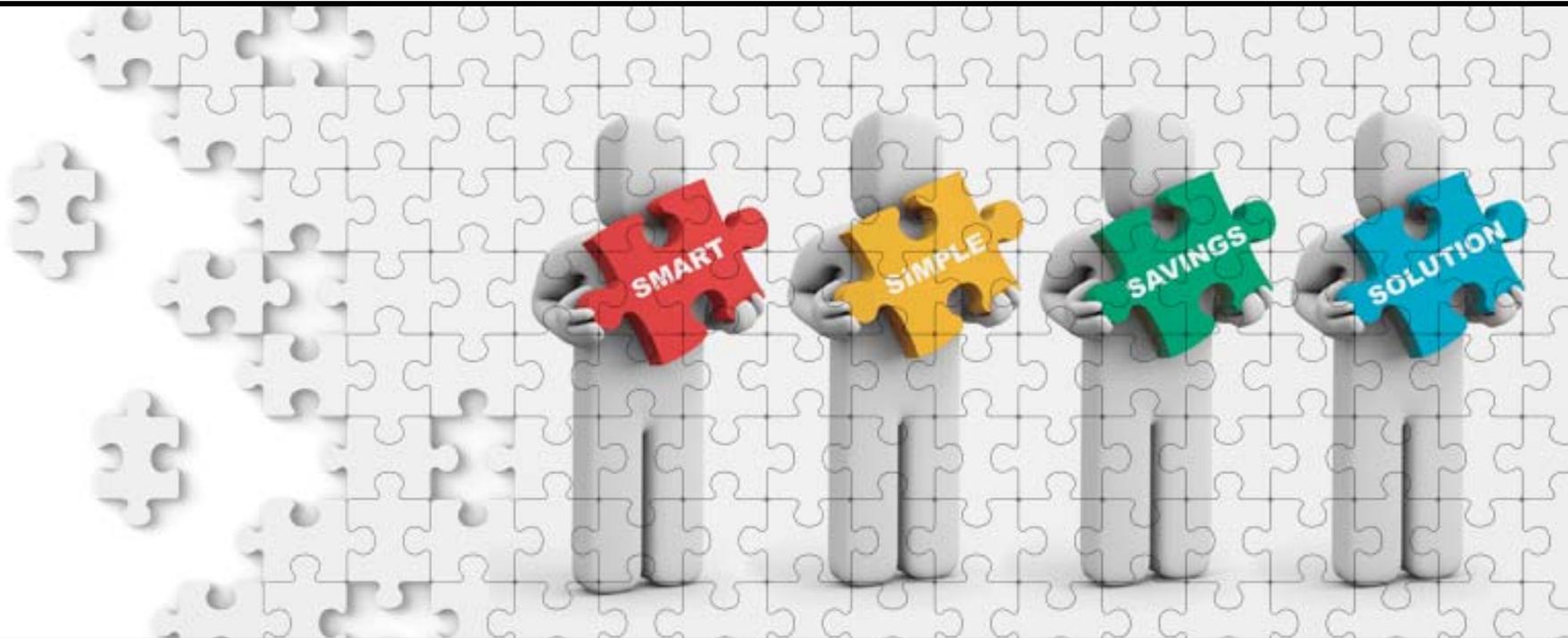


State of Missouri Deferred Compensation Plan



Cindy Rehmeier, CFP®
Manager of Deferred Compensation

Retirement Savings Facts

- Saving is not easy
- State of Missouri employees have access to:
 - MOSERS/MPERS Defined Benefit
 - Social Security Benefit
 - Deferred Compensation Plan
- Diversification/Proper Asset Allocation is Crucial



Personal Savings is Important

- Why?
 - Maintain standard of living in retirement
 - Unexpected expenses, i.e. mounting out-of-pocket healthcare costs (\$215,000 – Fidelity)
 - MOSERS/MPERS & Social Security not always enough
- Example
 - Average State Employee at Retirement:
 - \$33,000 annual salary
 - 20 years of service
 - MOSERS/MPERS and Social Security would replace approximately 65% of salary in retirement
 - Personal savings required for the following income replacement scenarios to fund 25 years in retirement (4% annual return – inflation not considered)
 - 100% income replacement: \$180,000
 - 90% income replacement: \$128,880
 - 80% income replacement: \$77,329



Present Plan Statistics

As of December 31, 2008

- Size: \$1,201,186,727
- Participants
 - Total: 58,300
 - Terminated/Retired: 17,200
 - Active: 41,100
- Participation Rate: 64% of eligible
- Avg. Balance: \$20,000
- Avg. Balance at Retirement: \$32,000



Present Plan Facts

Low Savings Rate

- 12% of participants contribute \$35 a month
- 52% of participants contribute \$50 or less
- 75% or participants contribute \$100 or less
- To achieve a balance of \$77,329 at retirement, a participant would need to save \$168 per month for 20 years (6% annual return)

Present Plan Facts

Too Many Choices

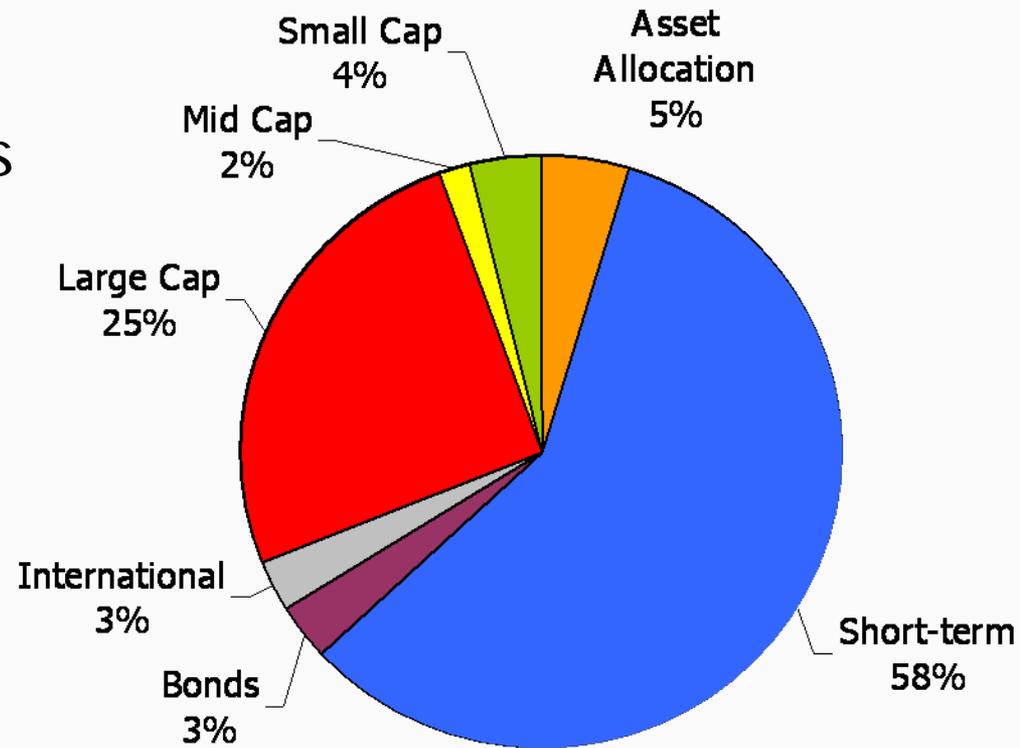
- 31 fund options
 - 21 Equity Funds
 - 11 Large Cap
 - 2 Mid Cap
 - 5 Small Cap
 - 3 International
 - 5 Fixed Income Funds
 - 5 Asset Allocation (static lifestyle) funds



Present Plan Facts

Poor Diversification/Asset Allocation

- 60% of participants are in only one fund
- 83% of the plan's assets are in stable value and large cap equity



Present Plan Facts

Poor Diversification/Asset Allocation

- Many participants choose one or more of the equity fund options and assume they are diversified, when in fact they are not:

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1) American Century Equity Income Fund;Inv	1.00										
2) American Century Growth Fund;Investor	0.84	1.00									
3) American Century Ultra Fund;Investor	0.78	0.97	1.00								
4) Dreyfus Premier Third Century Fund;Z	0.86	0.97	0.96	1.00							
5) Fidelity Contrafund	0.80	0.92	0.94	0.92	1.00						
6) Fidelity Equity-Income Fund	0.95	0.91	0.87	0.93	0.89	1.00					
7) Nationwide Fund;D	0.91	0.96	0.93	0.97	0.94	0.97	1.00				
8) JennDry Jennison Blend Fund;Z	0.84	0.94	0.92	0.94	0.96	0.93	0.96	1.00			
9) Putnam Investors Fund;A	0.90	0.92	0.89	0.94	0.90	0.96	0.95	0.93	1.00		
10) SEI Institutional Mgd S&P 500 Index Fun	0.94	0.96	0.92	0.97	0.92	0.99	0.99	0.95	0.96	1.00	
11) Vanguard Total Stock Market Index Fund;	0.93	0.96	0.92	0.97	0.93	0.98	0.99	0.96	0.97	1.00	1.00

Present Plan Facts

Poor Diversification/Asset Allocation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
1) AIM Dynamics Fund;Investor	1.00																			
2) American Century Equity Income Fund;Investor	0.80	1.00																		
3) American Century Growth Fund;Investor	0.92	0.84	1.00																	
4) American Century Ultra Fund;Investor	0.92	0.78	0.97	1.00																
5) Brown Capital Management Small Company Fd;Institutional	0.86	0.76	0.83	0.83	1.00															
6) Dreyfus Premier Third Century Fund;Z	0.94	0.86	0.97	0.96	0.86	1.00														
7) Dreyfus SmallCap Stock Index Fund	0.90	0.86	0.85	0.83	0.89	0.89	1.00													
8) Fidelity Contrafund	0.95	0.80	0.92	0.94	0.82	0.92	0.86	1.00												
9) Fidelity Equity-Income Fund	0.91	0.95	0.91	0.87	0.78	0.93	0.88	0.89	1.00											
10) Nationwide Fund;D	0.94	0.91	0.96	0.93	0.84	0.97	0.90	0.94	0.97	1.00										
11) Goldman Sachs Mid Cap Value Fund;Institutional	0.94	0.87	0.89	0.86	0.80	0.92	0.91	0.92	0.93	0.96	1.00									
12) Janus Small Cap Value Fund;Investor	0.81	0.89	0.80	0.77	0.85	0.84	0.95	0.79	0.87	0.87	0.86	1.00								
13) Janus Worldwide Fund	0.87	0.86	0.87	0.84	0.79	0.87	0.86	0.85	0.92	0.91	0.88	0.84	1.00							
14) JennDry Jennison Blend Fund;Z	0.96	0.84	0.94	0.92	0.81	0.94	0.86	0.96	0.93	0.96	0.94	0.81	0.88	1.00						
15) Neuberger Berman Genesis Fund;Trust	0.92	0.76	0.86	0.86	0.82	0.86	0.88	0.94	0.85	0.90	0.92	0.81	0.81	0.92	1.00					
16) Putnam Investors Fund;A	0.92	0.90	0.92	0.89	0.80	0.94	0.88	0.90	0.96	0.95	0.93	0.86	0.88	0.93	0.83	1.00				
17) SEI Institutional Mgd S&P 500 Index Fund;E	0.93	0.94	0.96	0.92	0.82	0.97	0.90	0.92	0.99	0.99	0.94	0.88	0.91	0.95	0.87	0.96	1.00			
18) T Rowe Price International Stock Fund;Shares	0.90	0.82	0.87	0.85	0.78	0.86	0.81	0.92	0.90	0.92	0.89	0.76	0.91	0.93	0.87	0.85	0.90	1.00		
19) Templeton Developing Markets Trust;A	0.84	0.74	0.80	0.79	0.72	0.79	0.74	0.89	0.82	0.83	0.80	0.67	0.81	0.87	0.83	0.80	0.82	0.92	1.00	
20) Vanguard Total Stock Market Index Fund;Institutional	0.94	0.93	0.96	0.92	0.86	0.97	0.93	0.93	0.98	0.99	0.95	0.90	0.92	0.96	0.89	0.97	1.00	0.91	0.83	1.00

Present Plan Facts

High Fees/Low Returns

CEM Survey Results

	State of Missouri	Peers
Fund Options	31	17
Operating Costs	0.90%	0.49%

Conclusion:

- Too many fund options confuses participants – No Direction
- Higher investment option expenses

Research/Due Diligence

Participant Type

- **Delegator**–Wishes to delegate all responsibility for investment selection and ongoing management to a more knowledgeable third party due to lack of financial savvy or time.
- **Involved**–Wishes to determine and implement customized allocation from a limited set of options with assistance from forecasting tools and education resources.
- **Hands-On**–Wishes to proactively manage assets, utilizing a vast array of fund options, due to a higher degree of financial savvy (real or perceived).

Research/Due Diligence

Participant Type

- Current industry trends, present plan investor behavior, various surveys and focus groups tell us that our participant population consists of:
- 85% Delegator
- 10% Involved
- 5% Hands-on



Mission Statement

Provide a customer-focused deferred compensation plan with high-quality, well-diversified, cost-conscious investment products that will encourage State employees to save for their retirement years.



Guiding Beliefs

- Significant need for supplemental savings
- State employees are experts in their own fields but lack the time and skills necessary to become sophisticated investors
- Many participants are overly risk-adverse investing the majority of their assets in the most conservative fund choices at too young of an age.
- Clear, concise and simple communications is vital for informing and educating participants of the benefits of any plan design changes.

Investment Philosophy

The Missouri Deferred Compensation philosophy can be characterized as emphasizing:

- A broad range of asset classes including equity, fixed income, money market, real estate and commodity accounts.
- Low investment costs.
- Investment options with a focus on risk-adjusted returns.
- Clear communication with unbiased education promoting ease of investing and good diversification.

Future Plan Design



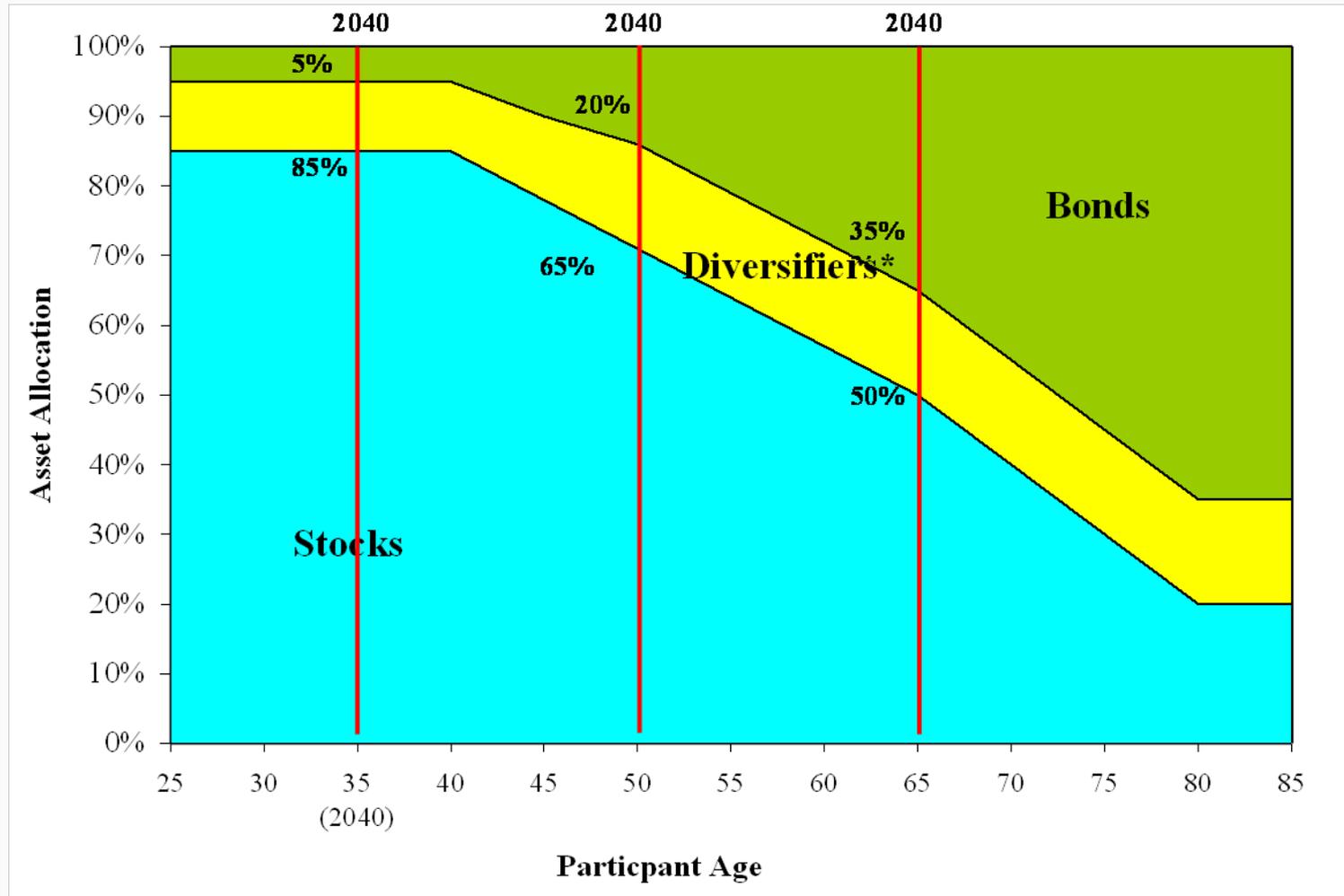
Future Design

Smart Simple Savings Solution

- **Target Date Investment Strategy** – professionally managed broadly diversified funds that adjust allocations in various assets automatically (more aggressive in earlier years to more conservative in later years) as participants time horizons shorten (name corresponds to retirement year – i.e. 2010, 2015, 2020....2050)
- Target Date Strategies Asset Mix
 - Global Equities
 - Core Bonds
 - TIPs
 - High Yield Bonds
 - Diversifiers -Global REITs, Commodities
- Only one decision required – choose a fund based on your expected date of retirement

Future Plan Design

Smart Simple Investment Choices



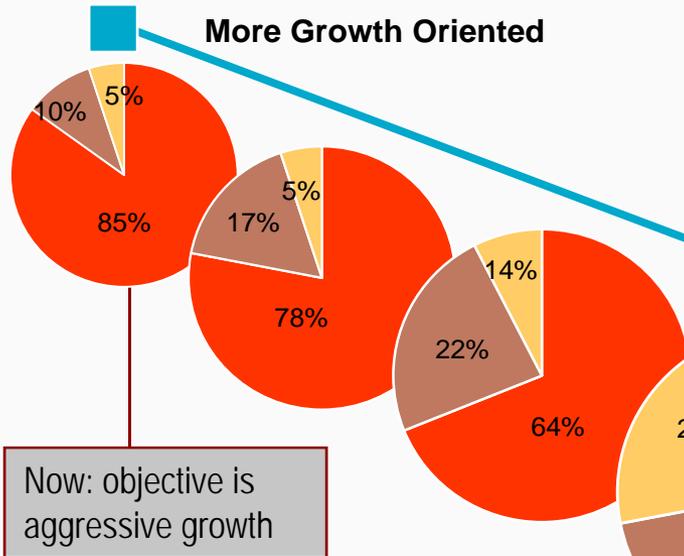
* A mix of investment options (i.e. real estate, commodities) that have low correlations to stocks.

Your Fund Automatically Changes Over Time

For example Missouri 2040

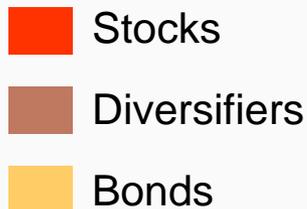
Over time the Missouri 2040 Fund automatically shifts from a more growth-oriented allocation to a more conservative allocation as your retirement year approaches

More Growth Oriented

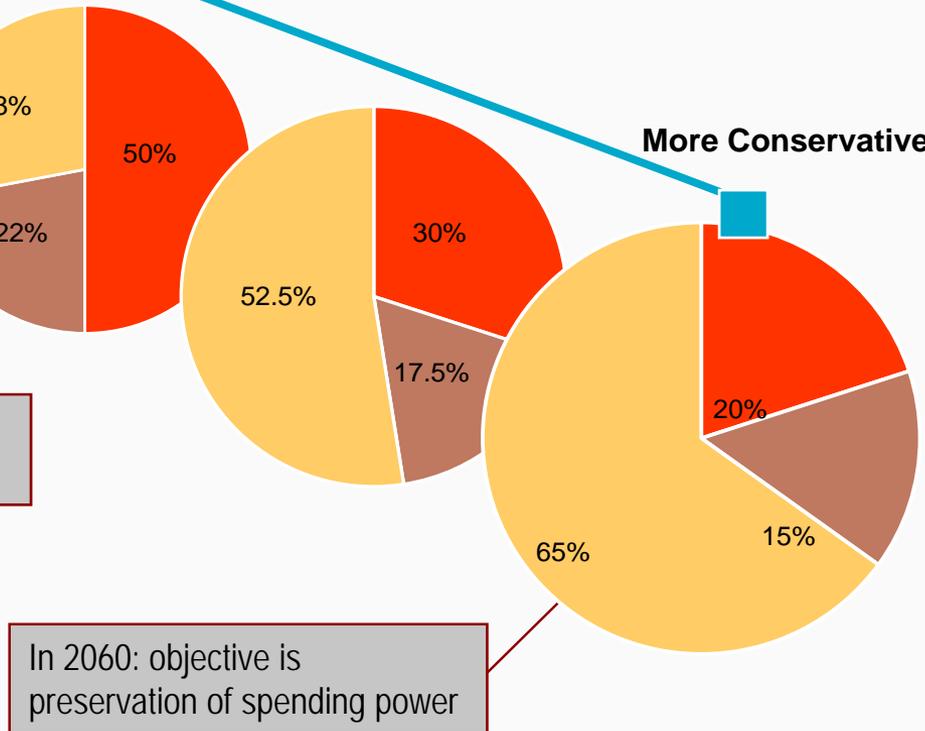


Now: objective is aggressive growth

In 2040: objective is income and growth



More Conservative



In 2060: objective is preservation of spending power

Future Plan Design

Smart Diversification

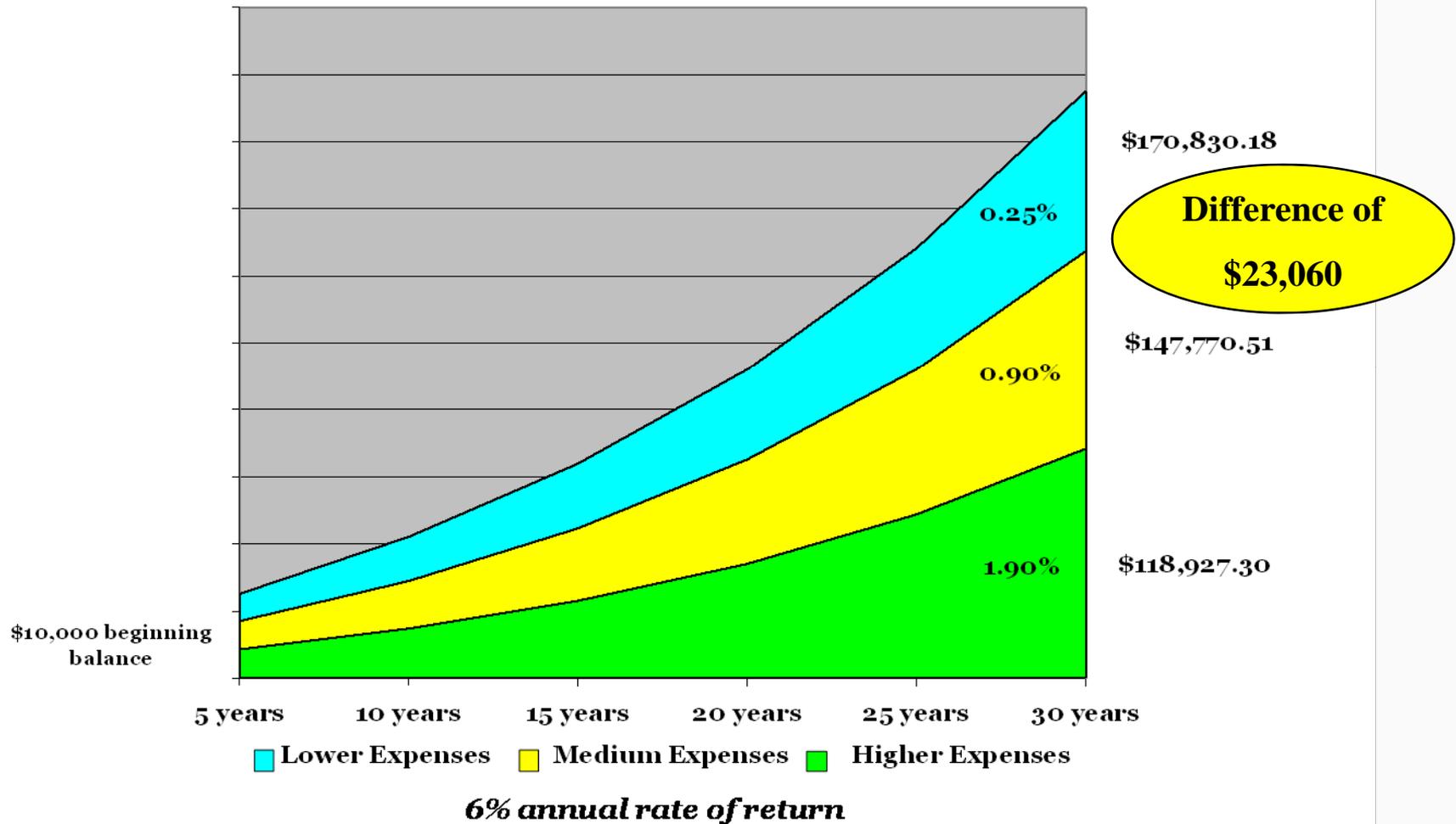
Single Diversified Investment Option

	(1)	(2)	(3)	(4)	(5)	(6)
1) MSCI World Index	1.00					
2) Lehman US Aggregate Bond Inc	-0.22	1.00				
3) Dow Wilshire Global REIT	0.66	0.00	1.00			
4) S&P GSCI Commodities	0.15	-0.11	-0.20	1.00		
5) Lehman High Yield	0.74	0.05	0.70	0.02	1.00	
6) Lehman U.S. TIPs	-0.46	0.81	-0.31	0.10	-0.36	1.00

Future Plan Design

Lower Fees ~ More Savings

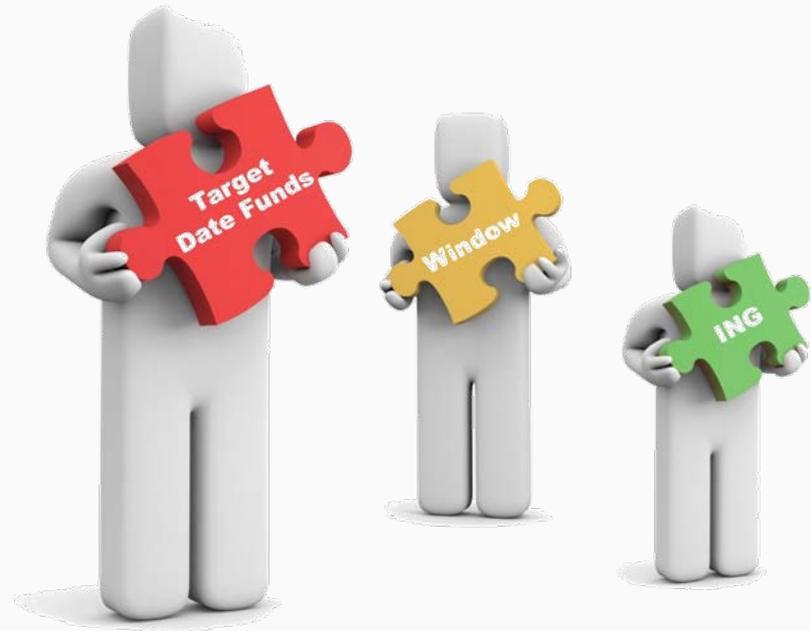
The Impact of Fees on Savings



Future Plan Design

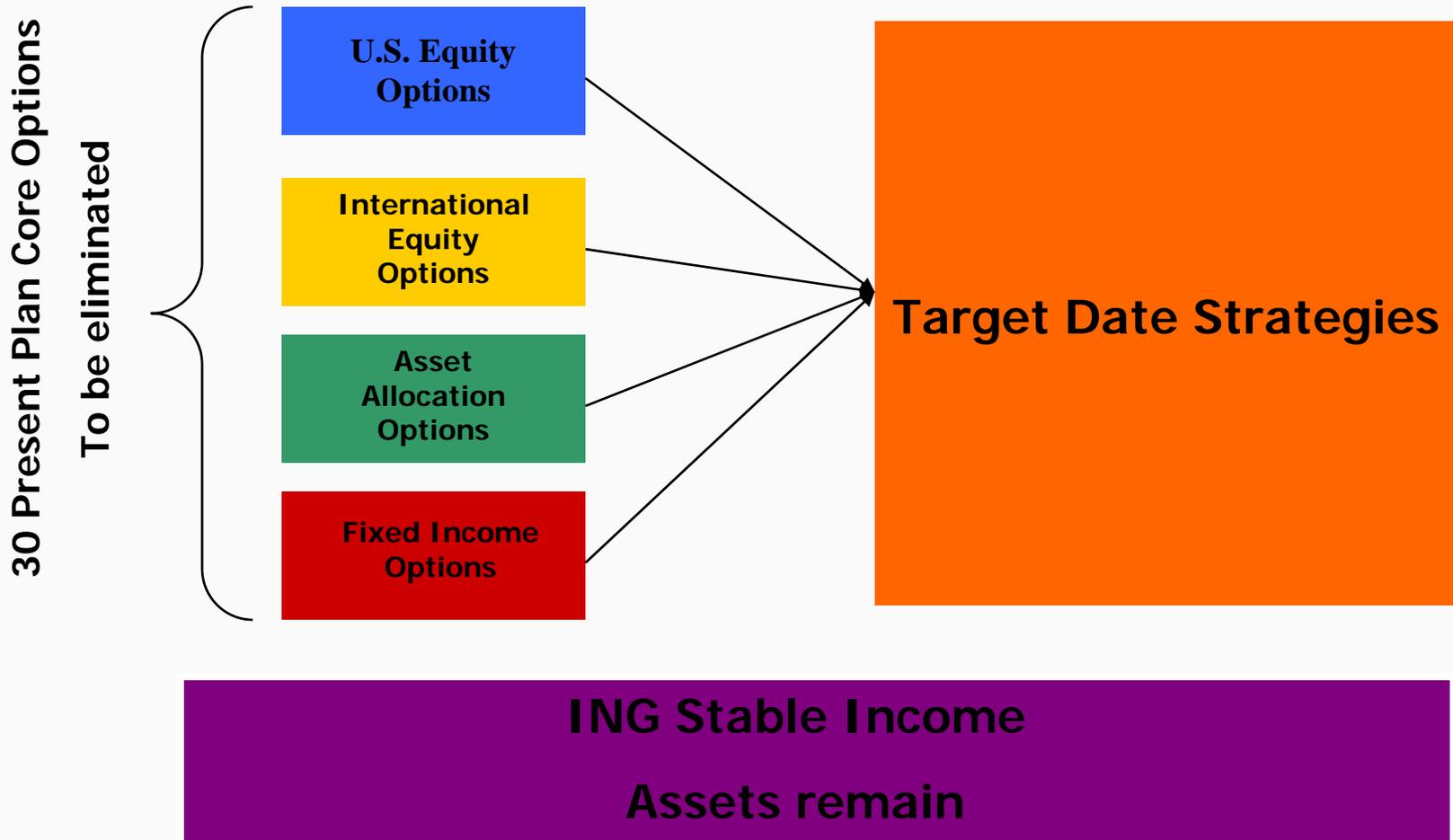
Investment Line-Up

- 12 Passively Managed Target Date Funds
- ING Stable Income Fund
- Brokerage Window



Future Plan Design

Implementation - Mapping to Target Date Strategies



How Will Mapping Work?

- The chart below illustrates a potential mapping scenario based on employees' birth years. The chart assumes a retirement age of 65 offering 12 target date retirement funds.

If the year you were born is between ...	Your default Target Retirement Fund is
1932 or before	Missouri 1995
1933 – 1937	Missouri 2000
1938 – 1942	Missouri 2005
1943 – 1947	Missouri 2010
1948 – 1952	Missouri 2015
1953 – 1957	Missouri 2020
1958 – 1962	Missouri 2025
1963 – 1967	Missouri 2030
1968 – 1972	Missouri 2035
1973 – 1977	Missouri 2040
1978 – 1982	Missouri 2045
1983 or after	Missouri 2050

Solution Summary

	Present	Future
Funds	31	13
Investment Option Expense Ratio	High (avg 0.90%)	Low (avg 0.25%)
Complexity	High	Low
Portfolio Diversification	Low/Difficult to attain by all employees	High
Maintenance Required	Regular review	None
Asset Classes	Limited to traditional stocks & bonds	Multiple including real estate and high yield
Ailbity to reach retirement income goal	May vary depending on choice	High
Brokerage Window	\$50 annual fee	No annual fee

New Plan Timeline

- **January 22, 2009:** New DC Update format sent to all payroll representatives detailing plan changes
- **Beginning January 31, 2009** – Rollout campaign – e-mails, plan website communications, on-site meetings, letters, posters, reminder postcards
- **April 10, 2009** – Transition Core funds to Target Date Strategies

Questions

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