State of Missouri Deferred Compensation Program

FOCUS

PEBSCO a division of Nationwide Retirement Solutions
a Nationwide® Financial company

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All good things...

Sooner or later, good things usually come to an end. That may be the case with the interest rates participants have been getting from the fixed annuities offered by Prudential and Nationwide in our Deferred Compensation plan.

In 2002, when the fixed annuity contract held by Prudential was expiring, the Deferred Compensation Commission chose to bid the contract rather than extend it. The Commission required vendors to provide the Commission with a minimum interest rate for each of the next 8 quarters. The best offer was again received from Prudential who contracted to pay participants 5.70% starting August 1, 2002, declining to 5.00% in May 31, 2004.

Prudential and Nationwide have agreed to extend their contracts though the end of 2005, but without the guaranteed higher rates.

During that time, market interest rates declined well below the minimum rate agreed to by Prudential. That meant participants were able to receive a better interest rate on their fixed annuity investment than was generally available in the marketplace. Prudential subsequently agreed to extend their 5% interest rate until December 31, 2004.

Now that we are reaching the end of this contract, and general market rates are considerably lower, it is quite possible that rates on the fixed annuities in the Deferred Compensation Plan may start to decline. Prudential and Nationwide have agreed to extend their contracts though the end of 2005, but without the guaranteed higher rates. The fixed annuity situation may be similar to 2002, before the Commission bid Prudential's contract when competition between Nationwide and Prudential helped support rates.

Keeping an eye on Plan fees and expenses

A primary goal of the Commission has always been to provide a high quality Deferred Compensation Plan while keeping expenses to an absolute minimum. Since the last time the Plan was bid, each of the contracts have been extended only after significant improvements were secured from the vendors.

The most significant improvements have been in the form of lower administrative fees to the participant. The ability of the Commission to negotiate a better contract for participants has saved participants a considerable amount of money.

The Plan's fees and services are very competitive. During the last 17 years, the average annual cost per participant in the plan has been substantially reduced. In 1992 the $12 annual fee was eliminated. Additionally, since 1987 the asset based fee has been reduced from 0.95% to 0.00% or 0.20% depending on the funds in which you invest (on a $10,000 balance, this equals a reduction from $95 to $0 or $20, depending on the funds you choose). Currently, the Plan has no annual administrative fee on over half of the available investment options.

For these fees, PEBSCO maintains account records, creates and mails statements, provides the investment options, and provides and maintains a customized web site, www.pebscomo.com. They also provide an office in Jefferson City and Retirement Specialists throughout the State.

Keep in mind that any underlying fund expenses are in addition to the fees mentioned here. These fees are noted on the Investment Performance Summary Report, also included with your quarterly statement.

Deferred Compensation Plan Reminders

Call PEBSCO for all of your Deferred Compensation needs or questions. In Jefferson City, we can be reached at 761-5445, or toll free, at 1-800-392-0925.

Uncle Sam may help fund your Deferred Compensation Plan

By utilizing the Saver's Tax Credit, you may receive a tax credit based on the contributions you have made to the Deferred Compensation Plan. Call us for details!

Change in Maximum Contributions Coming...

In 2005, you may be able to defer more into your Deferred Compensation account. The maximum for next year will increase to $14,000. Call to speak to a PEBSCO representative about increasing your deferral.

Over 50 – you may be able to defer even more!

If you are over 50 years of age or within 3 years of normal retirement, you may even be able to defer more. Up to $28,000 in 2005. Call a PEBSCO representative to learn more.

Need to change your Distribution amount?

Thanks to IRS regulation changes a few years ago, you are able to change your distribution amount to fit your changing needs. Call PEBSCO for assistance.

Your 457 Beneficiary: Is yours still the right one?

Your intended beneficiaries may have changed since you enrolled in the 457 plan. Yet information on a beneficiary form may override wishes you express in a will. Make sure your beneficiary information is up-to-date. Contact your PEBSCO Retirement Specialist.

Are you retired and over age 70 ½?

If so, make sure you are withdrawing enough to satisfy the Internal Revenue Service's Required Minimum Distribution. Call a PEBSCO representative to make sure.

Some settlements reached in mutual fund investigations

It has been over a year since the first mutual fund investigations began. Since the last time you received your quarterly update, the following companies in the Missouri plan have reached settlements with regulators.

Invesco Funds Group

September 7, 2004 – Invesco Funds Group (IFG) settled market timing allegations that included maintaining 30 market timing agreements with large investors. These agreements resulted in $58 billion in market timing transactions.

According to a press release from the New York Attorney General's Office, IFG will pay damages of $215 million and a penalty of $110 million. Additionally, IFG and its sister company AIM Investments, have "agreed to $75 million in fee reductions over the next five years, and adopt management reforms designed to strengthen compliance and protect investors." The exact share of the fee reduction allocated to IFG has not yet been determined.

Also stated in the press release: "The settlement was negotiated jointly by Spitzer's office, the SEC and Colorado state regulators, and resolves pending lawsuits against Invesco alleging that it entered into agreements known as 'special situations' with mutual fund timers."

August 31, 2004 – According to a press release issued from the SEC: "The Securities and Exchange Commission today announced settled enforcement actions against Timothy J. Miller, the former chief investment officer and a portfolio manager for Invesco Funds Group, Inc. (IFG); Thomas A. Kolbe, the former national sales manager of IFG; and Michael D. Legoski, a former assistant vice president in IFG's sales department.

Miller and Kolbe were each fined $150,000, while Kolbe was fined $40,000. They were each barred from the securities industry for 1 year. The Commission issued orders alleging that Miller, Kolbe and Legoski violated federal securities laws by facilitating widespread market timing trading in certain Invesco funds in contravention of those funds' public disclosures." Tim Miller is the former portfolio manager of Invesco Dynamics, currently offered in the Missouri plan.

In addition, as noted in the September 9th edition of the Wall Street Journal, the former Chief Executive Officer (CEO) of Invesco Funds Group, Raymond Cunningham has been fined $500,000 and barred from the industry for 2 years. None of these four executives have admitted or denied any wrongdoing.

Janus Capital Management

August 18, 2004 – According to a press release from the SEC: "The Securities and Exchange Commission announced today a settled enforcement action against Janus Capital Management LLC (JCM), a registered investment adviser based in Denver, Colorado, for entering into undisclosed market timing agreements with certain investors.

The Commission ordered JCM to pay disgorgement of $50 million and civil penalties of $50 million, for a total payment of $100 million. JCM also consented to a cease-and-desist order and a censure, and agreed to undertake certain compliance and mutual-fund governance reforms."

The SEC complaint, which alleges that Janus allowed 12 investors to market time their funds, noted specifically that Janus policed and enforced such trades by everyday investors, while allowing the same type of trades by "approved market timers." The SEC notes that the largest timer alone placed trades totaling $2.5 billion.

Questions?

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Interest update

Nationwide Fixed Annuity
4th Quarter 2004: 5.10%
2004 Guarantee: 5.00%

Prudential Guaranteed Interest Account
4th Quarter 2004: 5.00%
2004 Guarantee: 5.00%

Neither PEBSCO nor its representatives can offer legal or tax advice. For such guidance, you should consult your own legal or tax advisor.

Securities offered through Nationwide Investment Services Corporation, Member NASD.

Contract numbers:

Group Fixed Annuity:
Nationwide APO-2425-1
Prudential GA-317966, GA-314644

Group Variable Annuity:
Nationwide APO-2272-1

The unregistered group fixed annuities and variable annuity are issued by Nationwide Life Insurance Company, Columbus, OH and the Prudential Insurance Company of America.

For complete information regarding these announcements and other financial news, you may visit the Web sites listed below or call PEBSCO for assistance. Complete copies of the press releases mentioned above can be found on the web sites of the SEC and the New York Attorney General's office.

SEC: www.sec.gov

NY Attorney General: www.oag.state.ny.us

Invesco: www.invesco.com

Janus: www.janus.com

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