The Wisconsin Deferred Compensation Program

Invest in
Your Future
While Reducing
Your Taxes

Included in this booklet ...

What is the Wisconsin Deferred Compensation Program?

The Wisconsin Deferred Compensation Program (WDC) is a supplemental retirement savings program, regulated by Section 457 of the Internal Revenue Code (IRC). It is available to all State and University of Wisconsin employes as well as employes of local governments and school districts in Wisconsin that have elected to offer the WDC.

The WDC provides eligible employes with the opportunity to set aside a portion of their annual earnings on a tax-deferred basis to supplement retirement income. Sec. 457 of the IRC sets forth certain limitations and restrictions that must be followed including the amount of compensation that can be deferred as well as when and how account balances can be distributed.

This brochure describes the WDC, its benefits and restrictions. It also provides some basic information that you should consider when you are establishing an investment plan for retirement.

The most important decision you can make to ensure a comfortable retirement is to join a tax-deferred retirement savings plan.

Do you need to supplement your retirement income?

Your decision to invest in the Wisconsin Deferred Compensation Program (WDC) is an important first step to achieve financial security for your retirement years. Supplemental retirement savings is no longer something that is considered "nice to have." It is now essential to ensure you have sufficient income for a comfortable retirement.

There are many reasons that supplemental savings has become vital. The first, and most talked about, is the future of Social Security. As the population ages, the ratio of workers to retirees is expected to plunge. This means there will be fewer workers supporting Social Security and changes to the current structure are inevitable. These may include smaller monthly payments, higher taxes or a later age to qualify for full benefits.

Another reason retirement savings is important is because we are living longer. As our life expectancy increases, few of us extend our working careers. Instead we choose to retire at normal retirement age or maybe even before. This means additional years to enjoy retirement but less time to accumulate retirement savings. Also, retiring early may reduce Social Security or normal retirement benefits.

Perhaps the most important reason to save for retirement is inflation, particularly in regard to health care costs. Over the past 30 years, consumer prices have risen at a compound annual rate of about 6%. Even if inflation rates remain at the current lower level, it still will reduce the purchasing power of your savings over time. In particular, health care costs can be a substantial burden on retirement income.

How do you decide how much supplemental savings you will need?

Financial experts agree that you'll need between 70% and 80% of your pre-retirement income to ensure a comfortable retirement. This means that for an annual pre-retirement income of $50,000, you should have at least $35,000 in annual income when you retire. It is unlikely that Social Security and retirement pension alone can meet this entire income need.

When determining how much replacement income you will need from personal savings, you should first estimate how much you will likely receive from Social Security and Wisconsin Retirement System (WRS) benefits (if applicable). Contact the Social Security Administration office (1-800-772-1213 or on-line at http://www.ssa.gov) for an estimate of your Social Security benefit. The WRS provides an on-line benefit calculator at http://badger.state.wi.us/agencies/etf to help you estimate your monthly pension amount.

The following table is provided to help you identify the gap between your estimated income and your financial needs at retirement. This is the amount that you will need from your personal retirement savings, either through the WDC or other savings such as Individual Retirement Accounts (IRA).

A. Estimate of your annual income in the year you will retire		$ ____________
	X	
B. Percentage of income you believe you will need during retirement (should be between 70% and 80%)		____________%
C. Multiply A. by B. This is the estimated annual income you will need during retirement. (*see note below)		$ ____________
D. Estimated annual amount of your Social Security benefit		$ ____________
	+	
E. Estimated annual amount of your WRS benefit (if applicable) or other retirement pension benefit(s)		$ ____________
F. Add D. and E. This is an estimate of your total retirement income from pension and Social Security.		$ ____________
G. Subtract F. from C. This is the additional income needed to supplement your normal retirement benefits.		$ ____________

** Note – This is a starting point to help you get an idea of the amount of income you will need. It doesn't take inflation or potential changes to your retirement income needs into consideration.*

How does inflation affect your savings plan?

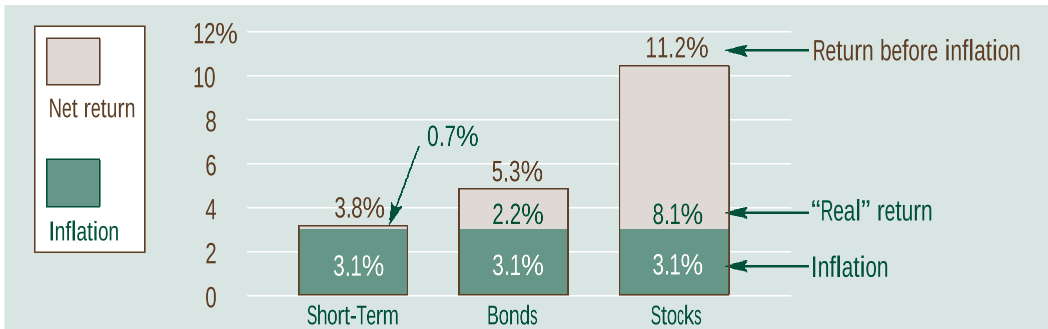
When establishing your retirement goals, don't forget to factor in the effect of inflation on your income projections. In 1968, a gallon of milk cost 90 cents. Today it costs you about $2.50. This is almost a 200% increase in 30 years. What do you think it will cost in another 30 years?

When establishing your savings plan, you also need to consider how inflation risk may affect your investments. This is the risk that earnings on the dollars you invest today will not keep pace with the cost-of-living.

Inflation can be particularly dangerous if you are only investing in conservative (or safe) investments such as money market funds or fixed interest investment options that typically have lower average returns.

Protecting the purchasing power of your dollar is critically important if you want to reach your long-term financial goals. The graph below illustrates the effect of inflation on short-term investments, bonds and stocks between 1926 and 1998.

"REAL" RETURN AFTER INFLATION (1926-1998)



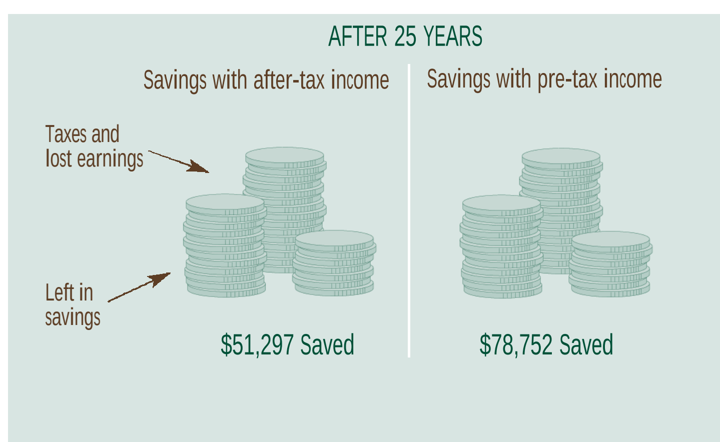
What are the benefits of saving pre-tax income through the WDC?

There are two tax advantages for using the WDC for your supplemental retirement savings. The first is that both state and federal income taxes are deferred on the amount of earnings you invest until such time as you receive them from the plan, presumably at retirement. The tax savings can be invested, allowing you to defer more income with a smaller impact to your take home pay. The table below illustrates how a $10, $25, $50, or $100 pre-tax payroll deferral will impact your take home pay.

	This estimate is based on a 20% combined tax bracket–15% federal tax and 5% state tax		*This estimate is based on a 35% combined tax bracket–28% federal tax and 7% state tax*	
Payroll Deferral	Reduction in your take home pay	Tax savings	Reduction in your take home pay	Tax savings
$10	$ 8	$ 2	$ 6.50	$ 3.50
$25	$20	$ 5	$16	$ 9
$50	$40	$10	$32	$18
$100	$80	$20	$65	$35

The second tax advantage is that you also defer state and federal income tax on your investment earnings until such time as you withdraw them from the program. Because interest compounds without being taxed, you will accumulate additional earnings on the tax savings.

The illustration on the right shows how much more you can accumulate in a tax-deferred account versus an after-tax savings account over a 25 year period, based on a $100 monthly contribution, an assumed interest rate of 7% and a combined 20% tax bracket.



When should you start?

It's never too late to start saving for retirement, it's just important to get started. The earlier you start to save, however, the longer your money has to grow and realize the benefits of compounding. Compounding is what happens when the money you're saving also begins to earn money.

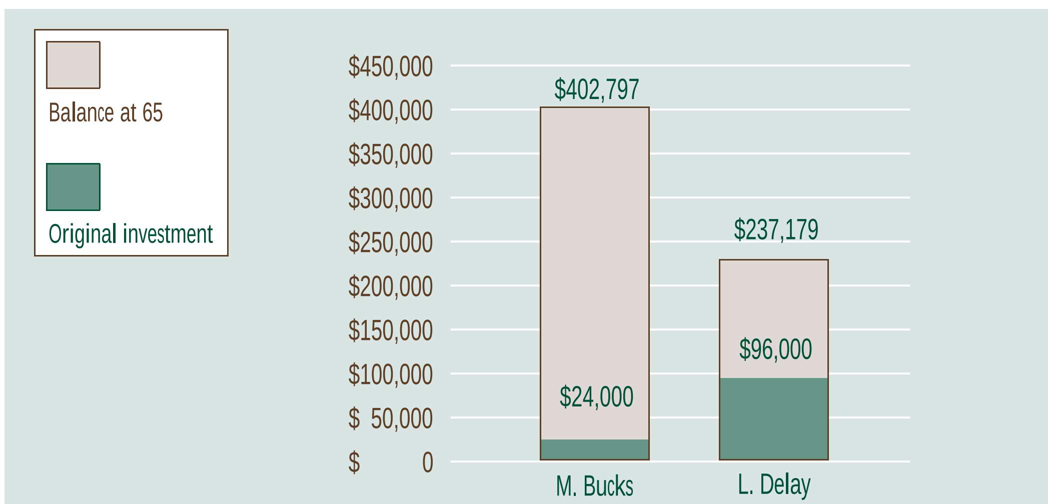
Here's how it works. You invest $1,000 in a retirement savings account at the beginning of the year. The first year you earn a 10% return or $100. Your new balance is $1,100 and it remains invested for a second year. It again earns 10%. Your second year investment return is $110. This reflects $100 in earnings on the original $1,000 investment and an additional gain of $10 on the $100 earnings from the first year.

The chart below illustrates the value of compound earnings for retirement savings over time. The comparison includes one individual, M. Bucks, beginning a retirement savings plan at age 25 by investing $200 a month for 10 years and stops at age 35. The second individual, L. Delay, waits until age 45 and invests $400 a month for 20 years.

At age 65, even though L. Delay invests twice as much for twice as long, M. Bucks retirement savings account totals over $165,000 more than L. Delay's account. This is the power of compound earnings.

Note: This illustration is based on a monthly deferral to a tax deferred retirement plan, such as the WDC, and annual investment earnings of 8%.

ADVANTAGE OF STARTING EARLY



How much should you defer?

Once you decide to begin your retirement savings program, your first step will be to determine how much you need to defer to meet your retirement income needs. A WDC Participant Service Representative can help you estimate how much you need to save to meet your retirement income goals.

The federal tax law imposes limits on the maximum amount you can contribute to a Section 457 deferred compensation program, such as the WDC. This maximum is 25% of annual compensation up to $8,000 per year. The $8,000 limit is periodically increased to reflect a cost-of-living adjustment.

To calculate 25% of annual compensation, you must first subtract any amounts contributed to a Sec. 125 employee reimbursement account plan from your gross compensation. Also, if you contribute to any other tax deferred retirement plan [such as a Sec. 403(b) or another Sec. 457 plan] you must take these amounts into consideration when computing your maximum contribution. If you are contributing to other tax deferred programs, Participant Service Representatives can help you calculate the maximum amount you can contribute to the WDC.

You may be allowed to defer more than the stated annual maximum limit during the three years prior to normal retirement age under the plan's catch-up provision. For more information regarding this, you can request an additional brochure entitled *Catch-up Rules and Election Form.*

Once you decide to join the WDC, the second most important decision that you will need to make is how you will invest your savings.

How do you establish a long-term retirement savings plan?

The WDC offers a variety of investment options to allow you to establish an investment plan that is right for you. A separate brochure, entitled *Spectrum and Description of Investment Options* describes the available options and the associated investment risks. The WDC also offers an asset allocation service to help you establish and maintain your long-term retirement savings plan.

Experts agree that the asset class you select for your investments actually accounts for more than 90% of your overall investment return; less than 10% is attributed to the selection of a particular option or the time you decide to invest. This means that the selection and combination of asset classes is much more important than the selection of individual options. Therefore, asset allocation of your deferrals, or the way you divide your investments among different asset classes of funds, is a decision that should be made with care.

Your best long-term approach to investing is to establish a savings plan based on different asset categories of funds and stick with it! Forget the daily ups and downs of the market and don't react to short-term fluctuations.

For some, this may be difficult to do. The natural reaction is to select options that perform well and exchange balances out of poorer performing funds. As a result of this action, however, the typical result is that you are buying investments that are priced high and selling those that are priced low. If the reason for the fund's poor performance is that a particular asset class is temporarily out of favor, you may miss the investment gains when the performance of this asset class improves.

How do you identify your investment goals, time horizon and risk tolerance level?

The first step in developing an asset allocation plan is to determine your retirement income needs to help you establish your retirement investment goals. Second, you need to estimate when you plan to retire and how long you intend for your retirement savings to last during retirement to determine your investment time horizon.

The last consideration for your asset allocation plan is to decide the amount of risk that you are willing to take, or your risk tolerance level, for your investment decisions. The following questionnaire is designed to help you identify just how much risk you are willing to take with your long-term investments.

The resulting score will suggest an investment approach, from conservative to aggressive, that appears to best meet your risk tolerance and savings needs. Conservative investors will typically have a shorter time horizon and will not be able to tolerate the ups and downs of the more volatile investment options. Aggressive investors will have a longer time horizon and be more willing to take substantial investment risk to achieve financial goals.

This questionnaire does not take your entire financial situation into consideration and should only be used as a guide. If the WDC represents only part of your retirement savings, you may decide to be more aggressive, or more conservative, with your WDC assets than the survey suggests.

Keep in mind that the survey results will only provide an indication of the investment style that you would be the most comfortable establishing. Ultimately, deciding if you are a conservative or aggressive investor is a personal decision that only you can make.

Questionnaire

1. How many years do you have to invest before you plan to retire, and begin a distribution from your WDC account?

   A) Less than 3 years [1 point]
   B) 4 to 6 years [5 points]
   C) 7 to 10 years [10 points]
   D) more than 10 years [15 points]

2. Once you begin a distribution, how many years do you anticipate receiving payments from your WDC account?

   A) Less than 5 years [1 point]
   B) 6 to 10 years [5 points]
   C) 11 to 15 years [10 points]
   D) more than 15 years [15 points]

3. What percentage of retirement income are you expecting your WDC account to represent?

   A) Less than 10% [5 points]
   B) 11% to 25% [10 points]
   C) 26% to 50% [15 points]
   D) more than 50% [20 points]

4. In addition to your retirement savings, do you have a normal savings account for routine and emergency expenses?

   A) No [1 point]
   B) Yes, but it is small and I would likely have to borrow if I had a substantial emergency. [5 points]
   C) Yes, and it totals two to three months of current income. [10 points]
   D) Yes and it totals over three months of current income. [15 points]

5. Do you believe that you can reach your financial retirement goals with your current supplemental savings portfolio plus your normal retirement plan and Social Security?

   A) Absolutely yes, I've planned ahead and I expect a very comfortable retirement with likely improvements in my standard of living. [1 point]
   B) Yes, if there aren't any major unforeseen problems, I will likely be comfortable at retirement with the same standard of living. [5 points]
   C) No, it's likely that I will need to cut back spending at retirement and I may see a lower standard of living. [10 points]
   D) Absolutely not, at my current savings rate, my living standard will be reduced at retirement. [15 points]

6. If it appears that you will not be able to reach your financial objective by maintaining your current savings plan, are you more likely to:

   A) Increase deferrals but continue to invest in investment options with a guarantee against losing principal. [1 point]
   B) Increase deferrals and move a small part of my investments into more aggressive funds with higher potential for earnings and losses. [5 points]
   C) Increase deferrals slightly but attempt to achieve greater returns through more aggressive investing. [10 points]
   D) Without increasing deferrals, revise my investment plan to seek greater returns through the most aggressive investment options. [15 points]

7. When you receive your quarterly statement, how do you feel when you see negative numbers in the gain/loss column?

A) Immediately panic and move all of my money to a safer investment. [1 point]
B) Although I probably won't immediately take action, it is very likely that I will reconsider my investment plan and move a portion of my account into safer investments. [5 points]
C) I'll look at the quarterly performance report and if all similar funds have performed the same way, forget about the short-term losses. [10 points]
D) Nothing, I expect to see short-term losses periodically. As long as the long-term results continue to be good, I will stick with my investments. [15 points]

8. When it comes to investing in stock or bond mutual funds (or individual stocks or bonds), I would describe myself as a:

A) Very inexperienced investor [2 points]
B) Somewhat experienced [4 points]
C) Experienced investor [6 points]
D) Very experienced investor [10 points]

9. If I could increase my chance of reaching my financial goals by taking more visible risk, I would

A) Be unlikely to take any more risk. [1 point]
B) Be willing to take a little more risk with some of my savings. [5 points]
C) Be willing to take a little more risk with all of my savings. [10 points]
D) Be willing to take a lot more risk with a portion of my savings. [15 points]
E) Be willing to take a lot more risk with all of my savings. [20 points]

10. In general, I base my investment decisions on the following objective:

A) I want as much assurance as possible that the value of my original investment will not go down. [1 point]
B) I am comfortable if my original investment goes down by a very small amount in value in exchange for increased return potential. [5 points]
C) I want an investment mix that is evenly balanced between growth and stability. [10 points]
D) I want my savings to grow as much as possible, regardless of the risk or short-term changes in the value of my investments. [20 points]

To calculate your score, total the points that are assigned to each of your answers. The chart below will then suggest the type of investor that is reflected by this score:

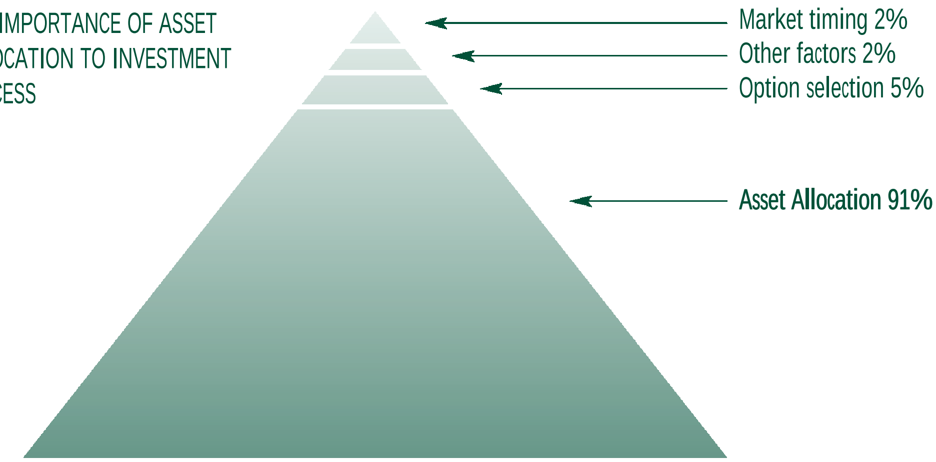
Total Score	Suggested Type of Investor
15 to 20 points	Conservative
21 to 40 points	Moderately Conservative
41 to 80 points	Moderate
81 to 140 points	Moderately Aggressive
141 to 160 points	Aggressive

What is asset allocation?

Once you have determined the type of investor you are, you are ready to establish an asset allocation model that will help you reach your retirement goals. Asset allocation divides your investment portfolio among stocks, bonds and cash investments. Done properly, asset allocation offers the potential of meeting investment objectives while reducing risk through diversification. This is because different types of investments do not always react in the same way to shifts in the economy or financial climate.

Asset allocation directs you to select funds in different investment categories that suit your needs, rather than a specific option(s) based on the current market climate. Experts agree that over 90% of your success in investing is dependent upon asset allocation. If you stick to an asset allocation plan, you can avoid the pitfalls of trying to “time the market”.

THE IMPORTANCE OF ASSET ALLOCATION TO INVESTMENT SUCCESS



The above diagram illustrates that less than 10% of your long-term return is dependent on the specific investment options you select and when you invest. It is much more important to establish a strategy that uses several different asset classes of funds, and stick with it.

How do you develop an asset allocation plan?

To help you design an asset allocation plan that meets your personal needs, the WDC has developed ten sample asset allocation models. These models, which are inserted in this packet of information, have been established to match the five types of investors that are identified through the questionnaire on pages 7 and 8.

There are two model portfolios for each investor type. The first model is more appropriate for an investor with a time horizon of ten years or less; the second is designed for those that have more than ten years to invest. When you calculate your time horizon, make sure you consider the number of years you will continue to invest in the WDC during retirement while you are receiving a distribution from your account.

The model portfolio illustrations include information on the historical performance of each model and the associated level of risk. The standard deviation (or measurement of risk) of each model is provided to illustrate the level of risk that you will likely experience. A definition of standard deviation can be found in the glossary at the back of this booklet.

Each model has been established using past performance information of the various asset classes. Although past performance can be an indication of future performance, there are no guarantees. Therefore, the performance of any single option or asset class may vary significantly in the future and result in more gains or losses than indicated by the historical returns.

Keep in mind that these models have been developed for illustration purposes only. You may find that the sample asset mixes do not fit your personal needs or comfort level. Also, if you have other retirement savings besides your WDC account, you should take these assets into consideration when structuring your WDC asset allocation plan.

How do you select specific investment options?

Once you decide on the most appropriate asset mix, you will then need to examine the various investment options that are offered by the WDC. There are one or more options available in each of the following five asset classes: 1) Fixed, 2) Bond, 3) Large Cap Stock, 4) Mid/Small Cap Stock and 5) International Stock. [Refer to the glossary at the back of this booklet for definitions of each asset class.]

A separate brochure enclosed with this booklet entitled *Spectrum of Investment Options*, identifies each of the available options by asset class and provides a brief description of the option such as its investment objectives and style. For more specific information about each investment option, you may obtain a fund prospectus by calling the Plan Administrator's office.

You will need to select at least one option for each asset class that you have identified in your investment plan. For example, if you decide that you want 40% of your retirement investments in the fixed asset class, you will need to select at least one option from this category. If you select two or more options in this asset class, you will also need to designate the portion of the 40% that you want invested in each of these options.

Participant Service Representatives are available to assist you in establishing your personal investment plan.

How does the asset allocation service work?

Once you have developed an asset allocation plan that meets your retirement goals, time horizon and risk tolerance level, the WDC can help you maintain this plan through its asset allocation service. This service is optional and offered at no additional cost to you.

If you elect to use the asset allocation service, the plan administrator's record keeping system will monitor your account to determine if your balance continues to match your established asset allocation model. Your account can become out of balance because of the investment gains or losses you experience during the quarter.

If your account is out of balance in one or more investment option by 5% or more, your account will automatically be reallocated by the Administrator. This rebalancing will occur on or around the 15th day of the second month of the quarter. You will receive a confirmation within five days of the reallocation identifying each exchange that occurred to rebalance your account to match your designated asset allocation model.

The following is an example of how the asset allocation service works:

> *M. Bucks selects an asset allocation model that is 80% large cap stock funds and 20% fixed funds. Deferrals are made to two large cap stock funds, at 40% of the deferral each, and one fixed fund. Each quarter the account is reviewed to determine if the asset allocation model is maintained. During the first year of M. Bucks' investment plan, large cap stock funds had a tremendous year and earned an average return of 35% while the interest received from the fixed investment was 5%. As a result of the different earnings, the asset model at the end of the first year of 80% large cap and 20% fixed was no longer met. The administrator then initiates exchanges from the two large cap stock funds to the fixed fund to once again meet the designated model of 40% to each of the two large cap stock funds and 20% to the fixed fund.*

Because your account will be automatically adjusted to match your model, you are less likely to react to short-term fluctuations in the market and avoid being in or out of the market at the wrong time. This optional service will help keep your investments on track with your retirement savings plan.

Can you make changes to your WDC investment plan?

It's important to periodically examine your WDC investment plan, particularly at life changes (marriage, divorce, retirement, etc.) to ensure that it continues to meet your long-term goals and retirement income needs. The WDC is very flexible and changes to your deferral amount or asset allocation plan can be made with few restrictions.

You can make changes to your account by telephone, in-person, or over the WDC's Web site.

1. *By telephone: through the WDC's automated telephone system, Deferred CompTalk at 800/758-4457, or by calling the Plan Administrator's office in Madison at 608/256-6200 or 800/257-4457. The teletypewriter number for the hearing impaired is 800/995-4457.*
2. *In person: at the Plan Administrator's office located at 16 North Carroll Street, Suite 209, Madison, Wisconsin.*
3. *The WDC's Web site at* ***http://www.nationaldeferred.com/wdc*** *allows you to make changes to your account directly on-line. In addition, it provides you with up-to-date account balance information and investment education material as well as program forms, brochures and past newsletters.*

Deferral amounts may be increased, decreased, stopped or restarted without limitations. The effective date of changes to payroll deferrals is subject to restrictions imposed by Section 457 of the Internal Revenue Code and your payroll department. Changes to deferral amounts are typically effective within 30 days of when your request is submitted.

You may also redirect or reallocate future deferrals to alternate investment options, without restriction. Changes will be in effect 48 hours after the request is received. Your payroll deferrals received after the effective date will be processed based on your amended allocation.

The WDC also allows you to exchange your existing balance from one investment option to another at anytime. Requests made by 3:00 p.m. Central Time on normal business days are effective at that day's closing price.

If you elect to use the asset allocation service, you may change your allocation model or cancel your election of this service at any time. Your deferral allocation must match your asset allocation model. Any changes that you make to your deferral allocation will automatically change your asset allocation model in the same manner.

Once you elect this optional service and designate an asset allocation model, your account balance will be adjusted to match your model upon selection of this service and again any quarter that is out of balance by 5% or more in any one option. Changes to your deferral allocation or exchanges of existing balances should only be made if you also intend to alter your asset allocation model or cancel your participation in this service. Any exchanges that you make without also adjusting your asset allocation model will likely cause your account to be out-of-balance with your original model and be reversed at the next re-balancing date.

As you get closer to retirement, you'll need to make another important decision: how and when you would like to receive payments from your WDC account.

When are your benefits payable to you from your WDC account?

Benefits are only payable to you upon separation from employment, retirement, death or a severe financial hardship as defined by Sec. 457 of the Internal Revenue Code (IRC). Before beginning your retirement investing, you should be able to maintain a separate, regular savings account for routine and emergency financial situations. Your WDC account is strictly for retirement. Although there is a financial hardship withdrawal provision, it is very restrictive and most emergency situations will not meet the IRC requirements.

The following summarizes when benefits are available and the federal tax law requirements pertaining to each. If you would like more detailed information regarding the benefit payment options and the regulating federal tax laws, you can obtain a *Benefit Planning Information* packet from the Plan Administrator.

Termination from employment or retirement

Within 60 days from the date you **terminate employment or retire**, you must elect the date you wish to begin distribution from your WDC account (benefit commencement date). This date must be between 61 days after your termination date and April 1 of the year following the calendar year you attain age 70 ½, or retire, if this is a later date.

You may make a one-time change to your benefit commencement date election to postpone your distribution to a later date. This second election can only be made prior to your original benefit commencement date and must specify a later date for your distribution.

Once you have terminated employment, you may no longer contribute to your WDC account. However, you may continue to exchange your account balances among the available options and you will also continue to receive quarterly statements and newsletters.

Your decision as to how you want to receive benefits from your account can be delayed until 30 days prior to your elected benefit commencement date. Several types of benefit payment options are available including lump sum distributions, periodic payments directly from your account and annuity options.

Since benefits are considered taxable income when they are paid, you may want to consider an option that will pay your account balance to you over a period of time instead of in a lump sum. A separate brochure entitled *Benefit Payment Options* is available from the Plan Administrator and explains the various options that are available to you.

Distributions from the WDC are subject to the requirements of the IRC and the WDC Plan Document (copy can be obtained from the Plan Administrator). To meet IRC requirements, you must designate a benefit commencement date and a benefit payment option within the time periods stated above or your benefits will be distributed to you at the time and in the manner required by the WDC Plan Document.

Additionally the IRC prohibits you from "rolling" or re-directing your WDC account into an individual retirement account (IRA) or other tax sheltered program.

For more information about benefit payments from your WDC account, contact the Plan Administrator to receive a ***Benefit Planning Information Packet****. This packet includes the following additional brochures:* ***General Benefit Information****,* ***Benefit Payment Options****, and* ***Tax Considerations and Beneficiary Information****.*

Death benefits

You may designate one or more individuals as beneficiary of your WDC account. Distributions made to beneficiaries must meet the requirements of federal tax laws. If you die after benefits have begun, your beneficiary(ies) will receive the remaining payments from your designated distribution option. If you die before your distribution has begun, your beneficiary(ies) may elect a benefit payment option as allowed by IRC. More information regarding beneficiary designations and distributions can be found in the brochure *Tax Considerations and Beneficiary Information* available from the Plan Administrator.

Financial hardship withdrawal

Under Sec. 457, a financial hardship withdrawal can only occur for situations resulting from a sudden and unexpected illness or accident of the participant or their legal dependent, loss of participant's property due to casualty or other similar extraordinary, unforeseeable circumstances arising as a result of events beyond the participant's control. Normal budgetable situations cannot be considered and the participant can have no other means available to relieve the financial hardship. Additionally, only the amount that has been documented as necessary to relieve the financial hardship situation may be released.

Applications for a financial hardship withdrawal must be substantiated and are subject to the approval of the Department of Employe Trust Funds in accordance with IRC regulations. If you receive a withdrawal under this provision, you will be required to stop deferrals into the WDC for a period of 180 days. Additional information regarding this provision is also available through the Plan Administrator.

De Minimis Distribution

Effective January 1, 1997, federal tax law was amended to allow an in-service distribution to occur if a participant's account balance is $5,000 or less and there has been no deferral activity in the account for two or more years. This type of distribution can only be made to a participant one time.

The WDC is designed to meet your supplemental retirement savings needs and is as flexible as allowed under the regulating federal tax laws.

Other WDC features and services

- You will receive a statement within 20 days from the end of each quarter detailing your account balance and any activity that occurred in your account during the quarter.
- Along with your statement, you will receive a newsletter that includes articles to help you with investment decisions and timely updates about enhancements or changes in the WDC.
- Each quarter you will also receive a performance report that identifies both short- and long-term performance of the options offered by the WDC. This report includes the performance of several market indices to allow you to compare the performance of the WDC options to that of similar investments.
- The WDC offers 24-hour access to your account through an automated telephone system, Deferred CompTalk. You can request changes to your account or a copy of the fund prospectus through this automated service as well as obtain performance or account balance information.
- You also can obtain information about the WDC or your account over the Internet. The WDC's Web site is located at **http://www.nationaldeferred.com/wdc.** You will find the WDC brochures and forms on this site as well as additional information about investing. Also, you can review your current account balances on-line. Several enhancements to the WDC Web site were made during 1999. You are now able to request changes to your account directly on-line.
- Participant Service Representatives are available at the Madison office to provide you with information about the WDC, your account, establishing an investment plan and structuring your benefit payment option.
- Representatives are available to provide group informational presentations at your work site. Employers are contacted annually to set up a schedule for presentations and are encouraged to offer this to their employes.
- The WDC allows you to transfer your account balance to or from another Section 457 plan, if the other plan allows such transfers. However, IRC does not allow you to "rollover" WDC account balances to or from an IRA or other tax sheltered savings plan.

More information on program administration

The WDC is one of many employe benefit programs administered by the Department of Employe Trust Funds. This program is a supplemental retirement savings plan regulated by Sec. 457 of the Internal Revenue Code. The WDC is also governed by Wisconsin Statutes [Chapter 40, Subchapter VII], Chapter ETF 70 of Wisconsin Administrative Code, and the Wisconsin Plan and Trust Document.

The Deferred Compensation Board (Board) and the Department of Employe Trust Funds (Department) are responsible for all aspects of program administration. The Board contracts with a third party administrator to provide marketing, customer service and record-keeping services for the plan. The administrator is selected through a competitive bidding process. National Deferred Compensation, Inc. (NDC) is currently under contract to provide this service through December 31, 2002.

The Board is also responsible for selecting and monitoring the core investment options offered by the WDC. A separate Investment Committee of the Board has been established to assist Department staff in the review of investment options. Fixed income, or guaranteed principal options are selected through a competitive bid process. Mutual fund options are selected through a search process by utilizing specific criteria for each option type as established by the Board.

An in-depth analysis of the WDC investment options is presented to the Board each year. This report includes the performance of the investment products compared to appropriate indices and an evaluation of how the options are meeting predetermined criteria. As a result of this annual review, the Board may replace or remove investment options that are determined to be no longer acceptable for offering.

Section 457 of the IRC sets forth several restrictions on the features of the WDC, including limits on the amounts that can be deferred and how these deferral limitations must be coordinated with other tax deferred arrangements. For instance, your participation in a Section 403(b) tax deferred annuity plan, Section 125 cafeteria plan, Section 401(k) deferred compensation arrangement or another Section 457 deferred compensation plan may reduce the amount of compensation that can be deferred to the WDC.

Likewise, amounts deferred under the WDC may limit your exclusion allowance under a Section 403(b) plan. It is your responsibility to determine the maximum contribution that can be made to the WDC and monitor your deferrals to ensure the limits are not exceeded.

The rules and regulations governing the WDC are explained in the WDC Plan and Trust Document and the plan brochures. This information is available from the Plan Administrator or can be found on the WDC Web site at **http://www.nationaldeferred.com/wdc.**

These provisions are subject to change in the future and may become more, or less, attractive if Congress enacts new tax laws, changes the Internal Revenue Code provisions governing the plan or issues more restrictive federal regulations. The WDC is also subject to changes imposed by State law or as deemed necessary by the Deferred Compensation Board.

Any changes to the provisions of the WDC are communicated to participants in the quarterly newsletter and updates will be placed on the Plan's Web site. It is your responsibility to read and understand the information that is available to you before making your decision about participating in the WDC and establishing a supplemental retirement savings plan.

Also, the tax information that is provided in this brochure is in summary form and is correct to the best of our knowledge. You are encouraged to seek personal advice from your tax preparer with respect to the suitability of participation in the WDC as it relates to your individual tax situation.

Glossary

Aggressive Growth Funds – Seek maximum capital gains as their investment objective. Current income is not a significant factor. Some funds may invest in stocks of businesses that are somewhat out of the mainstream, such as fledgling companies, new industries, companies fallen on hard times, or industries temporarily out of favor.

Asset Allocation – The process of dividing your money between different types of assets – such as stocks, bonds, cash, etc. – in a combination intended to generate the overall return you need, while minimizing your overall risk. The underlying idea is that if you own asset classes that behave differently, you will always have a portion of your investments that are doing okay.

Asset Allocation Model – How a participant divides his investment portfolio among a variety of asset classes to achieve diversification.

Asset Class – Types of investments that include: cash equivalents (such as certificate of deposits, money market funds, guaranteed investment contracts); fixed income/bonds (such as government or corporate bond mutual funds of short-term, intermediate term or long term durations); growth investments or equities (such as large cap, mid cap, small cap growth funds, balanced funds, value funds, blend funds, aggressive growth funds, international or global equity funds, etc.)

Balanced Funds – Generally have a three-part investment objective: 1) to conserve investors' initial principal, 2) to pay current income, and 3) to promote long-term growth of both principal and income. Balanced funds have a portfolio mix of bonds, preferred stocks, and common stocks.

Blend – A style of investment that combines both growth and value equities in the fund's portfolio.

Bond – A debt security issued by a corporation, the U.S. Government, or a governmental agency that represents a loan to the issuer. The issuer agrees to repay the loan by a specific date and to pay regular, fixed interest payments during that period.

Cash Reserves – Investments placed in bank deposits, money market instruments, U.S. Treasury Bills, etc.

Corporate Bond Funds – Seek a high level of income by purchasing bonds of corporations for the majority of the fund's portfolio. A portion of the portfolio may also be in U.S. Treasury bonds or bonds issued by a federal agency.

Credit Risk – Also known as default risk, this is the ability of a bond issuer to pay interest and principal on a timely basis, or the likelihood that the issuer will default on principal or interest payments.

Currency Risk – The risk that foreign currency exchange rates will reduce the dollar value of overseas investments. This additional risk will make investing in international or global mutual funds more volatile.

Diversification Risk – The risk associated with putting all your investment eggs in one basket – or not spreading them among different types of baskets. Diversifying your investments among several different classes of investments, not just several funds of one class, will help reduce the effects of market risk.

Dollar Cost Averaging – The practice of investing equal amounts of money at regular intervals, regardless of whether the markets are declining or rising. Hypothetically, this investment strategy reduces the average share cost to an investor, whose automatic investments result in more shares being bought when the price is low and fewer shares when the price is high.

Fixed - These types of investments are generally shorter-term, such as FDIC insured bank accounts, stable value funds, and money market funds. Fixed accounts generally bear the least amount of investment risk.

Growth Funds – Invest in the common stock of well-established companies that the manager believes have the potential to grow faster than the rest of the market. Their primary aim is to produce an increase in the value of their investments (share price) rather than a flow of dividends.

Index Funds – Passively managed funds that attempt to match the performance of a particular index. The investment objective of the fund will be to mirror an index, such as the S&P 500 Index, rather than try to beat it.

Inflation Risk – Risk that the earnings on the dollars you invest today will not keep pace with the cost-of-living, thus reducing the purchasing power of future dollars.

Interest Rate Risk – The potential for fixed-income investments to decline in value as interest rates rise.

International Stock Funds – Seek growth in the value of their investments by investing in equity securities of companies located outside the United States. Two-thirds of their investments must be so invested to be categorized as an International Fund.

Investment Objective – A description of the types of investments that will be included in the fund's portfolio along with general guidelines as to the proportions these securities will represent in the fund's total holdings. It may also include the type of risk that will be associated with the particular investment.

Large Cap Stock Funds – Mutual funds that primarily invest in the stocks of well-established corporations that have market capitalizations (valuations) in excess of $5 billion.

Market Risk – The risk inherent in all types of investment vehicles. If the bond or stock market declines, your investments can fall in value. If you were to sell when values are down, you can lose money.

Market Timing – An investment strategy based on predicting market trends and buying or selling investments based on a prediction of the way the market is going to move.

Mid Cap Stock Funds – Mutual funds that primarily invest in the stocks of mid-size corporations that have market capitalizations (valuations) between $1 billion and $5 billion.

Mutual Fund – An investment company that pools money of many shareholders to invest in a diversified portfolio of securities.

Portfolio – A collection of securities owned by an individual or an institution (such as a mutual fund) that may include stocks, bonds and cash reserves.

Principal – The basic amount of money you invest, not to be confused with reinvested dividends or capital gains.

Real Return – The actual earnings of an investment after factoring in the rate of inflation. For instance, fixed income investments that earn 5% annual return will have a real return of 2% after factoring in a 3% inflation rate.

Rebalancing – The process of adjusting a portfolio's holdings to equal a desired asset allocation.

Risk – The possibility that an investment may fluctuate in value. Factors such as credit quality, currency exchange rates, inflation rates, market valuations, or the direction of interest rates may increase an investment's volatility.

Risk Tolerance – An individual investor's ability to withstand the daily fluctuation of their investments.

Small Cap Stock Funds – Mutual funds that primarily invest in the stocks of smaller, lesser known corporations that have market capitalizations (valuations) of under $1 billion. Small company stocks have a higher growth potential than large or mid cap stocks but also are more volatile and may fail more often.

Standard Deviation – A measurement of the mathematical deviation from the mean average of two-thirds of a statistical sample. Standard deviation reflects the unpredictability of returns and is a useful indicator of risk. Funds with a higher standard deviation have experienced more fluctuation in their returns.

Total Return – The total that you are earning on a particular investment that includes dividends and interest plus any change in the value of your original investment (changes in net asset value).

Time Horizon – The amount of time an individual has to invest to achieve their income goals. For long-term retirement savings, the time horizon should include both the number of years until retirement as well as the number of years that the account balance should last while receiving a distribution.

Value Fund – A mutual fund that concentrates investments in equities that appear to be selling for less than they are worth. By contrast, a growth fund concentrates investments on stocks of companies whose earnings are growing rapidly.

Volatility – How subject an investment is to fluctuations in a market environment; the range of gain and loss in a given investment. The 1, 3 and 5-year performance of a particular mutual fund may be positive, but within these periods there may have been quarters with negative returns. The more an investment's value moves up and down, the greater likelihood it could be down the day an investor sells or liquidates the investment.

Questions regarding the WDC, contact:

Plan Administrator
Wisconsin Deferred Compensation Program
16 N. Carroll Street, Suite 209
Madison, WI 53703

or call the Plan Administrator's office at:

(608) 256-6200

Outside the Madison area:

(800) 257-4457

For the hearing or speech impaired TTY:

(800) 995-4457

Automated Voice Response System

(800) 758-4457

Internet Web Site

http://www.nationaldeferred.com/wdc

The WDC does not discriminate on the basis of disability in the provision of service or employment. If you need this material interpreted in a different form or if you need assistance using it, contact us at (608) 256-6200 or (800) 257-4457. Our teletype writer (TTY) number is: (800) 995-4457.

Administered for the
Wisconsin Department of Employe Trust Funds
by
National Deferred Compensation, Inc.
Retirement and Savings Plan Administrators

12/99

NDC-2024