

# Investment Planning for Everyone - The Basics



## Reasons Why People Don't Invest

1. They're already paying a lot into Social Security
2. They "invest" \$10 per week in lottery tickets and it should pay off soon
3. They believe that inflation means their money is growing
4. Their money is safely under the mattress
5. Their rich Aunt Mabel isn't feeling so well lately



## Workshop Objectives

- Learn a process for investing
  - 6 simple steps
- Review the free resources available to you
  - Provided by the FRS
- Create an easy to follow action plan
  - Customized to meet your investment goals



## Personal Action Plan

<i>Action Steps</i>	<i>Done</i>
1) Find your 6-digit PIN and create a MyFRS.com account. (If already registered, use User Id and Password created.)	<input type="checkbox"/>

**Action Step**

- See **Appendix A** for your own Personal Action Plan.



## Resources Available to You - FREE

### MyFRS Financial Guidance Program



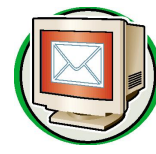
MyFRS.com  
Advisor Service  
Choice Services  
FAQ's, Calculators



Toll-free MyFRS  
Financial Guidance Line,  
staffed by  
Ernst & Young financial  
planners and the Division  
of Retirement



Employee workshops:  
Visit MyFRS.com for an  
updated list of workshops,  
locations and dates



Print and e-mail  
communications

**All resources are available to FRS  
Pension & Investment Plan Members**

**Action Step**  
• See **Appendix B** to learn more about  
the MyFRS Financial Guidance Line.

MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com



## The Importance of Saving AND Investing

MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com





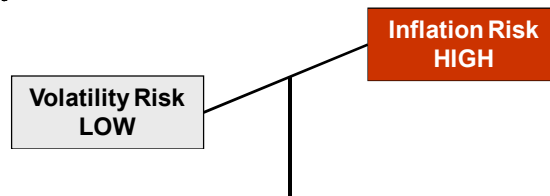
## How Do Your Goals Influence Your Investment Decisions?

Goals	Short-Term (1-3 years)	Intermediate Term (3-7 years)	Long-Term (7 or more years)
Monthly Bills	Immediate		
Car Purchase	Immediate		
Vacation	Immediate		
Home Purchase		Intermediate	
College Fund			Long-Term
Retirement			Long-Term



## Traditional Savings Vehicles

- Savings Accounts
- Checking Accounts
- Money Market Accounts / Funds
- Certificates of Deposits (CDs)
- Treasury Bills





## How Will Inflation Affect You?

			
<b>\$25,000</b> Year 1	<b>\$37,000</b> Year 10	<b>\$54,800</b> Year 20	<b>\$81,100</b> Year 30

Assumption: 4% rate of inflation. Rounded to the nearest \$100.



## How Investment Returns Affect Buying Power

- Assumes a starting balance of \$10,000 and 4% inflation

	Nominal Return	10 Years	20 Years
"Growing Poor Safely"	0%	\$6,800	\$4,600
	2%	\$8,200	\$6,800
	4%	\$10,000	\$10,000
	6%	\$12,100	\$14,600
	8%	\$14,600	\$21,300
	10%	\$17,500	\$30,700

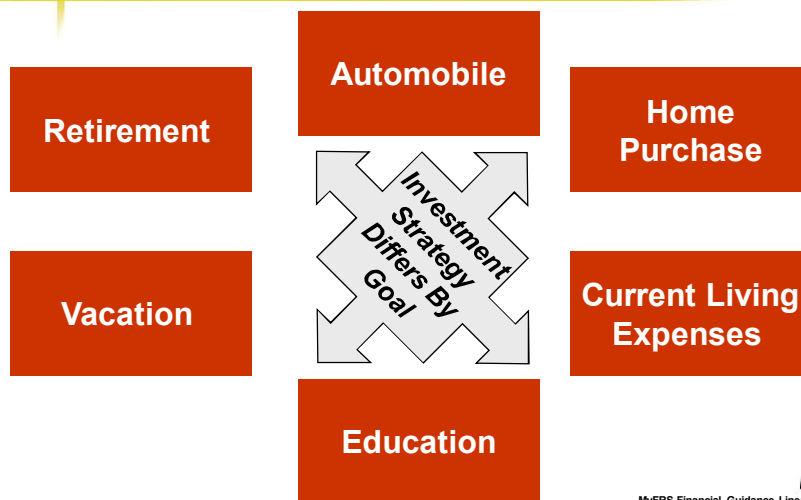
Rounded to the nearest \$100.



## Sound Investing Helps You Meet Your Goals



## Investing For Multiple Goals





## The Investment Planning Process

- Step 1:** Determine your goals
- Step 2:** Determine your investment profile
- Step 3:** Understand your trade-offs
- Step 4:** Understand your investment choices
- Step 5:** Determine your investment mix
- Step 6:** Monitor your investments



## Step 1: Determine Your Goals

- Setting S.M.A.R.T. goals
  - Specific
    - Don't just say you want *a* car; be as specific as possible
  - Measurable
    - What is the cost today and what will you need in the future?
  - Actionable
    - Are there steps you can take to accomplish the goal?
  - Realistic
    - Is it practically feasible?
  - Time-bound
    - When do you need the money and for how long?

### Action Step

- Use Appendix C to establish your financial goals.



## Step 2: Determine Your Investment Profile

	Conservative	Moderate	Aggressive
<b>Years to Goal</b>	1-5 years	5-10 years	More than 10 years
<b>Objective</b>	Liquidity, Safety	Income, Some Growth	Capital Growth
<b>Risk Tolerance</b>	Low (little to no price fluctuation)	Medium (some price fluctuation)	High (greater price fluctuation)
<b>Target Rate of Return</b>	Low	Medium	High
<b>Liquidity Need</b>	High	Medium	Low
<b>Examples of Goals</b>	Car, Vacation	Home, College Funding	College Funding, Retirement

### Action Step

- Use **Appendix D** to determine your investment profile.

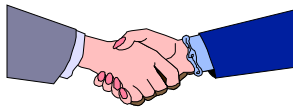


## Step 3: Understand Your Trade-offs

### Risk Tolerance Versus Meeting Your Goal

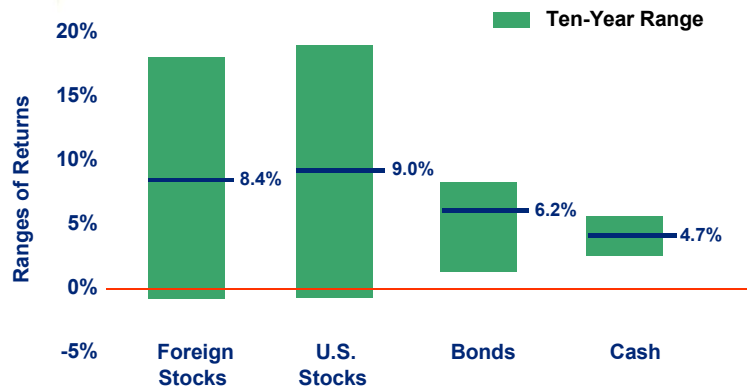
Rate of Return	0%	5%	7%
<b>Monthly Savings</b>	\$2,083	\$1,217	\$960
<b>Annual Savings</b>	\$25,000	\$14,604	\$11,520
<b>20 Years of Savings</b>	<b>\$500,000</b>	<b>\$292,080</b>	<b>\$230,400</b>
<b>Account Balance</b>	\$500,000	\$500,000	\$500,000

Figures are rounded..





## Risk and Return Trade-offs



These are indicative figures and are not intended to be predictions. Assumption 3% Inflation.  
Source: Financial Engines, 2008



## Step 4: Understand Your Investment Choices

- ✓ Savings and Checking Accounts
- ✓ Money Market Funds
- ✓ Certificates Of Deposit
- ✓ Treasury Bills



### Cash and Equivalents

- Pays Current Income
- < 2 Years To Maturity
- Maintains Principal (Safety)
- Little Protection Against Inflation



## Investment Choices

- ✓ Treasury Notes and Bonds
- ✓ Corporate Bonds
- ✓ Municipal Bonds
- ✓ Mutual Funds (bond)



### Bonds (Fixed Income)

- Debt = “IOU”
- Pays Current Income
- $\geq 2$  Years To Maturity
- Principal Will Fluctuate
- Credit Risk



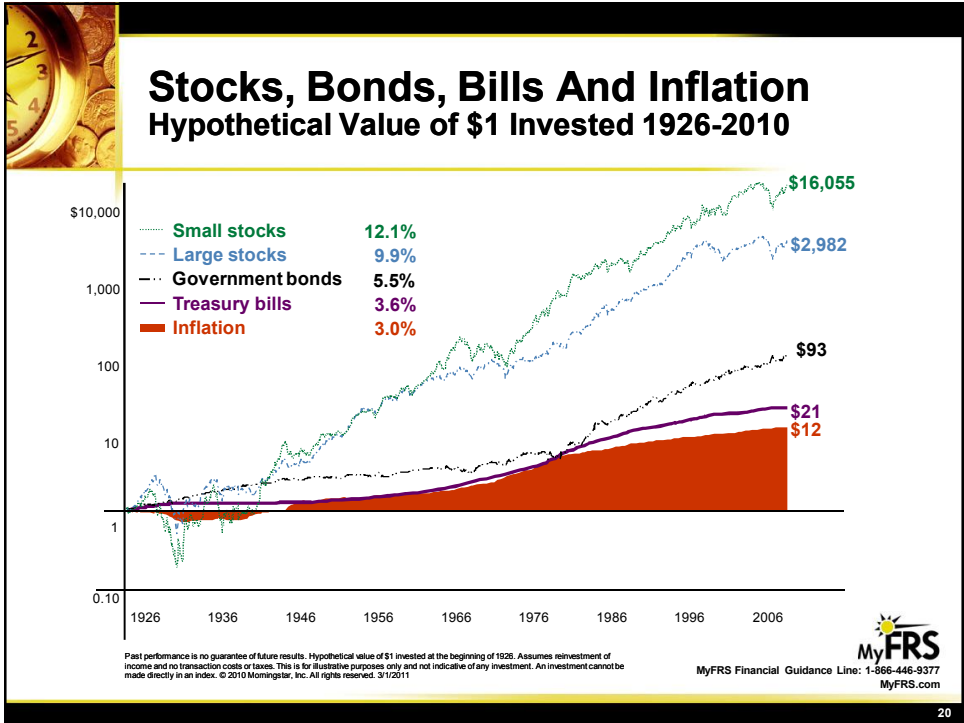
## Investment Choices

- ✓ Common and Preferred
- ✓ U.S. and Foreign
- ✓ Size and Style



### Stocks (Equities)

- Ownership In Business
- Share in Profit Growth
- May Pay Current Income



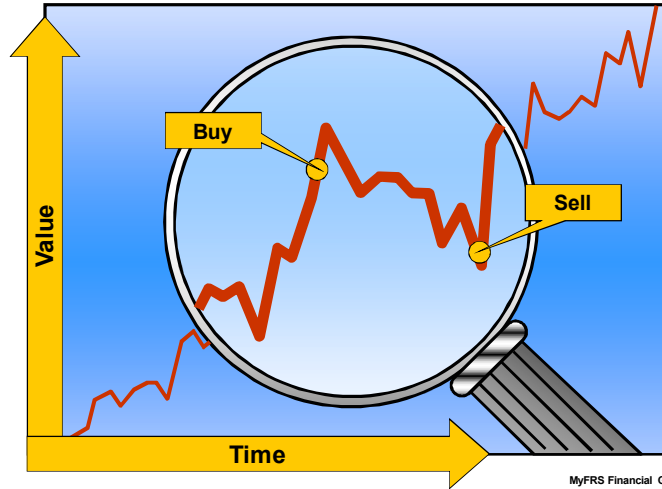
**Step 5:**  
**Determine Your Investment Mix:**  
**Managing Investment Risk**

<i>Types of Risk</i>		<i>How are they managed?</i>
Market Risk	⇒	Holding Period
Business Risk	⇒	Diversification
Inflation Risk	⇒	Asset Allocation

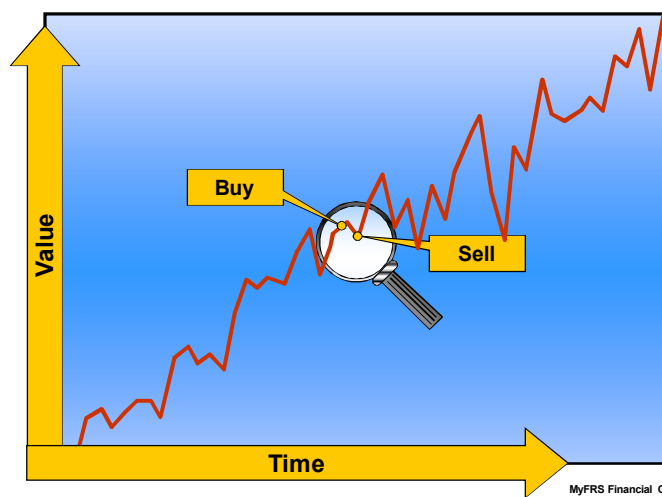
MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com



## How Does Time Affect Market Risk?

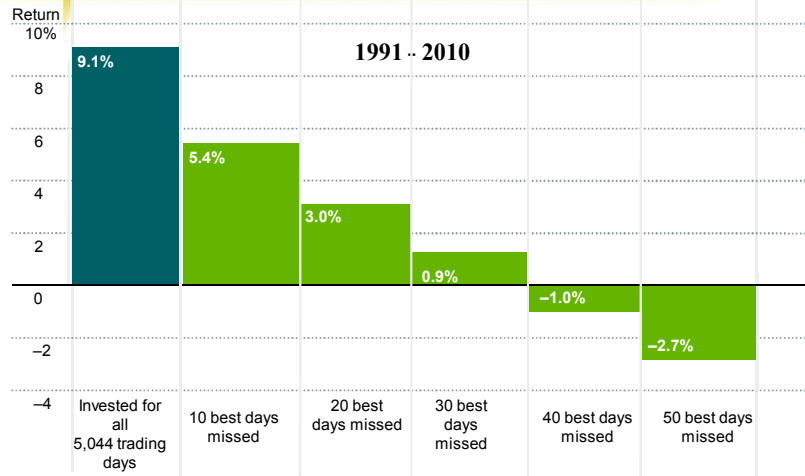


## Longer Holding Time Reduces Market Risk





## The Cost of Market Timing Risk of missing the best days in the market



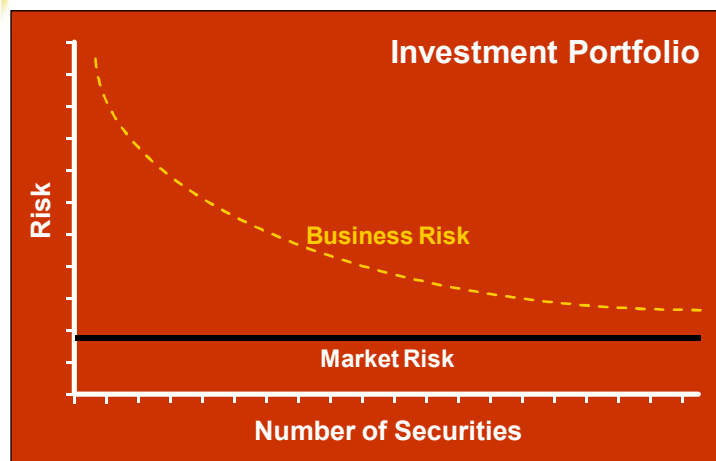
Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2010 Morningstar, Inc. All rights reserved. 3/12/2011

MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com

24



## Diversification Reduces Business Risk



MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com

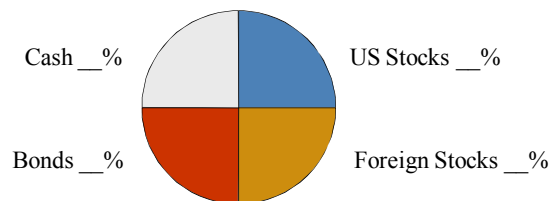
25



## Asset Allocation Reduces Inflation Risk

### What is asset allocation?

- An investment strategy
- Considers the percentage of funds to be invested in cash and equivalents, fixed income, equities and other assets



- **A way to manage risk and maximize return**



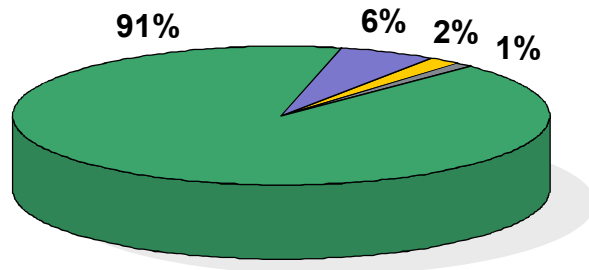
### Step 5: Determining the Right Investment Mix: Asset Allocation

- Establish your *target rate of return*
- Determine your *risk tolerance*
- Know your planning *time horizon*
- Include all of your investment assets
  - Retirement assets (401(k), IRA, FRS Investment Plan)
  - Other investment assets



# What Determines My Investment Return?

- Investment Mix (91%)
- Specific Bond & Stock Selection (6%)
- Market Timing (2%)
- Other (1%)



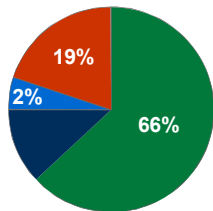
Source: Brinson, Singer, and Beebower



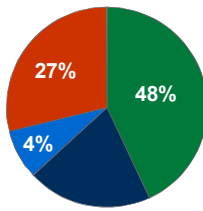
# Sample Asset Allocations

Note: Valid for portfolios of 5 or more years

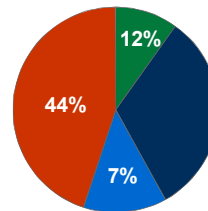
### Conservative Portfolio A



### Moderate Portfolio B



### Aggressive Portfolio C



- Fixed Income
- US Large Cap Stocks
- US Mid/Small Cap Stocks
- Foreign Stocks

#### Action Step

- Call the MyFRS Financial Guidance Line for assistance with building an appropriate asset allocation and portfolio.



## How to Improve Your Asset Allocation? – Retirement Example

### To Get Ready:

**Step 1:** Get your latest statements for all retirement accounts: IRAs, IP, 457, 403B, mutual funds...

**Step 2:** Separate them into asset classes to determine your asset allocation

**Step 3:** Identify your fees



### To Get it Done:

**Step 4:** Use the Free MyFRS Resources!

**Step 5:** Move Existing Funds

**Step 6:** Re-direct New Contributions

**Step 7:** Combination of Both

#### Action Step

- Use the Investment Mix Worksheet in Appendix E to help build your plan.

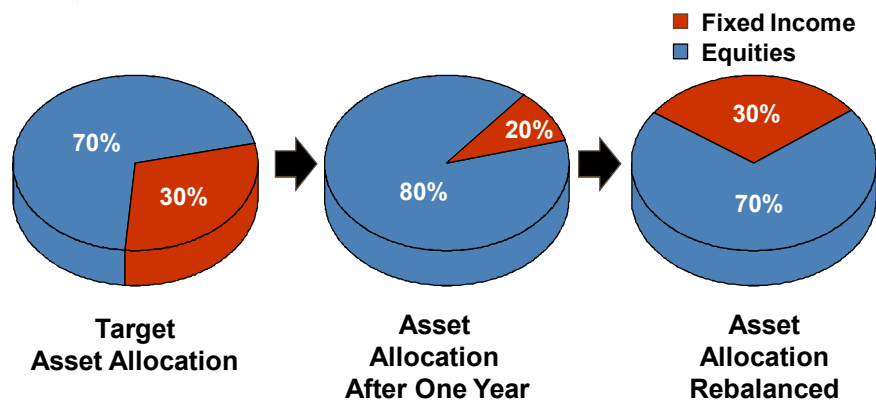


## Step 6: Monitor Your Investments

- Monitor performance periodically
  - **At least annually**
- Assess:
  - Are your goals still the same?
  - Are you paying too much in fees?
  - Is your investor profile still the same?
  - Does your allocation still make sense?
  - Should you rebalance your portfolio?



## Why Should You Rebalance?



## The Investment Planning Process

- Step 1:** Determine your goals
- Step 2:** Determine your investment profile
- Step 3:** Understand your trade-offs
- Step 4:** Understand your investment choices
- Step 5:** Determine your investment mix
- Step 6:** Monitor your investments



## Where To Save / Invest For The Future



## How Do Your Goals Influence Your Account Decisions?

Goals	Short-Term (1-3 years)	Intermediate Term (3-7 years)	Long-Term (7 or more years)
Car Purchase	<ul style="list-style-type: none"><li>• Savings Account</li><li>• Checking Account</li><li>• CDs</li></ul>		
College Fund		<ul style="list-style-type: none"><li>• 529 Plans</li><li>• ESAs</li><li>• Brokerage Account</li></ul>	
Retirement			<ul style="list-style-type: none"><li>• Investment Plan</li><li>• 403(b) / 457 Plan</li><li>• IRAs</li><li>• Deferred Annuity</li></ul>



## FRS Investment Plan Fund Choices

Asset Class	Fund Name
<b>Balanced</b>	FRS Select Conservative Balanced Fund
	FRS Select Moderate Balanced Fund
	FRS Select Aggressive Balanced Fund
<b>Cash</b>	FRS Select Yield Plus Money Market Active Fund
<b>Bonds</b>	FRS Select U.S. Treasury Inflation Protected Securities Index Fund
	FRS Select U.S. Bond Enhanced Index Fund
	PIMCO Total Return Fund
	Pyramis Intermediate Duration Fund
	FRS Select High Yield Fund

### Action Step

- Visit the "investment funds" section of [www.myfrs.com](http://www.myfrs.com) for more information.



## FRS Investment Plan Fund Choices (continued)

Asset Class	Fund Name
<b>U.S. Stocks</b>	FRS Select U.S. Stock Market Index Fund
	Pioneer Fund
	FRS Select U.S. Large Value Stock Active Fund
	Prudential Mid-Cap Quantitative Core Equity Fund
	FRS Select U.S. Large Growth Stock Active Fund
	Fidelity Growth Company Fund
	American Beacon Small Cap Value Fund
	T. Rowe Price Small Cap Stock Fund
<b>Foreign Stocks</b>	FRS Select Foreign Stock Index Fund
	American Funds EuroPacific Growth Fund
<b>Global Stocks</b>	American Funds New Perspective Fund



## What Benefits Do Mutual Funds Provide?

- Immediate Diversification
- Lower Transaction Costs
- Professional Management

*The FRS Investment Plan also has a number of institutional investment funds that are similar to mutual funds, but enjoy certain advantages.*



## What Is the Cost of Investing In Mutual Funds?

- Commissions (Loads)
  - Front Load
  - Back Load
- Fund Operating Expenses
  - Management Fees
  - 12b-1 Fees
  - Trading, Administrative and Other Costs



## Investment Fees and Expenses

*Take a look at the expenses on a \$50,000 nest egg that earns 7% per year before fees:*

Expenses paid:	If expenses are 0.25% per year	If expenses are 1.25% per year
After 5 years	\$816	\$4,002
After 10 years	\$2,274	\$10,905
After 20 years	\$8,843	\$40,524
After 40 years	\$66,878	\$280,788

*As a general rule, over a 30-year period, an investment fund's 1% annual fee could eat up about 25% of the fund's value*



## The Reasons We Are Here!

- Learn a process for investing
  - 6 simple steps
- Review the free resources available to you
  - Provided by the FRS
- Create an easy to follow action plan
  - Customized to meet your goals



## Resources Available to You - FREE

### MyFRS Financial Guidance Program



MyFRS.com  
Advisor Service  
Choice Services  
FAQ's, Calculators



Toll-free MyFRS  
Financial Guidance Line,  
staffed by  
Ernst & Young financial  
planners and the Division  
of Retirement



Employee workshops:  
Visit MyFRS.com for an  
updated list of workshops,  
locations and dates



Print and e-mail  
communications

**All resources are available to FRS  
Pension & Investment Plan Members**

  
MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com

42



## Advisor Service – *You are not in this alone!*



Available directly at MyFRS.com with your PIN

**OR**

By calling the toll-free MyFRS Financial Guidance Line,  
staffed by **Ernst & Young** financial planners



**Advisor Service is powered by Financial Engines**

*Financial Engines is a federally registered investment advisor.*

  
MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com

43



# Advisor Service Provides Answers

“What specific funds should I invest in?”

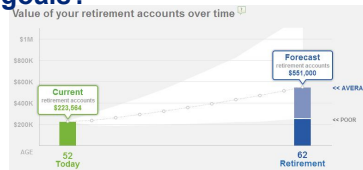
**Your investment style**

Cash	1%	2%
Bonds	—	34%
Large-cap stocks	7%	20%
Mid/small-cap stocks	91%	24%
International stocks	1%	20%
Individual equities	—	—
<b>Total</b>	<b>100%</b>	<b>100%</b>

Investments: **Portfolio Risk** slider (Very aggressive 1.87 to moderate 1.19)

Advice to help employees make better decisions.

“Will I have enough money to reach my life goals?”



Forecast what your actual investments might be worth in the future.

“What should I do when the markets change?”



You could do better. We have advice that may help you improve your plan.

Monitor investments to keep employees on track.



MyFRS Financial Guidance Line: 1-866-446-9377 MyFRS.com



# Advisor Service “What If?” Scenarios

Your personalized advice

Investments: **Consider changing your risk level** (Very aggressive 1.87 to moderate 1.19)

Investment advice: **Your retirement portfolio advice** (Pie charts showing portfolio composition)

Retirement income: **Consider changing your retirement age** (55 to 57)

Retirement forecasts: **Will you reach your goal?** (Unlikely 34% chance, Likely 66% chance)



MyFRS Financial Guidance Line: 1-866-446-9377 MyFRS.com



## Quick Overview of Advisor Service: It's not just for Investment Plan members!

	Pension Plan	Investment/Hybrid Plan
1. Employee data is already pre-loaded	All FRS benefit data (age, salary, service and membership class)	All FRS benefit data and FRS investment funds
2. Employee adds data/goals (online or through the Financial Guidance Line)...	Family's non-FRS assets (e.g. 457, 403b, etc.) home value and other retirement plans	
3. Advisor Service forecasts...	Total retirement income: FRS (Pension <i>including DROP</i> or Investment Plan), Social Security and non-FRS assets	
4. Advisor Services estimates...	The likelihood of meeting an employee's retirement income goal	
5. Advisor Service investment guidance on...	One non-FRS tax-deferred account	FRS Investment Plan account
6. At employee's cost of \$15/year	Get investment advice across all tax-deferred and taxable accounts	



## Next Steps: Personal Action Plan

Action Steps	Done
1) Determine investment goals	<input type="checkbox"/>
2) Understand your current asset allocation and fees	<input type="checkbox"/>
3) Log on to MyFRS.com	<input type="checkbox"/>
4) Call MyFRS Financial Guidance Line at 1-866-446-9377	<input type="checkbox"/>



## Questions and Answers



**MyFRS**  
MyFRS Financial Guidance Line: 1-866-446-9377  
MyFRS.com

## Investment Planning for Everyone- The Basics



**MyFRS**  
Florida Retirement System



**YOUR Money**  
• • • **YOUR Choice**

**WORKSHOP APPENDICES**

# Investment Planning for Everyone – The Basics

Appendix	Description	Page
<b>A</b>	<b>Personal Action Plan</b> .....	1
<b>B</b>	<b>MyFRS Financial Guidance Line</b> .....	2
<b>C</b>	<b>Financial Goals Worksheet</b> .....	3
<b>D</b>	<b>Investment Profile Questionnaire</b> .....	4-5
<b>E</b>	<b>Investment Mix Worksheet</b> .....	6
<b>F</b>	<b>Glossary of Investment and Financial Terms</b> .....	7-11
<b>G</b>	<b>Disclosure Statements</b> .....	12-16



**MYFRS FINANCIAL GUIDANCE LINE**

**Call 1-866-446-9377, Option 2, for financial planning assistance from Ernst & Young financial planners.**

The Ernst & Young planners at the MyFRS Financial Guidance Line are available from 9:00am to 8:00pm ET, Monday through Friday, (except holidays).

When you call the Ernst & Young planners at the MyFRS Financial Guidance Line you are calling one of the largest fee-only personal financial planning counseling group in the U.S. Ernst & Young is committed to providing you with the highest quality financial planning services.

You can feel confident that the information and guidance you receive is appropriate for your needs because Ernst & Young's financial planners are objective and independent.

**When you call the MyFRS Financial Guidance Line for financial planning assistance you should expect:**

- ✓ Confidential assistance from highly qualified planners, who average seven years of experience in the financial planning industry
- ✓ Phones that are answered promptly by experienced planners who will assist you with your personal financial planning needs. If you are prompted to leave a message, a planner will return your call as soon as possible
- ✓ Action-oriented guidance based on your personal information and goals
- ✓ Planners who are knowledgeable about FRS retirement plans
- ✓ An up-to-date record of prior interactions so that you are not starting each call from scratch
- ✓ The ability to ask for the same planner each time you call the MyFRS Financial Guidance Line

**What topics can you discuss with the financial planners at the MyFRS Financial Guidance Line?**

- ✓ Investment considerations and asset allocation
- ✓ Retirement planning and actions to get or stay on track
- ✓ FRS retirement plan information, projections and comparisons
- ✓ Ways to reduce debts and increase cash flow
- ✓ Tax planning and recent law changes

**The Financial Guidance Line pledge to you:** Your decisions are kept confidential and will not be made available to your employer or to any other organization or person outside of the Ernst & Young Employee Financial Education and Counseling practice. Calls are monitored for quality assurance purposes only.

**FINANCIAL GOALS WORKSHEET**

	Short-Term (0-1 yr.)	Medium-Term (1-5 yrs.)	Long-Term (5-10 yrs.)	Longest-Term (> 10 yrs.)
<b>Goals</b>				
Pay for education expenses				
Reduce debt				
Set aside an emergency fund to cover 6 months of expenses				
Buy a house				
Make home improvements				
Buy a car				
Make any other large purchases (e.g., boat, plane, art)				
Take a dream vacation				
Minimize income taxes				
Change careers				
Buy a vacation home				
Become financially independent				
Have adequate retirement income				
Have children				
Increase level of charitable giving				
Buy a retirement home				
Have adequate disability income				
Provide for survivor in event of my death				
Be protected against inflation				
Take early retirement				
Start a business				
Other				

**INVESTOR PROFILE QUESTIONNAIRE**

<b>1. What is your investment objective?</b>	
a) Avoid any loss of principal.	1
b) Protect my principal while earning regular income.	2
c) A combination of growth and regular income.	3
d) Maximize the growth of my investment, regular income is not important to me.	4
<b>2. How do you feel about inflation and its impact on your investments?</b>	
a) I am satisfied with my investments keeping pace with inflation, even though I may sacrifice the potential for higher gains.	1
b) I would like my investments to moderately outpace inflation. I am willing to accept a little risk for the potential to outpace inflation.	2
c) I would like my investments to significantly outpace inflation. I am willing to accept more risk to achieve this goal.	3
<b>3. Which statement best describes you? I would invest in something that offers:</b>	
a) Some current income and is very safe.	1
b) High current income and has some risk.	2
c) High total return potential (income and appreciation) and has substantial risk.	3
d) Exceptionally high return potential and has very high levels of risk.	4
<b>4. Pick the investment objective you are most comfortable with. Your answer to this question does not guarantee the desired results.</b>	
a) I would not feel comfortable losing even a small portion of my original investment.	1
b) I feel comfortable risking a small portion of my original investment for slightly higher potential returns.	2
c) I feel comfortable risking a significant portion of my original investment for higher potential returns.	3
d) I feel comfortable risking my entire original investment for the possibility of significantly higher potential returns.	4
<b>5. You have just heard that the stock market fell by 20% today. Your reaction:</b>	
a) Sell all stocks in your portfolio.	1
b) Consider selling some stocks in your portfolio.	2
c) Be concerned and continue to monitor the market but do not sell any stock.	3
d) Not worry because the market is likely to go back up in the future and look to add stocks while the price is low.	4

**Investment Planning for Everyone – The Basics**

**Appendix D (continued)**

<b>6. How would you choose to allocate your money if you were presented with the following three investment alternatives, each with its own unique return and risk characteristics?</b>	
Investment 1: a) Projected average annual return of 6.5%/one-year potential gain of 20.5% or more/one year potential loss of 7% <u>or more</u> .	1
Investment 2: b) Projected average annual return of 7.5%/one-year potential gain of 27.5% or more/one year potential loss of 12% <u>or more</u> .	2
Investment 3: c) Projected average annual return of 9%/one-year potential gain of 41% or more/one year potential loss of 22.5% <u>or more</u> .	3
<b>TOTAL SCORE (Min. 6; Max. 22)</b>	

**Sample Scoring for Long Term Goals (>10 years)**



**Note: The financial planners at the MyFRS Financial Guidance Line will work with you to customize your asset allocation based on your specific time horizon and your answers to this questionnaire. They can be reached at 1-866-446-9377, Option 2**

**INVESTMENT MIX WORKSHEET**

Asset Class	A Current Inv. Mix \$	B Current Inv. Mix %	C Planned Inv. Mix \$	D Planned Inv. Mix %	A-C Change \$	B-D Change %
<b>Cash Equivalents:</b>						
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
<b>Sub-total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Fixed Income:</b>						
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
<b>Sub-total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Equities:</b>						
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
<b>Sub-total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Hard Assets:</b>						
	\$		\$		\$	
	\$		\$		\$	
	\$		\$		\$	
<b>Sub-total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>TOTAL</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>

## **GLOSSARY OF FINANCIAL AND INVESTMENT TERMS**

### **After-Tax Contributions**

Contributions to company plans or other savings that have no immediate tax benefit.

### **Aggressive Investor**

An investor who requires or desires a greater return on investments and is willing to take a higher degree of risk to achieve this return. The investment portfolio of an aggressive investor would typically be weighted heavily toward stocks and have a higher expected average rate of return.

### **Annuity**

A method of paying a pension benefit that spreads payments out over an extended period of time, as opposed to a single-sum payment.

### **Asset Allocation**

An investment strategy that considers the percentage of funds to be invested in cash equivalents, fixed income, equities, and other assets as a way to manage risk and maximize return.

### **Average Annual Return**

The compounded annual return you receive on average from your investments. In other words, an investment may have had years with varying degrees of losses and varying degrees of gains. These different annual returns are averaged over the period, taking into account compounded earnings, to determine average annual return.

### **Before-Tax**

Before-tax investments refer to savings that have been created with income not yet subject to taxes. For example, contributions to a 401(k) plan are made on a before-tax basis. The amount of your pay you contribute, as well as accumulated earnings on those amounts, is not subject to income taxes until you take the money out, typically after retirement.

### **Bonds**

Bonds are publicly traded debt instruments. The issuer agrees to pay interest on the money invested and to repay the principal at a specified time. Examples would include government bonds (U.S., municipal, or foreign) or corporate bonds. (See Fixed Income.)

### **Cash or Cash Equivalents**

These are investments that are quickly convertible to cash with little or no loss of principal. These assets typically pay some interest and are generally viewed as safer investments. Examples would include savings accounts, money market accounts, Treasury Bills, and certificates of deposit.

**Conservative Investor**

An investor who is not comfortable taking much risk or one who needs a high degree of liquidity. Typically a conservative investor's portfolio would include more cash and fixed income investments and less equities or other investments, and would have a lower overall return.

**Consumer Price Index**

A mix of goods and services, the prices of which are tracked by the United States government to determine the appropriate rate of inflation.

**Cost of Living Adjustment (COLA)**

An increase, often each year, in a payment that one receives. This increase is typically based on and for the purpose of keeping up with inflation. For example, Social Security benefits increase each year based on the consumer price index.

**Dividend**

Income payment to shareholders of a company.

**Effective Tax Rate**

This is your actual tax paid during a year divided by your gross income earned during the year. This phrase can refer only to federal taxes or it can take into account federal, state, Social Security, and Medicare taxes.

**Equities**

Ownership in a business, typically in the form of shares of common stock. Typical equity categories include:

- Growth and Income:** Companies providing an income stream and some appreciation in value over time.
- Growth:** Companies providing less income but greater appreciation in value over time.
- Aggressive Growth:** Companies that are typically smaller and providing more rapid growth.
- International:** Companies headquartered outside of the United States.

**Fixed Income**

An asset category of investments that typically pays moderate to high interest, has a mid- to long-term maturity and is generally a debt obligation such as a bond or mortgage obligation.

**Hard Assets**

This is an investment category consisting of tangible investments such as real estate, collectibles, gold/silver, other precious metals, commodities, etc.

**Individual Retirement Account (IRA)**

This is a tax-deferred retirement vehicle. Depending on your income level, you may be able to deduct your contributions to an IRA and defer the taxes until you withdraw the money, often at retirement. Even if you can't deduct your contribution, you will still receive tax-deferred compounding on funds in your IRA. IRAs may be set up at banks, brokerage houses, discount brokers, insurance companies, and mutual fund companies, among others.

**Inflation**

The rising cost of goods and services over time. (See Consumer Price Index.)

**Investment Mix**

An investment strategy that considers the percentage of funds to be invested in cash equivalents, fixed income, equities and other assets as a way to manage risk and maximize return (see Asset Allocation).

**Investor Profile**

Your unique situation as an investor. Characteristics making up your investor profile include your time horizon, risk tolerance, goals and objectives, and anything else that affects the way you invest.

**Life Expectancy**

The age to which people typically live, based on averages. For example, newborns are currently expected to live until their late 70s; once you reach age 65 you are expected to live into your 80s.

**Liquidity**

The ability to convert an investment into cash quickly and with little or no loss in value.

**Marginal Tax Rate**

The tax rate on your next dollar of taxable income. Your marginal tax rate is generally higher than your effective tax rate.

**Moderate Investor**

An investor who is neither conservator nor aggressive. An investor who is willing to take on some degree of risk to obtain a return greater on investments than would have otherwise been possible, while seeking to avoid a large degree of risk.

**Money Market**

Accounts or funds established to invest in cash and cash equivalents and short-term debt obligations. A money market fund or account is a type of mutual fund. (See Mutual Funds.)

**Mutual Funds**

A company that invests and professionally manages stocks, bonds, cash, real estate, or other investments and sells shares of the investment to investors. Mutual funds provide a way for investors to pool their money in order to benefit from diversification and professional management.

**New York Stock Exchange**

An organization established for the efficient trading of stock of various companies.

**Pension Plan**

A retirement plan offered by companies where the primary method of payment once a person is retired is a monthly benefit payment.

**Purchasing Power**

Your ability to purchase goods or services with a given amount of money.

**Rate of Return**

The combined dividend, interest, and/or growth (profit) you receive on your investment.

**Managed Funds**

A term used to describe mutual funds that have a mix of cash, fixed income, and/or equity investments. The managers of the funds decide how much should be allocated to each investment category at any point in time.

**Risk**

The chance that the actual return from an investment may differ from what is expected; risk is sometimes described as the chance of losing money.

**Risk Tolerance**

Your comfort level with taking on varying degrees of risk.

**Social Security**

Governmental system established to provide retirement, disability, and survivor benefits. Benefits are based on earnings and are paid in the form of a monthly benefit.

**Standard & Poor's (S&P) 500**

The 500 leading companies traded on the New York Stock Exchange. These companies account for about 70-80 percent of the entire value traded on the New York Stock Exchange.

**Stocks**

Shares representing ownership in a corporation.

**Tax-Deferred**

Investment earnings not subject to income taxes in the year earned, but at some point in the future.

**Time Horizon**

The amount of time you have to invest. Usually the time period between now and the time for the achievement of a particular goal.

**Today's Dollars**

Looking at your money in terms of its purchasing power based on the value of a dollar today.

**Treasury Bills**

Short-term United States government bonds - one year or less to maturity.

**Volatility**

The fluctuation in the value or return of an investment over time.

**NOTICE TO FRS EMPLOYEES**

Dear Employee:

The FRS has engaged Ernst & Young LLP to provide financial planning education workshops to its employees. We expect that you will find Ernst & Young's services to be valuable, but we think it is also important that you understand the scope of these services. The following explains what financial education workshops can and cannot do for you, particularly as regards investment planning.

**General Financial Planning Considerations**

Here are points to understand regarding your personal financial planning and your participation in financial planning workshops:

- Ernst & Young has prepared certain financial planning materials and is providing other services for your personal use as an employee of the FRS.
- The financial education program includes historical financial information and well-accepted financial planning strategies. It may also include information on Social Security benefits and your FRS benefit plans. This information is based on sources that Ernst & Young believes to be reliable. However, Ernst & Young cannot guarantee its accuracy.
- Past performance, which may be referenced in the program, is not a guarantee or even necessarily an indication of future results.
- The financial planning materials you receive will not change or affect your rights under your FRS benefit plans. In all cases, the FRS plans govern.
- As you plan your financial future, you will need to make assumptions about future financial trends (such as inflation and rates of return), laws and regulations, and apply these to your particular circumstances. Your results can be significantly affected by even small changes in your assumptions, your individual circumstances or laws and regulations, as well as the extent to which your assumptions ultimately vary from actual financial conditions. You may need to reevaluate your financial planning strategy and your decisions from time to time to determine if any changes have occurred that would necessitate amendments to your assumptions or plan.
- A financial education program provides only some of the resources for assisting you in preparing your financial planning strategies. Financial education does not provide accounting, tax or legal advice and does not involve recommendation of specific investments.
- You need to decide on your own whether to consult with a financial advisor or other professional regarding your personal circumstances. If you do, please be aware, you may incur additional costs.
- In providing financial education, Ernst & Young may help you decide on your asset allocation or help you make informed assumptions about rates of return and other investment issues. While Ernst & Young will help you understand what you need to do, you are responsible for making and acting on these decisions. Ernst & Young cannot provide you with all information that may be relevant nor can any materials provided address every possible scenario in connection with such decisions.
- Neither Ernst & Young nor your employer will make any financial planning decisions for you or assume any responsibility for decisions you make.
- Ernst & Young may provide audit or other accounting services to the investments or service providers discussed. The provision of other services will not be a determining factor whether to discuss or recommend an investment or service provider.

**Privacy of Information Provided to Ernst & Young**

In the event Ernst & Young collects nonpublic personal information about you from you or other sources authorized by you, Ernst & Young will not disclose such information to third parties, except as permitted by law or as otherwise authorized by you. Ernst & Young maintains physical, electronic, and procedural safeguards to guard your nonpublic personal information.

**Further Considerations**

All services are provided “as is,” and there are no warranties of any kind or nature, whether express or implied, including but not limited to warranties of merchantability or fitness for a particular purpose or use. In addition, neither Ernst & Young nor its affiliates nor any of their partners, officers, directors or employees shall be liable to you for any services performed or omitted or for any errors of judgment, or for consequential, incidental, indirect, punitive or special damages in connection with providing the services described above. Federal securities laws impose liabilities under certain circumstances on certain persons, even those who act in good faith, and therefore nothing in this notice constitutes a waiver or limitation of any rights that you may have under these laws.

If you should have any kind of claim or dispute with Ernst & Young as a result of this program, these will be resolved in accordance with Ernst & Young’s Alternative Dispute Resolution Procedures (“Procedures”) in effect on the date of this notice. You may receive a copy of the Procedures by requesting them from the Compliance officer of Ernst & Young, at the following address:

200 Plaza Drive  
Suite 2222  
Secaucus, NJ 07094

\* \* \* \* \*

If, after considering the issues discussed above, you do not want to participate in financial education and counseling in conjunction with this program, please contact your Human Resource Professional for the FRS, as soon as possible.

## FOR INFORMATIONAL PURPOSES ONLY

### DISCLOSURE STATEMENT

**Ernst & Young LLP  
Ernst & Young Investment Advisers LLP  
Employee Financial Services**

Ernst & Young LLP (“E&Y”), under the supervision of Ernst & Young Investment Advisers LLP (“EYIA”), provides Employee Financial Services (“EFS”), including investment education and counseling services to employees, members of associations, unions or other large groups (“Participants”) pursuant to engagements by corporate employers, pension plan trustees, or other entities formed for the benefit of such Participants (“Sponsors”). Such services are provided through E&Y’s Personal Financial Services Practice, a functional specialty within the firm’s Tax Department. EYIA is registered with the Securities and Exchange Commission as an investment adviser under the Investment Advisers Act of 1940 (“Advisers Act”) and maintains its main office at 200 Plaza Drive, Suite 2222, Secaucus, NJ 07094 (telephone: 800-273-0588).

#### **Employee Financial Services (“EFS”)**

E&Y’s services to Participants are rendered to such persons in a manner determined by their Sponsors. E&Y services to Participants may include some or all of the following:

1. Enabling Participants to access a toll-free “EY Financial Planner Line”, staffed by E&Y planners or consultants, for assistance with personal financial planning matters.
2. Designing or presenting workshops for Participants concerning the financial planning process and alternatives available under the Sponsor’s benefit plans.
3. Providing access to a financial planning website for use by Participants.
4. Providing various personal finance and tax-related publications, in print form or by audio or other visual means.
5. Making available to Participants and survivors of Participants, financial education and counseling assistance with respect to retirement plan distributions; company benefit and compensation plans; estate settlements and planning; life insurance policies; and other related issues.
6. Providing in-person personal financial advisory services to Participants pursuant to an engagement by a Sponsor.

As part of the personal financial advisory services, both in-person and via the EY Financial Planner Line, E&Y may prepare personal asset allocation targets (based on modern portfolio theory and using E&Y’s own or other approved financial planning tools) for such Participants after obtaining and evaluating information concerning their individual circumstances provided by each Participant in response to an E&Y questionnaire. Participant specific advice (i.e., personal asset allocation targets) will generally be confirmed in writing.

E&Y does not recommend, and should not be deemed to have recommended, any particular investment as an appropriate investment for the Participants and discussions of various investments should not be construed as such a recommendation.

## **Investment Planning for Everyone – The Basics**

E&Y's advisory services also may be offered by a Sponsor to Participants in tandem with the personal advisory services of another registered investment adviser designated by the Sponsor that is not affiliated with E&Y ("Other Adviser"). In some EFS engagements, the Sponsor contemplates that E&Y will refer individual Participants to the Other Adviser for specific recommendations and/or implementation of the Participant's investment decisions. Such referrals by E&Y do not constitute a recommendation of the Other Adviser by E&Y to Participants, and, in such cases, E&Y does not perform any quantitative or qualitative screening procedures with respect to the Other Adviser.

E&Y, in certain circumstances, is contracted solely to help train employees of financial institutions seeking to offer financial and tax planning services to clients. Such services do not involve E&Y providing advice directly to the clients of such financial institutions, but rather entails training a financial institution's counselors on financial and tax planning topics and such other support as is mutually agreed upon by E&Y and the financial institution.

### **All Selections and Investments Are Made Solely by the Participating Employee**

E&Y's investment education and counseling does not include recommendations concerning the purchase or sale of particular investments or particular industry sectors. E&Y may provide counseling on the purchase or sale in the context of providing tax, compensation and benefits, or estate planning services, but that counseling does not reflect a view as to the intrinsic merits of the investment. All decisions to invest in or dispose of particular investments are made solely by the participating Participant in the exercise of his or her own discretion.

### **Fees**

Fees for EFS Services generally are negotiated between E&Y and the Sponsors of such groups on a case-by-case basis. They usually are based upon (i) a "per capita" eligible employee or member amount, (ii) a "usage by Participants" amount, (iii) the volume of calls by Participants to EY's Financial Planner Line, (iv) the number of workshops designed and presented by E&Y, or (v) other negotiated factors. E&Y's fees in such engagements may be paid wholly or partially either by the Sponsor or by Participants, whose payments for services received (if any) may be collected by the Sponsor through payroll deductions and remitted to E&Y. Participants also may incur expenses for fees to any other investment adviser they may consult and will be responsible for transaction charges imposed by broker-dealers through or with whom they effect transactions for their accounts. Generally E&Y's contracts with Sponsors for services to Participants are terminable by either party in accordance with a specified notice period. In addition, Participants receiving advisory services by E&Y (including a Participant who pays in whole or in part for the services rendered to such Participant) may terminate participation at any time. If such a contract or participation is terminated at a time other than the end of the quarter, a pro rata portion of any quarterly or other fee paid in advance is refunded.

### **Investment Advisers**

All personal investment advice, and most impersonal investment advice, typically is given only by E&Y Financial Planners. Financial Planners are persons who spend all or substantial portions of their time on financial planning. Typically, all of these professionals have at least a degree from a four-year college or university and must meet such other standards as EYIA may establish from time to time. Those standards may include participation in continuing education programs each year and maintaining what E&Y regards as significant involvement in financial counseling engagements. Moreover, Financial Planners must satisfy applicable State investment adviser representative registration requirements or pass the Series 65 Uniform Investment Adviser Exam of the National Association of Securities Dealers, Inc. In some instances, E&Y may retain consultants to assist in providing workshops and staffing the Financial Planner Line. Generally, consultants are subject to the same requirements as E&Y Financial Planners. However, consultants are not subject to the same public accounting independence requirements as E&Y Financial Planners and their continuing education programs differ in some respects.

### **Monitoring, Reviews and Reports**

In the case of EFS engagements that extend beyond one year and involve the provision of personal advisory services to Participants, Participants are asked questions concerning any changes in their relevant individual circumstances. E&Y will take into account the changed circumstances of any

## ***Investment Planning for Everyone – The Basics***

Participant of which it has notice in the event that Participant seeks additional personal advisory services from E&Y.

### **Miscellaneous**

Clients and prospective clients of E&Y also should be aware of the following additional information concerning E&Y and EYIA:

Custody of Securities or Funds. E&Y does not manage participant accounts on a discretionary basis and does not take custody of participant securities or participant funds.

Other Financial Industry Activities. As noted above, EYIA is responsible for supervising the investment advisory services provided by E&Y. E&Y and Ernst & Young (U.S.) are general partners of EYIA. In consideration of EYIA's supervising the rendering of investment planning services provided by E&Y, E&Y provides EYIA with office and filing space, staff and other assistance. All of EYIA's time is spent supervising the compliance and operations of the investment planning services provided by E&Y.

Other Business Activities. E&Y is a public accounting firm which spends substantially all of its time providing accounting, audit, tax, and business advisory services.

Education and Business Background. Below are the backgrounds and five year business histories of each EYIA Advisory Board member: (1) Name, (2) year of birth, (3) education and (4) business background for preceding five years of EYIA Advisory Board members:

1. Glenn H. Hascher – (Chair)/2. 1961
  3. B.S., Economics, Rutgers University, New Brunswick, NJ
  4. November 1988 to date, Ernst & Young LLP
- 
1. R. Lynn Pettus/2. 1968
  3. B.A., Accounting, Converse College, Spartanburg, SC
  4. 1997 to date, Ernst & Young LLP
- 
1. Kym M. Hubbard/2. 1957
  3. B.A., Accounting, Bradley University, Peoria, IL
  4. 2004-2007 Illinois State Board of Investment, 2007-2008 Illinois Finance Authority, 2008 to date, Ernst & Young LLP
- 
1. Charles R. Kowal/2. 1953
  3. B.S.B.A., Accounting, Bowling Green State University; J.D., Case Western Reserve University
  4. May 1975 to date, Ernst & Young LLP
- 
1. Robert J. Porter/2. 1964
  3. B.S., Siena College, Loudonville, NY
  4. 1998 to date, Ernst & Young LLP
- 
1. Greg Rosica/2. 1964
  3. University of Florida, Gainesville, FL, BS Accounting with Honors 1986; University of Florida, Gainesville, FL, MS Accounting 1988
  4. 2002 to date, Ernst & Young LLP; 1988 to 2002 Arthur Andersen LLP
- 
1. James G. Wolf/2. 1955
  3. University of Notre Dame, South Bend, IN, BBA Finance; University Of Texas, Austin, TX, MBA
  4. 1985 to date, Ernst & Young LLP
- 
1. David E. Boyle / 2. 1955
  3. B.S., Georgetown University, 1977; The University of Michigan, MBA, 1979
  4. November 1988 to date, Ernst & Young LLP