

Insight

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Fees and expenses are important considerations in selecting an investment option because these charges lower your potential returns. Ultimately, fees may affect the size of your nest egg when you retire.

Consider how just a one percentage point difference in fees — for instance, 0.5 percent vs. 1.5 percent — could affect your account balance over time. Assuming an average annual return on your investment of seven percent, that one percent could make the difference between retiring with \$298,301 vs. \$402,608 after 35 years of investing.¹

¹ Source: Standard & Poor's. Example assumes beginning balance of \$25,000 and continuous contributions of \$100 a month. This example is for illustrative purposes only. The potential impact of taxes is not reflected and would lower the results in this example. Consider your personal investment horizon and current as well as anticipated income bracket when making an investment decision. Investment results will vary. Systematic investing does not ensure a profit nor guarantee against loss. Consider your financial ability to continue purchases through periods of low price levels.



Here is an overview to help you understand and control your investing costs.

Why fees?

Fees are charged because it costs money to run any investment and to track assets in each participant's account. Fees pay for Plan administration, including investment advisory fees, education and enrollment services, participant record keeping, and other related services provided under the Plan.

What are the fees?

Fees are deducted throughout the year from the investment option's Net Asset Value (NAV), based on the investment's "expense ratio." The investment's gross returns are reduced by the expense ratio, which includes administration operating expenses and investment management fees. For example, if a fund had a gross investment return of 8.5 percent and an expense ratio of 1.0 percent, the net investment return would be 7.5 percent, which is the return that would be reflected in the NAV. When you look at the investment returns for a particular option, the expense ratio has already been deducted. So these expenses don't show up as fees charged directly to your account.

How much are the fees?

To see what you will pay annually, look at the total expense ratio, which combines operating expenses and management fees into one figure expressed as a percentage. This information appears in fund fact sheets and prospectuses. The Plan's core program investment options have total annual expense ratios currently ranging from 0.05 to 1.13 percent. Expense ratios vary for different types of investment options, with some costing more than others.

For example, expense ratios are typically higher for actively-managed investment options to cover the costs for portfolio managers to conduct extensive research and buy and sell securities. Generally, international investment options have higher expense ratios than domestic options because they deal with companies overseas. Passively-managed investment options are lower in cost because of their lack of active management. They aim to track an index by buying every security in a particular market, such as the Standard & Poor's 500 index that includes 500 of the largest U.S. companies. An index cannot be invested in directly.

Are there any other fees?

None of the investment options in the Plan's core program, except for the five Vanguard® target date funds, has any additional fees or expenses. For each of the five Vanguard target date funds, there is an ING administrative expense of 0.29 percent in addition to the expense ratio charged by Vanguard for those funds. Vanguard's expense ratios range from 0.17 percent to 0.19 percent, resulting in total costs of 0.46 percent to 0.48 percent for the target date funds.

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What's your investing style?

In a recent survey, government employees were asked to describe their investing style by choosing one of three broad categories:

- **Conservative:** Want to "protect" savings and avoid any possible losses
- **Moderate:** Willing to accept a moderate level of risk to possibly have moderate investment growth
- **Aggressive:** Willing to accept a high level of risk to possibly achieve high asset growth

Which best describes your retirement investment philosophy?

Conservative 50%

Moderate 44%

6% Aggressive

Results are from *Public Employees in Focus* published by the ING Retirement Research Institute in September 2010.

The majority reported they are risk averse, with only six percent saying they are aggressive retirement investors.

Given the timing of the survey, these answers are not surprising. Memories of the market's record low in March 2009 were still fresh when the survey was conducted.

In the three years following the 2008-2009 global financial crisis, investment options that invested in stocks rose in value. If your investing style was aggressive or moderate, most likely you participated in the gains. If you pulled out of the market in an attempt to avoid losses, you missed out on the recovery.

Be true to your own style

While it's interesting to know how other government employees invest, you don't want to run with the pack.

Instead, you want to understand your own ability to handle risk based on your personal circumstances, including your age, income, the amount of time left for investing before you expect to retire, confidence in investing, and attitude toward short-term market volatility.

Risk is part of investing. But did you know there are different types of risk, not just the risk of an investment losing value? For example, maintaining a portfolio of only the most conservative investments could expose you to the risk of running out of retirement assets too soon.

You can be better prepared to manage risk by maintaining an investment mix in your Plan account using diversification and asset allocation. Diversification involves spreading your dollars among a variety of investments. Asset allocation is deciding how to diversify by dividing your money among different asset classes, such as stocks, bonds, or cash equivalents.

Of course, using diversification or asset allocation as part of your investment strategy does not assure or guarantee better performance and may not protect against loss in declining markets. Past performance does not guarantee future results.

To develop and pursue your retirement investing strategy, be sure to determine what type of investor you are. Go to www.ingretirementplans.com/custom/ks or call (800) 232-0024, option 5 to learn more about the tools, education, and services available to help you understand and stick to your investing style. ●

Basics about fees

Your partner in keeping costs down

Because of its large size, the Plan is able to keep expenses lower and negotiate competitive pricing. The Plan's menu of passively-managed and actively-managed investment options includes options with institutional and Class R shares that help reduce costs for participants. For example, the "share class" for the Baron Growth Fund was recently changed, which lowered the expense ratio for that option by 0.22 percent.

How can I keep track of fees?

The Plan provides several tools you can use to identify and evaluate your investing costs. Under **Investment Options** at www.ingretirementplans.com/custom/ks, you will find the following helpful items:

- **Fund fact sheets.** Look at each investment option's goals, risks, expense ratios, and other information in the fund fact sheets available at www.ingretirementplans.com/custom/ks or by calling (800) 232-0024, option 5.
- **"What Does it Cost to Participate?"** Review this chart for a hypothetical illustration of the annual costs for all investment options under the Plan. Your actual expenses will depend on the specific funds you select.
- **Portfolio Expense Calculator.** Obtain an online estimate of your portfolio's annual cost and compare expenses for each of the Plan's investment options.

Of course, selecting an investment option involves more than just picking one with lower fees and expenses. But keeping a close eye on expenses could help you make cost-effective investing choices and potentially net more for retirement over the long haul. ●

Investments in target retirement funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the work force. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the target retirement fund is not guaranteed at any time, including on or after the target date.

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Make your retirement savings count

After you retire, your financial needs may change. Given longer life expectancies and inflation, you'll need to make sure you don't end up outliving your retirement savings.

As a result, you may need to fine-tune your investment strategy. Keep in mind:

Don't neglect growth.

Many retirees believe retirement is a time to shift their money into conservative money market funds or certificates of deposit (CDs). While these vehicles may involve little risk to principal, the return they offer may not keep up with the rate of inflation.* Since stock returns have historically outpaced inflation by a wider margin than the returns of other securities, consider including some investment options that invest in stocks throughout retirement.**

Balance income and risk.

Along with some investment options that invest in stocks, investing in fixed-income investment options could help provide a consistent stream of income during your retirement years. The amount of risk you take on should be determined in part by your income needs. For example, if you expect to receive income from other sources during retirement, you may be able to focus your investment strategy on investment options that offer lower income potential but may also be less risky. However, if you need to generate more income, you may have to take on more risk.

A number of variables, including your risk tolerance and need for income and growth, should help guide your retirement investment decisions. You may want to consult a qualified financial professional to reassess your portfolio in light of your changing needs. ●

* Investment in a money market fund is neither insured nor guaranteed by the U.S. government, and there can be no guarantee that the fund will maintain a stable \$1 share price. The fund's yield will vary. Certificates of Deposit (CDs) offer a guaranteed rate of return, guarantee repayment of principal, and are generally insured by the Federal Deposit Insurance Corp. (FDIC), but do not necessarily protect against the rising cost of living.

** Source: Standard & Poor's. For the 75-year period ended December 31, 2006. Past performance does not guarantee future results.

What do you know about rebalancing?

The Plan website at www.ingretirementplans.com/custom/ks offers a convenient option called automatic rebalancing for the investment options in your Plan account.

So what is rebalancing? It's not the same as "reallocating," which is making an outright change in how the money in your account is distributed among different asset classes in your portfolio. Take this quiz to find out how much you know about rebalancing.

1. Rebalancing means:

- Investing equally in stocks and bonds
- Picking investments likely to perform well next year
- Adjusting your portfolio to maintain a specific investment mix

2. Rebalancing can help reduce risk by:

- Allowing you to invest set amounts of money at fixed intervals
- Spreading your investments across the asset classes
- Preventing overexposure to a single asset class

3. Investment professionals consider it a good idea to rebalance your retirement account:

- Every quarter
- Every year
- Whenever the stock market falls

Answers:

- c.** Rebalancing means adjusting your portfolio to achieve the asset mix that's appropriate for your time horizon, investment objectives, life circumstances, and risk tolerance. Generally, rebalancing involves selling assets in one or more of the investment options in your Plan account and using the proceeds to buy shares of other investment options. The idea is to get back to the target percentages you set originally based on how you feel about risk and the time remaining before you retire.
- c.** Rebalancing can help reduce risk by preventing overexposure to a single asset class. After a long bull market, for example, an unbalanced portfolio may be top-heavy in options that invest in stocks and therefore more vulnerable to the inevitable downturn. Rebalancing does not assure or guarantee a profit and can't prevent loss in declining markets. However, it may help you maintain the investment strategy appropriate for you over the long haul.
- b.** It's a good idea to rebalance your Plan account once a year because market conditions may have pushed your portfolio out of alignment with your asset allocation strategy. But any life event that substantially affects your income, expenses, or financial goals may be a good reason to change your investment mix, too. You should also reconsider your portfolio allocation if your risk tolerance or investment objectives have changed. If you have invested in a target date fund, the rebalancing decisions are handled for you by the fund manager. ●



Quarterly calendar

The New York Stock Exchange is closed:

Monday, September 5, 2011

Transactions made on this day will be processed the following business day.

You should consider the investment objectives, risks, and charges and expenses of the investment options carefully before investing. Fund prospectuses and an information booklet containing this and other information can be obtained by contacting your ING local representative. Please read the information carefully before investing.

IMPORTANT INFORMATION

Variable investment options are considered long-term investments designed for retirement purposes. Money taken from the Plan will be taxed as ordinary income in the year the money is distributed. Account values fluctuate with market conditions and when redeemed, the principal may be worth more or less than the amount originally invested.



(800) 232-0024 • www.ingretirementplans.com/custom/ks

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