STATE OF MICHIGAN RETIREMENT PLANS

Deferred Compensation / Defined Contribution Plans

Newsletter

Summer 2003

In This Issue

Update on Advisory Services and Enhanced SMA

Recently the state of Michigan introduced two new complementary enhancements to the 457 and 401(k) Plans – the **CitiStreet Advisor Service** and the expanded Tier III **Self-Managed Account** (SMA).

Advisory Service

The CitiStreet Advisor Service is designed to provide you with professional, unbiased retirement planning advice, personalized reports and support to create a savings and investment strategy based on your personal goals. The CitiStreet Advisor Service is currently available online or over the phone, so you can choose the approach that suits you best. Participants who have used the service have responded positively to how easy it is to use and the wealth of investment information it provides.

When you use the CitiStreet Advisor Service, powered by Financial Engines[1], you receive a personalized *Forecast* that details your progress toward reaching your retirement goal. The report is based on your personal information, including your Plan account balance, information you provide on other retirement savings vehicles, current income, savings, risk tolerance and desired retirement age. You can also factor in your current contribution amounts to further fine-tune the advice you receive.

Please refer to the Spring 2003 *Newsletter* mailed with your first quarter statement for complete information.

SMA

The Tier III Self-Managed Account (SMA) has been expanded to include listed securities (stocks) and fixed income securities (bonds), as well as the already existing menu of mutual funds.

For More Information

To learn more about the new services, please visit the Plan Web Site at **http://stateofmi.csplans.com**. On the login page and throughout the Plan Web Site, you can click to view or print an Advisor Service Fact Sheet and Frequently Asked Questions document that will provide you with more detailed information. If you have any questions about the Advisor Service or using the Plan Web Site, please call the Plan Information Line at 1-800-748-6128.

Long-Term Retirement Investment Strategies

Normal business cycles of growth, contraction and uncertainty may be expected in the course of an investor's lifetime. And, while it may be easy to see when the market is in a decline or moving toward expansion, the periods of transition can cause sleepless nights. Experts agree there is no surefire way of predicting how long the market will continue in a given path or move up or down.

Given current market volatility and the resulting uncertainties, you may want to consider some of the following time-tested strategies for retirement investors.

Pay Yourself First

Continue to pay yourself first through systematic payroll deductions to your Plan. Your participation means that you invest the same amount of pre-tax dollars on a regular basis, regardless of the market price of the investments. The advantage is simple, especially when you defer the maximum amount. With regular contributions, you buy more shares when the share price is lower and fewer shares when the price is higher. As a result, your average cost per share is lower, and you are following the well-known saying of "buying low."

This method of investing is known as dollar-cost averaging. All you have to do is contribute a consistent dollar amount on a regular basis. In the example below, a participant makes a contribution of $200, each and every month. In January, the contribution buys four shares in a fund with a share price of $50. The next month, the price drops to $40, and the contribution buys 5 shares. Over the course of time, the participant shrewdly purchases more shares at a lower price, simply by contributing to the retirement savings plan.

Dollar Cost Averaging

Purchase Date	Amount	Share Price	Shares Bought	Average Share	Average Price Paid
January 15th	$200.00	$50.00	4.0	**$35.00**	**$31.25**
February 15th	$200.00	$40.00	5.0	($140÷by 4)	($800÷by 25.6)
March 15th	$200.00	$20.00	10.0		
April 15th	$200.00	$30.00	6.6		
Totals	**$800.00**	**$140.00**	**25.6**		

Tips You Can Use

Here are simple, easy-to-use steps for using the CitiStreet Advisor Service online.

1. Logon to **http://stateofmi.csplans.com** using your Social Security number and personal identification number (PIN).
2. Click on the **Investment Advice** link to connect to the **Advice** welcome page.
3. If you are a return user, enter your user ID and password. If you are a first-time user, click on **Start Here**.
4. On the **Employer Information page**, type **michigan** in the sponsor field and your Social Security number in the Temporary ID field.
5. Create a user ID and password of your choosing. Retain this information for future use.
6. Review the **Investment Services Agreement** and click **I Accept**.

[1] Financial Engines® is a registered trademark of Financial Engines, Inc.

No investment program can guarantee positive results. While dollar-cost averaging does not assure a profit and does not protect against loss in a declining market, it can take some of the guesswork out of investing.

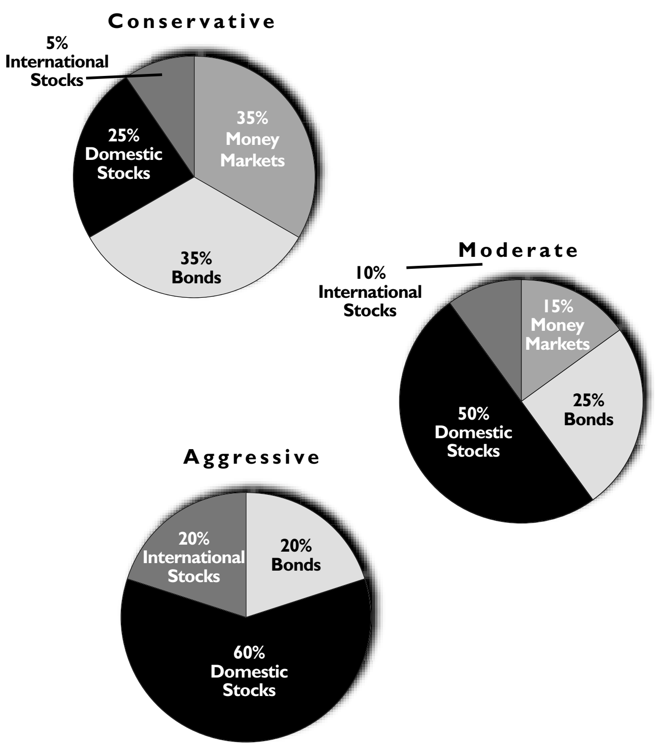
Managing Risk in Your Retirement Portfolio

How much risk should you assume with your retirement savings? The answer lies in your personal tolerance for risk, your retirement savings goals and your years-to-retirement. Within these guidelines, you must balance the different forms of risk, from "market risk" – the potential for changes in the value of an investment to "shortfall risk" – the potential for underfunding your retirement savings account.

A retirement investor with lower savings goals, with lower personal tolerance for risk and with fewer than five years until retirement may have a conservative investment profile. Most financial professionals suggest that a conservative investor should assume less market risk.

Higher savings goals, higher personal tolerance for risk and longer time-to-retirement characterize moderate-to-aggressive investor profiles. Most financial professionals agree that these investors can take on more market risk, reducing their shortfall risk.

Below are three sample asset allocations for conservative, moderate and aggressive investors. These examples are for illustration purposes only. Your portfolio may vary based on your individual circumstances.



Remain Flexible

A sound investment strategy is flexible and should be reviewed from time to time, especially at different stages throughout your life. Typically investors move through three investment phases:

Growth-Oriented. Young investors, in their twenties and thirties, usually prefer growth-oriented investments that stress capital appreciation rather than current income. Capital appreciation is viewed as one of the quickest ways to build up investment capital – aggressive stock funds may be included in the retirement portfolio.

Consolidation. As investors approach the middle-age stage of life, other responsibilities take precedence. Family, college tuition and retirement contributions become more important, and the approach to investing changes. Often, a shift to low-risk growth and income stock mutual funds and high-grade bond mutual funds takes place at this stage in life to consolidate investments.

Income-Oriented. Preservation of capital and current income become chief concerns as investors near retirement. The investment portfolio becomes more conservative, and growth-oriented vehicles take a back seat to low-risk income stock funds, fixed income bond funds and money market investments. At this stage, investors should be enjoying the fruits of their labors.

Diversify Assets

Through the technique of diversification, investors distribute their investment dollars among a variety of investment types. A well-diversified retirement portfolio includes various **asset classes**, such as stocks, bonds and money-market instruments. When you diversify your retirement nest egg, you spread your risks among several different asset classes, so that no one single event is catastrophic.

In addition, when you diversify within an asset class by **investment style** (for example, growth or value) and **size** (for example, small-, medium- and large-size companies), you increase the potential for better performers to balance out poorer performers. That's because market sectors tend to alternate better or poorer performance over time.

Remember . . . when you diversify you may be giving up some potential gains, but you are also minimizing the risk of loss.

The preceding information is not intended to provide legal, tax or investment advice. For such advice, please consult a legal, tax or investment advisor.

Closer Look

For a closer look at your retirement financial picture, you may want to use the online CitiStreet Advisor Service at **http://stateofmi.csplans.com**. For complete information on the Advisor Service, please refer to the Advisor Fact Sheet and the *Frequently Asked Questions* document available on the Plan Web Site.

Obtaining a Mutual Fund Prospectus

What is a prospectus? A mutual fund's prospectus describes the goals, fees and expenses, investment strategies and risks of the fund.

There are two ways to obtain a prospectus for any mutual fund in Tier II:

- View or print the prospectus from the Plan Web Site at **http://stateofmi.csplans.com**. Go to the Investment Information tab and click on Fund Information. Then click on the Tier II fund of your choice and at the bottom of the page, the prospectus will be available to view or print.
- Call the Plan Information Line at 1-800-748-6128 to request a prospectus by mail.

For an abbreviated version of the prospectus, called a **Fund Fact Sheet**, follow the same instructions for the prospectus except the fund fact sheet will be listed just above the prospectus. Or you may call the Plan Information Line at 1-800-748-6128. Participant service representatives are available through the Information Line on weekdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

Keep Your Beneficiary Designation Current

Keeping your beneficiary designation information up-to-date is critical to estate planning. You can check your designation easily on the Plan Web Site. If your designation is missing or outdated, please complete and return the new beneficiary designation form for the State of Michigan Deferred Compensation/Defined Contribution plans. It is available online at **http://stateofmi.csplans.com** (Forms section) or by calling the Plan Information Line at 1-800-748-6128. The new form covers both the 457 and 401(k) plans. Completion and submission of this revised beneficiary form will revoke and supersede all prior designations.

Plan Web Site: http://stateofmi.csplans.com

Plan Information Line: 1-800-748-6128

Dimondale Office: 1-517-636-6077 or toll-free at 1-800-381-5111

The foregoing newsletter is not intended to provide legal, tax or investment advice. For such advice, participants should contact their legal, tax or investment advisors. Your portfolio will vary based on your individual circumstances and specific savings goals.