

457

ENROLLMENT KIT



*Take advantage of
your public sector
retirement plan*



Basic Principles

What is deferred compensation?

Deferred compensation is a program that allows you to save and invest today for your retirement. Federal and (in most cases) state income taxes are deferred until your assets are withdrawn, usually during retirement when you may be in a lower tax bracket.

How does deferred compensation work?

Under Section 457 of the Internal Revenue Code, you may defer each year a maximum of 100% of your "gross compensation"* or an annual dollar limit, whichever is less. The dollar limits are:

Year	Contribution Limit
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006	\$15,000

Participation is handled through payroll deduction so your taxes are reduced each pay period.

Our plan allows you to increase, decrease, stop and restart contributions as often as you wish, without fees or penalties, subject to your employer's approval.

Is a 457 plan a good deal?

A 457 plan offers many advantages:

- You reduce your current income taxes while you boost your retirement investments.
- Your earnings accumulate tax-deferred.
- You can dollar cost average through convenient payroll deductions.**
- If you are 50 (or older) or within three years of your normal retirement age and already contributing the maximum to your plan, you are allowed to make additional "catch-up" contributions.
- It's portable. If you change jobs, you can consolidate your savings in another public sector employer's 457 plan, a qualified 401 plan, a tax-sheltered 403(b) annuity plan, or a Traditional IRA.

* Your gross compensation must first be reduced by any mandatory pre-tax ("picked-up") employee 401 plan contributions.

** Dollar cost averaging does not assure profit or protect against loss in a declining market. Since dollar cost averaging involves continuous investing, regardless of fluctuating prices, investors must consider financial ability to continue to invest during low price levels.

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A Great Investing Tool

How does deferred compensation beat conventional investing?*

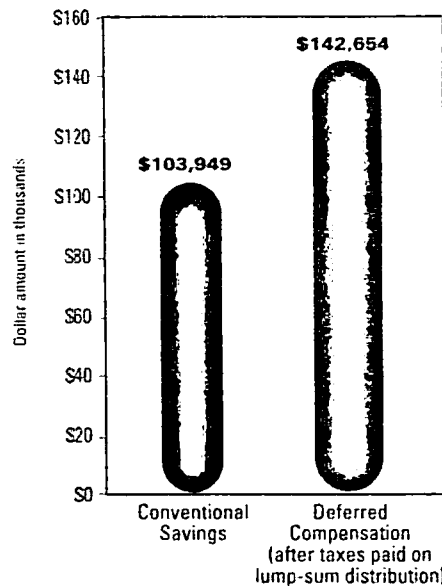
In two ways. First, deferred compensation gives you a significant tax break. In conventional investing, you pay taxes on income before you can set some aside for investing. Deferred compensation allows you to invest the full amount:

Conventional Savings Account		
Total to invest	Taxes taken out	Total invested
\$2,400	-\$600	= \$1,800

Amount left for investment assumes you're in the 25 percent tax bracket

Deferred Compensation Account		
Total to invest	Taxes taken out	Total invested
\$2,400	-\$0	= \$2,400

Second, your earnings also benefit from the tax deferral, as illustrated below:



Assumes you contribute \$200 monthly, earn 8% and are in the 25% pre-retirement tax bracket.

Deferred Compensation: \$200 per month saved for 300 months earning 8% annually = \$190,205. Less lump-sum tax at 25% = \$142,654.

Conventional Savings: \$200 per month after tax at 25% = \$150. \$150 per month saved for 300 months, which provide earnings of 8% annually which are taxed at 25% = \$103,949.

For illustrative purposes only. Actual results may be higher or lower. Past performance is not indicative of future returns.

* Deferred compensation plans are not FDIC-insured or guaranteed by any governmental agency.

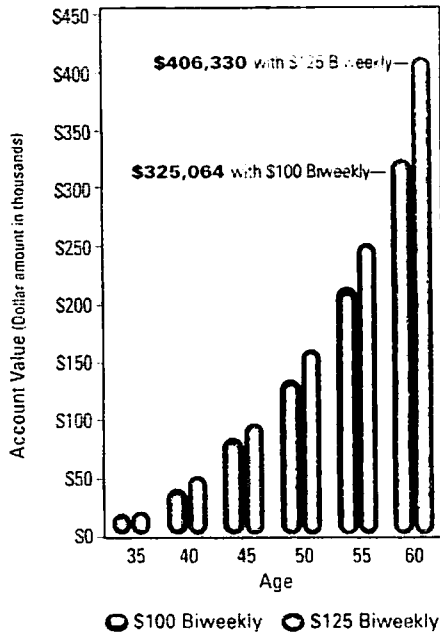
Does it matter when I begin investing?

It makes a huge difference. If you begin investing \$100 biweekly today and earn an average of 8% annually, in 20 years you'll have \$123,862 available. But if you wait five years to start, your account would have only \$73,492. That's a \$50,000 difference in your account. Over time, compounding of earnings does most of the work for you.

How much should I contribute?

You should contribute as much as you can afford to put away for retirement, because every extra dollar you invest will have an enormous impact over the long term. Say you are 30 years old and contribute \$100 biweekly into your account. At age 60, if you earned 8% on your investment, you would have \$325,064. But if you contributed just \$25 more biweekly, you would have \$406,330. As the graph below shows, a little extra goes a long way toward securing your retirement.

Contributing \$25 More Biweekly Greatly Increases Savings By Age 60



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Withdrawing Your Money

When can I withdraw assets from my account?

You can withdraw assets from your account under the following conditions:

- **Retirement** – When you retire.
- **Leaving employment** – When you leave your job, for any reason.
- **Unforeseeable emergency** – This is defined as a severe financial hardship resulting from a sudden illness, disability or accidental property loss, subject to strict IRS guidelines.
- **Small balance account withdrawals** – You are eligible to initiate a one-time disbursement of your account if the balance is \$5,000 or less and neither you nor your employer contributed to the account for at least two years. Your account will automatically be distributed if the balance is less than \$1,000 and no contributions have been made for two years.

When I retire, how do I schedule my benefit payments?

We provide some of the most flexible payment options available from any deferred compensation program. You determine the payment schedule that's right for you:

- (A) Periodic payments (monthly, quarterly, etc.) over a specified number of years
- (B) Periodic payments (monthly, quarterly, etc.) over your determined life expectancy
- (C) Periodic payments of a specified amount per month or per year until the account is exhausted
- (D) Rollover to another plan or a Traditional IRA, including ICMA-RC's Vantagepoint IRA*
- (E) A lump-sum payment
- (F) Purchase of a lifetime annuity**

In addition, an annual automatic cost-of-living adjustment (COLA) may be elected with options (A), (B), and (C) listed above.

Once you begin receiving payments, you are able to stop and restart your payments as well as to increase and decrease them as your financial needs change.

* Please consult both the current Vantagepoint Funds prospectus and *Making Sound Investment Decisions: A Retirement Investment Guide* carefully prior to investing any money. Vantagepoint securities are distributed by ICMA-RC Services LLC, a broker dealer affiliate of ICMA-RC, member NASD/SIPC. ICMA-RC Services LLC, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-669-7400. www.icmarc.org.

** Annuities are insurance products available through companies not affiliated with the ICMA Retirement Corporation. Please consult *Income for Life Annuity Program: Immediate Annuities for Retirement Income*, prior to purchasing an annuity. 1-800-669-7400.

Building Your Portfolio*

Here are a few investment principles for investing your retirement funds

Risk and Reward

Risk measures the uncertainty of the timing and volatility of return on a given investment. No investment is entirely risk-free. But with the right tools and information you may be able to manage risk.

Risk and reward usually go hand in hand. An investment with greater risk, or uncertainty, has the potential for greater long-term reward. Lower-risk investments that offer you more comfort day-to-day could lead to disappointment at retirement, especially if the returns do not out-pace inflation. As shown in the Stocks, Bonds, Cash and Inflation chart, stocks historically have far outpaced long-term government bonds, short-term Treasury bills and inflation.

While the line representing stocks rises dramatically, its short-term moves are very uneven. On the other hand, the historical line for short-term Treasury bills is smooth—but barely beats inflation.

Your challenge is to match your financial goals with the level of risk you're willing to accept over various periods of time.

Focus on the Long Term Consider Your Time Horizon When Investing

It's important to match your time horizon with your investments. If you'll need some of your retirement savings soon, you should invest that portion so that its value won't fluctuate much over the short term.

However, if you have five or more years until you must draw on all or a portion of the assets, you should consider investments with more risk.

While volatility is always a concern, time reduces its impact. Some studies have shown that as the holding period of an investment increases, its average annual return becomes more predictable.

That's especially true for common stocks. Investors who held stocks for one-year periods since 1926 received returns ranging from a 54% gain to a 43% loss (see the Reduction of Risk Over Time chart that follows this discussion). But historically those who held stocks for 20-year periods (1926-1945, 1927-1946...) averaged as much as 18% and never less than 3%.

Additionally, accepting greater risk and holding that investment over a long period of time may result in your retirement planning goals being reached. Suppose you invested \$4,000 and earned 8%. After 20 years your account would be worth \$18,644. But if you earned 10% over that same period, the

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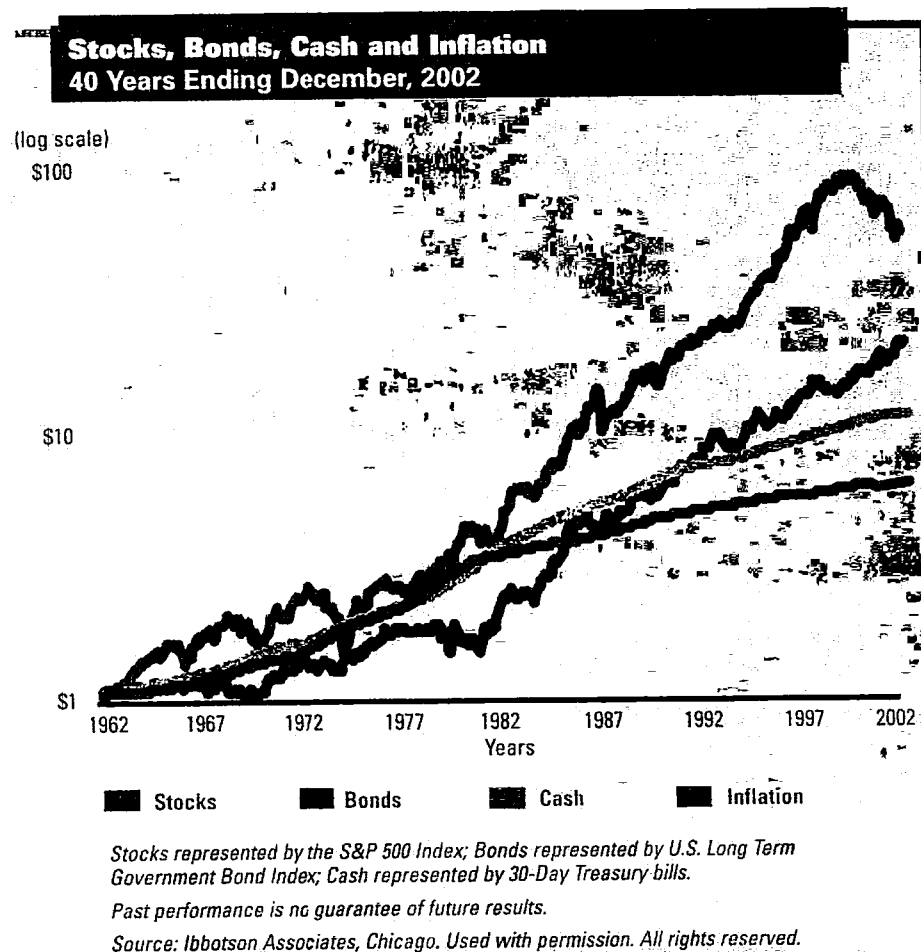
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same investment would be worth \$26,910. Time and compounding may be able to work for you.

Remember, these are not examples of actual investors, but rather are provided for informational purposes only. Past performance is not indicative of future results.

The Benefits of Diversification

We all know the saying "Don't put all of your eggs in one basket". Experienced investors know this to be particularly important.



Over the long term, the stock market consistently outperformed every investment vehicle represented on the illustration above.

The graph above shows the growth of \$1 invested in four different asset classes on January 1, 1962. By December 2002, \$1 would have grown to \$53.87 if it had been invested in stocks. But, \$1 invested in Treasury bills would have only grown to \$10.60.

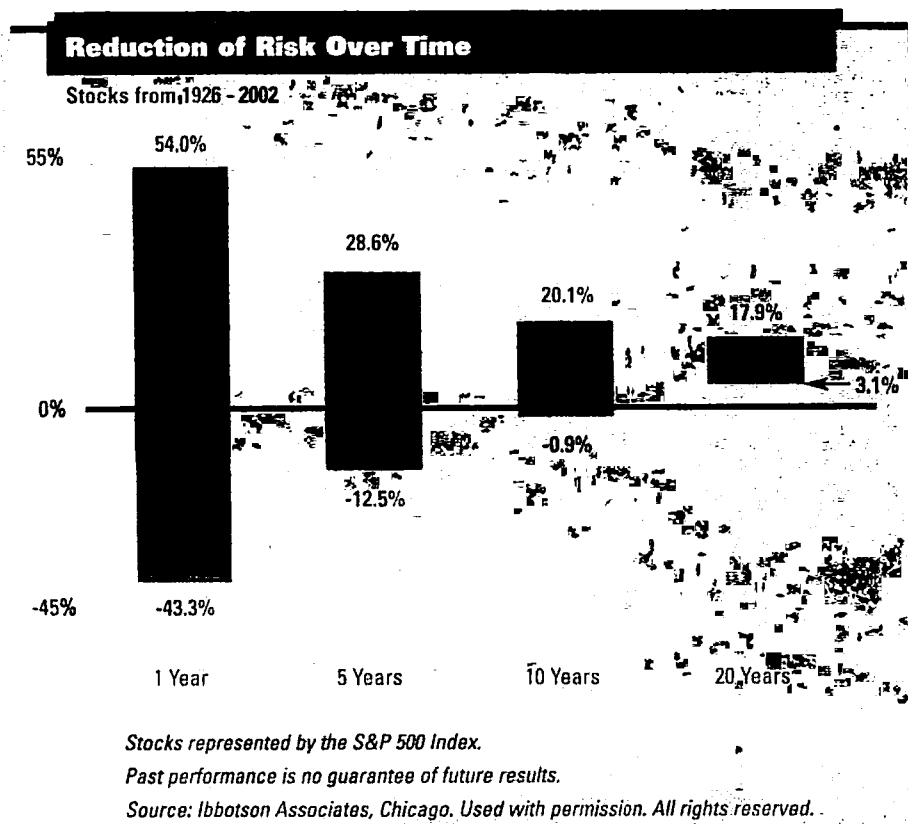
The S&P 500 is an Index of 500 Stocks, a widely recognized, unmanaged index of common stock prices. The U.S. Long Term Government Bond index represents securities ten to thirty years in maturity. A fund's portfolio may differ significantly from the securities held in the indices. Indices are not available for direct investment; therefore their performance does not reflect the expenses associated with the active management of an actual open-ended investment company portfolio.

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If you place all of your money in the stock of a single company and that company fails, you could lose your entire investment. But if you invest in many companies, you may reduce the potential for loss due to any single company. Similarly, spreading your assets among stocks, bonds, other classes of investments and different managers, helps even out the short-term ups and downs as your money grows over time.

How you mix your investments will have a great impact on your long-term returns. By combining investments that react differently to market conditions, inflation and interest rate changes, you may be able to protect against down-side risks, while you attempt to maximize your potential for return.

Additionally, a fund that uses multiple professional investment managers with different investment styles offers a greater level of diversification. That's because investment styles, like asset classes, react differently to market conditions.



Each bar shows the range of compounded annual returns for the S&P 500 Index for varying holding periods from 1926 - 2002.

Investors who held stocks for one-year periods since 1926 received returns ranging from a 54% gain to a 43% loss (see chart above). But those who held stocks for 20-year periods (1926-1945, 1927-1946...) averaged as much as 18% and never less than 3%.

The S&P 500 is an Index of 500 Stocks, a widely recognized, unmanaged index of common stock prices. A fund's portfolio may differ significantly from the securities held in the indices. Indices are not available for direct investment; therefore their performance does not reflect the expenses associated with the active management of an actual open-ended investment company portfolio.

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Steady Investing Pays Off Patience is the Best Way to See a Return on Your Investment

Trying to outguess the stock and bond markets by frequently shifting money between types of asset classes (e.g. stocks to cash, bonds to stocks) is very difficult, even for seasoned professionals using sophisticated techniques.

Attempts to time the market probably won't help you very much since securities markets are unpredictable and often move in short, powerful bursts. Successful market timing requires not only moving out at the right time, but also deciding when to move back in. It's better to be patient, recognizing that short-term market changes are far less important than long-term trends.

The two-year period during 1973-74 provides a good illustration of the benefits of patience. During this period, the market, as measured by the Standard & Poor's 500 Stock Index, fell 37%. But selling then would have been a mistake. Despite the steep decline during this bear market, staying with a \$1,000 investment in stocks made in 1973 resulted in a \$20,896 "harvest" at the end of 2002. Those who sold out at the bottom of the market and invested in safer Treasury bills would have earned only \$6,762.

Dollar Cost Averaging*

When making contributions to your account, you should consistently invest the same amount of money on a regular basis regardless of market fluctuations. This is called dollar cost averaging.

When the price of a share of a stock or fund is low, your contribution buys more shares. Conversely, when the price is high your contribution buys fewer

An Example of Dollar Cost Averaging

MONTH	AMOUNT INVESTED	PRICE/ SHARE	# OF SHARES
JANUARY	\$600	\$20	30
FEBRUARY	\$600	\$30	20
MARCH	\$600	\$24	25
APRIL	\$600	\$40	15
TOTAL	\$2,400		90



Average Share Price = \$28.50

The average share price equals the total of the market price (\$114) divided by the number of purchases (4), for an average of \$28.50 per share.

Average Cost Per Share Price = \$26.67

The average cost per share price equals \$2,400 divided by 90, or \$26.67 per share.

Your Savings: \$1.83 Per Share

You've reduced your cost through dollar cost averaging by \$1.83 per share.

With dollar cost averaging, \$2,400 buys 90 shares over four months. At the average market price of \$28.50, \$2,400 buys only 84.2 shares.

Not an actual account. For illustration purposes only. Past performance is not indicative of future returns.

* Dollar cost averaging does not assure profit. Plans do not protect against loss in a declining market. Since dollar cost averaging involves continuous investing, regardless of fluctuating prices, investors must consider financial ability to continue to invest during low price levels.

shares. Over time, this system tends to reduce the average cost of your shares. Dollar cost averaging is especially important when you are investing in more volatile investments, such as stock funds.

Regular investing in your 457 deferred compensation program is one of the ways to take advantage of volatile markets through dollar cost averaging.

Tools for Managing Your Account

VantageLine – 24-hour telephone access

Getting Started

To take advantage of VantageLine, all you need is a touch-tone telephone. Simply call 1-800-669-7400. For confidentiality, the first time you call, you will need to create your PIN using the following method:

- VantageLine instructs you to enter your Social Security Number and your current PIN (the last four digits of your Social Security Number).
- VantageLine will then ask you to enter a new four-digit PIN and verify the selection of that number. This is the PIN you will be required to enter each time you call VantageLine.

Use the new PIN you selected each subsequent time you call VantageLine. You may change your PIN as often as you wish. Remember to keep your PIN in a safe place.

1-800-669-7400

VantageLink – Making the Internet Work for You

Getting Started with Account Access

To take advantage of Account Access on VantageLink, point your browser to www.icmarc.org* and click on the Account Access button. Through Account Access you will gain secure access to your retirement plan data. But first, you'll need a password.

Requesting Your Password

- Go to our VantageLink Web site and choose "Account Access" from the left menu at the top under Secure Login.
- On the Account Access login page select the "Request an Initial Password" link.
- Select the option to either create a password online or have a password letter mailed to you via U.S. mail. If you create a password online, you can

* To enter Account Access you will need a Web browser that supports 128-bit Secure Socket Layer (SSL), a method of maintaining security on the Internet.

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use it immediately. If you request a password by mail, it may take up to 10 business days to arrive.*

- Fill out the online form with your plan number, Social Security Number, date of birth, zip code and (optionally) your email address. Then click on the Submit button.
- Log in to your account using your Social Security Number or Reference Code as your User ID. Enter the password you just created online or the password you received by mail.

www.icmarc.org

What services can I expect?

The ICMA Retirement Corporation is committed to offering the best retirement products and services available. Our programs are designed specifically for the public sector employee. Some of the additional advantages are:

- VantageLink Internet site at <http://www.icmarc.org>, recognized for its excellence in meeting the needs of participants
- 24-hour access to account information via toll-free telephone and the Internet
- Ability to transfer assets and allocate future contributions over the phone and the Internet
- Ability to receive statements and confirms over the Internet
- Competitive fees, no hidden fees. Free fund-to-fund transfers among investment options**
- Personalized service, including assistance in enrollment and retirement planning
- Quarterly combined account statements and performance summaries
- Quarterly newsletter
- Nationally recognized education materials including *Charting Your Course*, a comprehensive retirement planning tool

* Your Account Access password is not the same as your VantageLine PIN.

** Administrative management and fund expenses may apply. Consult the current prospectus and *Retirement Investment Guide* for complete details prior to investing any money. Documents can be obtained by calling 1-800-669-7400.

Vantagepoint securities are distributed by ICMA-RC Services, LLC.,
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ICMA RETIREMENT CORPORATION

777 North Capitol Street, NE
Washington, DC 20002-4240
1-800-669-7400

Para asistencia en Español llame al
1-800-669-8216
www.icmarc.org