GREAT-WEST RETIREMENT SERVICES®

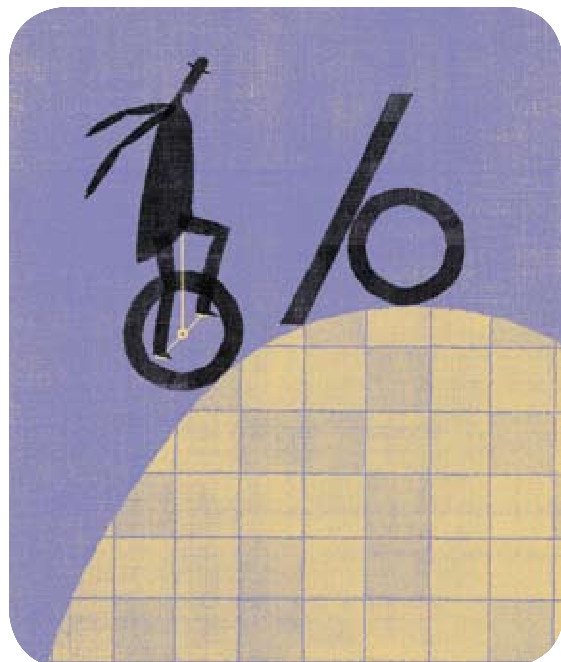
SPRING 2007

FINANCIAL Footnotes

A retirement planning newsletter brought to you by Great-West Retirement Services®

Rolling With the Economy

How the business cycle impacts your bottom line



You can't read the paper without coming across the words "inflation" (rising prices for goods and services) and "interest rates" (the cost of borrowing money). Experts often use them to explain movements in the financial markets. Economic fluctuations can impact the value of your retirement savings. To understand this connection and benefit from it, we need to discuss what economists refer to as "the business cycle."

Think of the business cycle as a wave—something that moves up and down. When the economy grows, the wave goes up. There is more competition for loans, workers and goods and services—pushing up interest rates, prices and wages. With more money circulating in the economy, people are more likely to take out loans. In order to keep this economic movement in check and to prevent inflation, the Federal Reserve (the Fed) will eventually **raise** interest rates.

Rising interest rates can cause a **slowdown** in the rate of economic growth—or even a **recession**, which occurs when the Gross Domestic Product (GDP), the total value of the goods and services produced by our economy, shrinks. As the wave turns down, falling demand for loans, goods and services, and workers may cause interest rates, prices and wages to **decline**.

When a **recession** causes interest rates to fall, it becomes less expensive to borrow money. Subsequent spending ignites economic growth, causing a rise in the GDP before deflation sets in. The economy begins to recover and the business cycle starts to move up once more.

Now that you understand the business cycle, you'll have a better idea of how to plan for the future in light of the present economic news. Remember to prioritize your retirement savings throughout *all* the phases of the business cycle.

Life-stage Investing: Climbing out of Debt

SEE REVERSE

Following the Fed

The Federal Reserve, commonly called "the Fed," helps determine the growth rate of our economy.

Economic expansion has an impact on factors ranging from inflation to corporate growth, which, in turn, influence the financial markets.

The Fed can act to increase the rate of economic growth by buying government bonds from securities dealers. The dealers then lend and invest some of that money, injecting cash into the economy. The Fed can also reduce the "fed funds rate," the rate at which commercial banks make overnight loans to each other to encourage more lending.

Conversely, the Fed can help to slow economic growth and fend off inflation by selling government bonds or increasing the fed funds rate.

But whatever action the Fed takes, its ultimate goal remains the same: to maintain steady economic growth and low inflation over the long term.

Yen, Euros, Dollars and You

What currency fluctuations mean for your savings

If you live, work and shop in the United States, the value of the dollar will vary with inflation, but if you go abroad, the dollar's value changes constantly. Banks trade more than $1.2 trillion worth of currency every day.[1]

Selling the dollar. The U.S. dollar was "strong"—meaning expensive—several years ago, when the U.S. economy and the stock market were thriving. Now, the dollar is "weak," or cheap. For example, in June 2002, you could buy one euro for $0.95. In late 2006, one euro cost $1.31. One British pound cost $1.46 in June 2002. At the end of 2006, $1.95 purchased one British pound.[2]

Overseas investors are key. In general, a weak dollar makes U.S. investments less attractive to foreign investors. Foreign investing is considered critical to our economy. Of the $12.9 trillion of U.S. stocks, foreigners own about $1.3 trillion worth.[3] A strong dollar makes U.S. investments appealing and helps keep prices high. As the U.S. economy improves, the dollar should strengthen and become more attractive to overseas investors.

1. Federal Reserve Bank of New York, 2006.
2. Federal Reserve Statistical Release H.10, Foreign Exchange Rates (Weekly). Release dates June 10, 2002 and December 29, 2006.
3. Bureau of Economic Analysis News Release: U.S. International Investment Position, 2005, June 29, 2006.

For questions related to your account or investments, contact:

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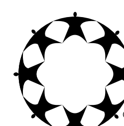

Great-West RETIREMENT SERVICES®

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Life-stage Investing

Climbing out of Debt

Put your finances back on track

Whether you're paying off student loans, a mortgage or credit card bills, debt could be standing between you and retirement. Perhaps it's time for you to consider consolidating your debt.[1] Shop for credit terms that best meet your particular financial and borrowing needs. Read and carefully examine the terms and conditions of credit agreements.

In Your 20s

If you're a recent college graduate, you may have several student loans to pay off. **You may want to consider consolidating them through the Department of Education's Federal Direct Consolidation Loan program**. It takes the weighted average of your student loans and rounds it up to the nearest eighth of a percentage point (capping at 8.25%). That rate is fixed for the lifetime of the loan. To learn more, visit **www.loanconsolidation.ed.gov.**[2]

Estimate monthly payments and compare the repayment plans for a Direct Consolidation Loan at **www.ed.gov/DirectLoan.**[2]

In Your 30s

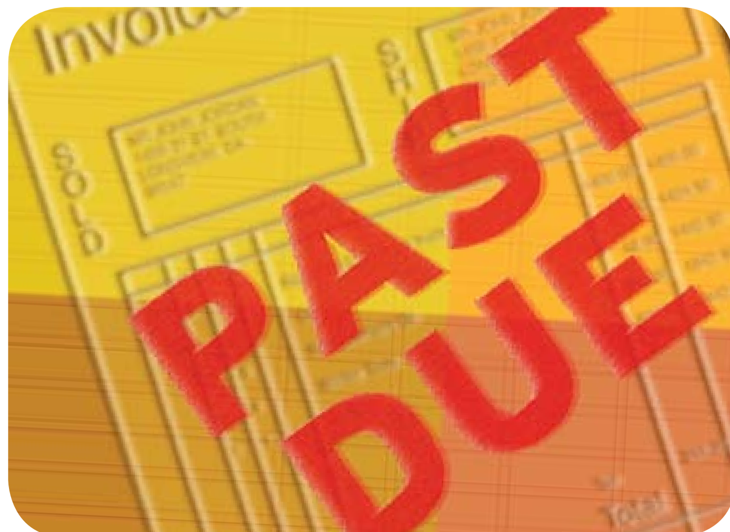
Many Americans in the middle of their careers find themselves saddled with credit card debt—but it is possible to reduce the amount you pay. Credit card companies want your business. Make them work for it! **If you have several cards with interest rates above 18%, call each card's customer service center to ask for lower rates**. The closer you can get to 12% or less, the better.

Consider taking advantage of low interest rates on credit cards that you come across—whether it's the "limited-time" balance transfer offer of a card you already own or a new one. Rolling over high-interest debt to a card with a lower rate can mean big savings and fewer bills, but be sure to read the fine print first, as many cards may contain balance transfer fees, and the interest rate may rise after the expiration of the "limited-time" offer, or if there is an introductory interest rate offered on the balance transfer.

Finally, don't run up the credit cards you just paid off. Cut them up instead.

In Your 40s

Middle-aged homeowners may want to consider a home equity loan to help consolidate their debt. Depending on your creditworthiness and the lender you choose, you may be able to borrow up to 125% of the appraised value of your home (minus the amount you still owe on your mortgage). **By consolidating your debt into a home equity loan you'll be left with only one bill to pay each month**. Under current tax law, and depending on your



specific situation, you may be allowed to deduct the interest on your home equity loan since it is secured by your home. Please seek the advice of a tax professional regarding your specific situation.

At Every Age

- **Stay away from credit-repair organizations**! There is no quick fix for bad credit—only time heals those wounds. Furthermore, these organizations may charge fees for their services.
- **Do not borrow against your retirement savings plan at work**. If you do, you could be jeopardizing your retirement nest egg, your future and your financial security.

Fine Tuning

SmartMoney.com[2] has a debt consolidation calculator to help you crunch numbers. Go to **www.smartmoneyuniversity.com** and look for *Debt Management* under the *Personal Finance* tab. From there, choose one of the debt management worksheets. Punch in the current balance on your loans by monthly payment or rate, and you'll see how consolidation will affect your overall interest rate.

Once you have your finances on track, keep them there. Commit your newly found savings to paying off the principal on your consolidated loans and low interest credit cards. It'll speed up the process—and it's nice to feel like you're actively chipping away at the red column.

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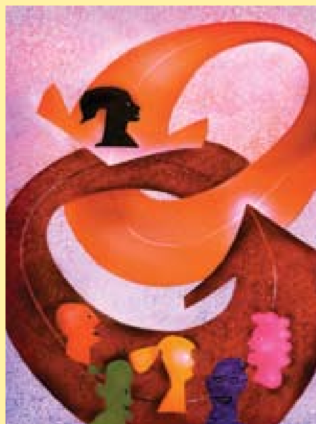

Rely on a Rollover

Pack up your savings

Chances are, you'll roll over a retirement account at some point in your life. You might make a rollover if you change jobs and take your retirement assets with you to your new employer's plan. Even if you left a job years ago, your retirement assets are still yours to keep. Here's what you need to know before rolling over your account balance.

Avoid the 20% Withholding Trap

When you leave an employer you have the option to access the money in that employer's retirement account. If you ask, your company will send you a check for the full vested balance of your account. But if the check is made out to *you*, your employer will have to withhold 20% of your balance for federal income taxes. And if you are under age 59 ½, you may owe an additional 10% early withdrawal penalty.[1]

To avoid the 20% withholding, arrange for a "direct" or "trustee to trustee" rollover into your new company's plan. This means the distribution check must be made out in the name of the financial institution receiving the rolled-over funds. Ask your new benefits administrator for specific written instructions on how the check should be made out.

Next, notify your former employer's plan administrator that you are making a direct rollover. You will probably need to fill out a form with instructions on how the distribution check should be written. In most cases, the check will be sent directly to your new plan.

You work hard for your savings—keep them working for you when you change jobs.

1. The 10% early withdrawal penalty does not apply to 457 plan withdrawals.