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New York State
Deferred Compensation Plan
A Plan for Your Future

January 2008

Quarterly

HELPLINE: 1-800-422-8463 • TTY/TDD: 1-800-514-2447 • WEB: nysdcp.com

Dear Plan Participants,

We all know that time passes much too quickly. It seems like only yesterday that we were planning for Y2K and the impact changing the calendar from 1999 to 2000 was going to have on our lives. The apprehension that so many felt going into that New Year now seems passé. We are sure you can pick any number of life's experiences (graduation, a wedding, birth or adoption of children, starting your first job) and personally measure how quickly time passes.

The beginning of another New Year reminds us that time is an important concept in saving and preparing for retirement. Your time horizon for investing, determining how long or short it is before retirement, and how long your retirement will last are all terms that you hear when speaking about retirement planning.

This is not said to frighten or alarm but rather to encourage you to reflect on your circumstances and take action to shore up anything that may need improving. Planning now will prove beneficial in the future. Don't let time and opportunity pass you by. A very positive way to improve your retirement finances is to increase your deferrals to your Plan account. Setting aside a portion of future pay increases will improve your retirement investing.

Of course you know that the longer you defer a portion of your salary to your Plan account, the more time and opportunity it has to grow and make your retirement time more enjoyable.

It is a pleasure to know that you and so many other state and local employees are taking advantage of the Deferred Compensation Plan. We hope that this New Year brings to you many enjoyable experiences and retirement savings opportunities.

Sincerely,

The New York State Deferred Compensation Board

Diana Jones Ritter   Frederick J. Jacobs   Michael A. Avella

Contributing the Maximum Can Help You Get the Most Benefit from Participating in the Plan

Deferral, catch-up limits unchanged from 2007

The IRS announced the 2008 maximum salary deferrals that may be made to the Plan. The limits are the same as those in effect for 2007.

- The maximum Regular Annual Deferral limit is $15,500.
- The maximum Age 50 and Over Catch-Up deferral limit is $5,000, for a total maximum deferral of $20,500.
- The maximum Retirement Catch-Up deferral limit is twice the maximum Regular Annual Deferral limit or $31,000.

Can you invest more?

Saving for retirement is an important financial goal that shouldn't be put off until another day. For most people, contributing the maximum allowed by law may not be financially feasible. But through a careful assessment of your budget and long-term priorities, you may be able to do more than you think. Your local Account Executive can help you:

- Determine if you're investing enough now to meet your long-term goals
- See how increasing your contribution will impact your paycheck

Talk with your local Account Executive to learn how to do more now to help ensure you have more assets available when you're planning for your income needs at retirement.

Please remember that information from plan representatives is for education purposes only and not intended as investment advice.

A Reminder on a Few Plan Features

The Pension Protection Act of 2006 provided the Plan with a few new features and the Plan Document has now been amended to reflect these changes. As 2008 begins, please take a moment to review four of the features that may affect you and your Plan account.

Public safety officer's distributions

The Pension Protection Act permits police officers, firefighters, parole officers, correction officers, probation officers, and members of a rescue squad or ambulance crew who have retired because they were eligible for a service or disability retirement benefit from the State or a participating employer to request a distribution of up to $3,000 annually to pay for health insurance or qualified long-term care premiums for themselves, their spouse, or dependents. The distribution must be paid directly to the insurance provider or to your former employer if you receive your health insurance as part of an employer's sponsored health insurance plan. This distribution is exempt from federal income taxes.

Distributions to non-spousal beneficiary

The Pension Protection Act permits a beneficiary, who is not a spouse to roll his or her assets directly to an inherited IRA.

Unforeseeable Emergency Withdrawals on account of a beneficiary

Prior to the Pension Protection Act, a participant could withdraw a portion of his or her Plan assets for an unforeseeable emergency experienced by the participant, the participant's spouse, or a dependent of the participant. A participant may now withdraw a portion of his or her Plan account for an unforeseeable emergency experienced by a designated Plan beneficiary.

Direct Rollover to a Roth IRA

Under previous law, the only way Plan assets could be rolled over to a Roth IRA was to first roll the assets into a regular IRA and then "convert" the account to a Roth IRA. The Pension Protection Act now allows you to roll your Plan assets directly to a Roth IRA.

The direct ROTH IRA rollover option is only available to participants whose modified adjusted gross income is $100,000 or less. The $100,000 limitation applies to the joint income of married participants. Married participants who file their federal income tax return as "married filing separately" are not eligible, regardless of income. Beginning in 2010, the income limit will no longer apply. Unlike a regular IRA rollover, you would pay ordinary income tax on the amount rolled over to a Roth IRA.

Distributions upon retirement or termination of service are eligible for rollover but you should remember that you are not required to leave the Plan. Since a number of special tax rules apply, you should also consult with your tax advisor before initiating a direct Roth IRA rollover.

The Plan will continue to keep you informed about features that affect you and your account. And, if you want to know more, please feel free to call the HELPLINE.

Investment Options Under Heightened Monitoring

The Board and its independent investment consultant continue to monitor the Plan's core investment options in accordance with its Investment Policy, which identifies conditions that warrant "heightened" monitoring as follows:

(1) performance issues
(2) a change in investment style
(3) departure of key personnel
(4) operational issues
(5) changes to the fund
(6) issues related to fees
(7) general regulatory issues
(8) changes in organizational structure of the fund.

Heightened monitoring does not result in the closure of an investment option. However, the Board will actively evaluate those funds to determine if closure, elimination, or a return to regular monitoring status is appropriate. The chart below lists the Plan investment options currently under heightened monitoring along with the corresponding Investment Policy criteria.

Investment Option	Policy Criteria
Alger MidCap Fund	(1)
Fidelity Magellan Fund*	(1), (3)
George Putnam Fund of Boston	(7)
Mainstay ICAP Portfolio	(1), (8)

*The Fidelity Magellan Fund was closed to new investments on December 31, 2007.

Four Plan Funds to be Eliminated

As reported in the October issue of the Quarterly and in a direct mailing to Plan participants, the George Putnam Fund of Boston, Morgan Stanley IF Institutional Value Portfolio, Dreyfus Appreciation Fund, and Harbor Capital Appreciation Fund will be eliminated as Plan investment options on March 20, 2008.

This action is being taken to streamline and simplify the investment choices available through the Plan and to encourage proper asset allocation and diversification among the Plan's investment choices. The Plan will continue to offer two comparable investment options in each investment style and Plan participants may move any balances from these funds to other Plan investment options at any time prior to March 20, 2008.

Any assets remaining in those funds at the close of business on March 20, 2008 will be transferred to comparable funds as follows:

Eliminated Investment Option	Investment Option Receiving Balance
George Putnam Fund of Boston	Vanguard Wellington Fund
Dreyfus Appreciation Fund	Vanguard Institutional Index Fund
Harbor Capital Appreciation Fund	Fidelity OTC Portfolio
Morgan Stanley IF Value Portfolio	Mainstay ICAP Equity Fund

Fidelity Magellan Closed to New Investments

As reported in the October issue of the Quarterly and in a direct mailing to Plan participants invested in the Fidelity Magellan Fund, the Plan closed the Fidelity Magellan Fund to new deferrals and exchanges on December 31, 2007 because it has been on the heightened monitoring list since October 2004. Any Participants who have balances in the Fidelity Magellan Fund may keep funds in that investment but may not add to it. Any salary deferrals allocated to the Fidelity Magellan Fund and received after December 31, 2007 have been allocated to the Fidelity OTC Fund. Participants who were allocating a portion of their salary deferrals to the Fidelity Magellan Fund and who did not select a new deferral allocation are encouraged to review their salary deferral allocation and make any desired changes. Deferral allocations can be adjusted on the Plan web site or by calling the HELPLINE and speaking to a HELPLINE Representative.

Pax World Balanced Fund Conversion Results In Lower Expenses

A number of mutual fund companies offer both individual and institutional share classes for many of their funds. The more common individual class is available to any investor. Institutional class shares are generally available only to larger investors such as the Deferred Compensation Plan. The benefit of investing through institutional share classes is that the mutual fund operating expenses, or expense ratio, are lower than those charged for individual class shares.

The Pax World Balanced Fund recently opened an institutional share class and the Plan will be converting to this share class on April 1, 2008. This action continues the Plan's efforts to provide high quality, low cost investment options for Plan participants and will reduce the Pax World Balance Fund expense ratio by 26%. You should realize higher returns and more money in your Plan account if you are invested in the Pax World Balanced Fund. The change in share class will not affect the Fund's portfolio or investment objectives. The only change is simply a reduction in cost.

The ticker symbol for the new shares is PAXIX. The new VRU number will be 7298. On April 1, 2008, your existing shares in Pax World Balanced Fund Individual Investor Class will automatically be converted to shares in Pax World Balanced Institutional Class. Any new contributions will also be invested in the new share class.

This requires no action on your part. Please call the HELPLINE if you have additional questions.

Asset Allocation: A Big Picture Look at Large-Cap Stock Funds

Simply stated, asset allocation is a fancy way of talking about your account's diversification, or its mix of investments. Diversifying your assets helps manage risk. You control risk by spreading money across asset classes because different investments do better in different market conditions. While the use of diversification and asset allocation is part of an overall investment strategy, it does not assure a profit or protect against a loss in a declining market. However, it is important to have a strategy that helps spread investments across different asset classes.

This article focuses on large-cap stock funds. If you would like to learn more about any of the asset classes, you can visit nysdcp.com or call the HELPLINE.

Large-cap stock funds generally invest in large, well-known companies that have a market value of more than $8 billion. These companies are typically well established, with solid histories of growth and dividend payments (the company's earnings that are distributed to shareholders). Historically speaking, large-cap stock funds have been less volatile than mid-cap or small-cap stock funds.

The Plan offers large-cap funds and other U.S. stock funds from three different styles:

- **Growth Funds** – generally hold stocks of companies with above average prospects for growth.
- **Value Funds** – generally hold stocks of companies that appear to be undervalued by the market.
- **Blend Funds** – generally hold stocks of a mix of companies with both growth and value characteristics.

See the table below to learn what large-cap options you have through the Plan.

Fund	Style
Davis New York Venture Fund A	Blend
Dreyfus Appreciation Fund, Inc.*	Blend
Vanguard Institutional Index Fund - Plus Shares	Blend
Vanguard PRIMECAP Fund - Admiral Shares	Growth
Fidelity OTC Portfolio	Growth
Harbor Capital Appreciation Fund*	Growth
Janus Fund	Growth
Mainstay ICAP Equity Portfolio	Value
Morgan Stanley IF Value Portfolio - Investment Class*	Value
T. Rowe Price Equity Income Fund	Value

Before investing in any fund, be sure to read its prospectus, the document that shows the fund's investment objectives, risks, charges, and expenses, as well as other important information. Read it carefully before investing. You can obtain a copy of fund prospectuses by calling 1-800-422-8463 or through the Plan Web site.

***Important notes about the Plan's large-cap funds:** Fidelity Magellan is closed to new investments. Dreyfus Appreciation, Harbor Capital and MSIF Value will be eliminated from the Plan on March 20, 2008.

Closing the Gap

Income you need in retirement

- Income from your pension, Social Security, and personal savings

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= Your retirement gap

Your Plan account can help you move towards your goal of a financially secure retirement and closing the "retirement gap." Your deferred compensation account is a supplemental retirement savings plan because your pension and Social Security may not be enough to help you meet all your expenses in retirement.

Once your retirement gap is determined, the next step is to close the gap. Here are a few options to help you:

1. Use asset allocation to your advantage.

The asset allocation model you choose is based on how comfortable you are with risk and the length of time until you need to use your investment dollars (and even how long you need your dollars to last throughout retirement). It's important how your dollars are spread among stocks, bonds, and cash equivalents. Talk with an Account Executive today to see if your account's diversification is the right mix to help you reach your goals.

2. Increase your contribution to your Plan account.

In 2008, all participants can defer up to $15,500, tax-deferred to their Plan account (your withdrawals are taxed as ordinary income). Participants who are at least age 50 or will become 50 before the end of 2008 can defer an additional $5,000. Participants who are within four years of their normal retirement age may be able to invest even more through the Retirement Catch-Up provision.

3. Work longer.

You can extend your working years by taking a part-time job or beginning a new full-time job. Because people are living longer, healthier lives, more retirees are comfortable working longer. If this option appeals to you, the additional income could help you close your gap. It can even give you a new opportunity in life for a "second career" or the chance to try something you've always wanted to do.

Call the HELPLINE or your local Account Executive to discuss your individual situation and find out how you can begin closing the gap to your retirement.

A Hidden Gem – Saver's Tax Credit

The Federal Saver's Tax Credit has been available since 2002 and is now more valuable because of the Pension Protection Act of 2006. That law made the Saver's Tax Credit permanent and indexed future credits to inflation.

How the Saver's Credit works

The Saver's Tax Credit provides Plan participants with a federal income tax credit on their federal income tax return simply for investing for retirement through the Plan. A quick reminder: A "tax credit" is valuable since it allows you to reduce your tax liability dollar-for-dollar. A "deduction," on the other hand, reduces the income subject to federal tax. The federal Saver's Tax Credit is a non-refundable income tax credit that could reduce your federal income tax liability to $0.

Eligibility depends on your filing status and modified adjusted gross income. The Saver's Tax Credit equals up to half the first $2,000 of an annual contribution to your Plan account. Thus, the federal government in effect gives you up to half of what you contribute each year, up to a maximum total credit of $1,000, if you qualify.

As the table below shows, the Saver's Tax Credit covers households with earnings as high as $50,000 for the tax year ending on December 31, 2007. This is important information when filing your federal income tax return on or before April 15, 2008. Future credit levels will be indexed to inflation.

For more information about how the Saver's Tax Credit works, contact your local Account Executive. To find out if you qualify, please remember that our Plan representatives can't give you tax or legal advice. You should check with your tax professional or legal advisor for answers to specific questions.

Who qualifies for the Saver's Tax Credit? (Compensation limits will be higher in tax year 2008.)

Adjusted Gross Income			
Married Filing Jointly	Head of Household	All Other Filers	Saver's Credit
$0 - $30,000	$0 - $22,500	$0 - $15,000	50% of contribution*
$30,001 - $32,500	$22,501 - $24,375	$15,001 - $16,250	20% of contribution*
$32,501 - $50,000	$24,376 - $37,500	$16,251 - $25,000	10% of contribution*

* The maximum contribution eligible for the Saver's Credit is $2,000 per person per year.

Two Important Reminders Before You Retire

If you're nearing retirement, there are two things that we want you to know about your Plan account:

1. You can stay in the Plan.

You are not required to move your assets out of the Plan when you retire. It's our job to help you plan up to, and throughout, your retirement. Managing your account in retirement is just as important as your preparation for retirement. We can show you how to determine how much income you need in retirement; learn how to stretch your income so it lasts throughout your lifetime; and how to choose the payout options that are right for you when you're ready to withdraw income.

2. You can bring other retirement assets into the Plan.

Because you do not ever have to move your money out of your Plan account, even when you retire or separate from service, you have the opportunity to roll over most of your other retirement accounts into the New York State Deferred Compensation Plan. The Plan was created to serve New York's public employees and their beneficiaries—and nobody else.

By remaining in the Plan and bringing other assets into it, you'll continue to experience some of the lowest fees available because we work hard to keep them low. (Whenever we discuss fees, it's our responsibility to remind you that you should carefully consider fees before considering transferring assets either into or out of the Plan.)

You've worked hard to accumulate money for your future. The Plan offers flexible distribution options to help you make smart choices about your Plan account once you're in retirement. And you may change your distribution option at any time. You are only required to receive a distribution when you become 70½.

Combining your accounts can make life simpler. You're welcome to bring nearly all of your other retirement assets into the Plan and continue to benefit from the tax advantages and flexible options at retirement. We can help you manage your investments in one place and answer your retirement questions.

Call your local Account Executive to discuss your specific retirement situation. If you are interested in rolling over your retirement assets to the Plan, you can print and complete an Incoming Asset Transfer Form from nysdcp.com or speak to a HELPLINE Representative.

Qualified retirement plans, deferred compensation plans, and individual retirement accounts are all different, including fees and when you can access funds. Assets rolled over from your account(s) may be subject to surrender charges, other fees, and/or a 10% tax penalty if withdrawn before age 59½. Neither the Administrative Service Agency nor any of its representatives give legal or tax advice. Information provided by Account Executives and HELPLINE Representatives is for educational purposes only and is not intended as investment advice.

This newsletter gives information that is intended to help participants understand what investment alternatives are available to them under the Plan. If you need tax or legal advice, please ask your certified public accountant or lawyer. While we are pleased to help keep you up-to-date on your retirement savings, nothing in this newsletter can change the terms of the Plan or any investment contract.

Participants in the New York State Deferred Compensation Plan will be charged administrative fees for the Plan year beginning April 1, 2007 and ending March 31, 2008.

Each participant is charged a $14 annual fee, assessed in two $7 semi-annual charges in September and March. This fixed fee will appear on your account statement as a deduction.

The Plan's administrative expenses are partially offset by reimbursements the Board has negotiated with most of the Plan's mutual fund providers.

In addition, each of the mutual funds offered by the Plan has fund expenses that are netted directly from the mutual fund's daily price. These will vary based upon the investment fund selected.

Information provided by Account Executives is for educational purposes only and is not intended as investment advice.

Neither the Administrative Service Agency nor any of its representatives offer legal or tax advice. For such guidance, you should consult your own legal or tax adviser.

Retirement Specialists are registered representatives of Nationwide Investment Services Corporation, Member FINRA.

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