NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

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Updates for Deferred Compensation Provider Representatives

Plan Provisions Updated

Includible Compensation Calculation - As you may be aware, the original intent of EGTRRA was to allow participants to contribute 100% of compensation and Congress was working to amend it. We are pleased to report that this has now been accomplished. Includible compensation is now 100% of compensation minus 414(h) pickup contributions to a 401(a) plan.

Here is the latest working definition of "includible compensation" based on the amendment to Section 457(e)(5) as provided in the Job Creation and Workers Assistance Act of 2002. The term "includible compensation" includes all compensation for service performed for the employer which is currently included in gross income, such as wages, salaries, fees for professional services and other amounts received for personal services actually rendered in the course of employment with the employer. "Includible compensation" also includes elective contributions made by an employer on behalf of an employee that are not included in gross income such as contributions to Section 125 (cafeteria), 401(k), 403(b), and 457(b) plans, SEPs and SIMPLEs. Section 414(h)(2) pick-ups are not included in determining "includible compensation."

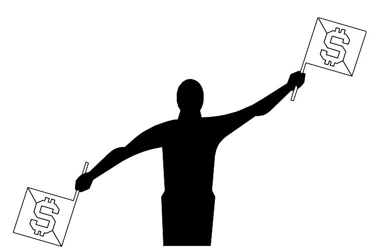
Finally, the "rule of thumb" that 50% of gross compensation equals 100% of includible compensation is eliminated. See page 7 of the Red Provider Handbook for contribution limitations.

Irrevocable Elections—Remember, EGTRRA also eliminated the "irrevocable election" requirement for a participant that separates from employment and liberalized the distribution rules. Therefore, NDPERS will no longer require terminated participants to complete a Benefit Selection Form to select a distribution date and method of payment. From April 1st forward, NDPERS will send the participant a letter acknowledging termination and instructing participants to contact their provider representative to make arrangements for distribution. A copy of that letter will be sent to the Provider Company's Authorized Agent and the provider representative on record to serve as authorization that the funds are available for distribution. If an authorized signature is required on any forms your company uses to facilitate a distribution request, they should be submitted to the NDPERS office for processing.

Rollovers—Upon termination from employment, Section 457 funds are now eligible for rollover to a 403(b) plan, an eligible IRA, or other tax qualified plan that allows for acceptance of such funds. NDPERS has not and will not be developing a form for these transactions. Therefore, if an authorized signature is required on any forms your company uses to facilitate a rollover request, they should be submitted to the NDPERS office for processing.

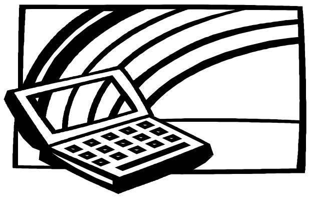
Provider Representative Handbook Revised

The red Provider Representative Handbook has again been revised. Revisions reflect the changes to the NDPERS program pursuant to EGTRRA, to contractual changes between NDPERS and Deferred Compensation Provider Companies and most recently, the Job Creation and Workers Assistance Act of 2002. Although these handbooks were provided to those who attended trainings last fall and this spring, revisions continue to occur. You may wish to review the Provider Representative Handbook on the NDPERS website to ensure you have the most current revisions.



NDPERS Website

Remember, you can download NDPERS materials at your convenience at www.discovernd.com/ndpers



New Participant Agreement Form 3803

As of April 1st of this year, NDPERS will no longer collect and maintain new beneficiary data. Please discard the old legal size forms and begin using the new Participant Agreement SFN 3803 (Rev. 04-01-02) immediately. Instructions for the new form may be accessed in the red Provider Handbook on the NDPERS website. NDPERS staff will attempt to facilitate the forms transition for a short period of time. However, any old participant agreement forms submitted after July 1, 2002, will not be processed and will be returned.

Please Note: The passage of the Job Creation and Workers Assistance Act of 2002 necessitated additional changes to the Participant Agreement form. Individuals who attended training sessions in the fall of 2001, should review the form instructions on-line, as the form was changed after those meetings were conducted.

The instructions for the Catch-up Worksheet found on page 14-15 of the Provider Handbook were also impacted by this legislation. To access the revised instructions, please refer to the Provider Handbook on the NDPERS website.

Tax Credit for Deferred Compensation Savers

The special tax credit feature provided by EGTRRA legislation should assist you in encouraging NDPERS members to participate in the deferred compensation savings program. Specifically, if an individual contributes to the state's 457 Deferred Compensation Plan, he or she may be eligible for a federal tax credit, called a "saver's credit". This credit may reduce the amount of federal income tax a participant owes. The credit is based upon the participants contributions and credit rate. The credit an individual is eligible for depends upon adjusted gross income and filing status. It is calculated as a percentage of the first $2,000 contributed to a deferred compensation account. If the participant is married, filing jointly, the maximum contribution used for the credit is $2,000 each for the participant and participant's spouse. As the table indicates, the lower the adjusted gross income, the higher the credit rate.

Credit	***Single or Married (filing separately***	***Married (filing jointly)***	***Head of Household***	***Maximum Credit (per person)***
50%	**$0—$15,000**	**$0—$30,000**	**$0—$22,500**	**$1,000**
20%	**$15,001—$16,250**	**$30,001—$32,500**	**$22,501—$24,375**	**$400**
10%	**$16,251—$25,000**	**$32,501—$50,000**	**$24,376—37,500**	**$200**

Examples:

1) Single or Married (filing separately)
For 2002, Sarah's adjusted gross income would have been $27,000 if she had not made any retirement contributions. Instead, Sarah contributed $2,000 to her employer's deferred compensation plan (457 Plan). Therefore, her adjusted gross income for 2002 was reduced to $25,000 ($27,000 minus $2,000).
*Whereas Sarah's contribution is not subject to income taxation, she has effectively reduced her tax liability by $360 ($2,000 x 18%). In addition, under the new law, Sarah is also eligible to receive a $200 ($2,000 X 10%) tax credit based on her filing status as "single". In this example, by saving $2,000 for her retirement, Sarah has reduced her taxes by $560 ($360 + $200), assuming an 18% * tax rate.*

2) Married Filing Jointly
For 2002, Susan and Mike's adjusted gross income would have been $34,000 if they had not made any retirement contributions. Instead, Susan contributed $2,000 to her employer's deferred compensation plan (457 Plan) and Mike made a deductible contribution $2,000 to a traditional IRA. Therefore, their adjusted gross income for 2002 was reduced to $30,000 ($34,000 minus $4,000).

Whereas Susan and Mike's contributions are not subject to income taxation, they have effectively reduced their tax liability by $720 ($4,000 X 18%). In addition, under the new law, Susan and Mike are also eligible to receive a $2,000 ($4,000 x 50%) tax credit based on their filing status as "married filing jointly". In this example, by saving $4,000 for their retirement, Susan and Mike have reduced their taxes by $2,720 ($720 + $2,000), assuming an 18% tax rate.*

***Assumes a 15% federal tax rate and a 3% North Dakota state tax rate.**

Tentative Training Dates Fall 2002

Grand Forks—October 9
Minot—October 8
Bismarck– October 15 & 16

Watch the NDPERS website for more details