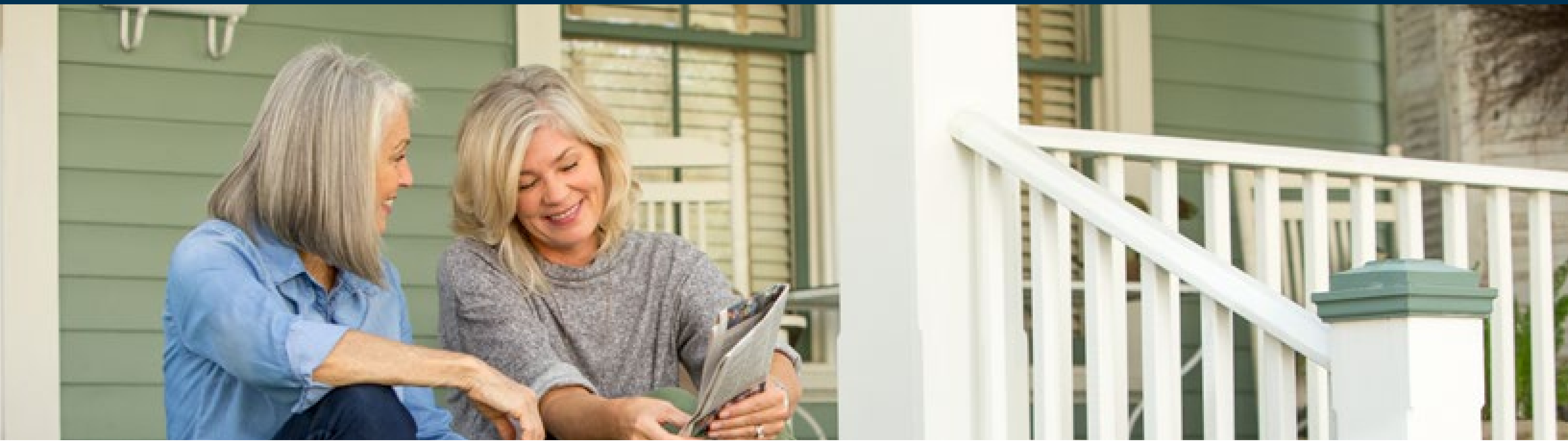
October 2017

Quarterly

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

New York State
Deferred Compensation Plan
A Plan for Your Future



Important Changes

On July 10, 2017, the New York State Deferred Compensation Plan introduced a streamlined, reduced-cost menu of investment options. You will see these new investment options reflected in your quarterly statement listed as exchanges. To understand how the changes may affect how you invest for retirement through the Plan, we encourage you to review the First Quarter 2017 Quarterly Newsletter, May 2017 Special Edition Newsletter, and Second Quarter 2017 Quarterly Newsletter found under Headlines on the Plan's Web site, **www.nysdcp.com**.

Dear Participants,

If you hadn't noticed, the world has gotten more complicated… by a lot! Those of us who have been around for a while actually remember when phones were a heavy black device which required you to spin a noisy dial to call someone. Just about anyone could use it since all the phones were pretty much the same. Today's smart phones have many features and options but it takes some effort to know what to do. What's the point? Because decisions are more complicated, we need to spend more time educating ourselves so that we can make good decisions.

The investment world has also become more complicated with more choices than ever before. The Plan's Board realizes that investing for retirement can be complicated but not so much that you can't make good decisions as long as you have help. Maybe you simplify the investment decision by choosing a "Do It For Me" target date trust. But, you still have to figure out how much you need to save to meet your goals. If you are interested in the "Do It Yourself" options, you will need to take the extra steps to determine what the most appropriate asset allocation is for you and to select the investment options to create that asset allocation.

Participants have had to become more educated on the types of investment products due to the recent changes in the investment option lineup. It was a new subject for many of us and there were many misperceptions. We include articles in the Quarterly newsletter to help explain financial concepts that are relevant to your retirement planning. It is likely the information will help you make better decisions now and in the future.

Diana Jones Ritter | Blake G. Washington | David J. Natoli

National Retirement Security Week

Tell a Friend

NYSDCP MAKES A DIFFERENCE!

INVESTMENT EDUCATION

Dividends and Capital Gains Distributions: A Zero-Sum Game

What is an NAV?

Net Asset Value (NAV) is the price per share of a mutual fund or a unit of a collective investment trust (CIT) or custom fund (CF). The NAV is equal to the total value of the fund's investments divided by the total number of shares or units held by investors. It is calculated at the end of every trading day.

$$\text{NAV} = \frac{\text{TOTAL VALUE OF INVESTMENTS}}{\text{TOTAL SHARES OR UNITS}}$$

Why Dividends and Capital Gains are Paid by Mutual Funds

Mutual funds, CITs and CFs are pooled investment vehicles that hold many different individual investments. Many of the investments held by a fund will receive payments in the form of bond interest or stock dividends. Tax law requires mutual funds to pay out accumulated income at least annually. A mutual fund dividend is the payment to the mutual fund shareholders of these accumulated earnings.

A capital gains distribution, in contrast, is created by the selling of securities within a mutual fund. When an investment manager decides to sell a position in an investment held by the fund, it will either be at a gain or a loss compared to what was originally paid. If gains exceed losses, this will cause the NAV of the fund to increase in value. Tax law again requires mutual funds to pay out these accumulated capital gains on at least an annual basis.

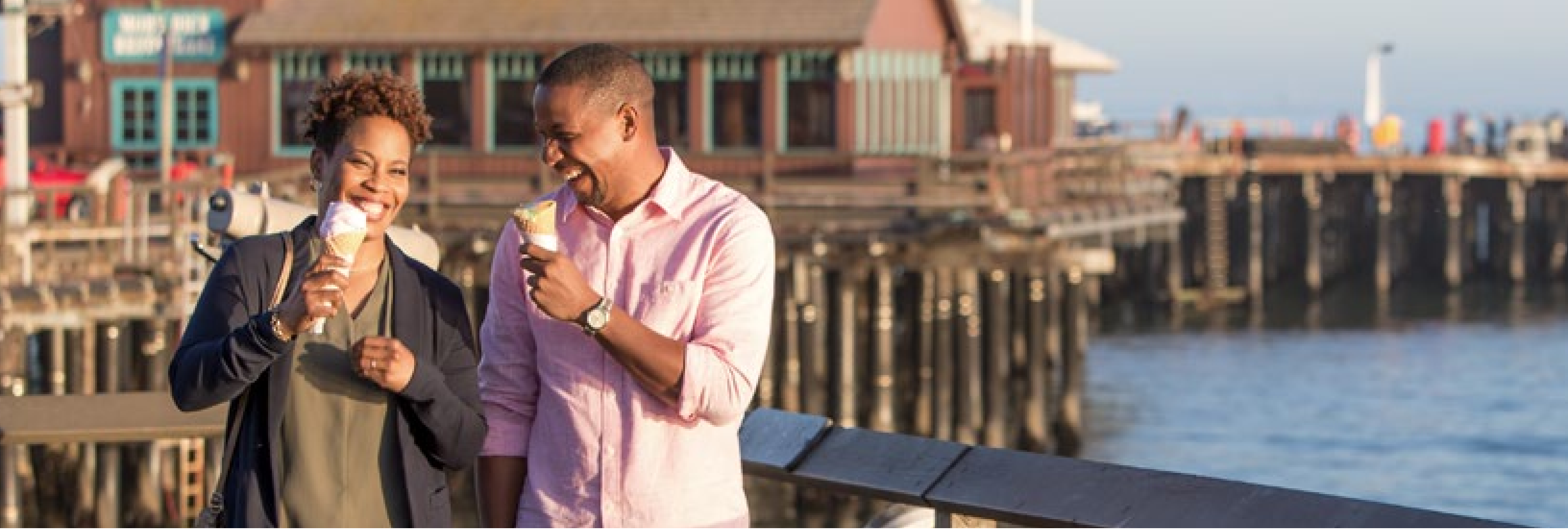
How this affects the NAV of a Mutual Fund

When a fund pays out its required dividend or capital gains distribution, it decreases the total value of the fund, therefore decreasing the NAV by the same amount per share as the distribution. In your Plan account, these distributions are reinvested right back into the account – purchasing new shares at this lower price. The result is a zero-sum game. When a mutual fund pays a dividend or capital gains distribution, the result will be owning more shares at a lower price, equaling the same total value before the distribution was made.

> *Example:* Francine has 10 shares of XYZ mutual fund that has an NAV of $10, for a total account value of $100. The Fund pays out a capital gains distribution of $2/share. This causes the NAV to decrease to $8, but the $20 distribution also purchases 2.5 new shares of the fund for Francine. Francine now owns 12.5 shares of XYZ fund valued at $8 each for a total value of $100 (no change).

What Happens in CITs and CFs

Because CITs and CFs are only available to large tax-exempt institutional investors, they are not required to pay out dividends and capital gains. This doesn't mean that participants won't benefit, but rather the CIT or CF will retain these earnings in the total value of the holdings thereby simply increasing the NAV without a costly and unnecessary distribution transaction.



RETIREMENT READINESS

Use National Retirement Security Week to assess how well you're preparing for your later years.

Every year, Congress designates one week to highlight the importance of saving for retirement and to encourage workers to explore their retirement-savings options. This year, National Retirement Security Week is October 15 through 21.

But you don't need to wait for a special week to take another look at your retirement readiness. The Plan offers a wealth of resources on our Web site to help.

Consider investing 10 minutes in My Interactive Retirement Planner℠. Found via a link on nysdcp.com, the Planner can help you determine your big retirement picture. As you input information about your outside savings and assets, you can identify any financial gap between what you may have in retirement and what you think you may need. The accuracy of the Planner depends on how much detailed information you put into it, so you may want to gather important financial papers before starting.

With this tool, you can test different scenarios, including participation in the Plan, and how each could affect your retirement readiness.

My Interactive Retirement Planner is just one of many resources available to you as a benefit of Plan participation. Another is our people — available when you're ready to discuss your retirement readiness.

Contact your **Account Executive or call the HELPLINE at 1-800-422-8463.**

Investing involves market risk, including possible loss of principal. No investment strategy can guarantee a profit or avoid loss. Actual results will vary depending on your investment and market experience.

Account Executives cannot offer investment, tax or legal advice. You should consult your own counsel before making retirement plan decisions.

INVESTMENT EDUCATION

Understanding Restrictions on Excessive Trading

Excessive trading, also known as frequent trading or market timing, is the practice of buying and selling investments frequently in an attempt to capitalize on short-term movements. This practice increases investment option expenses and results in higher fees, adversely affecting investment option performance for all shareholders invested in the fund. Regular purchases from deferrals and sales due to benefit payments do not count as trades.

To protect participants from these potential negative impacts, the excessive trading policy imposes a 6/11/20 rule, following these guidelines:

6+ trades

If a participant makes six or more trades over one calendar quarter, the individual will receive a warning letter

11+ trades

If a participant makes 11 trades over two consecutive quarters, they must send their exchange requests through the U.S. mail for the remainder of that year

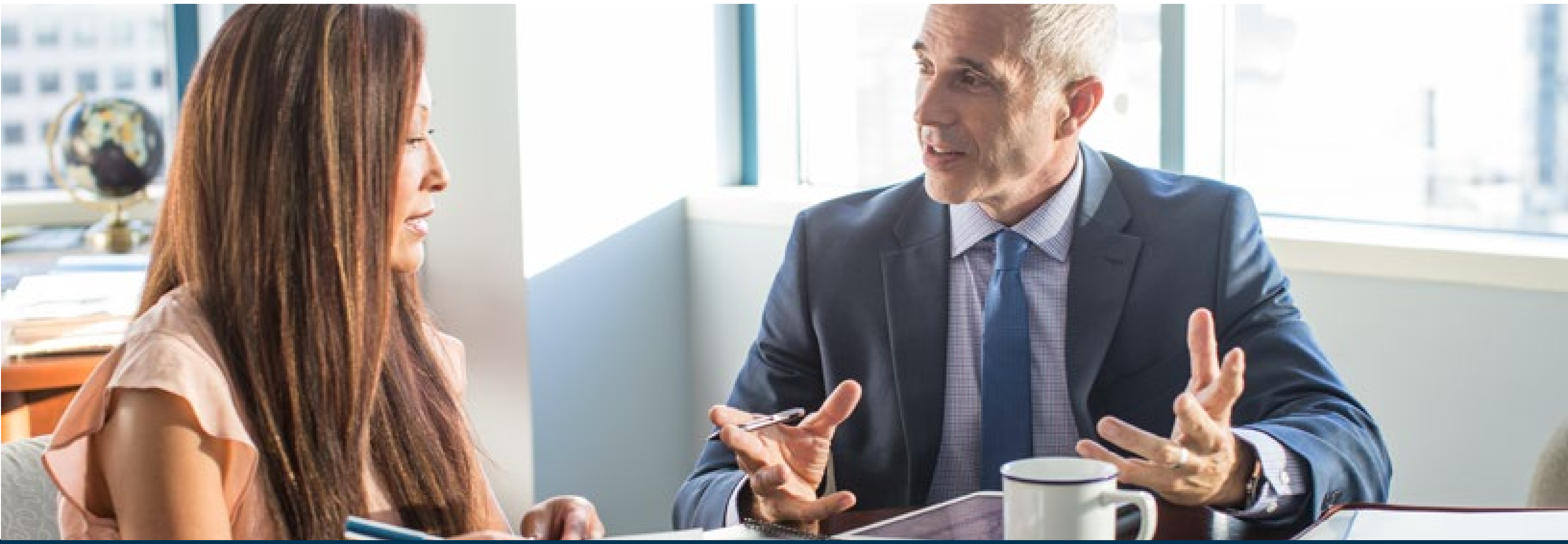
20+ trades

If a participant reaches 20 trades in one calendar year, all future trade requests must be submitted through the U.S. mail for the remainder of that year

These exchange restrictions are calculated per account

This rule applies to all Plan investment options. Fund organizations hold the right to block or restrict trades at any time for cause, even if the 6/11/20 rule is not violated

It's important to know that there is also a 60-day repurchase restriction that is applied in addition to the 6/11/20 rule for the International Equity Fund – Active Portfolio and the International Equity Fund – Index Portfolio. An exchange out of either of these fund options will prohibit an exchange into either fund for a 60-day period. A 60-day restriction also applies to the Morgan Stanley Emerging Markets Portfolio as well as a prospectus specified 2% redemption fee if held less than 30 days. All trading restrictions are subject to change.



Welcome new participating employers

Alexandria CSD

Barker Public Library

Cobleskill Richmondville CSD

Dolgeville CSD

Falconer CSD

Franklin Square & Munsen Fire District

Garden City UFSD

Holtsville Fire District

Honeoye Falls-Lima CSD

Inlet CSD

Lyncourt UFSD

Newark Valley Central School District

Odessa-Montour CSD

Richfield Springs CSD

South Colonie CSD

Southampton Housing Authority

Town of Conesville

Town of Machias

Town of Moira

Town of Naples

Town of Sidney

Town of Wales

Town of Westville

Village of Port Byron

Village of Waddington

Voorheesville CSD

Webster CSD

Yates County Soil & Water Conservation District

Current fund developments

Effective on or about September 29, 2017, Manning & Napier will be eliminated as an investment manager in the **International Fund - Active Portfolio**. This is a result of changes in the portfolio management team and poor relative performance. The assets managed by Manning & Napier will be re-allocated to the other four managers in the International Fund - Active Portfolio.

Effective September 18, 2017, Gavin Baker has resigned as the lead portfolio manager of the **Fidelity OTC Fund**. Sonu Karla has been appointed lead portfolio manager and Chris Lin will be the co-manager of the fund. Mr. Karla is currently the manager of the Fidelity Blue Chip Growth Fund and Fidelity Series Blue Chip Growth Fund. He has worked for Fidelity for 19 years. The investment objective of the fund remains unchanged.

*Target Retirement Date Trusts are designed to provide diversification and asset allocation across several types of investments and asset classes, primarily by investing in underlying trusts. Therefore, in addition to the expenses of the Target Retirement Date Trusts, an investor is indirectly paying a proportionate share of the applicable fees and expenses of the underlying trusts.

Target Retirement Date Trusts are designed for people who plan to withdraw during or near a specific year. Like other trusts, Target Retirement Date Trusts are subject to market risk and loss. Loss of principal can occur at any time, including before, at or after the target date. There is no guarantee that Target Retirement Date Trusts will provide enough income for retirement.

Before investing, you should carefully consider the option's investment objectives, risks, charges, and expenses. This and other information is contained mutual fund prospectuses and in CIT and custom option fact sheets, which are available by calling 1-800-422-8463. Read it carefully before you invest.

This newsletter provides information that is intended to help participants understand what investment alternatives are available to them under the Plan. If you need investment, tax or legal advice, please ask your 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, 2017 and ending March 31, 2018. Each participant account is charged a $20 annual fee, assessed in two $10 semi-annual installments in April and October. In addition, an asset-based fee determined by the Board will be assessed to participants with a balance greater than $20,000. The asset-based fee will not be assessed on assets in excess of $200,000. The semi-annual asset-based fee assessed in April 2017 was 0.020%. It is anticipated that the semi-annual asset-based fee to be assessed in October 2017 will be 0.020%.

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 investment, legal or tax advice. For such guidance, you should consult your own investment, legal or tax advisor. Account Executives are registered representatives of Nationwide Investment Services Corporation, Member FINRA.

New York State Deferred Compensation Plan
Room 124
Empire State Plaza
P.O. Box 2103
Albany, NY 12220

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