



Observations and Responses Regarding U.S. Credit Downgrade

As many of you know, the credit rating agency Standard & Poor's (S&P) lowered the credit rating of the United States on August 5, 2011 from the long standing rating of AAA to AA+. We, at Great-West Retirement Services® (Great-West), have prepared the following answers to address some of the questions that are being asked in regards to actions taken by S&P.

Q. Why did S&P downgrade the debt to AA+?

Standard and Poor's said it was downgrading U.S. debt because the rating agency lacks confidence that political leaders will make the choices needed to avert a long-term fiscal crisis. Their specific comments are as follows:

“The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics.”

Q. What do the other credit rating agencies have to say regarding the U.S. credit rating?

Moody's reaffirmed their AAA rating of U.S. credit on August 2, after the most recent agreement to raise the U.S. debt ceiling. Fitch commented after the debt ceiling was raised that “as expected agreement was reached on an increase in the United States' debt ceiling and, commensurate with its 'AAA' rating, the risk of sovereign default remains extremely low.”

Q. What is your opinion on S&P's downgrade?

It's important to understand that a ratings downgrade doesn't reflect the actual creditworthiness of U.S. debt but expresses the opinions of S&P with respect to the ability of the U.S. to pay its creditors. This is underscored by the fact that two other rating agencies did not downgrade U.S. debt despite having the same information as S&P. Ultimately, global financial markets decide the creditworthiness of U.S. securities, not rating agencies.

The market is discounting the credit rating agency action in large part because of the lack of transparency, quantification, and consistency in the application of sovereign ratings methodologies. We are in agreement with the consensus view that the U.S. government and government sponsored entities are high quality credits and the risk of default is extremely low.

Q. How has the market reacted to the downgrade?

The stock market sold off sharply on the first trading day after the downgrade and continues to decline. Interestingly, U.S. treasury securities actually saw their prices increase (yields lower) after the news indicating that most traders were not concerned about the creditworthiness of U.S. debt.

Q. What is the outlook?

Our base outlook of expecting the economy to grow slowly over the next several quarters has not changed. That said, we do believe the risks are to the downside in part due to consumer confidence which has been negatively impacted by the debt ceiling/budget deficit debate and subsequent compromise package, S&P's downgrade of U.S. sovereign debt to AA+, and recent significant equity market declines. We anticipate a low interest rate environment for the short to intermediate term, as economic activity remains modest.

No one truly knows beforehand the ultimate outcome of financial markets. There are differing opinions on the near-term future direction of financial markets. Some believe there may be more declines in equity markets, while others believe the worst is behind us and recent events are simply a correction and not the onset of a bear market.

Q. How concerned should I be and what should I do?

Investors should evaluate their own situations and make decisions accordingly. It is also important for investors to remember that there have been many events that have impacted financial markets, yet over long investment horizons, positive returns have been generated.

Not investment advice. Not an offer to purchase or sell securities. This document is intended for informational purposes only and is not an offer to sell or a solicitation of an offer to buy any securities. It is not investment advice nor can it take account of your own particular circumstances.

Core securities, when offered, are offered through GWFS Equities, Inc. and/or other broker dealers. GWFS Equities, Inc. is a wholly owned subsidiary of Great-West Life & Annuity Insurance Company and an affiliate of FASCore, LLC (FASCore Administrators, LLC in California) and First Great-West Life & Annuity Insurance Company, White Plains, New York.

Great-West Retirement Services[®] refers to products and services provided by Great-West Life & Annuity Insurance Company, FASCore, LLC (FASCore Administrators, LLC in California), First Great-West Life & Annuity Insurance Company, White Plains, New York, and their subsidiaries and affiliates. Great-West Life & Annuity Insurance Company is not licensed to conduct business in New York. Insurance products and related services are sold in New York by its subsidiary, First Great-West Life & Annuity Insurance Company. Other products and services may be sold in New York by FASCore, LLC. Great-West Retirement Services[®] is a registered trademark of Great-West Life & Annuity Insurance Company. ©2011 Great-West Life & Annuity Insurance Company. All rights reserved. PT #131873 (08/11)