

Insight

A QUARTERLY PERIODICAL DEDICATED TO

HELPING YOU PREPARE FOR TOMORROW



THE REWARDS OF STEADY INVESTING

Regular contributions to your retirement plan through the ups and downs of the market can enable you to potentially benefit from two forces: consistent investing and compounding.

MAKE THE MOST OF TIME

Consistent investing. Making regular, uninterrupted contributions to your savings plan is one of the most effective actions you can take as an investor. When you purchase mutual fund shares automatically with every contribution to your employer-sponsored plan, you buy more shares when prices are low and fewer shares when prices are high. Over time, the average price you pay per share will reflect constantly shifting markets—you will have added more shares during temporary lulls and fewer shares during the highs. Consistent investing is a much better strategy than trying to time the market. Even if you manage to sell and buy at the right times, you will have missed the opportunity to own more of your investments at a lower average price. Continuing to buy during down markets can provide you with that much more growth potential.

Compounding. Time is the engine of a powerful investing process in which any earnings are reinvested into your account. Compounding feeds on itself—and the effect accelerates as your savings grow. The story on page 2 demonstrates the concept more fully—and why, combined with steady investing, compounding can help you reach your savings goal more efficiently.

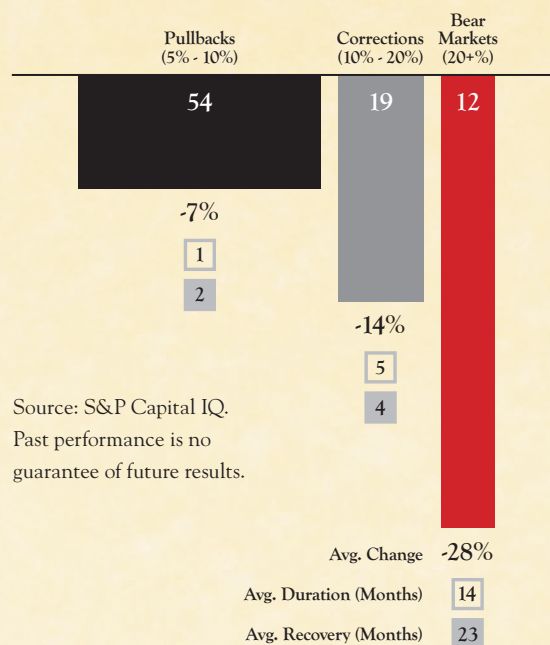
MAINTAIN THE RIGHT MIX

Returns that build over time—not “instant” returns from attempts to time the direction of the market—are an important factor in building your savings. Committing to a regular investment plan

A HISTORY OF MARKET DECLINES AND RECOVERIES

The vast majority of declines in the stock market are “pullbacks” of 5% to 10% that last only one month, on average. Continuing to invest during down periods means owning more shares because you’re buying at lower prices.

S&P 500® Index Price Declines
(Excluding Dividends) 1946-2012



Source: S&P Capital IQ.
Past performance is no
guarantee of future results.



For more on continuous investing and compounding
visit rps.troweprice.com.

Continued on next page

Continued from page 1

through all market conditions might be challenging at times—declining asset prices can be difficult to watch—but it's important to view the big picture and keep your eye on the long term.

CONSISTENT INVESTING IN ACTION

The chart to the right illustrates how continuing to invest, even when the market is falling, can benefit you over time. In this example, we compare investing \$150 per month during a rising market and \$150 per month during a falling market. While no one likes a falling market, notice how continuing to invest gives you the chance to buy more shares than when prices are going up.

For illustrative purposes only. This is not meant to represent any specific investment. Your results will vary. Dollar cost averaging does not assure a profit or protect against loss in declining markets. Since the program's benefits are realized over time, you should be prepared to stay the course during periods of low and high prices.

	Rising Market		Falling Market	
Investment Amount	Share Price	Number of Shares Purchased	Share Price	Number of Shares Purchased
\$150	\$10.00	15.00	\$10.00	15.00
\$150	\$10.20	14.71	\$9.80	15.31
\$150	\$10.40	14.42	\$9.60	15.63
\$150	\$10.60	14.15	\$9.40	15.96
\$600 Invested		58.28 Shares Purchased		61.90 Shares Purchased
	\$600 invested/58.28 shares purchased = \$10.30 Average price paid per share		\$600 invested/61.89 shares purchased = \$9.69 Average price paid per share	

COMPOUNDING SAVING THAT BUILDS ON ITSELF

Laurie, 35, is just starting to save—and she's encouraged by how much \$300 a month can grow over time.

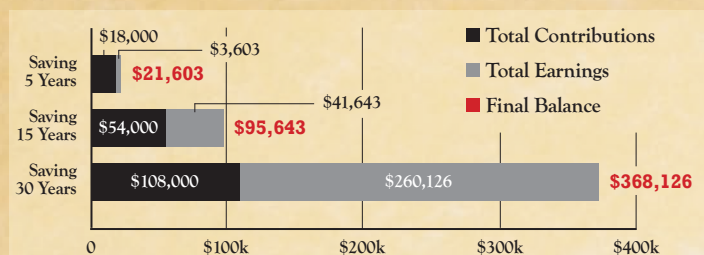
Laurie once believed that she needed a large lump sum in order to start saving—and that setting aside relatively small amounts would never add up. But she realized that waiting was costing her money in terms of the lost potential for growth and compounded returns.

THE POWER OF RETURNS

After 30 years of saving and investing, more than two-thirds of Laurie's nest egg consists of money she didn't contribute—in fact, she'll have more money from returns and interest around the 18th year after starting to save. The numbers alone are enough to motivate Laurie to do even more to increase the growth potential and size of her eventual savings.

HOW CONTRIBUTING \$300 A MONTH ADDS UP

The interest earned—and compounded—over time will become the majority of Laurie's savings. Her total contributions represent what she set aside; the remainder is all earnings.



Assumes average annual return of 7%, compounded monthly.

INTRODUCING THE NEW T. ROWE PRICE PERSONAL APP FOR IPHONE®

Stay connected to your T. Rowe Price investments while on the go with this free app. Simply download and log in using your current T. Rowe Price user name and password. You can view balances, check the status of transactions, view account history, access timely T. Rowe Price insights on current market events, and conduct fund research.

DOWNLOAD NOW

The app is free and downloads in seconds. Just go to the App StoreSM on your iPhone and search for "T. Rowe Price."

iPhone is a trade mark of Apple Inc., registered in the U.S. and other countries. App Store is a service mark of Apple Inc. T. Rowe Price and Apple are not affiliated companies.



For more on compounding, log in to rps.troweprice.com.

A CHECKLIST FOR RETIREMENT SAVERS

Setting aside as much money as you can in your retirement accounts and being sure you're properly diversified are essential actions to take.

SAVE UP TO THE CONTRIBUTION LIMIT

Try to make the most of your employer-sponsored retirement plan by saving up to the Plan or IRS contribution limit.*

\$17,000

Workplaces Plan
Contribution Limit

\$22,500

With Catch-Up
Contribution

CONTRIBUTE TO AN IRA

Your first priority is contributing to your employer-sponsored plan. Thereafter, think about contributing to a Traditional or Roth IRA (if you are eligible). Your overall goal should be to set aside 15% of your income each year to build your retirement accounts.

\$5,000

Workplaces Plan
Contribution Limit

\$6,000

With Catch-Up
Contribution

REBALANCE YOUR ASSET ALLOCATION

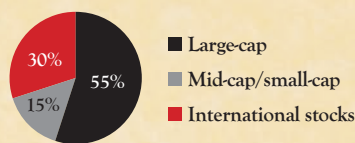
Be sure that your portfolio is aligned with an asset allocation appropriate for your time horizon. The right proportion of stocks, bonds, and money market/stable investments can help you achieve optimal growth potential in your portfolio during the market shifts you will experience over time. Maintain the right balance by selling assets that have become an overly large percentage of your portfolio and buying funds in the asset classes that have had declines.

DIVERSIFY

Spread your stock and bond allocations among different types of assets so that your overall returns aren't heavily dependent on any single stock, industry, or sector. Being diversified means

you have greater potential to even out the performance of your investments. However, diversification cannot assure a profit or protect against loss in a declining market.

A typical mix of stocks could include the following:



*For more information about your specific Plan features and options, call T. Rowe Price at 1-888-457-5770 or visit the T. Rowe Price website.

Note: Figures are limits for tax year 2012; those for 2013 may be different. You must be age 50 or older during the year in which you make catch-up contributions.

©2012 Dow Jones & Company, Inc. All rights reserved. Prepared by Dow Jones Content Lab.

TEST YOUR KNOWLEDGE OF TAX DIVERSIFICATION

1. TAX DIVERSIFICATION INVOLVES:

- A. Delaying your tax payments over years.
- B. Holding accounts with different tax treatments.
- C. Selling your investments at varying times.

2. A ROTH ACCOUNT IN YOUR 401(K) OR ROTH IRA CAN DIVERSIFY YOUR TAX EXPOSURE WITH:

- A. Payments based on your Social Security benefits.
- B. Access to lower marginal tax rates.
- C. Tax-free withdrawals* in retirement.

3. IN RETIREMENT, YOU SHOULD CONSIDER WITHDRAWING FROM TAXABLE INVESTMENTS:

- A. First.
- B. At age 66.
- C. At age 70.

ANSWERS

1. B. Employing a variety of accounts will provide you with flexibility and control over taxes in both the near and long term. The essential guideline to remember is that tax considerations alone should not guide your investment strategy.

2. C. A Roth 401(k) or Roth IRA provides tax-free qualified withdrawals,* which gives you greater freedom to manage how much taxable income you'll generate each year in retirement. A Roth account offers tax diversification if you already hold a portion of your savings in traditional, tax-deferred accounts—and a Roth enables you to tailor your tax exposure to your changing personal circumstances.

3. A. If you enter retirement with savings in taxable accounts, you should consider drawing from or depleting them before you access your tax-deferred retirement accounts. You will have to take required minimum distributions (RMDs) from your employer-sponsored accounts and Traditional IRAs.

*You must have a qualified distribution in order to be eligible for tax-free withdrawals from a Roth account in your plan or a Roth IRA. Generally, you are eligible for a qualified distribution on money that has been in the account at least 5 years after the initial contribution AND if you are age 59½, disabled, or deceased. Other conditions may apply with a Roth IRA. Contact your IRA custodian for more details.

WHAT DOES BEING ON THE “WATCH LIST” MEAN?

It is important that you understand what it means to be on the watch list and, perhaps more importantly, what it does not mean. Being on the watch list, as the name would imply, simply means we believe there is good reason to watch this fund more closely. Being on the watch list does not mean you should immediately sell your fund shares. It is not unusual for a fund to appear on the list from time to time. It does not mean the fund is necessarily a bad investment. If we believe the fund no longer represents a suitable investment option, we will remove the fund from the Plan.

Why are funds placed on the watch list?

Funds can be placed on the watch list for several reasons. Why a fund is on the watch list is more important than the mere fact that it is on the watch list. The most typical reasons are as follows:

1. **Performance**—The most common reason a fund is placed on the watch list is poor performance relative to its appropriate market benchmark and/or peer group. When signs of relative underperformance appear, we place a fund on the watch list.
2. **Risk**—Less obvious to many participants is the risk that a fund manager incurs. If a fund becomes too volatile, we will place it on the watch list.
3. **Risk-Adjusted Returns**—What returns has the fund manager been able to deliver relative to the risk the fund has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the fund on the watch list.
4. **Portfolio Construction/Style Drift**—Is the fund manager investing the money in the way he or she said? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stocks of small, growth-oriented companies, then you want the manager to do just that. We monitor the manager's portfolio and if the security holdings do not reflect what has been communicated, we place the fund on the watch list.
5. **Operations**—There are many operational reasons for placing a fund on the watch list. For example, the manager of the fund could leave. Remember, when you purchase shares of a mutual fund, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the fund closely. There could also be firm-level issues. These can include issues such as regulatory violations, turnover in senior management, or a merger or acquisition. Any of these operational issues will automatically place a fund on the watch list.

WATCH LIST—THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN

Current Watch List Summary

**The following fund is on the watch list
as of 9/30/2012:**

Ariel Fund—The fund remains on watch list status due to longer-term underperformance. There has also been an investment team change that was effective as of December 31, 2011. Ariel announced late last year that Kenneth Kuhrt will join John Miller as portfolio managers of their small- and mid-cap strategies including the Ariel Fund, with John Rogers maintaining the lead portfolio manager position. Kenneth has accumulated a seven-year working history at Ariel and is being promoted due to his contributions to the investment process. Kenneth also serves as portfolio manager on the micro-cap product and Ariel Discovery Fund. From a performance perspective, returns lagged in 2011 due to stock selection in the financials sector as well as an overweight to consumer names. However, performance improved in the first quarter of 2012 as many of the same names that lagged rebounded. Performance lagged in the second quarter of 2012 partially due to lack of exposure to utilities, a sector that posted a positive return in a negative returning market as investors flocked to higher-yielding stocks. Over the past several years, the fund's performance improved significantly in 2009, ranking in the 5th percentile of its peer group as well as having a strong showing in the fourth quarter of 2010. The risk scores, however, are significantly higher than the peer group, and the overall five-year return ranks in the 96th percentile of its peer group. Therefore, participants seeking a similar investment strategy also have access to the Northern Small-Cap Value Fund, which invests in a small-cap value equity style.

TELEPHONE NUMBERS

Deferred Compensation

Plan Rules/Options Information

800-442-1300/217-782-7006

TDD/TTY: 800-526-0844

Internet: <http://www.state.il.us/cms/employee/defcom>

Recordkeeper

T. Rowe Price Retirement Plan Services, Inc.

Account Value Information and Investment Changes:

888-457-5770 or TDD/TTY: 800-521-0325

Internet Access: 800-541-3022

Internet: <http://rps.troweprice.com>