

Insight

A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW



REMINDER: CHANGES TO THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN INVESTMENT LINEUP

*The Illinois State Board of Investment (ISBI) approved a change to the State of Illinois
Deferred Compensation Plan's investment lineup effective March 31, 2014.*

One investment option was mapped into an existing Plan investment option

On March 31, 2014, the Janus Overseas Fund (JIGFX) was mapped to the Northern Trust ACWI ex-US Fund (NTACW).

Investment Option Prior to March 31, 2014	Expense Ratio*	Investment Option Prior to March 31, 2014	Expense Ratio*
Janus Overseas Fund (JIGFC)	0.63%	Northern Trust ACWI ex-US Fund (NTACW)	0.06%

*Expense ratio and fees are based on the most recent fiscal year-end data available.

Reminder about common trust funds

Mutual funds and common trust funds are pooled investment vehicles that pursue specific financial goals by investing in various types of securities, including stocks, bonds, and short-term investments.

Common trust funds, like the Northern Trust ACWI ex-US Fund, however, cannot be sold to the general investing public. While there are different types of common trust funds, the laws under which T. Rowe Price common trust funds are organized allow only certain types of employer-sponsored retirement plans to invest in them. This generally includes 457 plans, qualified defined benefit plans, and most governmental and church plans.

Fees for common trust funds are generally lower than those charged for mutual funds and can differ between retirement plans. There are several reasons for the lower fees, including the fact that they are not traded publicly and are only available to certain types of retirement plans. Unlike mutual funds, the daily valuations for common trust funds are not published in the newspaper. For additional information regarding the trusts (including performance), call T. Rowe Price at 1-888-457-5770.

Why make this change?

This change is in keeping with ISBI's commitment to offering investments with a proven track record of consistent investment management, performance history, and appropriateness for long-term retirement investors. And, as previously communicated, the Janus Overseas Fund was placed on watch list status in September 2013, due to underperformance of the benchmark and its peer group on a long-term basis with more risk.

A good time to review your investment strategy

This change presents a great opportunity for you to review your portfolio and confirm that your account is properly allocated and diversified. Having an appropriate mix of stocks, bonds, and short-term investments in your portfolio can help balance your investment goals against investment risks.

Please take a careful look at your investment elections and balances to determine if you need to make any changes. For instant access to investment information and interactive financial planning tools, visit the website at rps.troweprice.com > **Investments**, where you can view or download fact sheets for each investment in the Plan's lineup. You may also request fact sheets by phone at 1-888-457-5770.

Making an investment change in your account

There are two types of investment changes you can make in your account:

- A mix change is when you change the way your future contributions will be invested.
- An exchange is when you move an existing balance to a different investment option.

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Call 1-888-457-5770 to request a prospectus or trust fact sheet, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

Access your account anytime, day or night, online at rps.troweprice.com or call a T. Rowe Price representative at 1-888-457-5770. Representatives are available on business days between 7 a.m. and 10 p.m. ET.

T. Rowe Price also offers a free mobile website where you can view account balances and fund prices, check the status of recent and pending transactions, research investment information, and receive financial highlights. You can access the mobile website at www.troweprice.mobi using your T. Rowe Price user name and password.

HOW TO SAVE FOR COLLEGE AND RETIREMENT

Continue putting away money for retirement even as you save for your children's education.

When it comes to saving money for retirement, individuals often feel conflicted, and understandably so. We know there are many demands on your money and that it may be difficult to save for the future. This conflict is particularly evident when it comes to saving for college. Parents want their children's educational needs met, but in the process, they sometimes forego saving for their own retirement. By doing so, they miss out on the potential benefits of compounding, and they run the risk of not having enough money to live on during a retirement that can last 30 years or more.

MAKE SAVING FOR RETIREMENT A PRIORITY

You should aim to contribute at least 15% of your salary to your employer's plan each year. If that savings rate is not immediately possible, start with a lower amount—like 10%—and put a plan in place to get you to the 15% (for example, increasing your contribution by 2% each January, or signing up for your plan's automatic increase program, if offered). Then figure out how much you want to save for your child's college education and contribute to a tax-advantaged college savings plan so this money, too, can compound over time and grow tax deferred.

As tempting as it may be, don't sacrifice your retirement savings to pay for your child's college education. Remember, there are many ways to pay for college, but there are no grants, scholarships, or loans to support retirees. What's more, is it prudent to support your children through college only to risk becoming a financial burden on them when you are older? And if you're worried about retirement savings jeopardizing your child's prospects for federal financial aid, don't be. In most cases, assets in retirement accounts won't affect the federal financial aid calculation.

It makes sense to start saving for both your retirement and your child's college education as soon as you can. The longer your contributions are invested, the greater chance your money has to grow over time. Working with a qualified financial planner can help you achieve the right balance for your individual situation.

BE CONSISTENT

When saving for retirement, consistency is particularly important. Throughout your working years, you should strive to maintain a

THE BENEFITS OF TIME

A 30-year-old investor who saves for retirement over a 35-year period accumulates significantly more than he would by starting to save at age 40.

\$898,831	15% contribution starting in 10 years
\$1,205,922	15% contribution starting in 5 years
\$1,577,458	15% contribution now

Note: Assumes a starting salary of \$50,000 with 3% annual salary raise; an average annual rate of 7% compounded once a year; a maximum of 35 years' worth of contributions; and contributions made at the start of the year. Balances show the value at the end of the year.

UNDERSTAND HOW MUCH YOU'LL NEED TO SAVE FOR RETIREMENT

Figuring out how much you need to save for retirement should be your starting point. Then you should determine how much you can afford to save for other expenses, like paying for college. T. Rowe Price can help you plan for your retirement and also provide guidance about the different types of college savings plans which might make the most sense for your situation. To get started, please visit our Tools & Calculators page at rps.troweprice.com/tools.

proper savings rate—or continue to increase it if you're not yet at your optimal level.

Many people make the mistake of saving for retirement in fits and starts. Unfortunately, this strategy could leave you with limited income in retirement, significantly impacting your lifestyle later on. Consider how differently you might have to live today, for example, if your paycheck was suddenly cut in half.

Taking the proper savings steps now can help you avoid having to make these difficult choices in the future. Saving for college and retirement are both important goals, and balancing the two is a challenge for many individuals. Saving for retirement, however, should come first. T. Rowe Price has many tools and resources available to help you as you are making these essential decisions.

FIVE SMART SAVING HABITS FOR YOUR WORKING YEARS

It's easy to put off saving for retirement. But becoming more financially secure for the future takes time and good savings habits. Put off saving too long and you may have to work longer before you can afford to retire, or lower your standard of living in retirement. The sooner you start and the more you save, the better your retirement can be.

Here are five tips that can help.

1. Contribute to your employer's retirement plan

Participating in your employer's retirement plan is one of the best and most convenient ways to save for your future, plus it offers benefits you can enjoy today, such as:

- **Lowering your current taxable income:** Before-tax contributions you make to your plan account are made before taxes are taken out of your paycheck.
- **Accelerated saving:** If you are age 50 or older, catch-up contribution provisions offer an opportunity to accelerate saving by allowing you to contribute even more to the plan.

2. Increase the amount you're saving whenever you can

Would you be willing to save \$4.37 a week if it meant you could have \$50,000 in the future? Small increases can make a big difference over time. Whenever you receive an increase in pay or a bonus, make sure to boost your contribution rate.

The balance in your retirement account will depend on the return your investments earn; the example below is based on earning a 7% return.

Years until retirement	\$50,000 balance weekly contribution amount	\$100,000 balance weekly contribution amount	\$125,000 balance weekly contribution amount
40	\$4.37	\$8.73	\$21.83
30	\$9.41	\$18.82	\$47.04
20	\$22.06	\$44.12	\$110.29
10	\$66.46	\$132.91	\$332.28

This chart is for illustrative purposes only and is not meant to represent the performance of any of the investment options available in your plan. Assumes a 7% annual return compounded weekly. Your results will vary.

Corrected: From the Fourth Quarter 2013 Insight

It was incorrectly listed in the fourth quarter 2013 edition of Insight that Chuck McQuaid, lead portfolio manager and Chief Investment Officer of Columbia Wanger Asset Management was retiring in April 2014. Effective April 1, 2014, Mr. McQuaid will reduce his responsibilities and remain on the team in a senior analyst role.

3. Diversify your investments

Investing in different types of investments, including stocks, bonds, and stable value/money market options, can help lower the overall risk of your portfolio. It's important to invest a portion of your savings in stocks, which have historically provided returns that outpace inflation. Diversification cannot assure a profit or protect against loss in a declining market.

4. Don't borrow from your retirement savings

Loans allow you to use the savings in your plan account before you retire without tax penalty. While it may be tempting to borrow from your account, remember: Loans may reduce the long-term growth potential of your portfolio. In addition, you may be tempted to reduce your plan contributions to repay your loan.

5. Take saving seriously

Sure, you may not be planning to retire until age 67, but that doesn't mean you should put off saving. If you start early, you can save less than you'll have to if you procrastinate for 10 years. Consider the table to the left. If your goal is to save \$250,000, would you rather save \$22/week for 40 years? Or \$332/week for 10 years? The choice is yours.

MAKE A CHANGE

If you would like to enroll, increase your contributions, or change your investment selection, visit the website at rps.troweprice.com.

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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: rps.troweprice.com

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 457 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 3/31/14.

Columbia Acorn Fund, Z (“Acorn Fund”)

The Acorn Fund was placed on “Alert” status due to a change in the lead portfolio manager. Columbia Acorn recently announced that the long-term lead portfolio manager and Columbia Wanger Asset Management Chief Investment Officer Chuck McQuaid, will no longer have lead portfolio manager oversight responsibilities effective April 1, 2014. He will remain as a senior analyst on the Fund. Mr. McQuaid has been managing the fund since 1995. Assuming his responsibilities will be Robert Mohn who has worked on the fund since 1992 and assumed co-portfolio manager responsibilities in 2003. In addition, upon Mr. McQuaid’s new role, Mr. Mohn will transition to Chief Investment Officer of Domestic Equity from Director of Domestic Equity Research, a role he has held since 2004. David Frank will be added as co-portfolio manager on April 1, 2014. Mr. Frank is currently co-portfolio manager on Wanger Asset Domestic Equity and an analyst in financial stocks. He has been with Wanger Asset Management since 2002. Participants seeking a similar investment strategy have access to the Northern Trust Small Cap Separate Acct which also invests in domestic small-cap stocks.

Lord Abbett LGCP Core Strategy (“Lord Abbett”)

Lord Abbett was placed on “Alert” status due to underperformance of the benchmark and peer group. Performance over the past three and five year periods has been poor and the fund has ranked in the bottom quartile of its peer group. Specifically, performance in the calendar year of 2011 acted as the largest drag on returns. Lord Abbett focused on cyclical companies that didn’t fare well in the market environment during that period. As a result of underperformance in 2011, Lord Abbett added to its risk management resources. Participants seeking a similar investment strategy have access to the Vanguard Institutional Index, Plus Fund which also invests in a blend of both large-cap value and growth stocks.



Log in to your Plan’s website
at rps.troweprice.com.