State of Illinois Deferred Compensation Plan

Insight

First Quarter 2016

Bruce Rauner, Governor

3 Tips for 2016

Simple ways to make this year—and beyond—more financially secure.

It might be a good time to review the various components in your financial plan. Stuart Ritter, CFP®, a senior financial planner with T. Rowe Price, offers these three tips you might consider:

1. We suggest saving 15% of your gross income in your retirement accounts in the coming year. Or contribute at least 6% and increase your contributions by 2% each year.
2. Make sure your asset allocation is still on track for your goals and risk tolerance. Fluctuations in the market can shift your investment mix from its original target proportion, so you may need to rebalance your portfolio to maintain your intended allocation (for more on rebalancing, read Why You Should Consider Rebalancing Every Year on the right).
3. A lot can change in a year, including parts of your life that may impact your estate plan. Review your beneficiary designations, the titles on your accounts, and ownership of your assets to ensure your latest wishes are reflected.

Why You Should Consider Rebalancing Every Year

It's a simple way to help manage your portfolio's overall risk.

"Checking in on your investment allocations annually helps you maintain a level of market risk that fits your personal situation and goals," says Judith Ward, CFP®, a senior financial planner with T. Rowe Price. "Doing this is so important that it is one of our tips for the new year."

For example, with the stock market having rallied significantly since 2009, you may have a larger percentage of stocks in your portfolio than you originally intended (even with the recent volatility, U.S. stocks, as measured by the S&P 500 Stock Index, have more than doubled in the last six years). Rebalancing will not only bring you closer to your target allocation, but it also will give you the opportunity to take advantage of market declines by investing at more attractive prices.

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2016 Retirement Plan Contribution Limits

Each year, the IRS updates the maximum amount you can contribute to your workplace retirement plan accounts. If you reach age 50 during 2016, you are eligible to make additional "catch-up" contributions.

Initial Contribution Amount	Age 50 and Older Can Contribute an Additional
$18,000	**$6,000**

Similar Returns with Lower Risk

Trimming investments that have been doing well may seem counterintuitive, but it's actually following the tried-and-true strategy of selling high and buying low. Most importantly, consistent rebalancing offers a way to be more disciplined and minimize the emotional aspects of investing.

A Word on Taxes

Keep in mind that regular rebalancing may have some tax consequences. However, rebalancing a portfolio in a tax-deferred account—such as your State of Illinois Deferred Compensation Plan—has no immediate tax implications.

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Increase Your Peace of Mind

Over the long term, rebalancing may not deliver higher returns than a buy and hold strategy in which portfolio allocations are allowed to fluctuate. But it can reduce the volatility in your portfolio and help you better weather setbacks. When you have a smoother ride, you're more likely to stay invested in the market. And while those whose portfolios encounter extreme volatility tend to buy and sell at the wrong time, investors who are able to stay the course are likely to come out ahead.

Next Steps

Check your current allocation at **rps.troweprice.com/workplace** or call T. Rowe Price at **1-888-457-5770**.

For more on how to invest and allocate your savings, watch our video at **rps.troweprice.com/investsavings**.

Your Plan Has an Upgraded Website

Your retirement Plan website is more than just a Web page. It's a connection to your retirement money—and your future. See how T. Rowe Price is evolving your retirement Plan's website to be all that and more at **rps.troweprice.com**.

- Quickly view and access what matters to you: your account and balance information.
- Check on your progress toward retirement and get helpful tips to guide you along the way.
- View and research your investment options.
- Find out how prepared you may be for retirement with your personalized Confidence Number® score. See how your score changes as you boost your contributions, or experiment with different retirement scenarios.
- View all your financial accounts—even those at other financial institutions—in one convenient place.
- Easily access your account wherever you are, whatever your device.

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 ISBI believes there is good reason to watch this investment option more closely. Being on the watch list does not mean you should immediately sell your shares in the investment option. It is not unusual for an investment option to appear on the list from time to time, and it does not mean it is necessarily a bad investment. If ISBI believes the investment no longer represents a suitable investment option, it will be removed as an investment option available through the DCP.

Why are investment options placed on the watch list?

Investment options can be placed on the watch list for several reasons. Why an investment option 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 an investment option 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, ISBI places an investment option on the watch list.
2. **Risk**—Less obvious to many participants is the risk that an investment manager incurs. If an investment option becomes too volatile, we will place it on the watch list.
3. **Risk-Adjusted Returns**—What returns has the investment manager been able to deliver relative to the risk the investment has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the investment option on the watch list.
4. **Portfolio Construction/Style Drift**—Is the investment manager investing the money in the way he or she said? If you invest part of your assets in an aggressive investment option 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 investment option on the watch list.
5. **Operations**—There are many operational reasons for placing an investment option on the watch list. For example, the manager of the investment could leave. Remember, when you purchase shares of an investment option, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the investment option 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 an investment option on the watch list.

Current Watch List as of March 2016

Wellington Diversified Growth Fund ("Wellington Fund")

The Wellington Fund has lagged its respective benchmark, the Russell 1000 Growth Index, over the three- and five-year annualized periods and ranked in the bottom quartile of its peer group universe. The Wellington Fund has also lagged its benchmark over the last four of five consecutive calendar years. The calendar year 2011 posted the greatest under-performance versus the benchmark. The investment option did not have as much exposure to higher-priced defensive stocks, which performed best. The Wellington Fund's technology holdings also didn't keep pace with the benchmark over recent periods. Participants seeking a similar investment strategy have access to the Vanguard Institutional Index Fund, which also invests in domestic large-cap stocks.

TELEPHONE NUMBERS

DEFERRED COMPENSATION
Plan Rules/Options Information
800-442-1300/217-782-7006

TDD/TTY: 800-526-0844

Internet: 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**

Facts and Figures

In 2015, the DCP received almost $170 million in deferrals. The average monthly deferral in 2015 was approximately $270, with an average of 52,323 participants each month. The average participant account balance was $75,288.

Market Value of the DCP

The market value of all investment options as of December 31, 2015, was $3.9 billion.

INVESTMENT OPTION	VALUE
Ariel Fund Separate Account	$133,982,748.89
T. Rowe Price Bond Trust, I	$32,166,502.55
Fidelity® Puritan Fund	$214,149,547.19
Franklin Small Cap Growth Fund, R6	$222,237,348.33
Invesco International Growth Equity Trust	$51,824,912.30
Invesco Stable Return Fund	$519,585,175.74
LSV Value Equity Fund Separate Account	$60,347,914.45
Northern Trust Collective MSCI ACWI ex-U.S. Fund	$14,017,742.42
Northern Trust Collective Russell 2000 Index Fund	$27,193,377.87
Northern Trust Collective S&P 400 Index Fund	$37,335,179.28
Vanguard Institutional Index Fund, Inst'l. Plus	$339,717,906.65
Vanguard Prime Money Market Fund, Inst'l.	$36,277,783.39
Vanguard Total Bond Market Index Fund, Inst'l.	$72,747,220.28
Wellington Diversified Growth Portfolio	$46,961,897.30
William Blair Int'l. Small Cap Growth Fund, I	$7,934,511.80

T. ROWE PRICE TARGET DATE INVESTMENT OPTIONS	VALUE
T. Rowe Price Retirement 2005 Trust D	$148,963,807.26
T. Rowe Price Retirement 2010 Trust D	$202,659,082.88
T. Rowe Price Retirement 2015 Trust D	$332,783,369.37
T. Rowe Price Retirement 2020 Trust D	$406,172,514.36
T. Rowe Price Retirement 2025 Trust D	$361,271,439.42
T. Rowe Price Retirement 2030 Trust D	$268,626,286.02
T. Rowe Price Retirement 2035 Trust D	$177,759,436.43
T. Rowe Price Retirement 2040 Trust D	$108,651,570.07
T. Rowe Price Retirement 2045 Trust D	$42,588,119.26
T. Rowe Price Retirement 2050 Trust D	$15,654,379.95
T. Rowe Price Retirement 2055 Trust D	$7,749,973.59
T. Rowe Price Retirement 2060 Trust D	$3,221,141.13
T. Rowe Price Retirement Balanced Trust D	$10,164,622.28

AVERAGE ACCOUNT BALANCE BY AGE AS OF 12/31/15	
Age 20 or younger	$4,147
Ages 20–29	$19,466
Ages 30–39	$49,350
Ages 40–49	$86,440
Ages 50–59	$110,296
Ages 60–69	$128,725
Age 70 or older	$119,451

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