

# Insight

Second Quarter 2016



Bruce Rauner, Governor

## How to Act Your Savings Age

*Adopt the right retirement savings habits for your generation.*

Since you need to accumulate enough money to cover expenses for the third of your life that you aren't working, saving for retirement should be your top priority at any age, says Judith Ward, CFP®, a senior financial planner with T. Rowe Price.

### The Common Thread

There are effective saving behaviors that can help at any age. Consider the following steps:

- Save at least 15% of your gross income.
- Consider Roth contributions. Learn more about this option on page 2.
- Maintain an appropriate equity exposure for your age.

### Generational To-Dos

While big-picture retirement savings priorities are the same across generations, the details shift based on age.

#### Millennials, born 1981–1997:

- Work your way to the 15% retirement savings target with annual increases if you can't hit the full amount right now.
- Consider maintaining a high exposure to equities (90% or more). With decades to retirement, you can take full advantage of the growth potential.

#### Gen Xers, born 1965–1980:

- Continue investing for retirement regardless of your other financial goals. The amount you invest now likely will influence your retirement income the most.
- Consider maintaining a high exposure to equities (80% to 100%). Even when you're 11 to 15 years from retiring, you still should have 80% of your portfolio allocated to equities.

#### Baby boomers, born 1946–1964:

- Take advantage of catch-up contributions. Learn more about this option on page 2.
- Consider maintaining appropriate exposure to equities for sufficient growth potential in your portfolio (60% if you are still working, gradually decreasing as you move into retirement) and fixed income and cash investments to dampen volatility.

Your unique financial situation will influence the specifics of your savings Plan. However, adopting these general and age-specific tips can help you keep retirement a top priority.

## Are You Setting Aside Enough for Retirement?

Remember to contribute as much as you can to your retirement accounts, with a goal of saving 15% of your annual gross income. (See **The Power of 15%** on page 3.)

### 2016 RETIREMENT CONTRIBUTION LIMITS

Under Age 50	Age 50 or Older
\$18,000	\$24,000



## More About Roth Contributions

Roth contributions offer a different tax advantage for your retirement savings than traditional, before-tax contributions. Roth contributions are made after taxes are taken out of your pay and they accumulate tax-free—the balance of your contributions and any associated earnings are tax-free when you take a qualified distribution.\* Provided that you take qualified distributions, the earnings your Roth account generates can be tax-free forever. Therefore, the strongest financial advantage of Roth contributions is their potential ability to provide more spendable income in retirement than before-tax contributions. [QR](#)

	BEFORE-TAX	ROTH
Will you pay taxes on your contributions as they go in to the Plan?	x	✓
Will you owe tax on the original contribution at withdrawal?	✓	x
Will you owe tax on any earnings/growth at withdrawal?	✓	x*

\* **Roth qualified distributions:** A qualified distribution is tax-free if taken upon the participant reaching age 59½, becoming totally disabled, or upon the participant's death **and** at least 5 years have passed since the year of participant's first Roth contribution. If your distribution is not qualified, any withdrawal from your account will be partially taxable. These rules apply to Roth distributions only from employer-sponsored retirement plans. Additional Plan distribution rules apply.

## More About Catch-Up Contributions

If you will turn 50 or older this year and are already contributing the maximum amount allowed by the Plan, you may contribute an additional \$6,000 (for 2016) of catch-up contributions.\*\*

### Special 457 catch-up contributions

If you do not defer up to the IRS contribution limit in any given year you are eligible, this provision allows you the opportunity to contribute some or all of these unused or underutilized deferral amounts. You may defer the special 457 catch-up contributions during the last three years before you reach your “normal retirement age” as defined in the Plan document. During these three years, you are able to defer your regular limit plus an amount that you were eligible to contribute in previous years but did not. Additionally, during those three years, you may be able to defer before-tax and Roth contributions up to twice the IRS deferral limit amount in effect for that year. For more information, contact CMS at **1-800-442-1300**. [QR](#)

\*\* Please note that you cannot use both catch-up contribution options in the same calendar year, and you may not exceed the IRS catch-up contribution limits, which may vary each year.

### NEXT STEPS

For more about saving for retirement, visit [troweprice.com/insights](http://troweprice.com/insights).

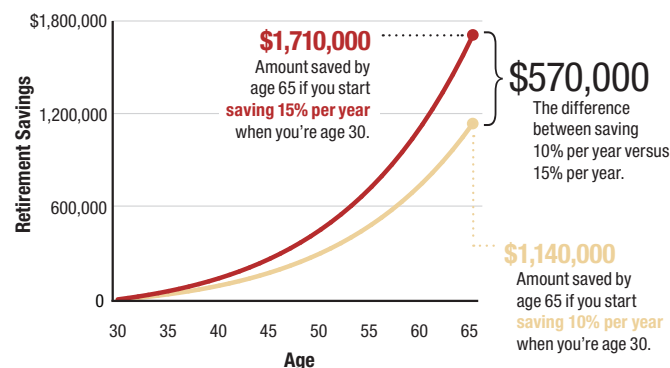
## The Power of 15%

*Saving this amount annually can help you fund a long retirement.*

Retirement can last 30 years or more, so to maintain your lifestyle during your post-working years, aim to save at least 15% of your annual income now. Consider the following benefits:\*\*\*

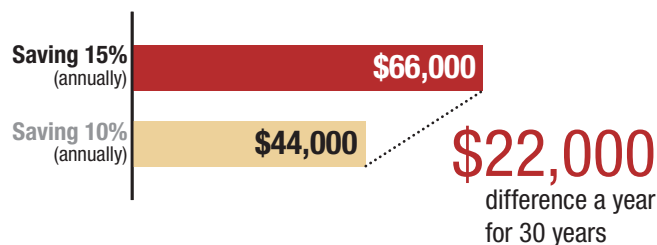
### A big impact over time

Contributing a few percentage points more a year could make a big difference in your retirement savings.



### Your retirement income goes further

Setting aside 15% now can help generate a more powerful stream of income in retirement, even after accounting for inflation. That extra purchasing power can help you maintain your lifestyle after you stop working.



#### Average Inflation-Adjusted Income of a 4% Annual Withdrawal in Retirement

\*\*\* All figures assume 7% annualized returns, a \$50,000 starting salary at age 30, a 3% annual salary increase, a 4% annual withdrawal rate beginning at age 65, and 3% annual inflation unless noted. Numbers are rounded. This chart is for illustrative purposes only and does not represent performance of any particular security. Investment returns will vary and may be higher or lower than in this example.

### A rate to help late savers, too

Saving 15% can significantly build your retirement savings even if you get a late start.

## \$457,000

Amount saved by age 65 if you start saving **15%** per year when you're age 45.

"Saving 15% today can help you maintain your lifestyle in a retirement that could last 30 years or more."

– **STUART RITTER, CFP®**

T. ROWE PRICE SENIOR FINANCIAL PLANNER

### Making changes to your account

**Contribution amount:** To change your contribution amount, contact CMS at **1-800-442-1300**. You can also download CMS forms at **state.il.us/cms/employee/defcom**.

**Investment elections:** To change your investment elections or adjust your asset allocation, visit **rps.troweprice.com**. Or call **1-888-457-5770** to speak with a T. Rowe Price representative. Representatives are available during business days between 6 a.m. and 9 p.m. central time.

## 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](http://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 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 Plan.

### 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 June 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 ending March 31, 2016. The Wellington Fund has also lagged its benchmark over the last four of five consecutive calendar years. Calendar year 2011 posted the greatest underperformance 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.

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