



Define your journey.

Preparing to Reach Your Destination

Whether your retirement is years from now or just ahead, saving along the way is an important part of the journey. The State of Illinois Deferred Compensation Plan is a powerful vehicle to help you arrive "retirement ready." In this issue we cover basic investing concepts to help you make the most of the Plan.



FIRST, SOME COMMON INVESTING TERMS

Here are common terms related to investing for retirement and what they mean:

Time Horizon

Your *time horizon* combines two phases: (1) the number of years between now and when you plan to retire (often assumed to be age 65) and (2) the number of years you'll need your money to last once you do retire. As lifespans continue to increase, financial experts suggest that you plan to live until age 95.

Asset Allocation

Asset allocation is the manner in which you save money to meet your goals using different types of investments, typically stocks, bonds, and cash equivalents. The goal is to have an appropriate mix of investments to help you deal with the ups and downs of the financial markets during your time horizon.

Diversification

Once you've allocated your assets, it's time to *diversify* them within each type of investment. Through diversification, you can help manage risk by investing in a wide variety of investments. For example, you may want to spread your stock investments over a mix of small, large, foreign, and domestic companies.

Remember: Diversification can't assure a profit or protect against loss in a declining market.

Enjoy a "Fee Holiday"!

The State of Illinois is pleased to announce that participant administrative fees will be *temporarily* waived for calendar year 2021.

Investing in the Plan generally comes with two types of fees: administrative (or "recordkeeping") fees and investment management fees (for the professional managers who handle the day-to-day research and investing). The Plan's investment management fees are assessed through each investment's expense ratio.

2020 Plan administrative fees:

- Balances greater than \$6,700 = \$16.75/quarter.
- Account balances less than \$6,700 = 0.25% of the account balance per quarter (not to exceed 1% annually).



TYPES OF INVESTMENTS

There are four primary categories of investments available in the Plan: target retirement funds, stocks, bonds, and stable return fund. Here's how they work.

Target Retirement Funds

If you prefer to invest in a portfolio that automatically adjusts the mix of stocks, bonds, cash, and other investments over time, you may choose a Target Retirement Fund. A Target Retirement Fund is a diversified portfolio in a single investment based on the year you want to retire that has a risk/return objective that changes over time, gradually reducing exposure to risk as your target retirement date nears.

Stocks

When you purchase a stock, you buy a piece of a company. In the short-term stocks are relatively riskier than other investments, because a company's earnings can be affected by any number of factors, including industry trends and the overall economy. But over the long run, stocks are also likely to provide more potential growth that can keep your retirement savings moving in the right direction—upward.

Bonds

Organizations issue bonds when they need to borrow money. They may come from federal, state, or local governments, or from various businesses (usually large). Bonds are paid back—with interest—over days, months, or years.

Bonds carry a little more risk than a money market investment because bond prices and interest rates fluctuate. But they're generally considered a more conservative investment—one that can provide a less risky investment experience compared to the ups and downs of the stock market.

Stable Return

A stable return fund is made up of high-quality bonds that are insured to protect investors from loss of capital or interest. Stable return investments strive to preserve the money you invest in them, similar to a money market fund. While there is risk involved, it's usually very low.



THREE COMMON RISKS TO INVESTING

All investing comes with the risk that you could lose money.

1. Market Risk: Ups and Downs

This is the risk that your investments will lose value when the markets fluctuate. Generally, the closer you get to retirement, the more you'll want to be careful of market risk.

2. Longevity Risk: Outliving Your Money

The last thing you want to do in retirement is outlive the money you've saved. With lifespans growing longer, it's crucial to invest to help your savings last throughout your entire retirement.

3. Inflation Risk: Erosion by Cost of Living

Even a low inflation rate can cut into your savings over time and reduce your purchasing power during retirement.

For example, if inflation holds steady at just 2%, one dollar today would only be worth 80 cents in just 10 years.

With their potential for higher returns, stock investments can help you face both inflation and longevity risks, especially when you consider that your retirement could last 30 years or more. On the other hand, bonds and stable return can help preserve your capital and reduce the volatility.

To help mitigate these risks, invest your assets in a wide range of investment types, or use a single diversified Target Retirement Fund. Be patient throughout your time horizon and continue to save. Investing for retirement is a long-term goal.



UP NEXT: Asset Allocation Through the Years

Access the latest tools and resources at rps.troweprice.com to see how your current savings stack up against your goals and how you can do even better.

Even when you're on the go, you can find all these resources and more on our mobile-friendly website at rps.troweprice.com. Or download the T. Rowe Price Personal® app, available on Google Play and the App Store.

CONNECT WITH US

T. Rowe Price, the Plan's service provider, is dedicated to providing expert insights and solutions to help you make more informed financial decisions and feel more confident.

Online:

Log in to the Plan's website at rps.troweprice.com to manage your account; change investment elections, review Plan information; and access planning tools, education, and much more.

Phone:

Or call **1-888-457-5770** to speak with a T. Rowe Price representative. For TTY access, call **1-800-521-0325**.

The principal value of the Target Retirement Funds is not guaranteed at any time, including at or after the target date, which is the approximate year an investor plans to retire. These funds typically invest in a broad range of underlying funds that include stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. In addition, the objectives of the Target Retirement Funds typically change over time to become more conservative.

This material is provided for general and educational purposes only and is not intended to provide legal, tax, or investment advice. This material does not provide recommendations concerning investments, investment strategies, or account types; it is not individualized to the needs of any specific investor and is not intended to suggest that any particular investment action is appropriate for you, nor is it intended to serve as the primary basis for investment decision-making.