State of Illinois Deferred Compensation Plan

Insight

Third Quarter 2018 Bruce Rauner, Governor

There's no time like now to organize your financial house. Small steps you take today could improve your financial wellness in retirement.

Financial wellness can help you achieve long-term goals, such as saving for retirement through your State of Illinois Deferred Compensation Plan (DCP). Achieving financial wellness isn't complicated—it starts with a few basic steps:

1. **Create a realistic budget**
   We know. Creating a budget while juggling so many day-to-day financial priorities can be difficult. But you can do it if you have a solid starting point.

   It's important to know your current spending habits so that you can balance the money you spend with the money you make. First, track your expenses and list them under these categories.

   - **Fixed expenses** are ones you pay every month, such as rent or a mortgage, car payments, insurance, etc. These expenses are generally predictable and remain about the same.
   - **Variable expenses** are the ones that vary from month to month, such as gas, clothing, dining out, and entertainment.

   Once you understand where your money is going, you'll be able to assess your expenses and look at areas where you can cut back. Set up specific savings goals—like your annual vacation trip—to include in your fixed expenses, and save toward them just as you would other necessary items.

2. **Build up emergency savings**
   Life happens. Cars break down and roofs need repairing. The primary purpose of an emergency fund is to help keep your current finances and your savings goals intact without having to increase debt. Here are two things you can do:

   - **Set aside $1,000 as soon as possible.** Why? Because this is an amount small enough to cover quick fixes such as new car tires or a new kitchen appliance, without using credit.
   - **Save enough to cover three to six months' worth of living expenses** in the event of a job loss or long-term disability. For most people, this is a sizable amount, so you can build it up over time. We suggest aiming to accomplish this goal over a period of one to two years.

How much should you save?

We recommend trying to live on 70%–80% of your salary so that you have the capacity built in to save toward longer-term goals—and even some shorter-term ones.

—Judy Ward, CFP®

T. Rowe Price Senior Financial Planner

3. **Manage debt**
   Some debt, like a mortgage or student loan, isn't necessarily detrimental to your overall financial wellness. But high-interest credit card debt is another story. If you're only making minimum payments each month or have perpetual balances, focus on paying down this debt by sticking to one of these strategies:
   - **Highest interest rates first—**Tackle the card with the highest interest rate first. Dedicate extra money toward this payment while making the minimum payments on your others. This way, you eliminate the most expensive debt first.
   - **Smallest balances first—**Pay extra toward the card with the lowest balance first while making the minimum payments on your higher balance cards. Once that card is paid off, take that payment and put it toward the next lowest balance credit card, and so on.

Credit card expenses should be included in your budget. Ideally, you want to pay off your credit card expenses in full every month and make those payments on time.

Make financial wellness a priority

Log in to **rps.troweprice.com/planning** for access to free budgeting tools, articles, videos, and other financial wellness resources. If you have questions, call us on business days between 6 a.m. and 9 p.m. central time at **1-888-457-5770**.

Give your savings a chance to catch up

If you will turn 50 or older this year and are already contributing the maximum amount allowed by the DCP, you may contribute an additional amount of catch-up contributions up to the IRS limit.

> From a financial planning perspective, the high interest credit card debt is the real culprit. You should meet any monthly student loan or mortgage payments, but you want to make it a point to pay off any credit card debt.
>
> **—Judy Ward, CFP®**
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> T. Rowe Price Senior Financial Planner

Employee special 457 catch-up contributions*

If you are saving the maximum amount in regular contributions and you're ready to save more, then you should consider making catch-up contributions. During tax year 2018, participants who are 50 or older may be able to contribute $6,000 more than the 2018 IRS limit of $18,500 to their plan accounts. That means you can automatically contribute as much as $24,500.

Furthermore, you may be able to contribute double the IRS limit, up to $37,000, if you qualify for the Special Catch-up provision. This provision allows you to catch-up unused or underutilized deferral contributions during the last three years before you reach your "normal retirement age." Underutilized contributions means amounts you were previously able to contribute, but didn't. You **must** apply to the DCP Office at CMS for approval. For more information, contact CMS at **1-800-442-1300**.

Have other retirement accounts out there?

Your DCP accepts rollovers from traditional IRAs and rollover contributions of vested balances from other employers' eligible plans. To find out how, contact CMS at **1-800-442-1300**.

In addition, the DCP allows in-plan Roth rollovers. An in-plan Roth rollover lets you convert non-Roth amounts (e.g., elective salary deferrals or rollover contributions) to a Roth account inside your DCP instead of rolling them into a Roth IRA outside the DCP. The in-plan Roth rollover applies Roth tax advantages to more of your DCP savings. This option is only available to participants. For more information or to determine if your funds are eligible to rollover into the DCP, contact T. Rowe Price at **1-888-457-5770**.

To learn more, such as which amounts are eligible and how often rollovers can occur, contact T. Rowe Price at **1-888-457-5770** during business days between 6 a.m. and 9 p.m. central time.

Individual Service Fee Changes

Individual service fee charges for the DCP will be updated effective January 1, 2019. The revisions are as follows:

- **Wire fees**
  If a participant prefers to receive a wire instead of a check or ACH transfer, a $30 fee will apply. There is no charge to receive a check or ACH transfer.
- **Qualified Domestic Relations Order (QDRO)**
  A $300 QDRO fee will be split and withdrawn from the participant's account and the alternate payee's account for each qualified domestic relations order.
- **Withdrawal Fees**
  The fee for withdrawals will increase from $20 to $25 for each withdrawal processed. Retirees taking regular installment payments will not be subject to the withdrawal fee.

Your distribution reminder

Installment payments scheduled for the month of January 2019 will be sent by the third week of the month. Please note that all scheduled future installments, with the exception of January installments, will continue to be distributed on the first business day of each month.

Need assistance with your account?

Contact T. Rowe Price
Visit **rps.troweprice.com** to manage your account, change investment elections, review investment information, use planning tools, and more. 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.

Contact CMS
To enroll in the DCP or change your contribution amount, contact CMS at **1-800-442-1300**. You can download CMS forms at www2.illinois.gov/cms/benefits/Deferred/Pages/DeferredCompensation.aspx.

TELEPHONE NUMBERS

DEFERRED COMPENSATION
Plan Rules/Options Information
1-800-442-1300/217-782-7006
TDD/TTY: 1-800-526-0844
https://www2.illinois.gov/cms/benefits/Deferred/Pages/DeferredCompensation.aspx

RECORDKEEPER
T. Rowe Price Retirement Plan Services, Inc.
Account Value Information and Investment Changes:
1-888-457-5770 or TDD/TTY: 1-800-521-0325
Internet Access: 1-800-541-3022 • Internet: **rps.troweprice.com**

*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.