

Insight

First Quarter 2017



Bruce Rauner, Governor



Learn what's new in the State of Illinois Deferred Compensation Plan

As part of its commitment to help you prepare for a more secure retirement, the Illinois State Board of Investment (ISBI) made changes to the State of Illinois Deferred Compensation Plan (DCP). Read on to learn about some of the changes to the DCP that became effective **April 3, 2017**.

A simplified investment approach

The DCP's new investment lineup offers investment choices to help you create a strategy to best suit your goals and comfort with investing while eliminating unnecessary complexity and providing the following enhancements:

- Passively managed investment options that provide you with diverse investment options and broad market exposure while offering lower investment expense ratios.
- A more transparent and direct fee structure in the DCP.

Didn't have a chance to attend an employee meeting?

If you were not able to attend an on-site or live webinar employee meeting in March, you can access a recorded webinar anytime at the T. Rowe Price website at rps.troweprice.com.

Investments available in the DCP

Understanding that participants have different levels of experience and comfort with investing, the DCP gives you two ways to invest.

The age-based investment path

Choose a Retirement Trust if you prefer an age-based portfolio that automatically adjusts over time.

The build-your-own portfolio path

Choose among the DCP's other investment options to create your own diversified portfolio if you prefer to have more control over choosing and monitoring your investment strategy.

Option 1: Age-based investment

Pre-assembled Vanguard Target Retirement Trusts offer a single investing solution

Vanguard Target Retirement Trusts are now available for your age-based portfolio.

Features include:

- A diversified portfolio in a single investment based on the year you want to retire.
- The trusts' risk/return objectives change over time, gradually reducing their exposure to risk as your target retirement date nears.

Selecting a Vanguard Target Retirement Trust

To find a target date investment that might work for you, simply ask yourself when you want to retire. If you're not sure, you can decide by adding 65 to your birth year.

Vanguard Target Retirement Trusts
Vanguard Target Retirement 2060 Trust
Vanguard Target Retirement 2055 Trust
Vanguard Target Retirement 2050 Trust
Vanguard Target Retirement 2045 Trust
Vanguard Target Retirement 2040 Trust
Vanguard Target Retirement 2035 Trust
Vanguard Target Retirement 2030 Trust
Vanguard Target Retirement 2025 Trust
Vanguard Target Retirement 2020 Trust
Vanguard Target Retirement 2015 Trust
Vanguard Target Retirement Income Trust

You don't have to choose the trust that matches your expected retirement year. Once you review that trust's mix of stocks and bonds, you could choose a trust with a later target date if you'd prefer a more aggressive investment mix. On the other hand, if you'd prefer a more conservative mix, you could choose a trust with an earlier target date.

Option 2: Build-your-own portfolio

Build-your-own investments offer added control

If you prefer to create and monitor your own investment strategy, the DCP offers additional investment options to choose from to build a diversified portfolio.

Stock Investments	Style
Vanguard Institutional Index 500 Trust	Large-Cap Core
Northern Trust Collective Russell 2000 Index Fund	Small-Cap Core
Northern Trust MSCI ACWI ex-US Index Fund	Non-U.S. Large-Cap Core
Bond Investment	Style
Vanguard Total Bond Market Index Fund, Institutional	Core Fixed Income
Stable Value/Money Market Investments	Style
Vanguard Treasury Money Market Fund	Money Market
INVESCO Stable Return Fund	Stable Value

For all investments in the lineup, participants can check daily valuations online at rps.troweprice.com.

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

Money Market Investments: You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

Passively managed investments

You now have access to a diverse selection of passively managed investment options to choose from. Realizing that the investment world is constantly changing and evolving, the ISBI made enhancements to the investment lineup to provide you with investment options appropriate for long-term investing that have a long-term performance history.

More about passively managed investment options:

- Passively managed investment options buy some or all of the stocks or bonds that make up a widely used market index share (e.g., the S&P 500).
- A passively managed investment option seeks to mirror the performance of the index.
- Typically, passively managed investment options tend to have lower operating expenses than actively managed investment options.
- Because the index investment manager invests in the securities that make up the selected market index, the investment requires little management. And with the index holdings remaining fairly constant over time, turnover of securities in a passively managed investment is low—resulting in lower costs.
- All investments are subject to risk, including possible loss of principal.

More information

Visit rps.troweprice.com to get investment information, such as investment objectives, fees and expenses, as well as access to other helpful financial planning tools. Or call 1-888-457-5770 to speak with a T. Rowe Price representative on business days between 6 a.m. and 9 p.m. CT.

A closer look at passive investing

Passive, or index, investing can offer significant benefits that include diversification, low costs, competitive performance, and simplicity.

Because index investment managers don't continually buy and sell stocks, passively managed investment options' expenses are typically lower than those charged by actively managed investment options. Low costs can allow an investment option to pass on more of its returns to shareholders, according to a Vanguard study.*

The less your investment options cost, the more money is left to grow over the years. Here's a hypothetical example:

George and Sandy each invest \$10,000 in index investments that are identical except in cost. George's investment option charges 0.72% a year, for a total of \$72. Sandy's investment option charges 0.13% a year, for a total of \$13.

Both investment options earn 6% a year. In the first year, each investment option earns \$600—the return of 6% on the initial \$10,000 investment. However, the \$72 charged by George's investment option reduces his investment earnings to \$528. Sandy's earnings total \$587.

There's more. Both George and Sandy arrange for their investment earnings to be reinvested in their investment options every year. At the end of 30 years, assuming an average annual return of 6%, Sandy's lower costs will add more to her savings compared with George's.†

*Shopping for Alpha: You Get What You Don't Pay For. Daniel W. Wallick, Neeraj Bhatia, Andrew S. Clarke, and Raphael A. Stern. The Vanguard Group. 2011.

†This hypothetical example does not represent the return on any particular investment. Withdrawals from a tax-deferred plan or IRA before age 59½ are subject to a 10% federal penalty tax unless an exception applies.

Plan fees

The new investment option lineup has significantly lower expense ratios, and the DCP has a new, more transparent and direct fee structure. Starting March 30, 2017, all participants will incur a Plan administrative fee to cover expenses:

- If you have an account balance over \$6,700 at quarter-end, you will be charged \$16.75 each quarter (\$67 annually).
- If you have an account balance below \$6,700 at quarter-end, you will be charged 0.25% of the account balance each quarter (capped at 1% annually).

You'll find more information about Plan fees in the third-quarter 2016 Insight newsletter. You can access it online at <https://www.illinois.gov/cms/employees/benefits/deferred/pages/deferredcompensation.aspx>.

Individual service fees

Although the DCP allows you to invest for your future, the DCP also allows you to withdraw or take a loan from your account balance. Please note the change in the following new fees:

Withdrawal fee

- If you are receiving an installment payment (an automatic distribution that is made on the first business day of the month), there is no charge.
- You will be charged a \$20 fee from your account for each withdrawal processed after April 3, 2017.
- All withdrawals processed on April 3, 2017, or prior will not be charged a fee.
- The fee will be charged at the time of distribution to all withdrawals and will follow the same investment/source as the distribution.

Annual loan maintenance fee

- All accounts with active loans initiated after April 3, 2017, will be charged an annual loan maintenance fee of \$25.
- All accounts with loans initiated on April 3, 2017, or prior will not be charged an annual loan maintenance fee.
- The fee will be extracted annually on the first business day of October and will only be extracted from accounts with active and deemed distributed loans that have more than one payment remaining.
- The fee will be extracted using the same investment/source as the loan withdrawal.

IRS limits for 2017

Below is a summary of the 2017 salary deferral contributions you can make to your State of Illinois 457 Plan:

- The IRS annual combined limit on before- and after-tax contributions is \$18,000, meaning you can contribute a total maximum of \$18,000 per year.
- If you will be age 50 or older in 2017, the age 50 catch-up provision allows you to contribute up to \$24,000 through before- and after-tax contributions. (This includes the \$18,000 maximum before- and after-tax contribution, plus an additional catch-up contribution of up to \$6,000.)
- The 457 special catch-up provision is \$36,000. (This provision can only be elected during the three consecutive years prior to—but not including—the year you attain normal retirement age of 70½, as defined by the 457 Plan.) 1099-Rs for 2016 distributions were mailed by January 31, 2017.

Required minimum distributions

If you turn age 70½ in 2017 and have left state service, you must receive your 2017 required minimum distribution (RMD) by April 1, 2018. Each year thereafter (including 2018), you must receive your RMD for that year by December 31.

New in-plan Roth rollovers offer tax advantages

What's an in-plan Roth rollover? It lets you convert non-Roth amounts (i.e., elective salary deferrals or rollover contributions) to a Roth account inside your Plan instead of rolling them into a Roth IRA outside your Plan. It's a convenient way to apply Roth tax advantages to more of your Plan savings.

To learn more about in-plan Roth rollovers, call T. Rowe Price at **1-888-457-5770** during business days between 6 a.m. and 9 p.m. central time. You may also want to consult with your tax advisor.

TELEPHONE NUMBERS

DEFERRED COMPENSATION

Plan Rules/Options Information:

1-800-442-1300/1-217-782-7006

TDD/TTY: 1-800-526-0844

Internet: state.il.us/cms/employee/defcom

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

T. Rowe Price Investment Services, Inc.

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