State of Illinois Deferred Compensation Plan

Define your journey.

Roth contributions—another tax advantage for your deferred compensation plan.

Roth contributions provide a different tax advantage for your retirement savings than traditional before-tax contributions. This brochure will help you decide if Roth contributions are the better option for you.

Consider these benefits of making Roth contributions.

No tax on distributions in retirement*

Unlike before-tax contributions, Roth contributions are made with after-tax dollars, or money on which you've already paid taxes.

This means that the balance of your Roth contributions and any earnings are not taxed when you take a qualified distribution. Tax-free withdrawals can be particularly important if you need to withdraw a large amount in one year—for large medical expenses, extensive travel, a new car, etc.

The bottom line: You can potentially maximize your spendable income in retirement, even if it means giving up before-tax advantages now.

Potential to avoid taxes on Social Security benefits
Roth contributions may also help you to avoid taxes on your Social Security benefits in retirement. That's because if your taxable income in retirement is above a certain amount, part of your Social Security benefits will be taxable. But Roth qualified distributions do not count as taxable income.*

How do the two contribution types compare?

There are advantages to both types of contributions. But as the chart below shows, there are important differences.

Before-tax contributions	Roth contributions
When you contribute	**When you contribute**
• Your contributions are deducted from your pay before taxes are taken out	• Your contributions are made with after-tax dollars—money on which you've already paid taxes
• You lower your current taxable income	• You do not lower your current taxable income
• Any earnings grow tax-deferred	• Any earnings grow tax-deferred
When you withdraw	**When you withdraw**
Your contributions and any earnings are taxed upon distribution	Your contributions and any associated earnings are tax-free if you take a qualified distribution*

* **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 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.

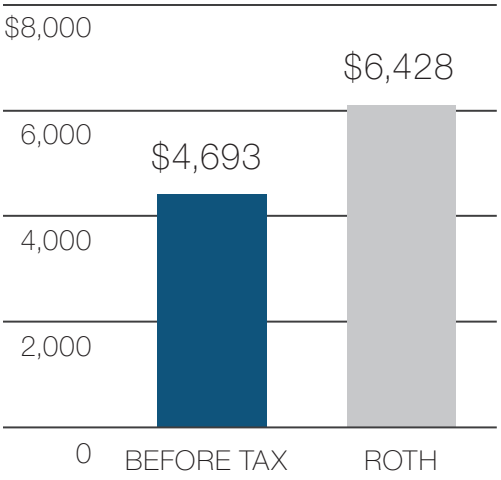
What does all this mean in terms of dollars and cents?

Below is a hypothetical example of the annual effect of making before-tax contributions versus making Roth contributions on your paycheck and your potential income in the first year of retirement. The first chart below illustrates that when you make Roth contributions, the amount of your take-home pay in your check will be less than when you make before-tax contributions. However, the second chart illustrates that your potential spendable income in retirement could be higher with Roth contributions because any earnings are not taxed when you take qualified distributions.

Impact to taxable income of before-tax vs. Roth savings

Before Tax							
Annual Income		10% Before-Tax Contribution		Taxable Income		Tax Rate	Income Tax
$50,000	-	**$5,000**	=	**$45,000**	X	**0.27**	**$12,150**
Roth							
Annual Income		10% Roth Contribution		Taxable Income		Tax Rate	Income Tax
$50,000	-	**$5,000**	=	**$50,000**	X	**0.27**	**$13,500**

Estimate of spendable income in first year of retirement



These charts assume a participant is age 47, earns $50,000 a year, gets a 4% raise each year, contributes 10% of pay annually to a tax-deferred account until a retirement age of 67, has an annual rate of return of 7% net of fees, has a 27% tax rate, and withdraws 4% of the account balance in the first year of retirement, based on an ending balance after 20 years of $290,258. The contribution is assumed to be made at the beginning of the period. No contribution is made once the investor reaches an assumed retirement age of 67. The annual income estimate is in today's dollars and assumes a 3% rate of inflation. Estimate of spendable income in first year of retirement is calculated using present value (PV).* The chart and estimates only account for future contributions and not current balances in an effort to illustrate characteristics of each contribution type. Any current tax benefit from contributing to a before-tax account is assumed to be spent and not factored into retirement income. The tax rate reflects estimated federal and state taxes. For illustrative purposes only. This is not meant to represent the performance of any investment options for your Plan. The assumptions used may vary from those in similar charts or calculators. Your results will vary. All investments involve risk, including possible loss of principal.

*Today's dollars or PV describes how much a dollar amount in the future is worth today. PV is part of a generally accepted financial principle called the time value of money, and represents the current value future contributions plus the earnings on the money, discounted by an assumption representing inflation.

Are Roth contributions right for me?

To answer this question, you'll need to consider your individual situation, including your age and your tax rate now and in retirement.

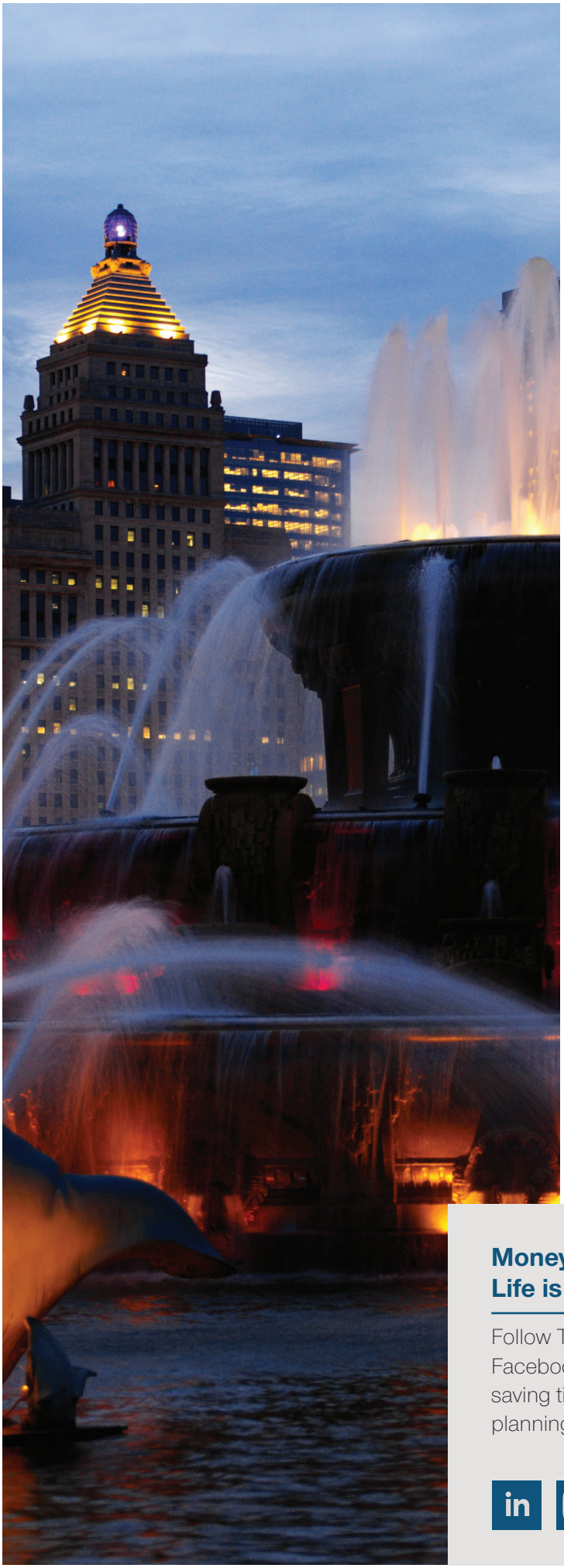
To help you decide if Roth contributions are right for you, consider your answers to the following questions:

1. Are you under age 50?
2. If over 50, do you expect your tax rate in retirement to:
   - be higher,
   - be the same, or
   - drop no more than a moderate amount?

If you answered "yes" to either of these questions, you may want to consider making Roth contributions.

Remember, you can make before-tax contributions as well as Roth contributions (as long as your combined savings do not exceed Plan or IRS limits).

If you would like to make Roth contributions, go to **rps.troweprice.com** or call **1-888-457-5770**.



Here's how to get help with your decision.

Online

Log in to the website at **rps.troweprice.com** to access the Roth Comparison Calculator.

By Phone

If you prefer personal assistance, call T. Rowe Price at **1-888-457-5770** to speak with a T. Rowe Price representative. For TTY access, call 1-800-521-0325.

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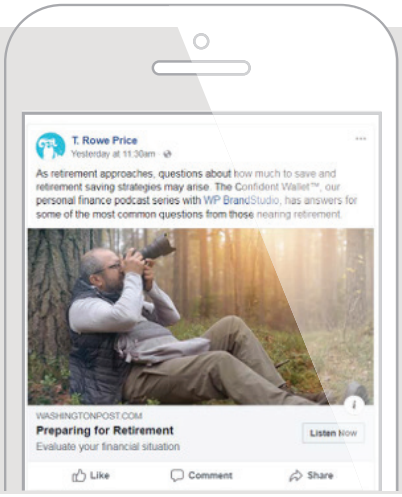

Notes

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