

# Insight

Third Quarter 2016



Bruce Rauner, Governor

## Understanding Plan fees and expenses

The State of Illinois Deferred Compensation Plan (DCP) provides a great way to save for your retirement. It lets you defer part of your salary before or after taxes and invest the money. Of course, there are costs associated with participating in any 457 plan, like the DCP, for services like plan administration and investment management. Take a few moments to understand these fees and their impact on your retirement savings.

### Fees associated with 457 retirement plans

Generally, there are four types of fees associated with 457 plans like the DCP: individual service fees, plan redemption fees, plan administrative fees, and investment management fees.

#### Individual services fees

There are individual service fees associated with various services provided, such as loans. The DCP offers this service to all participants in the DCP, but you only pay for it if you use it. For example, if you were to initiate a loan, you would be assessed a one-time loan initiation fee of \$75, which covers the cost of processing the loan. Other individual service fees may include loan maintenance fee, distribution fee, etc.

#### Redemption fees

Although the DCP does not currently offer any investments that charge a redemption fee, some 457 plans do carry them. Redemption fees are designed to mitigate the effect of short-term trading and protect the fund and its long-term investors, as well as to help offset the transaction costs that may be generated by frequent trading. Redemption fees are charged only to those participants who sell shares of a mutual fund on or before a designated holding period specified by the fund.

#### Plan administrative fees

The fee you pay each quarter, along with any applicable DCP investment administrative credit offsets, covers the administrative cost of operating the Plan. This includes costs of both the state and third-party administrator or recordkeeper. These expenses include such services as investing the daily contributions, requests for the purchase and sale of securities made by participants on the Plan Account Line (PAL), distribution processing, Plan forms processing, and trained representatives to answer participant questions and telephone inquiries. Additional expenses include producing and mailing account statements, educational services, legal services, accounting and auditing services, and trustee and consulting services.

By state law, the costs of the DCP must be borne by the participants. These costs and the quarterly fee charged to participants have fluctuated over time due to changes in total expenses, economies of scale, market value of accounts, and competitive bidding. Between 2007 and 2013, the Illinois State Board of Investment (ISBI), which has general Plan oversight, was able to provide a “fee holiday” in which participants did not pay a plan administrative fee to the DCP to cover expenses. During this time, the DCP spent down surplus reserves primarily from investment administrative credit offsets provided by the participating investment companies to pay these expenses.

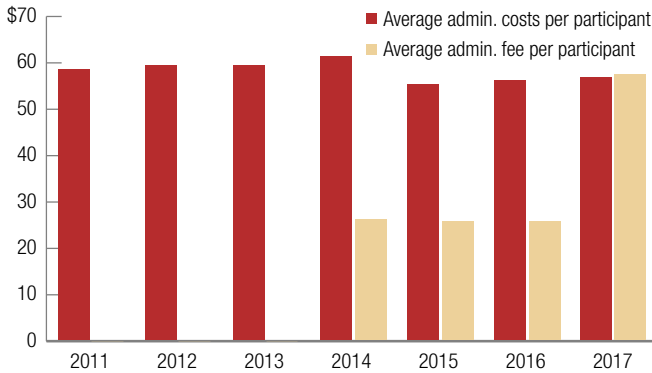
#### DISTRIBUTION REMINDER

Installment payments scheduled for the month of January 2017 will be sent in 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.

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## Plan administrative fees (continued)

To illustrate, the chart below shows the actual historical average annual cost/expense per participant of the DCP and the average annual per-participant fee charged over the last five years. As you will see, the average annual plan administrative fee does not cover the total average per-participant cost. The chart projects the remainder of 2016 and makes an assumption of what the fee might need to be to cover the total Plan costs for 2017.\*



\*2016 and 2017 are projected.

The Plan administrative fee is deducted from your quarter-end account balance each quarter. It is shown on your quarterly account statement in the Account at a Glance section as the line item titled "Fees."



### CMS

STATE OF ILLINOIS  
801 S. 7th Street, 2nd Floor  
Springfield, IL 62764-9208

#### Retirement Account Summary

**April 1, 2016 to June 30, 2016**

Contact Us—[rps.troweprice.com](http://rps.troweprice.com) or Mobile—[www.troweprice.mobi](http://www.troweprice.mobi)  
1-888-457-5770 (MF 7 a.m. - 10 p.m. Eastern Time)

To change your name or address, please contact your Plan Administrator.

Ending Balance	\$391,764.77
Change in Balance	\$19,150.75
Your Account Return Since 01/01/1996	9.22%

#### ACCOUNT AT A GLANCE

Beginning Balance	\$372,614.02
+ Your Contributions	\$0,000.00
- Fees	-\$7.50
+ Gain/Loss	\$19,158.25
Ending Balance	\$391,764.77

#### ASSET ALLOCATION

■ 33.0% Retirement Funds

■ 47.0% Stocks

Percentages are rounded

Asset Allocation shows how the money you've previously invested is distributed over different investment categories. Future Allocation (shown in subsequent modules) shows how any new contributions will be distributed.

#### MARKET RETURN & RISK ANALYSIS

Your return risk level is based on the percent of underlying stocks within your investments. Generally stock investments carry a higher risk, but also have a higher potential return. This is just one way to evaluate your portfolio. Based on our analysis, your level has the highest potential for gains and losses.

Do you have 20 or more years to retirement? If no, consider if your stock allocation may be too high - you may be taking on too much risk. For help, access the Tools at [rps.troweprice.com](http://rps.troweprice.com).

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#### ACCOUNT GROWTH

Retire with confidence®

INVEST WITH CONFIDENCE

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## 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](http://rps.troweprice.com)



## Investment fees

Investment management fees are charged by the mutual fund, common trust, or separate account in which you have contributed your savings to cover the investment manager's cost to manage the investment. For some of the mutual fund options in the DCP, the investment management fee is bundled with an administrative fee that covers the manager's cost to market and distribute the investment. When that investment is part of a large employer-sponsored plan, such as the DCP, the investment manager sometimes provides an investment administrative fee credit back to the DCP to reduce the cost of expenses. Together, the investment management fee and the investment administrative fee charged by a mutual fund are referred to as the "expense ratio" and a "trustee fee" for common trusts. Separate accounts only charge investment management fees.

For example, a 0.80% expense ratio for a mutual fund equates to an annual fee of \$8 per \$1,000 invested to cover the cost of managing the fund. On a balance of \$100,000, this equates to \$800 annually. This fee is an indirect charge to your investment in that fund, taken from the daily net asset value (daily price) of the investment. This means that it is deducted directly from the fund assets, thereby reducing the rate of return of the investment. You do not see this fee as a separate line item on your statement as it is reflected in the rate of return for that investment.

Below are the fees that may be associated with your investment options. Every shareholder helps pay for the services provided.

- **Investment management fees**—Paid to the fund's investment manager for overseeing the portfolio. They are generally stated as a percentage of the amount of assets invested in the fund.
- **Investment administrative fees**—In some investments, such as mutual funds, the costs of administrative services related to the investments, such as those associated with the processing of transactions involving the funds and maintaining account records, were reimbursed directly back to the DCP to offset costs.

Over the past few years, ISBI has worked prudently to lower the investment costs associated with the DCP without sacrificing investment return, thus essentially allowing the investment to earn more. In the previous example, if the expense ratio was reduced to 0.40%, this equates to an annual fee of \$4 per \$1,000. On a balance of \$100,000 this equates to \$400 annually, which is a *savings* of \$400 annually in comparison.

### NEXT STEPS

Learn more about the appropriate asset allocation for your investment goals at [rps.troweprice.com/investsavings](https://rps.troweprice.com/investsavings).

## Investment fee structure for the DCP

ISBI will continue to review the DCP and investment management fees to ensure best practices.

The DCP has negotiated lower-cost investments over the past several years, where feasible, that have resulted in the elimination of the administrative fee from the expense ratio for several of the investment options in the DCP.

This change means that participants in investments with no administrative fee will see less of a reduction in the rate of return on those investments. It also means that the cost to administer the DCP cannot continue to be paid through the investment administrative fee offset, since the investment administrative fee has been eliminated from most of the investments offered through the DCP. Therefore, the quarterly plan administrative fee you pay from your account will become the primary revenue source to cover the cost of administering the DCP as mandated by law.

*Special note for participants invested in funds with an investment administrative fee:* There are two investments in the DCP that will continue to have an administrative fee credit. Participants invested in either the Fidelity Puritan Fund or the William Blair Small Cap Growth Fund will receive a credit to their account each quarter to mitigate the impact of the administrative fees charged by these funds.

There are two investments offered in the DCP that have an expense ratio that includes both an investment management fee and an administrative fee. The other investment options in the DCP (those not listed below) do not have an administrative fee payment associated with them. Participants invested in either of these funds will receive a credit to their account.

Investment	Administrative Fee Payment
Fidelity Puritan Fund	0.25%
William Blair Small Cap Growth Fund	0.15%

### Would you like more information?

If you have questions or would like additional information, you can call **1-888-457-5770** or log in to the website at **rps.troweprice.com** to request a prospectus, trust report, or other information.