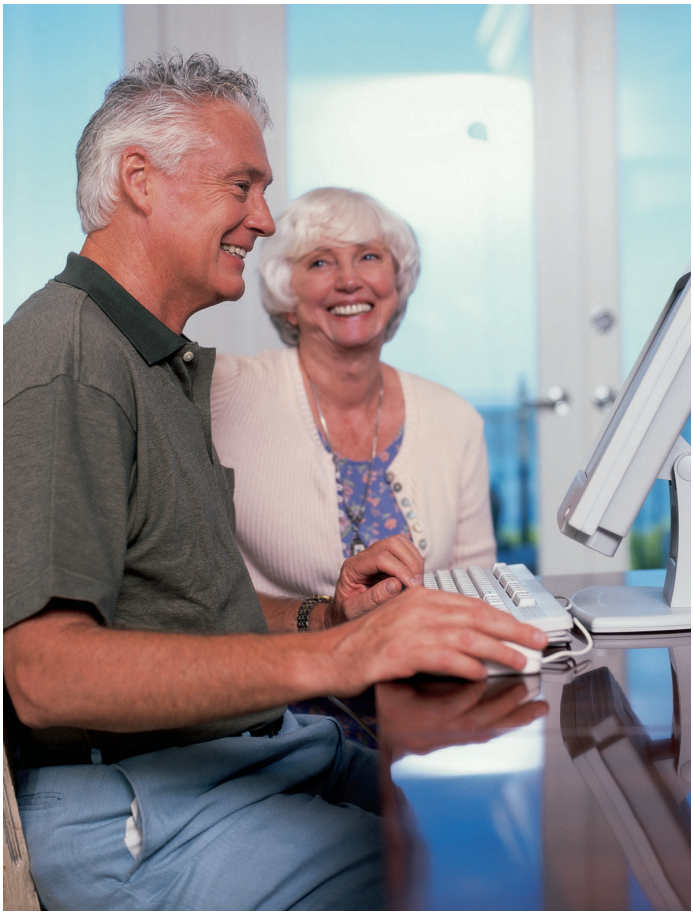
State of Illinois Deferred Compensation Plan

Insight

Fourth Quarter 2016

Bruce Rauner, Governor



In-plan Roth rollovers may offer tax advantages.

When you enroll in the State of Illinois Deferred Compensation Plan (DCP), you can make either **before-tax contributions**—made before taxes are taken out of your pay—or **Roth contributions** (i.e., after-tax contributions)—made after taxes are taken out of your pay. Both are great options to save and offer their own unique tax advantages. Here's how these options compare:

Before-tax contributions

Your contributions are made before income taxes are taken out of your paycheck. *When you withdraw from your account, your contributions and any earnings are subject to taxes.* The maximum amount you can contribute is 100% of your pay, subject to IRS limits.

Roth contributions

Roth contributions offer another way to save for retirement and are made with money that has already been taxed (or an after-tax basis). *When you take a qualified distribution, you will pay no taxes on the money you've contributed or on any earnings generated by your Roth account.** It's tax-free income in retirement. The maximum amount you can contribute is 100% of your pay, subject to IRS limits.

In addition to your previous and current Roth contributions, beginning **January 10, 2017**, you'll be able to roll over non-Roth (before-tax contributions) amounts into your Roth account in the DCP. **This new feature is an in-plan Roth rollover.** It's a convenient way to apply Roth tax advantages to more of your plan savings. **This option is only available to participants.** For more information about tax advantages for an in-plan Roth rollover, consult your tax advisor.

continued on page 2

*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 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.

Be sure to weigh upfront tax costs

When you convert non-Roth amounts to a Roth account, keep in mind a few things:

- **Eligible sources for an in-plan Roth rollover are salary deferrals, before-tax qualified, and 457(b) rollover sources** from previous employer retirement plans.
- **Your before-tax contributions will be taxed as part of the rollover with the potential for long-term advantages.** It is important to note that an in-plan Roth rollover cannot be reversed after the transfer is made.
- **The 20% mandatory withholding will not apply**; further, it will not be possible to request voluntary withholding for income tax purposes from the amount that is rolled to the in-plan Roth rollover source.
- **It is important to determine the amount you can roll over and be able to pay the additional tax liability you might incur (if any)** for the calendar year of the rollover by working with your tax advisor/counsel to prepare an estimated tax payment, or you may consider increasing your withholding through payroll by submitting a Form W-4.
- **The additional 10% tax on early distributions will not apply**, so long as the amount rolled over is an in-plan Roth rollover and not distributed to you prior to you meeting an exception (e.g., you have attained age 59½ at the time of distribution) or within five taxable years of each rollover event.
- **There are certain rules around eligibility for withdrawal and the withdrawal amount.** Withdrawing funds from Roth accounts that aren't eligible for distribution may be subject to costly taxes and penalties.

To initiate an in-plan Roth rollover

- Log in to your account at **rps.troweprice.com**.
- Choose Transactions.
- Select In-Plan Roth Rollover and read How In-Plan Roth Rollover Works.
- Read Tax Considerations and check the box.
- Choose your in-plan Roth rollover source.
- Choose the percentage or dollar amount you want to roll over.
- Confirm your in-plan Roth rollover transaction.

Learn more about an in-plan Roth rollover

To further evaluate if an in-plan Roth rollover could work for you, consult with your tax advisor.

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

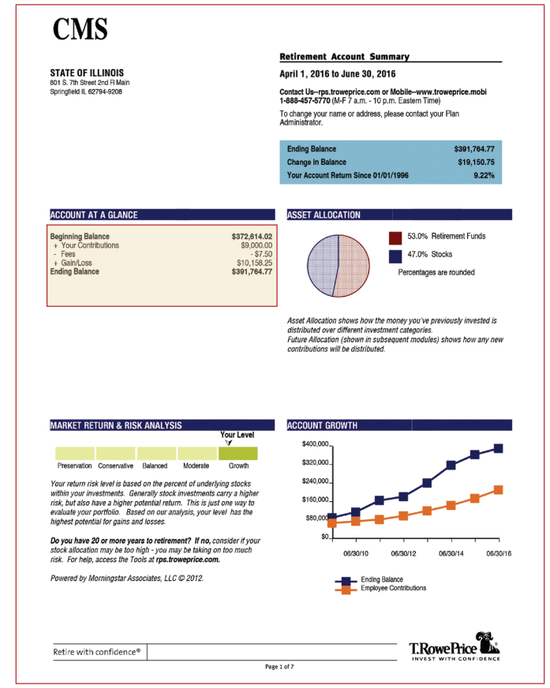
Fees associated with 457 retirement plans

Because costs are associated with operating the DCP, your Plan account is charged a nominal fee every quarter. Four types of fees are generally associated with 457 plans like the DCP: **individual service fees, plan redemption fees, plan administrative fees, and investment management fees**. For the full list of fees and their descriptions, see the main story, "Understanding Plan fees and expenses," in the Third Quarter 2016 Insights newsletter.

Your quarterly account statement

To find the Plan administrative fee deduction on your enclosed quarterly account statement, look under the Account at a Glance section at the line item titled, "Fees" (see sample account statement).

If you have questions about Plan fees and how they could affect your account balance, call **1-888-457-5770** or log in to **rps.troweprice.com**.



CMS

STATE OF ILLINOIS
801 S. 7th Street 2nd Fl Main
Springfield IL 62794-9208

Retirement Account Summary

April 1, 2016 to June 30, 2016

Contact Us--rps.troweprice.com or Mobile--www.troweprice.mobi
1-888-457-5770 (M-F 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	$9,000.00
- Fees	-$7.50
+ Gain/Loss	$10,158.25
Ending Balance	$391,764.77

ASSET ALLOCATION

53.0% 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 Level ✓
Preservation | Conservative | Balanced | Moderate | Growth

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.

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ACCOUNT GROWTH

$400,000
$320,000
$240,000
$160,000
$80,000
$0
06/30/10 06/30/12 06/30/14 06/30/16

Ending Balance
Employee Contributions

Retire with confidence®

T.RowePrice INVEST WITH CONFIDENCE

Page 1 of 7

Income tax information for 2016

If you're currently saving in the Plan

If you are actively deferring part of your regular pay to your Plan account on a before-tax basis, your taxable income may be reduced. You will only report the wages shown in Box 1 of your W-2 statement on your income tax form. Your wages reported in Box 1 show your gross wages reduced by the total amount of your 2016 deferrals and any other tax-deferred and tax-exempt deductions.

Your W-2 statement will reflect contributions to the Deferred Compensation Plan (457 Plan). If the "Deferred Compensation" box in the lower right-hand corner of the W-2 form is marked "X," it means you contributed to the Deferred Compensation Plan in 2016; the amount of your before tax deferral is indicated in Box 12 with a "G" coding, while an after-tax contribution is noted with an "EE." Remember, you do not report your deferred compensation anywhere on your income tax form.

If you took a distribution in 2016

If you took a distribution from your account during the 2016 tax year, you will receive a separate Form 1099-R from our recordkeeper, T. Rowe Price, by January 31, 2017. Box 2a of your 1099-R will list the taxable amount of the distribution(s) you received during 2016 and should be entered on line 16b of your Form 1040. Box 7 of your 1099-R shows the distribution code for the type if distribution received. A code of "7" in this box indicates a normal distribution if you're age 59½ or over. If you were under age 59½, box 7 will be coded with a "2" to indicate that your 457 Plan distributions are not subject to the 10% additional tax on early distributions.

Distributions from your Deferred Compensation Plan account, plus any earnings, are taxable as ordinary income for federal income tax purposes. These same distributions are not, however, subject to State of Illinois income tax. Line 1 of your Illinois return (IL 1040) is taken directly from your federal adjusted gross income, which includes any deferred compensation distributions. These distributions should also then be listed (and consequently deducted from your Illinois income) on line 5 of your IL 1040.

IRS limits for 2017

To help you better prepare for the upcoming year, 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 and 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 allowed by the IRS plus an additional $6,000.)
- The 457 Plan special catch-up provision is $36,000. (This provision can only be elected during the three years (consecutive) prior to, but not including, the year you attain the normal retirement age of 70½, as defined by the 457 Plan.) 1099-Rs for 2016 distributions will be 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. To calculate your RMD, divide your account balance as of December 31, 2016, by 27.4 if you turn age 70 or by 26.5 if you turn age 71 in 2017. This is the minimum amount that you must withdraw from your account.

Each year thereafter (including 2018), you must receive your RMD for that year by December 31.

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**