SECOND QUARTER 2014 | PAT QUINN, GOVERNOR

Insight

A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

PLANNING FOR RETIREMENT ONE STEP AT A TIME

Starting early and making regular contributions to your retirement plan can set you on the path toward a more secure retirement.

Many individuals don't know where to start when it comes to saving for retirement. Some get so intimidated by how much they think they will need that they throw up their hands and save little or nothing at all. Planning for retirement, however, doesn't have to be overwhelming or painful. With a few simple steps, individuals can put themselves in a better financial position for a retirement that can last to age 95 or longer.

Set A Target

If you're in your 20s or 30s, retirement may be the furthest thing from your mind. Even in your 40s and 50s it can be hard to wrap your mind around how much money you'll need to live comfortably after you leave the workforce. Start as early as you can so you can reap the potential benefits of compounding. The more you set aside for retirement each month and the longer you have until you retire, the more likely it will be for you to reach your goal.

Many suggest that you should aim to contribute at least 15% of your salary to your employer's plan each year. This percentage can include any employer contributions or match. If you can't spare that amount right now, start with less and put a plan in place to get you to the 15% level as soon as possible. For example, plan to increase your contribution by 2% each January or sign up for your plan's automatic increase program, if offered. IRS guidelines for 2014 allow an individual younger than age 50 to contribute up to $17,500 to a workplace retirement plan, though your particular plan's contribution limit may be more restrictive.

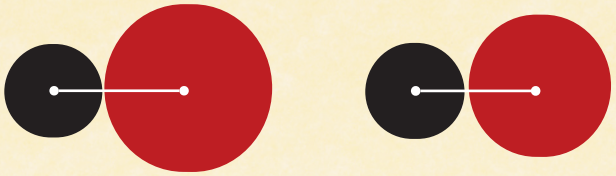
If you are age 50 or older you may be able to take advantage of annual catch-up contributions. For 2014, once you reach the plan's maximum, you can contribute up to an additional $5,500 to your workplace retirement plan, if your plan allows.

The Benefits Of Time

Two investors each contribute a total of $175,000 toward retirement, but Investor A starts saving 10 years earlier than Investor B. They make contributions at the start of the year and receive a 7% annual rate of return, compounded annually. As a result of compounding, Investor A saves around 1.5 times more than Investor B.

This is not meant to represent the performance of any of the investment options in your plan. Your results will vary.

THE BENEFITS OF TIME
RETIREMENT CONTRIBUTIONS EARNINGS



INVESTOR A
Contributes $5,000 per year for 35 years
$739,567 TOTAL AT RETIREMENT

INVESTOR B
Contributes $7,000 per year for 25 years
$473,735 TOTAL AT RETIREMENT

Many individuals are unprepared for retirement and don't know where to turn. A T. Rowe representative can give you personalized guidance to help with your retirement planning and investment goals. For more information call the plan account line.

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Make Age-Appropriate DBSP Investments

It's important to establish a mix of stocks, bonds, and short-term/stable investments that is appropriate for your time horizon—how many years you have until you retire—and your tolerance for risk. This mix is known as your asset allocation.

People who are not yet retired should hold the majority of their portfolio in stocks so they have the growth potential to help their nest egg stay ahead of inflation. Once you have an asset allocation framework in place, diversify your holdings within each asset class. For instance, an investor in his 50s might hold 60% to 80% of his portfolio in stocks, 20% to 30% in bonds, and the rest in short-term investments. Within the stock portion of his portfolio, he should hold a wide range of stock sub-asset classes, including exposure to domestic and international equities, and select small, mid-size, and large firms. Likewise, he should spread his bond holdings among domestic and international bonds that vary by maturity and credit quality.

Revisit Your Plan Yearly

Saving for retirement should not be a set-it-and-forget it endeavor. It's important to revisit your plan at least once a year to make sure you're still on track to meet your goals. Think of your retirement as a garden that needs watering, pruning, and tending in order to yield the best-tasting vegetables.

You have a lot of competing demands on your money and saving for retirement isn't always easy. But it's vital to prepare yourself financially for when you leave the workforce. Especially if you are behind in your savings goals, it's important to make more of an effort to contribute as much as you can to your workplace retirement plan—starting now.

Getting Personal

Stretching out Retirement Savings

The 4% guideline helps retirees determine how much they could safely withdraw from their nest egg the first year to make their savings last longer.

John and Mary, a couple in their early 60s, have been saving money for many years and are starting to think more seriously about retirement. Like many pre-retirees, they are concerned about how to make the money they've saved last throughout their retirement. Considering an initial 4% withdrawal amount that adjusts for inflation each year can help ensure that John and Mary do not outlive their assets. Following the 4% guideline would mean that in their first year, a couple that amassed $500,000 could withdraw 20,000 from their savings. They would withdraw $20,600 in the second year, and $21,218 in the third year, assuming a 3% inflation rate.

Making Retirement Work

A recent study by T. Rowe Price[1] confirms that the 4% guideline is still a good starting point that offers retirees flexibility. For example, if John and/or Mary work part-time after retirement, they could consider withdrawing less than 4% for those years in order to preserve their money for when they leave the workforce altogether. They would also likely have some wiggle room to withdraw more than 4% in some years, if needed. (Remember, though, that a person cannot keep retirement funds in his accounts indefinitely unless he has a Roth IRA. Once he reaches age 70½, he has to take enough from his workplace plan account or Traditional IRA to satisfy the IRS's minimum withdrawal requirements, irrespective of the 4% guideline.)

To live comfortably in retirement, John and Mary will also likely have to make lifestyle choices. They'll need to determine an appropriate budget that enables them to live the standard of life they want in retirement, taking into account their savings and other income sources such as Social Security. They should then monitor their financial situation and market conditions at least once a year to see if adjustments are needed.

Using the 4% guideline can help couples like John and Mary determine a plan of action for their personal circumstances that allows them to use their retirement monies wisely and enjoy their twilight years.

[1]Two New Retirement Income Withdrawal Strategies, T. Rowe Price Report, Fall 2013.

The award-winning T.Rowe Price retirement income calculator can assist you in calculating how much you may be able to spend each month and how long your savings will last. To get started, visit rps.troweprice.com/tools.

TELEPHONE NUMBERS

Deferred Compensation

Plan Rules/Options Information
800-442-1300/217-782-7006
TDD/TTY: 800-526-0844
Internet: http://www.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

T. Rowe Price Investment Services, Inc., Distributor. If you have questions about the website or need information about your plan, call a retirement specialist on business days between 7 a.m. and 10 p.m., Eastern Time, at **800-922-9945**, or visit **rps.troweprice.com/tools**.

FEE REMINDER

As a reminder, effective January 1, 2014, a per-participant fee in the amount of $7.50 was reintroduced to the Deferred Compensation Plan (DCP). Generally, the fee will be automatically deducted from participants' accounts on the last business day of each quarter and prorated across all of the investment options held in participants' accounts (for account balances in excess of $3,000). Because the DCP was in blackout due to fund changes taking place at the end of the first quarter, the first quarter 2014 fee was deducted on April 1, 2014, and is shown on the attached 2Q 2014 statement, in addition to the second quarter fee. Ongoing statements will reflect fees for the current quarter only.

TAKE THE MYSTERY OUT OF INVESTING. SIMPLY LEARN THE BASICS.

People often think investing is complicated because many of the words used to describe investing may be unfamiliar. Learning a few key terms can help you make better sense of the subject.

Terms you should know

Compounding is what happens when your money makes money, and then that money makes more money—and so on. The earlier you begin saving for your future, the more you can benefit from compounding.

Diversification describes an approach to investing in which you follow a simple rule of thumb: Don't put all your eggs in one basket. If your dollars are in different types of investments, it could help offset losses if one type of investment does poorly. Diversification does not assure a profit or protect against a loss in a declining market.

Inflation is the increase in the cost of things each year. For example, a half-gallon of milk that cost just over $1 10 years ago is about $3 or more today. Inflation can be a risk because when you retire, your income may stay the same while prices of basic necessities continue to rise.

Performance is an investment's track record of how it has behaved over the years. Performance can be positive (you make money) or negative (you lose money).

Return tells you the overall gain or loss on an investment over a set time period, such as a year, expressed as a percentage. For example, a $100 investment that earned $7 over the year and grew to $107 had a 7% annual return.

What are stocks and bonds?

Stocks and bonds are types of securities:

- A **stock** is a security representing ownership in a corporation. As a stockholder, you share in a corporation's successes and failures through the increase or decrease in the value of the company's stock.
- A **bond** is a security in which you lend money to a corporation or government agency. The company or government agency agrees to pay back the loan by a certain date and to pay interest during that period.

About mutual funds

One of the easiest ways to invest is through mutual funds. Think of a mutual fund as a basket filled with a variety of securities, such as stocks, owned by many investors. The contents of each basket vary, depending on the goal of the fund. When you invest in a mutual fund, you share ownership of everything in the basket.

Would you like more information?

If you have questions or would like more information, visit the website at **rps.troweprice.com**. Or call 1-888-457-5770. T. Rowe Price representatives are available during business days between 7 a.m. and 10 p.m. eastern time.

Call 1-888-457-5770 to request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

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T. Rowe Price Investment Services, Inc., distributor, T. Rowe Price mutual funds.

Save the date! You are invited to the 2014 Columbia Acorn Funds Shareholder Information Meeting.

Meeting Location
Offices of Drinker Biddle & Reath LLP
191 North Wacker Drive, Suite 3700
Chicago, Illinois

Meeting Date & Time
Wednesday, September 24, 2014
12:00 p.m. CST

A buffet lunch will be served beginning at 11:30 a.m.

If you plan to attend, please RSVP by September 19 by calling (800) 922-6769. You may also RSVP online at columbiamanagement.com starting in August

Webcast Replay Available in October

For our many shareholders who are not able to attend the meeting, we will provide a webcast replay of the event that can be accessed from our website, columbiamanagement.com, throughout the month of October.

If you have any questions about this event or any of your statements in our Columbia Acorn Funds, please call (800) 922-6769 to speak to a Columbia Acorn Funds' shareholder representative.

WHAT DOES BEING ON THE "WATCH LIST" MEAN?

It is important that you understand what it means to be on the watch list and, perhaps more importantly, what it does not mean. Being on the watch list, as the name would imply, simply means we believe there is good reason to watch this fund more closely. Being on the watch list does not mean you should immediately sell your fund shares. It is not unusual for a fund to appear on the list from time to time. It does not mean the fund is necessarily a bad investment. If we believe the fund no longer represents a suitable investment option, we will remove the fund from the 457 Plan.

Why are funds placed on the watch list?

Funds can be placed on the watch list for several reasons. Why a fund is on the watch list is more important than the mere fact that it is on the watch list. The most typical reasons are as follows:

1. **Performance**—The most common reason a fund is placed on the watch list is poor performance relative to its appropriate market benchmark and/or peer group. When signs of relative underperformance appear, we place a fund on the watch list.
2. **Risk**—Less obvious to many participants is the risk that a fund manager incurs. If a fund becomes too volatile, we will place it on the watch list.
3. **Risk-Adjusted Returns**—What returns has the fund manager been able to deliver relative to the risk the fund has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the fund on the watch list.
4. **Portfolio Construction/Style Drift**—Is the fund manager investing the money in the way he or she said? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stocks of small, growth-oriented companies, then you want the manager to do just that. We monitor the manager's portfolio, and if the security holdings do not reflect what has been communicated, we place the fund on the watch list.
5. **Operations**—There are many operational reasons for placing a fund on the watch list. For example, the manager of the fund could leave. Remember, when you purchase shares of a mutual fund, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the fund closely. There could also be firm-level issues. These can include issues such as regulatory violations, turnover in senior management, or a merger or acquisition. Any of these operational issues will automatically place a fund on the watch list.

WATCH LIST—THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN

Current Watch List Summary

The following funds are on the watch list as of 6/30/2014.

Columbia Acorn Fund, Z ("Acorn Fund") –
The Acorn Fund was placed on "On Notice" status due to performance concerns. Over the past year, the Fund has significantly lagged its benchmark and peer group, ranking in the bottom quartile of returns in both the small and mid-cap growth peer group universe. This has caused the Fund to lag over longer annualized periods, such as the three and five year returns. The Fund's allocation to international stocks detracted from performance, the Fund has less than 10% allocated to small-cap international names. A significant underweight to healthcare issues also detracted as the sector posted some of the largest gains for the most recent quarter and year. While the majority of the Fund's assets are invested in small company stocks, an allocation to mid-cap issues also detracted from returns in 2013. Participants seeking a similar investment strategy have access to the Northern Trust Small Cap Separate Acct which also invests in domestic small-cap stocks.

Lord Abbett LGCP Core Strategy ("Lord Abbett") –
Lord Abbett was placed on "On Notice" status due to underperformance of the benchmark and peer group. Peer group rankings over these periods are very poor, 87th and 94th percentiles for the three and five year periods. Performance in the calendar year of 2011 acted as the largest drag on returns. The strategy focused on cyclical companies where their earnings were lower than normal, which was negatively impacted in 2011 and since then have added to their risk management. Since the greater focus on risk management, Lord Abbett's performance has very closely tracked the benchmark, but unable to outperform. Participants seeking a similar investment strategy have access to the Vanguard Institutional Index Plus Fund which also invests in a blend of both large-cap value and growth stocks.

Log in to your Plan's website at **rps.troweprice.com**.

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