State of Illinois Deferred Compensation Plan

Insight

Third Quarter 2014 Pat Quinn, Governor

Women and Retirement: Taking Charge

With proper planning, women can be better prepared financially for their later years.

Women face several unique challenges that may make saving for retirement more difficult than it is for men. For instance, data from the Bureau of Labor Statistics show that as of the second quarter of 2014, the median weekly wage for women was 84% that of men. A lower salary over the course of their working years, combined with employment gaps due to care-giving for children or parents, often mean that women save less for retirement and also receive smaller Social Security benefits. Women are more likely to work part-time jobs, which means they generally do not meet the eligibility requirements of their employer's plan. Compounding the problem is the fact that women tend to live longer than men, meaning they should actually be saving more for retirement, not less.

Own your retirement

When it comes to saving for retirement, a good starting point is to understand how much money you'll need to save to live comfortably in your later years, taking into account other sources of income like Social Security. Keep in mind the lifestyle you think you'll want to lead in retirement and consider that while your day-to-day expenses may go down, other expenses, like healthcare, will probably increase.

Financial experts suggest you aim to replace 75% of your preretirement annual income in your first year of retirement. If you're married, make sure you are taking into account the needs of both spouses when it comes to saving, investing, claiming Social Security, and spending.

Make saving a priority

It's important to begin saving for retirement as early in your working years as you can and to contribute at least 15% of your salary to your employer's plan each year, if possible. If that savings rate is not immediately possible, start with a lower amount—for example 10%—and put a plan in place to get you to the 15% level. For example, consider increasing your contribution by 2% each January.

Saving early gives you the benefit of more time, allowing your savings to potentially grow and compound. Read your employer plan's summary plan description for all of the important plan details and requirements for participation.

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Many women are unprepared for retirement and may need help getting to a better place financially. A T. Rowe Price representative may be able to help you with your retirement planning and investment goals. For more information, call **1-888-457-5770**.

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Catch up on savings

If you reach age 50 at any time in 2014, you can take advantage of your plan's "catch-up" provisions. For 2014, you can contribute up to an additional $5,500 to your workplace retirement plan over the IRS's $17,500 limit.

SOCIAL SECURITY AND WOMEN BY THE NUMBERS

21	19	56	67	50
Additional years women who reached age 65 in 2012 are expected to live, on average, from that point in time.	Additional years men who reached age 65 in 2012 are expected to live, on average, from that point in time.	Percent of all Social Security beneficiaries age 62 and older who are women.	Percent of all Social Security beneficiaries age 85 and older who are women.	Percent of all unmarried females, including widows, receiving Social Security benefits in 2012 that relied on this benefit for 90% or more of their income.

Source: Social Security Administration

Don't be afraid of short-term market volatility

Women tend to invest more conservatively than men, but because, statistically, women have a longer retirement period, they can often stand to take on more short-term market volatility. It's important to establish a mix of stock funds, bond funds, and short-term/stable funds that is appropriate for your time horizon—how many years you have until you retire—and your tolerance for risk. Once you have this asset allocation framework in place, be sure to diversify your holdings within each asset class.

Saving for retirement is never easy, but knowing that women often face more hurdles than men do is an important reason to get started now. Taking charge of your finances before you need the money can help ensure you'll have enough to live comfortably for many years to come.

Managing Your Retirement Money When Changing Jobs

Give careful thought to your retirement

It may be tempting to take your retirement savings as a lump-sum distribution, but before doing so, it's important to consider the ramifications of such a move. For starters, think about how much it will immediately cost you in taxes and possible penalties to withdraw the money from your former employer's plan. Then consider that withdrawing the money could remove the potential for continued tax-deferred growth of those assets.

In most cases, there is a mandatory 20% withholding on the taxable portion of your distribution. You'll probably be liable for more taxes when you file your tax return, if your income tax rate is higher than 20%.

Depending on your circumstances, there may be better options than cashing out your workplace retirement plan. A growing number of employer plans allow you to leave the money there when you change jobs. You could also choose to transfer it to your new employer's plan, or to roll it into an IRA. It's important to understand the pros and cons of each option, as the decision you make regarding the assets in an employer-sponsored plan can have a significant impact on your long-term retirement goals.

If you've changed jobs frequently and have small amounts of money in several workplace retirement plans, you may want to consider consolidating them.

Consolidating retirement assets may make it easier to monitor them to ensure that they are properly allocated and diversified for your situation. Having your retirement assets in one place can also help you rebalance more easily, to keep your investment strategy on track.

Consolidating retirement assets can give you more control and allow you to make more informed financial decisions about your savings. Please visit the Tools & Calculators page at ***rps.troweprice.com/tools***.

Distribution Reminder

Installment payments scheduled for the month of January, 2015 will be sent in the 3rd 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.

Reminder: Changes to the State of Illinois Deferred Compensation Plan investment lineup

The Illinois State Board of Investment (ISBI) approved a change to the State of Illinois Deferred Compensation Plan's investment lineup effective September 3, 2014.

One investment option was mapped into an existing Plan investment option Effective September 3, 2014, the Lord Abbett LGCP Core Strategy Separate Account (Lord Abbett Separate Account) was mapped to the Vanguard Institutional Index Fund, Institutional Plus.

INVESTMENT OPTION PRIOR TO SEPTEMBER 3, 2014	EXPENSE RATIO	INVESTMENT AS OF SEPTEMBER 3, 2014	EXPENSE RATIO
Lord Abbett Separate Account (LALCC)	0.42%	Vanguard Institutional Index Fund, Instl (VIIIX)	0.02%

Why make this change? This change is in keeping with ISBI's commitment to offering investments with a proven track record of consistent investment management, performance history, and appropriateness for long-term retirement investors.

A good time to review your investment strategy This change presents a great opportunity for you to review your portfolio and confirm that your account is properly allocated and diversified. Having an appropriate mix of stocks, bonds, and short-term investments in your portfolio can help balance your investment goals against investment risks. Diversification, however, cannot assure a profit or protect against a loss in a declining market.

Please take a careful look at your investment elections and balances to determine if you need to make any changes. For instant access to investment information and interactive financial planning tools, visit the website at **rps.troweprice.com>Investments**, where you can view or download facts sheets for each investment in the Plan's lineup. You may also request fact sheets by phone at **1-888-457-5770**.

Making an investment change in your account There are two types of investment changes you can make in your account:

- A mix change is when you change the way your future contributions will be invested
- An exchange is when you move an existing balance to a different investment option

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

Access your account anytime, day or night, online at rps.troweprice.com or call a T. Rowe Price representative at **1-888-457-5770**. Representatives are available on business days between 7 a.m. and 10 p.m. ET.

T. Rowe Price also offers a free mobile website where you can view account balances and fund prices, check the status of recent and pending transactions, research investment information, and receive financial highlights. You can access the mobile website at **www.troweprice.mobi** using your T. Rowe Price user name and password.

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.

Current Watchlist as of 9/30/2014

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 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 last year. The fund has less than 10% allocated to small-cap international names. A significantly underweight exposure to healthcare names also detracted. While the majority of the fund's assets are invested in small company stocks, an allocation to mid-cap issues added to returns in the second quarter as the fund outperformed its benchmark. Participants seeking a similar investment strategy have access to the Northern Trust Small Cap Separate Account, which also invests in domestic small-cap stocks.

-Watchlist prepared by Marquette Associates, Inc.

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**