Insight

Third Quarter 2017

Bruce Rauner, Governor

Stocks can be an important part of your retirement portfolio.

Here's How Stocks Work

Stocks are the main driver of long-term growth in retirement portfolios. While stocks might underperform bonds or cash in any given year, they have outperformed in all but one 20-year time period since the mid-1920s.1 Past performance cannot guarantee future results, but it may help inform investment decisions going forward.

See how exposure to stocks can help investors of all ages counter longevity and inflation risks:

- **Younger investors**—While stocks are considered more aggressive (more risky) investments, they historically have offered higher returns than bonds (see “A historical look at stocks” chart on the next page). Stocks offer the potential benefit of long-term growth in the early years of saving when an investor may be able to weather the market’s short-term ups and downs.

- **Older investors**—Older investors may be less able to recover from market downturns because they are just a few years from retirement or are already retiring, but this group can benefit from a meaningful exposure to stocks.

Article continues on next page

Distribution Reminder

Installment payments scheduled for the month of January 2018 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.

A Historical Look at Stocks
From 1928 through 2016, stocks posted large short-term losses but have outpaced bonds, cash, and inflation over the long term.

<table>
<thead>
<tr>
<th>1928–2016</th>
<th>STOCKS</th>
<th>BONDS</th>
<th>CASH</th>
<th>INFLATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual return</td>
<td>11.7%</td>
<td>5.3%</td>
<td>3.4%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Average annual return after inflation</td>
<td>8.0%</td>
<td>2.2%</td>
<td>0.6%</td>
<td>—</td>
</tr>
<tr>
<td>Best year</td>
<td>54.0% (1933)</td>
<td>29.1% (1962)</td>
<td>14.7% (1981)</td>
<td>18.2% (1946)</td>
</tr>
<tr>
<td>Worst year</td>
<td>-43.8% (1931)</td>
<td>-5.1% (1980)</td>
<td>-0.02% (1958)</td>
<td>-10.3% (1982)</td>
</tr>
</tbody>
</table>

Source: Ibbotson SBBI Classic Yearbook 2016. Stocks are represented by returns of the S&P 500 Index, bonds by returns on 10-year U.S. Treasury bonds, cash by returns on 30-day Treasury bills, and inflation by returns of the IA SBBI U.S. Inflation Index.

The Deferred Compensation Plan Offers You Two Ways to Invest Your Savings
Many people worry about how to choose the "right mix" of investments when it comes to saving for their retirement. To help, the State of Illinois Deferred Compensation Plan (DCP) provides two ways for you to invest:

OPTION ONE:
Age-based portfolio
If you want a portfolio that automatically adjusts over time, consider investing in an age-based Vanguard Target Retirement Trust based on a future target date. Choosing a Target Retirement Trust with a date that closely matches your expected retirement date can provide your portfolio instant diversification. In other words, you will not need to mix and match this portfolio with other investments in the Plan. The Vanguard Target Retirement Trust provides:
- A single diversified investment designed for investors of specific ages.
- Asset allocation that automatically adjusts throughout a person's working years and retirement.

More about Vanguard Target Retirement Trusts
This investment strategy is based on the year you turn 65 or 67. Each Target Retirement Trust invests in several Vanguard funds, primarily low-cost index funds, to create a broadly diversified mix of stocks and bonds. The Vanguard Target Retirement Trusts automatically adjust your asset allocations for you based on your target retirement date. A Target Retirement Trust will hold more stocks the further it is from its target date, seeking stocks' high potential growth. To reduce risk as the target date approaches, Vanguard's investment managers will gradually decrease the trust's stock holdings and increase its bond holdings. Bonds usually have a lower risk of loss, though they also have lower potential gains.

OPTION TWO:
Build-your-own portfolio
If you want more control, consider building your own portfolio:
- Choose among the DCP's six investment options.
- Manage your portfolio and asset allocation over time to suit your risk tolerance, time horizon, and financial goals.

Building your own portfolio
If you don’t want to invest in a Vanguard Target Retirement Trust and want to control how you build your portfolio, consider this option. Before you choose a fund, determine if its strategy matches your long-term goals. Depending on your personal tolerance for risk, you can consider more aggressive investments, which offer greater return potential. Once you’ve selected your funds, be sure to review your accounts and analyze your portfolio on a regular basis. Investments with greater return potential also have greater risks.

More information
Visit rps.troweprice.com to get investment information, such as investment fund objectives, fees, and expenses, as well as access to other helpful financial planning tools. Or call 1-888-457-5770 to speak with a T. Rowe Price representative on business days between 6 a.m. and 9 p.m. CT.

The “Longevity Bonus”
As life expectancy continues to rise, many of us have a good chance of living into our 90s. While more time to spend with loved ones may be a gift, it could have an impact on how you plan for the future.

Theorists recently have been talking about the “longevity bonus”—the increasing odds of living another 30 years or more beyond the traditional retirement age of 65. T. Rowe Price recently conducted a study of investors, and when asked about the longevity bonus, over half of those surveyed had not heard of it before. We then asked these investors how they felt about the possibility of living into their 90s.

Mixed emotions
The idea of the longevity bonus was received with a wide range of emotions:

<table>
<thead>
<tr>
<th>Skeptical</th>
<th>Optimistic</th>
<th>Inspired</th>
<th>Anxious</th>
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<tr>
<td>45%</td>
<td>35%</td>
<td>23%</td>
<td>15%</td>
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What’s the impact?
The idea of longevity makes people rethink their finances and how they save, as well as how longevity may affect their dreams in a positive way.

A blessing or a curse?
While additional time to enjoy life was seen as a blessing, quality of life and potential health and financial issues were noted as being concerns.

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The T. Rowe Price study was conducted online from December 15, 2016, to December 21, 2016, with a sample size of 2,001 Gen Xers and baby boomers with total investable assets of at least $50,000. Respondents were either retired or needed to have taken some steps (financially or logistically) to prepare for retirement.

NEXT STEPS
Review your investments at rps.troweprice.com/investments.

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NEXT STEPS
Learn more about saving and planning for retirement at rps.troweprice.com/planning.
Plan fees reminder

Earlier this year, the Illinois State Board of Investment conducted its regular in-depth review of the Plan's performance and fee structures and was able to provide a diverse range of investment options, low-cost management fee structure, and transparent and low Plan administrative fee structure.

Although the DCP allows you to invest for your future, the DCP also allows you to withdraw or take a loan from your account balance. As a reminder, please note the information below:

Annual loan maintenance fee
- All accounts with active loans initiated after April 3, 2017, will be charged an annual loan maintenance fee of $25. The fee will be extracted annually on the first business day of October and will only be extracted from accounts with active loans.

Withdrawal fee
- You will be charged a $20 fee from your account for each withdrawal. If you are receiving an installment payment (an automatic distribution that is made on the first business day of the month), there is no charge.

T. Rowe Price Investment Services, Inc.

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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