

Insight



A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

STAY BALANCED

Sticking to your long-term retirement strategy is one of the best actions you can take—another is maintaining an appropriate allocation to the three major asset classes.

It's important for you to establish a mixture of stocks, bonds, and cash investments that are in line with your retirement time horizon. As you get closer to retirement, and even after you retire, you should gradually adjust your allocation to favor more stable investments. Equally important is to be sure your asset allocation stays balanced since unintended changes can occur over time as financial markets inevitably shift. Holding too much in any one asset class may compromise your ability to reach your goals. Consider reviewing your asset allocation at least annually to help you maintain the balance of risk management and long-term return potential that can give you the greatest likelihood of achieving your retirement goals.

HOW TO REBALANCE

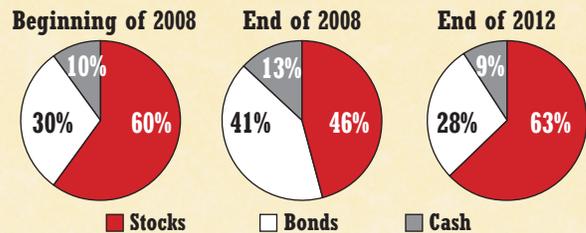
A periodic rebalancing strategy reduces over or underexposure to asset classes. Failing to own enough stock funds may decrease your portfolio's long-term growth potential, risking your ability to have enough money to reach your goals. In a down market, rebalancing could provide opportunities to purchase stocks at reduced prices—potentially boosting your portfolio's returns over the long term.

STRATEGIES Rebalancing at least annually may be the most effective approach. Once you decide on a regular schedule for rebalancing, consider what combination of the following strategies you will use:

- Sell investments that have become an overly large percentage of your portfolio and buy investments that have declined.
- Identify the areas of your portfolio that have fallen below your targets and devote new contributions to those asset classes until they reach the percentage you want.

VOLATILITY AND YOUR PORTFOLIO

A look at the recent history of the financial markets is particularly instructive. Stocks lost 37% in 2008, then recovered in 2009. If your portfolio had an allocation of 60% stocks, 30% bonds, and 10% short-term investments on January 1, 2008, your allocation would have changed as follows by the end of 2008 and 2012, respectively.



Tools such as Morningstar's Portfolio Manager can provide you with a better understanding of how your portfolio is divided among key asset classes and sub-asset classes. With a few mouse clicks, you can easily analyze holdings across several different accounts.



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

If you have questions about the website or need information about your Plan, call a trained retirement specialist weekdays between 7 a.m. and 10 p.m. eastern time at 888-457-5770.

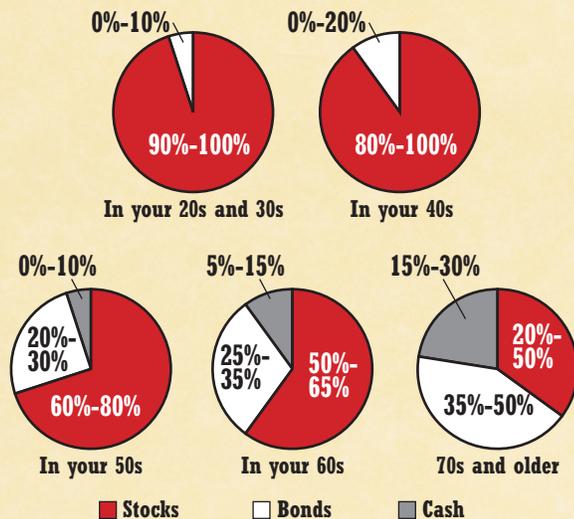
Source: Morningstar, Inc., Ibbotson® SBBI® Classic 2013 Yearbook: Stock market returns are based on the S&P 500 Index; bond returns, on U.S. intermediate-term government bonds; short-term investment returns, on U.S. 30-day Treasury bills.

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STAY BALANCED *from page 1*

In most cases, the first strategy offers the quickest opportunity to bring your portfolio's asset allocation back in line with its targets. If your portfolio's bond fund holdings are too high, for example, selling a portion of them and buying enough shares in a stock fund or funds will bring your portfolio into balance. It's usually better to correct overexposure to a risk quickly rather than gradually.

Suggested Asset Allocations Based on Your Age



The allocation pie charts above are age-based only and do not take risk tolerance into account. Source: T. Rowe Price.

HOW MUCH IS ENOUGH?

Even though Scott, age 40, is contributing to his company's retirement plan, he isn't sure if he'll be able to maintain his lifestyle when he retires.

But once he learns some basics about saving for the future, he realizes that his regular contribution rate of 10% probably won't result in enough savings to produce the income he'll need after he stops working. So he revisits the numbers.

ESTABLISH A TARGET INCOME*

First, Scott assumes an annual pay increase of 3% from his current salary of \$54,000 to estimate what he'll be making when he retires at age 65—\$109,000. Then he considers these well-established guidelines for retirement income:

Replace 75% of your preretirement income:

- 50% from your retirement savings
- 20% from Social Security benefits
- 5% from a pension or part-time work

Scott's savings and income targets:

- Annual retirement income target: about \$82,000 (75% of \$109,000)
- Annual income target from retirement savings: about \$55,000 (50% of \$109,000)



Log in to the participant website at rps.troweprice.com and make use of the T. Rowe Price Retirement Income Calculator.

*Assumes a salary of \$54,000 at age 40, annual 3% salary increases, and average annual return on investments of 7%. Figures are all rounded to nearest thousand. This example is for illustrative purposes only and does not represent the performance of any specific investment option.

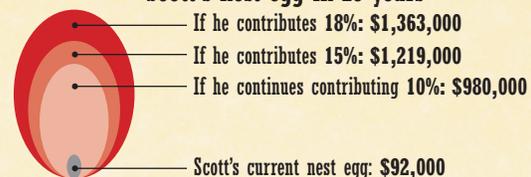
TAKE CONTROL

You can't control the daily or long-term ups and downs in the financial markets. But you can take steps to keep your investment strategy on track as markets move over time. Take the time to review your target asset allocation and your portfolio's current allocation. Then set an annual date on your calendar for rebalancing. You might also consider choosing a T. Rowe Price Retirement Fund. These professionally managed funds maintain the appropriate asset allocation and diversification over time. This service can mean less work for you—and it can ease the temptation to over- or under-correct one asset class based on current market performance.

The principal value of the Retirement Funds is not guaranteed at any time, including at or after the target date, which is the approximate date when investors turn age 65. The funds invest in a broad range of underlying mutual funds that include stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. The funds emphasize potential capital appreciation during the early phases of retirement asset accumulation, balance the need for appreciation with the need for income as retirement approaches, and focus more on income and principal stability during retirement. The funds maintain a substantial allocation to equities both prior to and after the target date, which can result in greater volatility.

Then Scott uses the 4% rule to compute how much savings he'll need at age 65 to generate about \$55,000 in his first year of retirement. He plans to withdraw no more than 4% of his retirement assets in the first year after he stops working, then to increase the withdrawal amount every subsequent year by approximately 3% to keep pace with inflation. By that measure, he'll need a nest egg of about \$1,364,000.

Scott's nest egg in 25 years



SAVE ENOUGH TO HAVE ENOUGH

To build an adequate nest egg, most investors should save at least 15% of their salaries, including an employer match (if any), for most of their working years. Because Scott saved less than this for the first part of his career, he will have to set aside more now to reach his goal. The lesson here is that the sooner you start saving enough for retirement, the lower that percentage will be.

PARING DOWN DEBT BEFORE RETIREMENT

An increasing number of older Americans are living with outstanding debt, which reduces their spendable income when they need it the most. Here are ways to manage such a situation without sacrificing retirement savings.

Household debt has increased in recent decades and appears to have affected adults of all ages.¹ But it's those age 65 and older who saw their outstanding debt rise from 30% to 43% between 1998 and 2010, according to a recent study by the Urban Institute.² Overall, the numbers suggest that more retirees are facing mortgage and other payments, which can lead them to devote part of their income to servicing this debt and less to meeting daily needs.

Having excessive debt exposes older investors to lower cash flow at a time when they potentially need the most money. The best course of action is to manage and pay down debt prior to leaving the workforce—while you are receiving a regular paycheck.

Some people may be tempted to dip into their retirement plan to pay down debt, but this may cause you to miss out on growth potential.

A good first step to paying down debt is to create a budget—you may have more available money than you think. Next, make a list of your credit cards, with the amount owed on each one and their respective interest rates. Whichever has the highest interest rate is costing you the most, so use any extra money to pay down that bill first. With all your cards, it's a good idea to try to make more than the minimum payment each month since finance charges can really pile on to your existing debt.

Finally, change your lifestyle so that you are spending less money. Making these changes now can help lead to a more comfortable and secure retirement.

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: <http://rps.troweprice.com>

TEST YOUR KNOWLEDGE OF REBALANCING

1. Rebalancing is an important step in managing...

- A. Your investment portfolio.
- B. Your estate plan.
- C. Your home equity loan.

2. It is generally best to rebalance...

- A. Every week.
- B. Never.
- C. At least once a year.

3. Letting your asset allocation drift out of balance can...

- A. Decrease the amount you're able to contribute to your savings.
- B. Overexpose your portfolio to market or inflation risks.
- C. Increase turnover within mutual funds.

ANSWERS

1. A. Simply establishing an appropriate asset allocation for your time horizon to retirement isn't enough—you need to keep your investments in balance. Staying within the recommended asset allocation is especially important as you approach retirement—and when you're in retirement—because you have less time to recover from market declines and less long-term growth potential.

2. C. Getting your car a tuneup every week, or even every month, would not be an effective use of your time—and it's unlikely to help your car's performance. The same might be said of your portfolio. Frequent adjustments are not necessary in the vast majority of market conditions. T. Rowe Price financial planners suggest rebalancing at least once per year.*

3. B. Although you might want to reduce your exposure to short-term volatility, not owning enough stock funds may decrease your portfolio's long-term growth potential and make it harder to stay ahead of inflation. Conversely, holding too much in stocks may overexpose your portfolio to short-term volatility.

*T. Rowe Price IRAs offer automatic asset rebalancing on a quarterly basis.

¹Federal Reserve Bank of St. Louis, Personal Saving Rate, March 2013.

²Urban Institute, Health and Retirement Study: 1998–2010, January 2013.

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

Call 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.

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 fund is on the watch list as of 6/30/2013.

Janus International Fund—The Fund was placed on watch list status due to underperformance of the benchmark and peer group. The Fund's investment strategy is a high conviction approach whose performance tends to come in cycles. The fund underperformed its benchmark the MSCI EAFE index in both 2011 and 2012. That underperformance has affected the fund's longer term record, which is now under the benchmark over the three- and five-year trailing periods. In addition to underperformance, Janus has also experienced planned changes in senior leadership. Janus has announced a change in their Chief Investment Officer that oversees the investment strategies managed by the firm. This change will be effective later this year. However the lead portfolio manager responsible for directly managing the assets of the Janus Fund has not changed. Participants seeking a similar investment strategy have access to the Invesco International Growth Fund which also invests in large-cap international stocks.

SAVE THE DATE!

You are invited to the 2013 Columbia Acorn Funds Shareholder Information Meeting.

Meeting Location

Offices of Drinker Biddle & Reach LLP
191 North Wacker Drive, Suite 3700
Chicago, Illinois

Meeting Time & Date

Wednesday, September 18, 2013
12:00 p.m. CST
A buffet lunch will be served beginning at 11:30 am

If you plan to attend, please RSVP by September 13 by calling (800) 922-6769

Webcast Replay Available in October

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