



Illinois Department of Central Management Services

Deferred Compensation

Building Blocks for Your Financial Future

3rd Quarter • October 2001 • George H. Ryan, Governor

Q&A

Q. Will you be sending the Change Form to me automatically to increase my deferral amounts to the new maximum limits?

A. Realizing that not everyone will elect to defer up to the new maximum deferral limits, the Change Form to increase your deferral amount will not be automatically sent. The forms are available at your Agency Liaison's office or by calling the Deferred Compensation Division at 217-782-7006. The new maximum deferral amount is \$458.33 semi-monthly or \$916.66 monthly. Remember, if the second pay period in December is your first pay day of the new tax year, you will need to submit the form the month prior, or in November.

Q. I am currently enrolled in Catch-Up. Will the maximum I can defer go up to the new deferral limits?

A. Possibly. Under the current Catch-Up rules, your maximum may be \$15,000 or less if you do not have underutilized deferrals to "catch-up." We have sent letters to all those eligible to defer up to the new \$22,000 limit. If you did not receive this letter, you may not have underutilized deferrals to "catch-up" in order to defer up to the new maximum.

What's News...

Federal Legislation

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) was signed by the President on June 6, 2001. Most of the provisions of this law will become effective after December 31, 2001, with other initiatives to occur over the next five years. Although the law addresses the broad changes, many of the specific provisions will require interpretation and clarification by the IRS and the Department of the Treasury through regulations. This newsletter focuses on the main provisions of EGTRRA that effect deferred compensation. Additional information should become available as the effective date approaches.

The following pages highlight legislation that significantly impacts Section 457 deferred compensation plans in three main areas:

- Contributions
- Portability of account assets
- Distributions

Financial Markets Temporarily Closed

Due to the tragic events surrounding September 11, 2001, the financial markets closed on September 11, 2001, through September 14, 2001. In reviewing your statement, you may find a delay in your investment deferrals, or requests to make an investment exchange, during that time period. The recordkeeper, T. Rowe Price, completed these transactions when the market reopened on September 17, 2001.

New Contribution Limit

The maximum contribution limit will be substantially increased. The new limit will be the lesser of 100% of includible compensation or the deferral amount in effect for that year. The deferral rate will then be adjusted for cost-of-living increases in \$500 increments starting in 2007.

| Year | Maximum |
|-------------|----------------|
| 2002 | \$11,000 |
| 2003 | \$12,000 |
| 2004 | \$13,000 |
| 2005 | \$14,000 |
| 2006 | \$15,000 |

Catch-Up

Participants within their last three years of reaching normal retirement age are eligible to make additional contributions to the Plan to catch-up for underutilized deferrals in previous years. Beginning in the tax year 2002, this contribution level will now be twice the maximum deferral rate. For example, the maximum catch-up in 2002 will be \$22,000.

Age 50 Catch-Up

Participants age 50 or older will become automatically eligible to make an additional contribution over the maximum deferral rate as listed below. Beginning in 2007, this amount will be adjusted for cost-of-living increases in \$500 increments. The Age 50 Catch-up can not be used simultaneously with the regular catch-up contributions.

| Year | Maximum Additional Contribution |
|-------------|--|
| 2002 | \$1,000 |
| 2003 | \$2,000 |
| 2004 | \$3,000 |
| 2005 | \$4,000 |
| 2006 | \$5,000 |

Coordinated Deferrals

Beginning in the tax year 2002, individuals participating in a Section 457, 403(b) and/or 401(k) plan will be able to fully participate in each plan individually and potentially make the maximum contributions to each plan.

Distributions

EGTRRA legislation allows for sweeping changes to the distribution rules for government 457 plans. Major restrictions have been repealed and the new law grants governmental 457 plan participants increased flexibility in distribution elections. Participants separating from service will not be required to make an irrevocable distribution decision and will not be restricted by a 60-day decision time limit.

Likewise, the legislation allows participants to change the payment method and structure selected after distributions have begun. As a result, distribution election changes will be subject to rules similar to those governing 401(k) or 403(b) plans and IRAs. Additionally, payments received during the 2002 tax year will be reported in 2003 on federal Form 1099-R rather than on a W-2. The federal tax withholding rules will change as a result and participants in distribution will receive notice of these changes.

While EGTRRA was not specific on these provisions, it appears participants in distribution will have the ability to start or stop their distributions at will or elect to increase or decrease their payment after commencement. Participants currently receiving installments will receive more information with their distribution checks, or payment verifications, in the next couple of months. Please be patient while the Deferred Compensation Division awaits the federal guidelines that will aid us in establishing our procedures.

The legislation did not remove the age 70½ minimum distribution requirements, but new extended life expectancy tables, to be released, will allow for an extended and/or reduced payment based on a longer life expectancy. Existing annuity contracts were not included and will continue with their current term and payment schedule.

Telephone Numbers

Deferred Compensation:

Plan Rules/Options Information
800-442-1300
217-782-7006
TDD/TTY: 800-526-0844
Internet: [www.state.il.us/
cms/employee/defcom](http://www.state.il.us/cms/employee/defcom)

Recordkeeper:

T. Rowe Price Retirement Plan
Services
Account Value Information and
Investment Changes
888-457-5770
TDD/TTY: 800-521-0325
Internet: rps.troweprice.com
Internet Access: 800-541-3022

Fund Performance:

Liberty Acorn Fund
800-922-6769
Ariel Fund
800-292-7435
Fidelity Funds
800-544-8888
Provident Investment Counsel
800-618-7643
Stable Return Fund/PRIMCO
800-228-7466
T. Rowe Price Funds
800-922-9945
Vanguard Funds
800-523-8066
Wells Fargo
866-561-1153

Portability

When eligible for a distribution, EGTRRA allows for the portability or the transfer of IRC Section 457 plan assets between other retirement savings plans such as a 401(k), 403(b), or an IRA. Likewise, other plan assets may be eligible to be transferred into governmental 457 plans. The provision allows employees to transfer money into a new employer's retirement plan when changing jobs or consolidating assets when leaving the workforce. The assets transferred into another plan will take on the characteristics of the receiving plan, except those assets transferred into a 457 plan.

Section 457 money transferred to an IRA will have the age 59½ restriction or 10% penalty for early withdrawal applied. Assets transferred into a 457 plan must retain the characteristics of the plan from which they were transferred.

With the distribution restrictions lifted from governmental 457 plans, there may not be an immediate benefit to rolling over assets into another plan other than consolidating assets. When considering IRA rollovers, participants should determine any potential loads, commissions, and the fees charged by the provider.

Purchase of Service Credits

The new law allows for the purchase of permissive service credits by direct transfer, on a pretax basis, using assets from a 457 plan. The defined benefit pension plan document, or authorizing statement, will determine exactly how "service credit" is defined and for what time period credit may be purchased.

Also, employees who elect to take a lump-sum distribution from their defined benefit pension plan may be able to roll it over to their 457 account.

Domestic Relations Orders

EGTRRA provides that government 457 plans will conform to rules that apply to a qualified Domestic Relations Order (QDRO) effective January 1, 2002. In general, the new rules allow a court-ordered transfer to be distributed to the alternate payee regardless of the participant's eligibility for distribution. In addition, the alternate payee, as the distribution recipient, will be responsible for the federal income tax, rather than the participant.

Comparison of Plan Features

EGTRRA impacts all types of retirement plans. In many areas, the 457 plans will be the same as 401(k) and 403(b) plans.

| Feature | 457 Current Law | New 457 same as 401(k)/403(b) |
|--|-----------------|-------------------------------|
| In-Service Purchase of Service Credits | No | Yes |
| Pretax Deferral Limits | \$8,500 | \$11,000 |
| Rollovers to IRAs | No | Yes |
| Flexible Distributions | No | Yes |
| Qualified Domestic Relations Orders | No | Yes |
| 20% Mandatory Withholding | No | Yes |
| Tax Reporting Form | W-2 | 1099-R |
| Nonrefundable Income Tax Credit | No provision | Yes |

Some differences among the different types of retirement plans remain:

| Feature | New 457 Plan | New 401(k)/403(b) Plans |
|---|--|---|
| Premature Distribution Penalty if under 59½ | None-Only Income tax | 10% penalty-unless exception |
| Contribution to Multiple Plans | No coordination between 457 and 401(k) or 403(b) | Only one elective deferral limit to 401(k) and 403(b) |
| Catch-Up Contributions | Twice applicable limit | None for 401(k); Limited for 403(b) |
| Hardships | Stringent guidelines | Seldom utilized |
| Loans | No | Yes |
| Vesting | Typically none | Very typical |

Income and Price Information

3rd Quarter 2001

| Transaction Date | Vanguard Bond Index | T. Rowe Price New Income ¹ | Fidelity Puritan ² | Fidelity ³ | Vanguard Inst. Index ⁴ | Wells Fargo Large Co. Growth | Liberty Acorn | Ariel | T. Rowe Price Intn'l Stock | PIC Small Cap Growth |
|------------------|---------------------|---------------------------------------|-------------------------------|-----------------------|-----------------------------------|------------------------------|---------------|---------|----------------------------|----------------------|
| 07/02/01 | \$10.07 | \$8.55 | \$18.66 | \$31.92 | \$113.08 | \$52.77 | \$18.35 | \$36.21 | \$12.23 | \$16.75 |
| 07/03/01 | \$10.05 | \$8.54 | \$18.63 | \$31.81 | \$112.90 | \$52.64 | \$18.32 | \$36.35 | \$12.13 | \$16.59 |
| 07/05/01 | \$10.04 | \$8.52 | \$18.57 | \$31.22 | \$111.52 | \$51.62 | \$18.26 | \$36.32 | \$11.84 | \$16.42 |
| 07/06/01 | \$10.06 | \$8.54 | \$18.38 | \$30.20 | \$108.92 | \$50.00 | \$17.99 | \$35.85 | \$11.69 | \$15.98 |
| 07/09/01 | \$10.07 | \$8.55 | \$18.42 | \$30.43 | \$109.68 | \$50.44 | \$18.02 | \$35.82 | \$11.65 | \$15.99 |
| 07/10/01 | \$10.10 | \$8.57 | \$18.29 | \$29.96 | \$108.11 | \$49.84 | \$17.91 | \$35.46 | \$11.69 | \$15.63 |
| 07/11/01 | \$10.08 | \$8.56 | \$18.27 | \$29.77 | \$107.99 | \$49.59 | \$17.80 | \$35.33 | \$11.59 | \$15.59 |
| 07/12/01 | \$10.10 | \$8.57 | \$18.47 | \$30.50 | \$110.55 | \$51.59 | \$18.15 | \$35.83 | \$11.71 | \$16.20 |
| 07/13/01 | \$10.10 | \$8.57 | \$18.52 | \$30.60 | \$111.24 | \$51.76 | \$18.19 | \$35.94 | \$11.75 | \$16.33 |
| 07/16/01 | \$10.11 | \$8.59 | \$18.43 | \$30.13 | \$110.03 | \$51.18 | \$18.04 | \$35.59 | \$11.70 | \$15.98 |
| 07/17/01 | \$10.12 | \$8.59 | \$18.52 | \$30.47 | \$111.13 | \$51.70 | \$18.12 | \$35.99 | \$11.59 | \$16.28 |
| 07/18/01 | \$10.16 | \$8.64 | \$18.54 | \$30.23 | \$110.52 | \$51.12 | \$17.99 | \$35.69 | \$11.57 | \$16.08 |
| 07/19/01 | \$10.16 | \$8.64 | \$18.59 | \$30.40 | \$111.19 | \$51.76 | \$17.95 | \$35.81 | \$11.67 | \$16.20 |
| 07/20/01 | \$10.16 | \$8.64 | \$18.58 | \$30.25 | \$110.81 | \$51.59 | \$18.05 | \$35.85 | \$11.64 | \$16.16 |
| 07/23/01 | \$10.16 | \$8.65 | \$18.47 | \$29.82 | \$108.99 | \$50.64 | \$17.92 | \$35.63 | \$11.57 | \$15.89 |
| 07/24/01 | \$10.17 | \$8.65 | \$18.26 | \$29.37 | \$107.22 | \$49.99 | \$17.69 | \$35.35 | \$11.54 | \$15.46 |
| 07/25/01 | \$10.15 | \$8.63 | \$18.42 | \$29.68 | \$108.94 | \$50.58 | \$17.77 | \$35.61 | \$11.51 | \$15.62 |
| 07/26/01 | \$10.15 | \$8.64 | \$18.53 | \$29.96 | \$110.07 | \$50.83 | \$18.04 | \$35.67 | \$11.54 | \$16.07 |
| 07/27/01 | \$10.18 | \$8.66 | \$18.59 | \$30.10 | \$110.36 | \$50.74 | \$18.16 | \$35.69 | \$11.66 | \$16.29 |
| 07/30/01 | \$10.19 | \$8.67 | \$18.62 | \$30.03 | \$110.24 | \$50.78 | \$18.14 | \$35.72 | \$11.68 | \$16.24 |
| 07/31/01 | \$10.21 | \$8.70 | \$18.69 | \$30.25 | \$110.86 | \$51.22 | \$18.12 | \$35.75 | \$11.86 | \$16.21 |
| 08/01/01 | \$10.20 | \$8.69 | \$18.71 | \$30.40 | \$111.30 | \$51.35 | \$18.16 | \$35.85 | \$12.02 | \$16.43 |
| 08/02/01 | \$10.17 | \$8.67 | \$18.74 | \$30.51 | \$111.75 | \$51.55 | \$18.10 | \$35.89 | \$12.13 | \$16.34 |
| 08/03/01 | \$10.16 | \$8.65 | \$18.68 | \$30.37 | \$111.17 | \$51.11 | \$18.06 | \$35.95 | \$12.04 | \$16.20 |
| 08/06/01 | \$10.16 | \$8.66 | \$18.58 | \$30.10 | \$109.91 | \$50.58 | \$17.88 | \$35.72 | \$11.97 | \$15.88 |
| 08/07/01 | \$10.16 | \$8.65 | \$18.64 | \$30.17 | \$110.28 | \$50.49 | \$17.88 | \$35.63 | \$11.96 | \$15.79 |
| 08/08/01 | \$10.21 | \$8.69 | \$18.51 | \$29.70 | \$108.38 | \$49.41 | \$17.64 | \$35.60 | \$11.84 | \$15.41 |
| 08/09/01 | \$10.20 | \$8.70 | \$18.50 | \$29.64 | \$108.39 | \$49.28 | \$17.68 | \$35.57 | \$11.71 | \$15.38 |
| 08/10/01 | \$10.21 | \$8.71 | \$18.59 | \$29.77 | \$109.01 | \$49.29 | \$17.71 | \$35.76 | \$11.70 | \$15.36 |
| 08/13/01 | \$10.22 | \$8.71 | \$18.60 | \$29.87 | \$109.12 | \$49.42 | \$17.78 | \$35.84 | \$11.72 | \$15.58 |
| 08/14/01 | \$10.21 | \$8.71 | \$18.60 | \$29.81 | \$108.71 | \$49.03 | \$17.91 | \$36.20 | \$11.98 | \$15.61 |
| 08/15/01 | \$10.20 | \$8.70 | \$18.57 | \$29.67 | \$107.93 | \$48.66 | \$17.93 | \$36.19 | \$12.01 | \$15.40 |
| 08/16/01 | \$10.21 | \$8.71 | \$18.60 | \$29.72 | \$108.27 | \$48.76 | \$17.88 | \$36.42 | \$11.86 | \$15.40 |
| 08/17/01 | \$10.24 | \$8.74 | \$18.46 | \$29.36 | \$106.47 | \$47.61 | \$17.68 | \$36.29 | \$11.71 | \$15.13 |
| 08/20/01 | \$10.22 | \$8.72 | \$18.52 | \$29.55 | \$107.34 | \$47.98 | \$17.71 | \$36.55 | \$11.63 | \$15.16 |
| 08/21/01 | \$10.22 | \$8.72 | \$18.43 | \$29.28 | \$106.04 | \$47.31 | \$17.50 | \$36.52 | \$11.75 | \$14.83 |
| 08/22/01 | \$10.22 | \$8.72 | \$18.47 | \$29.36 | \$106.78 | \$47.80 | \$17.59 | \$36.87 | \$11.82 | \$15.09 |
| 08/23/01 | \$10.24 | \$8.74 | \$18.45 | \$29.35 | \$106.49 | \$47.50 | \$17.55 | \$36.94 | \$11.76 | \$15.07 |
| 08/24/01 | \$10.22 | \$8.72 | \$18.57 | \$29.79 | \$108.59 | \$49.06 | \$17.68 | \$37.07 | \$11.87 | \$15.38 |
| 08/27/01 | \$10.22 | \$8.71 | \$18.52 | \$29.74 | \$108.06 | \$48.86 | \$17.64 | \$37.20 | \$11.92 | \$15.37 |
| 08/28/01 | \$10.25 | \$8.75 | \$18.39 | \$29.38 | \$106.44 | \$47.93 | \$17.51 | \$36.95 | \$11.81 | \$15.21 |
| 08/29/01 | \$10.28 | \$8.78 | \$18.33 | \$29.08 | \$105.27 | \$47.54 | \$17.49 | \$37.11 | \$11.75 | \$15.13 |
| 08/30/01 | \$10.28 | \$8.78 | \$18.20 | \$28.63 | \$103.49 | \$46.38 | \$17.37 | \$36.92 | \$11.62 | \$14.90 |
| 08/31/01 | \$10.27 | \$8.77 | \$18.22 | \$28.79 | \$103.91 | \$46.59 | \$17.40 | \$37.11 | \$11.55 | \$14.95 |
| 09/04/01 | \$10.20 | \$8.69 | \$18.24 | \$28.75 | \$103.85 | \$46.26 | \$17.30 | \$37.24 | \$11.39 | \$14.76 |
| 09/05/01 | \$10.21 | \$8.69 | \$18.22 | \$28.69 | \$103.76 | \$45.74 | \$17.13 | \$37.12 | \$11.23 | \$14.41 |
| 09/06/01 | \$10.25 | \$8.73 | \$18.05 | \$28.11 | \$101.44 | \$44.29 | \$16.92 | \$36.69 | \$11.02 | \$14.12 |
| 09/07/01 | \$10.27 | \$8.76 | \$17.38 | \$27.67 | \$99.55 | \$43.29 | \$16.64 | \$35.97 | \$10.85 | \$13.88 |
| 09/10/01 | \$10.26 | \$8.74 | \$17.40 | \$27.78 | \$100.17 | \$43.88 | \$16.53 | \$35.72 | \$10.72 | \$13.68 |
| 09/17/01 | \$10.30 | \$8.81 | \$16.92 | \$26.56 | \$95.27 | \$41.54 | \$15.47 | \$34.06 | \$10.22 | \$12.71 |
| 09/18/01 | \$10.25 | \$8.75 | \$16.85 | \$26.31 | \$94.72 | \$41.49 | \$15.21 | \$33.85 | \$10.15 | \$12.36 |
| 09/19/01 | \$10.28 | \$8.77 | \$16.64 | \$25.91 | \$93.20 | \$41.80 | \$14.77 | \$33.15 | \$10.13 | \$12.12 |
| 09/20/01 | \$10.25 | \$8.75 | \$16.25 | \$25.13 | \$90.30 | \$39.51 | \$14.32 | \$31.85 | \$9.70 | \$11.83 |
| 09/21/01 | \$10.26 | \$8.75 | \$16.10 | \$24.50 | \$88.23 | \$38.96 | \$14.07 | \$31.20 | \$9.36 | \$11.53 |
| 09/24/01 | \$10.26 | \$8.74 | \$16.39 | \$25.34 | \$91.67 | \$40.94 | \$14.50 | \$32.21 | \$9.76 | \$12.05 |
| 09/25/01 | \$10.26 | \$8.76 | \$16.50 | \$25.53 | \$92.48 | \$40.88 | \$14.64 | \$32.48 | \$9.99 | \$12.13 |
| 09/26/01 | \$10.29 | \$8.78 | \$16.45 | \$25.20 | \$92.03 | \$40.57 | \$14.44 | \$32.04 | \$10.03 | \$11.84 |
| 09/27/01 | \$10.31 | \$8.81 | \$16.64 | \$25.42 | \$93.09 | \$40.78 | \$14.52 | \$32.64 | \$10.10 | \$11.92 |
| 09/28/01 | \$10.31 | \$8.81 | \$16.86 | \$25.97 | \$95.13 | \$42.06 | \$15.04 | \$33.58 | \$10.31 | \$12.25 |

¹ New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 30 days were credited for July, 34 days were credited for August, and 27 days were credited for September.

² Puritan declared a distribution of \$.48 payable September 7, 2001, to shareholders of record on September 6, 2001, using a share value of \$17.38.

³ Fidelity declared a distribution of \$.04 payable September 21, 2001, to shareholders of record on September 20, 2001, using a share value of \$24.50.

⁴ Vanguard Institutional Index Fund declared a distribution of \$.355 payable September 21, 2001, to shareholders of record on September 20, 2001, using a share value of \$88.23.