457 News

Fourth Quarter • January 2006 • Rod R. Blagojevich, Governor

Illinois Department of Central Management Services

Ticker Symbols for Mutual Funds

Mutual fund symbols are used to identify listed companies on the security exchanges on which they trade. Different from the newspaper listing, you may use these symbols to find the funds online. The symbols for the funds in the Plan are:

Vanguard Bond Index Fund	VBMFX
T. Rowe Price New Income Fund	PRCIX
Fidelity Puritan Fund	FPURIX
Vanguard Institutional Index—Plus Shares	VIIIX
LSV Value Equity	LSVEX
Legg Mason Value Trust	LMVFX
Columbia Acorn Fund	ACRNX
Ariel Fund	ARGFX
T. Rowe Price International Stock Fund	PRITX
Wells Fargo Large Company Growth Fund	NVLCX
PIC Small Cap Growth Fund	PISCX

T. Rowe Price Retirement Funds

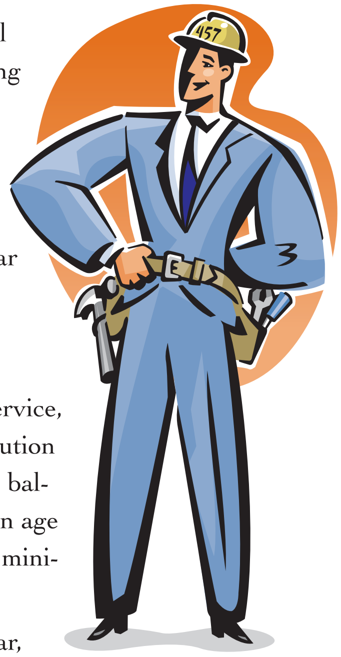
Retirement 2045 Fund	TRRKX
Retirement 2040 Fund	TRRDX
Retirement 2035 Fund	TRRJX
Retirement 2030 Fund	TRRCX
Retirement 2025 Fund	TRRHX
Retirement 2020 Fund	TRRBX
Retirement 2015 Fund	TRRGX
Retirement 2010 Fund	TRRAX
Retirement 2005 Fund	TRRFX
Retirement Income Fund	TRRIX

Annual Audit

Please review your quarterly statement carefully! If it does not agree with your records, contact our auditors directly at:

Sikich Gardner & Co., LLP
1000 Churchill Road
Springfield, Illinois 62702

Stable Value Return for 2006



Utilizing the current rate environment, historical participant cash flows, and INVESCO's modeling assumptions, the rate of return for the Stable Return Fund is estimated at a range of 4.75% to 5.25% for 2006. During the year, it is expected that reinvestment rates will slightly increase. As a result, the estimated blended return for the year will remain unchanged from the previous year.

Required Minimum Distributions

If you turn age 70½ in 2006 and have left state service, you must receive your required minimum distribution (RMD) by April 1 of 2007. Divide your account balance as of December 31, 2005, by 27.4 if you turn age 70 in 2006 or 26.5 if you turn age 71. This is the minimum amount that you must withdraw.

If you would like only to take the RMD each year, you can choose the "recalculated life expectancy" option under Installments on the Participant Distribution Method Election Form. Your minimum will be calculated and distributed for you each year.

Administrative Rule Changes

The Department of Central Management Services submitted proposed Emergency Rule changes for Title 80, Part 2700, State of Illinois Deferred Compensation Plan to the Joint Committee on Administrative Rules (JCAR). The substantive changes occurred due to the passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. This law authorized Section 457 plans to enact sweeping changes to their plans such as: flexibility in distribution, scheduled yearly increases in the basic annual limitation, rollovers to and from various other types of plans (401(k), 403(b), IRA), and the permissive service credit transfers. The Plan has been able to operate under the new rules up to this point through the adoption of a good faith amendment in May of 2002, as required by the Department of Labor. The Department of Labor required all plans to revise their plan documents by December 31, 2005, in order to stay in compliance with IRS code. A copy of these rules may be found in the most recent Issue of the Illinois Register, Volume 29, Issue 50 dated December 9, 2005, Page 20050. You may access the Register through the Web site: **http://www.cyberdriveillinois.com/publications/indexpub.html**.

Income Tax Information

Currently Deferring Participants

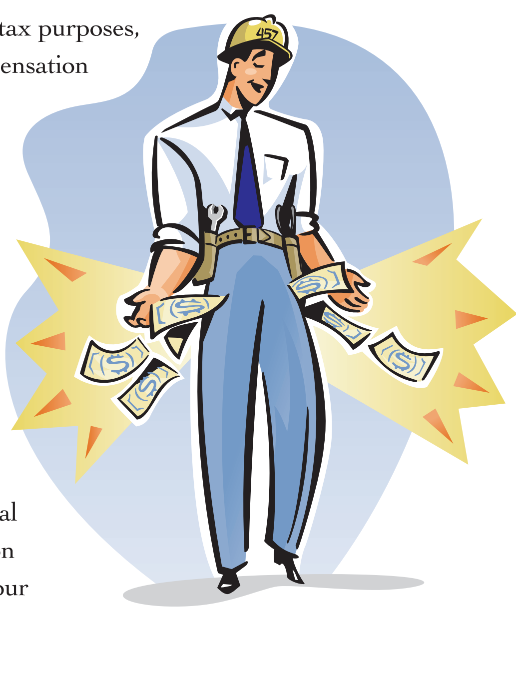
If you are actively deferring into the Plan, your taxable income is reduced thanks to your participation in the Deferred Compensation Plan. You will only report the wages shown in Box 1 of your W-2 statement on your income tax form. Box 1 wages have been reduced by the total amount of your 2005 deferrals and any other tax-deferred and tax-exempt deductions.

Your W-2 statement will reflect contributions to the Deferred Compensation Plan (457). If the "Deferred Compensation" box in the lower right-hand corner of the W-2 is marked "X" it means you contributed to the Deferred Compensation Plan in 2005; the amount of your deferral is indicated in Box 12 with a "G" coding. Remember, you do not enter your deferred compensation anywhere on your income tax form.

For Participants on Payout

If you received a payment from your account during the 2005 tax year, you will receive a separate 1099-R from our recordkeeper, T. Rowe Price, by January 31, 2006. Box 2a of your 1099-R will list the taxable amount of your distribution(s) you received during 2005, which should be entered on line 16b of your 1040 form. Box 7 of your 1099-R is the distribution code for the type of distribution received. A code of "7" in this box indicates a normal distribution for a participant over age 59½. If you were under age 59½, Box 7 will be coded with a "2" to indicate that your 457 plan distributions are not subject to the 10% additional tax on early distributions.

For federal income tax purposes, your deferred compensation plus any earnings is taxable as retirement income when it is distributed. Deferred compensation distributions are not subject to State of Illinois income tax. Report the distribution in the "federally taxed retirement and Social Security" subtraction section, Line 5 of your Illinois return.



Facts and Figures

In 2005, the Plan received more than $145.7 million in deferrals. The average monthly deferral in 2005 was $356.32 with an average of 34,077 participants each month.

Market Value of the Plan

The market value of all investment funds as of December 31, 2005, was $2.5 billion.

Fund	Value
Stable Return Fund	$540,743,183
Vanguard Money Market	42,134,088
Vanguard Bond Index Fund	45,853,519
T. Rowe Price New Income Fund	66,560,153
Fidelity Puritan Fund	219,950,570
Legg Mason Value Trust	233,876,099
Vanguard Institutional Index—Plus Shares	214,575,759
LSV Value Equity	10,692,985
Wells Fargo Large Company Growth Fund	12,425,398
Columbia Acorn Fund	894,317,065
Ariel Fund	144,207,614
PIC Small Cap Growth Fund	8,904,451
T. Rowe Price International Stock Fund	77,643,575
Total	**$2,511,884,457**

T. Rowe Price Retirement Funds	
Retirement 2045 Fund	$140,471
Retirement 2040 Fund	313,730
Retirement 2035 Fund	377,754
Retirement 2030 Fund	1,352,752
Retirement 2025 Fund	1,334,177
Retirement 2020 Fund	4,553,218
Retirement 2015 Fund	4,547,665
Retirement 2010 Fund	8,836,740
Retirement 2005 Fund	2,161,102
Retirement Income Fund	2,326,749
Total	**$25,944,357**

Account Values of Participants as of 12/31/2005

Value	Participants
$1 – $5,000	9,038
$5,001 – $25,000	18,489
$25,001 – $50,000	8,920
$50,001 – $100,000	7,820
$100,001 – $250,000	6,040
$250,001 – $500,000	1,208
$500,001 – $750,000	121
$750,001 – $1,000,000	12
$1,000,001 – $1,500,000	4

Repeat Excessive Trader Policy

As reported in earlier 457 News editions, exchange transactions are being monitored for excessive trading and compliance with each fund's excessive trading policy. Generally, excessive trading occurs when an individual buys and sells shares of a mutual fund for short-term gains. The practice of excessive trading and market timing does not serve the interests of long-term shareholders because it can increase the expenses of a mutual fund and may impact the portfolio manager's ability to manage cash flow. Fund companies and plan sponsors have a duty to fund shareholders and plan participants to ensure excessive trading is not occurring, due to its detrimental effect on shareholders in general.

Through monitoring, a trend of repeat excessive trading among a small population of participants has become evident. Under the T. Rowe Price excessive trading policy, repeat excessive traders are defined as participants who have received a warning, were restricted from participant-directed exchanges for 90 days, and violate the policy once again on the same or a different fund. In order to deter this excessive trading, T. Rowe Price will be adopting a stricter policy for repeat excessive traders in any of the T. Rowe Price funds and, at Columbia's request, the Columbia Acorn Fund. In the future, it is expected that other funds in the Plan's lineup will request to be monitored under the new policy as well.

Repeat Excessive Trader Actions—At the time of the third violation, T. Rowe Price will implement a "complex-wide" restriction. Participant-initiated exchanges will be blocked for 90 days for all of the T. Rowe Price-monitored funds, including any non-T. Rowe Price funds that follow the T. Rowe Price funds' excessive trading policy. The Money Market and Stable Return Fund are excluded from the policy, although the Stable Return Fund will maintain its Equity Wash Provision. At the end of the 90-day period, the complex-wide restriction will be lifted and the participant can exchange into any of the funds. If the excessive trading patterns resume within the next 12 months, the complex-wide restriction will be imposed immediately.

Communications to Repeat Excessive Traders—The first warning letter and the second letter will include an explanation of the complex-wide restriction that is imposed on the third offense. Since the policy impacts only a small portion of the population of Plan participants, the policy will be communicated to participants in violation of the policy when the offense occurs.

Effective Date—The complex-wide restrictions will be effective on April 1, 2006.

More Information—If you would like more information on our excessive trading policy, please contact a T. Rowe Price representative or call the Deferred Compensation Office at the numbers provided in the shaded box.

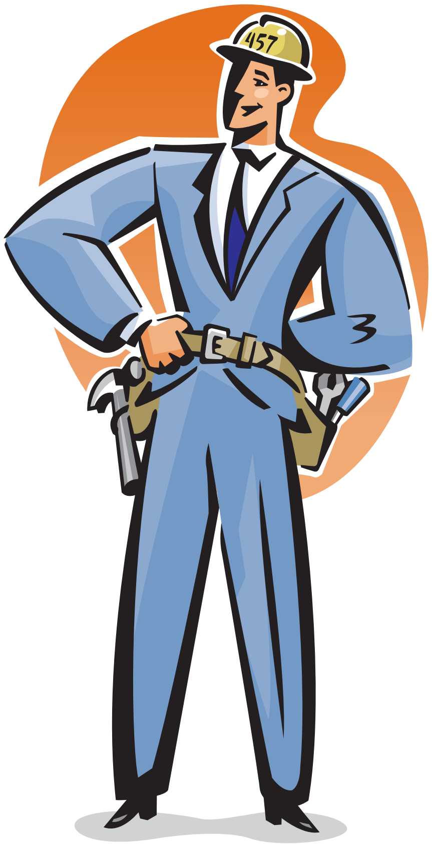
Telephone Numbers

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

Recordkeeper:

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



The income and price information page will no longer be displayed in the quarterly newsletter. This information is available online at the Deferred Compensation Plan's Web site at www.state.il.us/cms/employee/defcom. You will also find links to each investment company's Web site where this information may also be provided. For important information concerning investment options on the "watch list," please read the article below.

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 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 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 they said they would? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stock 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. First, 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.

Secondly, there could 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.

The State of Illinois Deferred Compensation Plan

The following funds are on the watch list as of 12/31/2005:

Ariel Fund continues to underperform. It has lagged its index, the Russell 2000 Value index, and its small value peer group for the trailing 3-month, 1-year and 3-year periods. The fund's underperformance can be traced to John Rogers' decision not to invest heavily in energy, utility or technology stocks. He believes stocks in these sectors do not represent good investment opportunities due to the intrinsic nature of their businesses. In 2005, energy and utility stocks generated very high returns, causing the fund to underperform. Once market leadership rotates out of these sectors, the fund's performance is likely to improve.

Provident Investment Counsel Small Cap Growth Fund continues to underperform. It has lagged its index, the Russell 2000 Growth index, and its small growth peer group for the trailing 3-month, 1-year and 3-year periods. The fund has been hurt by weak stock selection and inopportune sector allocation decisions. For example, at year-end the fund was significantly underweight financials, one of the best performing sectors in the 4th quarter. The fund's very aggressive investment style causes it to be more volatile than the average small cap growth fund. Being aggressive in 2005 was a detriment to performance.

Wells Fargo Advantage Large Company Growth Fund was originally placed on the watch list due to its low relative returns and high volatility. The fund's performance has improved recently. The fund has outperformed its index, the Russell 1000 Growth index, and its peer group for the trailing 3- and 6-month periods. However, the fund remains on the watch list until it has proven itself over a longer time period. The fund's underweighting of energy and utilities hurt performance in 2005, as did the fund's mega-cap focus. It should also be noted that the fund is much more volatile than its index or typical large growth fund.

The following fund was removed from the watch list as of 12/31/2005:

T. Rowe Price International Stock Fund was removed from the watch list due to several straight quarters of above-average performance. The fund struggled in 2004 and the 1st quarter of 2005. Since that time, the fund's relative performance has improved. For the trailing 1-month and 1-year periods, the fund has outperformed its index, the MSCI EAFE, and its foreign large growth peer group.