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 If we believe the fund no longer represents a suitable investment option, we will remove the fund from the Plan.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 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 funds are on the watch list as of 12/31/2009:

Ariel Fund: The fund's performance for the year-to-date period ending November 30th has continued to show impressive results with a +52% return versus +28% for the benchmark. The fund's stock picks in the consumer sector have had the largest impact on outperformance over the year. The fund managers benefited from picking stocks that were positively impacted by rising consumer confidence. The fund's longer-term performance as measured by the five year annualized return however, has lagged its benchmark and its peer group. Participants also have access to the Northern Small-Cap Value Fund which invests in a small-cap value equity style. This fund will remain on the watch list due to the longer term underperformance.

Legg Mason Value Trust: This fund has also continued to show signs of improvement as it handily outpaced its benchmark and peer group over 2009. The fund's year to date performance is +37.7% versus +24.1% for the benchmark. However, longer term this fund's performance continues to lag its peer group and the benchmark. This fund's overall volatility score, a measure of overall risk, is also very high versus its benchmark. An alternative fund for participants to access is the Vanguard S&P 500 Index Fund as it invests in similar stocks to the Legg Mason fund. This fund will remain on the watch list due to longer term underperformance.

Fidelity Puritan: This fund was originally placed on the watch list due to a change in the lead portfolio manager. The new portfolio manager, Ramin Arani, will have had three years running the fund by February of next year. For the year-to-date period ending November, this fund now handily outpaces the benchmark with a gain of +25% versus +18% for the benchmark. The fund's overweight exposure to technology issues in the equity portfolio positively contributed to returns as the technology sector posted the best results for the year. The fund will remain on the watch list and evaluated for a change in status early next year.

Janus Adviser International Growth: Although this fund's performance has been stellar with significant outperformance of its benchmark and peer group for the year, this fund was recently placed on watch list due to organizational changes at Janus. In July of 2009, the Janus Capital Group Board announced the departure of Chief Executive Officer Gary Black. Mr. Black was credited with bringing about several changes to the firm including a move towards best practices in the investment group. Janus is currently searching for a replacement. As a result of organizational changes at the firm, this fund was placed on watch status. Since the fund has been placed on watch status, there have been no recent developments. An alternative fund for participants to choose is the Invesco International Growth Fund as it also invests in large-cap international stocks.

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FOURTH QUARTER 2009 | PAT QUINN, GOVERNOR

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A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

IRS LIMITS FOR THE 2010 457 PLAN YEAR

To help you better prepare for the upcoming year, below is a summary of the 2010 salary deferral contributions you can make to your State of Illinois Deferred Compensation Plan:

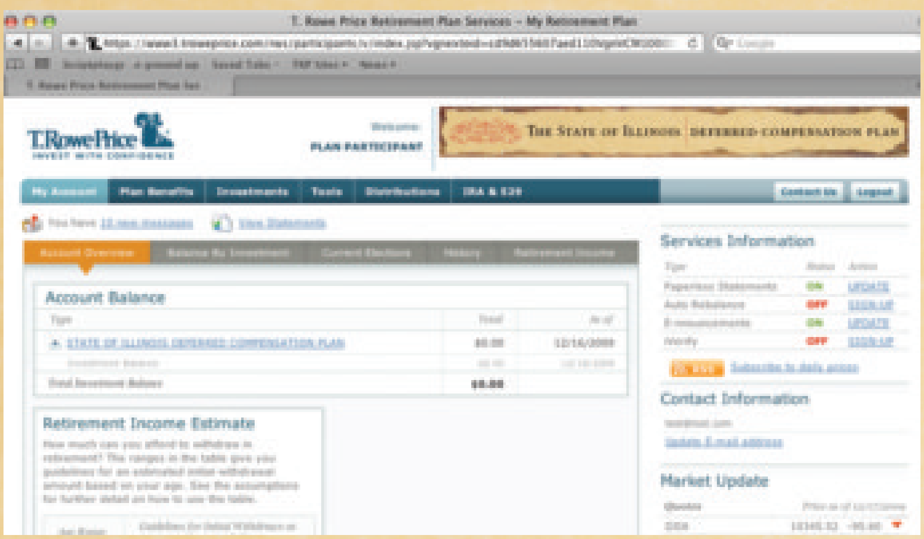
- The IRS annual salary deferral dollar limit for before-tax contributions is $16,500.
- For participants age 50 and older, the age 50 catch-up provision allows you to defer up to $22,000 in before-tax contributions. (This includes the $16,500 maximum before-tax contribution allowed by the IRS plus an additional $5,500).
- The 457 special catch-up provision is $33,000. (This provision can only be elected during the three years (consecutive) prior to, but not including, the year the participant attains Normal Retirement Age, as defined by the 457 Plan.)
- 1099-Rs will be mailed by January 31, 2010.

REQUIRED MINIMUM DISTRIBUTIONS

If you turn age 70½ in 2010 and have left state service, you must receive your 2010 required minimum distribution (RMD) by April 1, 2011. To calculate your RMD, divide your account balance as of December 31, 2009, by 27.4 if you turn age 70 in 2010 or 26.5 if you turn age 71. This is the minimum amount that you must withdraw from your account.

Each year thereafter, you must receive your RMD by December 31.

IMPROVEMENTS TO THE *my*RetirementPlan WEB SITE



Managing your retirement account online is easier than ever, thanks to recent improvements to the ***my***RetirementPlan Web site. The enhancements make it simpler to:

- **Explore calculators and educational content**
- **Estimate your monthly retirement income potential**
- **Review your portfolio's performance**
- **View and analyze your investments**
- **Access your latest statement and account history**

Log in to the ***my***RetirementPlan Web site at **rps.troweprice.com** to access these new features.

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SAVE MORE IN 2010

Your contributions to your employer-sponsored retirement plan can benefit from years of compound growth. And even though you may have other sources of income in retirement, such as Social Security benefits and your state pension, your deferred compensation plan savings can be a big help to you in retirement. That's why it's important to build a nest egg large enough to sustain you over a retirement that may last 30 years or more. So how much do you need to save?

SETTING A TARGET

T. Rowe Price financial planners recommend saving at least 15% of your before-tax salary each year—including any available contributions from your employer.

(For specific savings guidelines, use the online Retirement Income Calculator available at **rps.troweprice.com**.)

In 2010, the IRS permits workers to contribute as much as $16,500 to workplace plans such as 457s. Investors age 50 and older also may be permitted to make additional catch-up contributions of up to $5,500. And 457s offer a special catch-up provision up to $33,000 for 2010. (This provision can only be elected during the three years (consecutive) prior to, but not including, the year the participant attains Normal Retirement Age, as defined by the 457 Plan.)

If you'd like to save even more, consider an individual retirement account (IRA). Like your workplace plan, an IRA can benefit from tax-deferred growth. You can contribute up to $5,000 to an IRA in 2010, or $6,000 if you are age 50 or older.[1]

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

KEEPING TIME ON YOUR SIDE

To reach your savings goals, consider the following age-based strategies:

- **In your 20s and 30s:** Stick to a monthly budget, and look for ways to trim expenses, such as carpooling to work or bringing your lunch a few days a week. This can help you free up cash so you can boost contributions to your retirement savings plan. Consider gradually increasing the amount you set aside by a small percentage each year, until you reach the 15% target.
- **In your 40s:** By now, you may be balancing your family's needs, such as saving for a child's education, with your own. While it may seem counterintuitive to put your retirement savings first, remember that there are loans, grants, scholarships, and other financial aid to cover college costs. Your savings are going to be a big source of income in retirement, so try to contribute 15% of your before-tax salary to your plan.

LEARN MORE.

Financial guidance for your life stage is available at the ***my***RetirementPlan Web site. Go to **rps.troweprice.com** and click Tools, then Life Stages.

- **In your 50s:** As retirement approaches, you're likely to be in your peak earning years, so it is important to make the most of catch-up contributions to your retirement savings accounts.

TAKING ADVANTAGE OF TAX DEFERRAL

The potential for tax-deferred growth is another big advantage of making before-tax contributions to your employer-sponsored retirement plan. You won't owe taxes on these contributions or any earnings until you begin taking withdrawals in retirement. Increasing your savings plan contributions by even a small percentage in 2010 is a wise New Year's resolution—one that could have a lasting impact on your nest egg.

[1] *irs.gov*

EYE ON INFLATION

Imagine you withdraw $30,000 from your nest egg in your first year of retirement. That may be enough to live on now, but inflation is likely to diminish your purchasing power over time. To counteract its effects, consider keeping a portion of your portfolio in stocks, since they have typically offered the greatest potential for inflation-beating growth. Historically, inflation has averaged around 3% per year.1

The following table illustrates how much you would need to withdraw each year of retirement—assuming just 3% annual inflation—to match the purchasing power of the $30,000 you withdrew at the start of year one:

Income needed, given 3% annual inflation, to maintain purchasing power over 30 years.

[1] *Ibbotson Associates, a subsidiary of Morningstar, Inc.*

HOW MUCH DO YOU KNOW ABOUT YOUR CREDIT SCORE?

Your FICO credit score (compiled by the Fair Isaac Corp.) helps lenders decide whether or not to extend you credit and how much interest to charge. Take this quiz to see how much you really know about your credit score. True or false:

1. The most crucial component of your score has to do with whether you pay your bills on time.
   ☐ True ☐ False
2. You can improve your credit rating over time.
   ☐ True ☐ False
3. You can only learn your credit score if a lender shows it to you.
   ☐ True ☐ False

ANSWERS

1. **True**. Credit scores are compiled according to several pieces of information. Your payment history makes up 35% of your score. How much you owe accounts for 30%. Other factors, including the length of your credit history and whether you have recently applied for new credit, make up the rest.
2. **True**. Paying bills on time, getting current on past-due bills, and keeping credit card balances low can help to improve your score.
3. **False**. You can learn your exact score from myfico.com (for a fee). You can get a free copy of your credit reports online at annualcreditreport.com. The reports contain the data on which your score is based.

Source: myfico.com