Plan Profile – The State of Illinois 457b Deferred Compensation Plan ("the Plan") serves approximately 57,000 participants and beneficiaries, spanning various State of Illinois agencies and universities. As of March 31, 2021, Plan assets totaled $5.5 billion. The Illinois State Board of Investment (ISBI) oversees the Plan, in partnership with the Plan's administrator the State of Illinois Central Management Services (CMS), recordkeeper T. Rowe Price, and consultant RVK.

Background Information – As pension benefits in the State of Illinois have evolved over the last decade, the Plan's role in providing retirement income for participants will be of increased importance. Over the course of 2020, IBSI, in partnership with CMS, T. Rowe Price, and RVK, implemented several enhancements to further help participants achieve retirement readiness, including online enrollment and salary deferral changes (including percentage of salary deferrals), beginning auto-enrollment for newly eligible employees, streamlining the capital preservation options in the investment line-up, and implementing white label names for the investment options.

Goals – The goal with the Plan's recent enhancements was to increase participation and contribution rates to help participants close the gap between current savings, expected pension benefits and future retirement income goals. Moreover, this work aimed to reaffirm participants have the right asset allocation building blocks to meet their risk tolerance and help ensure the funds are being used appropriately. It was a multi-faceted undertaking to achieve this, and ISBI is excited to share the work done and enhancements made to the Plan in 2020.

In our own words – "*We are so pleased with all of the changes the Plan accomplished last year, despite the impacts of the pandemic. We're really proud of the results achieved through the efforts of so many people and organizations who all worked together to implement changes that will help the State's employees save for a more secure retirement." – Johara Farhadieh, CIO and Executive Director, ISBI*

The first step, enrollment and savings – A key element of supporting participants in achieving the levels of retirement income needed is to increase participation and savings in the Plan. Following legislative changes made in August 2019, the Deferred Compensation Article of the Illinois Pension Code required the implementation of auto-enrollment in the Plan for certain State employees. With the objective of putting in place processes that would automatically enroll newly eligible employees in the plan, ISBI, CMS, T. Rowe Price, and RVK undertook the ten-month project to meet a statutory implementation date of July 1, 2020. Initial estimates were there would be approximately 5,000 new hires eligible for auto-enrollment annually.

In early Fall 2019, ISBI, CMS, T. Rowe Price, and RVK began an assessment of existing procedures for enrollment, deferral elections, and beneficiary designations. Over the course of the Spring 2020, workflow and process enhancements were developed to streamline these across the State's 23 payroll agencies, including custom programming by some pay agencies to accommodate calculations for percentage-based salary deferrals and enhanced salary deferral limit monitoring. The legacy processes were highly reliant on the individual agencies to provide paperwork and forms to new employees, which were then collated by CMS, with salary deferrals sent to the appropriate payroll agency, and investment elections then communicated to T. Rowe Price. Given the expectations for increased participation and a standard auto-enrollment deferral amount, the updated processes utilized the recordkeeper's platform more extensively. It is worth noting, an additional key benefit from the project was the improved experience for all participants with respect to enrollment, salary deferrals (including allowing participants to elect deferrals as a percentage of salary, rather than just a flat dollar amount), and beneficiary elections by moving from the legacy paper-heavy process and utilizing the recordkeeper's platform instead. In particular, percentage-based salary deferrals allow a participant's retirement contributions to increase as their salary increases, which can greatly improve their overall retirement savings.

In parallel, the second component to the process was the design, programming and testing of the workflows that take place after a participant is newly hired and auto-enrolled. Newly eligible participants are enrolled 30 days after their hire date at a 3% deferral rate. They are then given a 90-day period, during which participants can opt out of the Plan and request their contributions back. To limit broad market exposure and volatility, the contributions are invested in the Stable Return Fund. At the end of this window, if no affirmative elections are made by the participant, the balance is transferred to the Target Retirement Fund with the date closest to retirement for each participant. This required some customized programming and participant communications by the recordkeeper.

ISBI, CMS, T. Rowe Price, and RVK prepared a proactive communication program ahead of the July 1, 2020 implementation. The objective with this program was to inform current employees and participants about new ways they can enroll and make deferral changes via the website. Additionally, a communication program and strategy were planned for new auto-enrollees. We have included samples of both at the end of this document.

Measuring Success – *Preliminary data for the first six months of autoenrollment align with expectations and goals for the project. While new hires are trending slightly below the expected 5,000, the data shows over 90% of newly eligible participants opted to remain in the Plan. The trend of approximately 90% participation for this new cohort is a significant improvement over the historical range, which is estimated at approximately 30%. Moreover, the vast majority of participants remained at the automatic 3% deferral (over 85%) and over 95% of auto-enrollees remained in the default Target Retirement Fund option. These early results are supportive of this enhancement achieving its objective of broadening participation and savings for participants.*

Auto-Enrollment Action	Number of Participants	% of Total
Defaulted to 3%	1,699	85.0%
Made Own Election (any % or amount)	113	5.7%
Opted out prior to end of 30-day grace period*	156	7.8%
Terminated Before 30-day grace period ended	31	1.6%
Total	**1,999****	**100.0%**

**There are an additional 175 participants still within 30-day grace period as of 12/31/2020 not included here.

Refining the investment menu – The Plan's investment objectives are to "offer sufficient range of investment options to allow Plan participants to diversify their account balances and construct portfolios that reasonably span the risk/return spectrum." To that end, the Plan offers funds with broad mandates and diversified portfolios, with a preference for passive management. In support of this objective, ISBI undertook a periodic review of its investment line-up and identified three areas for refinement.

- Previously the Plan offered both a money market fund and stable return fund option. Analysis from RVK showed that while both funds play a similar role in participants' asset allocations, and were being used appropriately, the stable return fund provided superior risk adjusted returns, and for participants invested in a capital preservation option, the vast majority were already utilizing the stable return fund. The merger of the money market fund option into the stable return fund presented an opportunity to streamline the Plan line-up with minimal disruption, while helping to support more optimal outcomes for participants.
- Within the equity line-up, the Plan offered three passive fund options: S&P 500, Russell 2000, and MSCI ACWI ex US. However, the review showed gaps within the market capitalization coverage, specifically US mid-cap stocks and non-US small cap stocks. As such, ISBI broadened the mandates for two of the funds, converting the Russell 2000 to the Russell 2500 and the MSCI ACWI ex US to the MSCI ACWI ex US IMI. This change provided broader global market capitalization coverage with the fund options. ISBI was also able to negotiate

investment management fees for each of these investment options that resulted in an estimated fee savings of over $200,000 annually.

- Finally, in conjunction with the above-mentioned changes, ISBI opted to implement white labelled names for the investment menu to clearly align each investment option with its asset class. In addition, simplifying the naming conventions would help participants focus in on a fund's risk/return profile and role within an asset allocation.

These enhancements were identified in the fourth quarter of 2019 as areas for additional due diligence, including working with the recordkeeper and developing an implementation plan for mapping the money market fund to the stable return fund and transition of the assets for the Russell and MSCI passive funds. Moreover, the move to implement white label names for funds required additional work in the first half of 2020 to establish new accounts for each one, build custom fact sheets for each, develop a communication strategy to help participants understand the changes, and ultimately communicate the updates and changes to participants in advance of implementation. The planning of and implementation for both the fund line-up changes and white label name changes took place over the course of June, July, and August 2020, and to minimize disruption to participants, went live together on September 1, 2020.

A single participant communication campaign outlining the investment line-up and naming convention changes was distributed in late July 2020. The communication strategy included letters mailed directly to participants, email, and updates posted to the Plan's website to ensure broad reach to all participants. We have included a sample at the end of this document.

> ***Measuring Success –*** *While changes to the investment menu can present friction points for participants, a key measure of success in this instance is the degree to which participants continued with "business as usual". To that end, comparing December 31, 2020 data with that of the previous year-end, Plan participants did not make any significant shifts in aggregate in their asset allocations. ISBI considers this a success; the changes and communication strategy allowed participants to continue to take a long-term view on their asset allocations while the building blocks themselves were enhanced and streamlined. The table below compares the allocation to the various funds as of year-end 2019 and 2020. For simplicity, all Target Retirement Fund assets are aggregated, and the white label naming conventions adopted in 2020 are used for both dates.*

Fund Name	December 2019 Allocation (%)	December 2020 Allocation (%)
Target Retirement Funds	56.2%	56.0%
US Large Cap Stocks Fund	14.7%	14.9%
US Small / Mid Cap Stocks Funds	9.5%	9.0%
Non-US Company Stocks Fund	2.0%	2.0%
Bond Fund	2.7%	3.0%
Stable Return Fund	12.4%	14.6%
Money Market Fund	1.4%	N/A

*May not add to 100% due to rounding and outstanding loans.

Feasibility of use by other Plans – White labels and investment menu reviews should be feasible for other similarly sized plans to implement, though both do come with some added complexity, potential costs to implement, and will represent a change for participants as they adjust.

Each state and Plan are governed by different rules, regulations, and statutes, which may be headwinds to enacting auto-enrollment. As well, online enrollment/salary deferral change processes may be difficult for plan sponsors with decentralized and/or legacy payroll systems. Legislative changes made in Illinois in 2019 provided the opportunity to implement this impactful enhancement to the Plan, and coordination and programming efforts among multiple State agencies allowed for a smooth and successful implementation.

ISBI ILLINOIS STATE BOARD OF INVESTMENT

State of Illinois Deferred Compensation Plan

Define your journey.

Reminder: Important Plan updates now available

The State of Illinois continually seeks ways to help you on your retirement savings journey through the State of Illinois Deferred Compensation Plan (Plan). Here's a quick overview of recent Plan enhancements:

NOW IT'S MORE CONVENIENT TO MAKE CHANGES TO YOUR PLAN ACCOUNT.

T. Rowe Price, our Plan service provider, assumed management of enrollment in the Plan and salary deferral elections, effective June 15, 2020. Gone are the days of filling out paperwork.

So if you're not enrolled in the Plan or want to change/manage your salary deferrals, simply visit **rps.troweprice.com**, 24 hours a day. Or call **1-888-457-5770** to speak to a T. Rowe Price representative. For TTY access, call **1-800-521-0325**.

T. ROWE PRICE NOW MANAGES YOUR BENEFICIARY DESIGNATIONS.

Naming a beneficiary is a small, but important step you can take today. Designating your beneficiary helps ensure that your retirement savings will be distributed the way you want in the event of your death.

Here's how to update or name a beneficiary online:

- Visit the T. Rowe Price website at **rps.troweprice.com**. Go to your Profile page, scroll down to the Beneficiary Information section, and click Sign-up.

NOTE: Your current beneficiary elections held at CMS will remain in effect until you change a beneficiary election or provide a new election to T. Rowe Price.

Resources at your fingertips

At **rps.troweprice.com**, you'll discover useful tools and resources that can help you plan and save for a comfortable retirement through the Plan:

- Learn more about your account.
- Explore the Education Library for a range of helpful articles, blogs, podcasts, and more.
- Get helpful tips that can help you navigate the financial part of life.

State of Illinois Deferred Compensation Plan

Define your journey.

The State of Illinois Deferred Compensation Plan (Plan).

One of the valuable benefits of your new job is the opportunity to save for retirement through the Plan. And now's the time to start because the sooner you save, the more time your money has to work for you.

If you are a new State of Illinois employee that is not a member of the State Employees Retirement System (SERS), the General Assembly Retirement System (GRS), the Judges Retirement System (JRS), or you have previously contributed to one of these retirement systems before July 1, 2020, you will not be automatically enrolled into the Plan. However, you may still enroll at any time.

You can enroll with these steps right now at **rps.troweprice.com**.

- **Decide how much you'd like to save each pay period.**
- **Select how you want to contribute.**
- **Choose your investments.**

Read on for information about these steps and more. Or give us a call at **1-888-457-5770**.

When you enroll, don't forget to:

- **Name your beneficiary.** Take care of this important detail online at **rps.troweprice.com**, scroll down your profile page to the Beneficiary information section, and click Sign-up. Make sure you have the date of birth and social security number for the individual(s) you'd like to name.
- **Verify your preferred email address.** Go to **rps.troweprice.com**.

Enrollment Kit

For more details about the Plan, go to the State of Illinois Benefits page > Deferred Compensation > Enrollment Brochure.

Connect on any device

Access your account using your preferred device. Learn more at **troweprice.com/mobilesolutions**.

Have other retirement accounts?

Maybe you've changed jobs over time and left an old retirement plan account behind. If you would like more information about the options for your old retirement plan savings, we can help.

To learn more, talk with a retirement specialist at **1-888-457-5770**.

ISBI ILLINOIS STATE BOARD OF INVESTMENT

State of Illinois Deferred Compensation Plan

Define your journey.

Upcoming changes to your Plan's investment lineup.

State of Illinois Deferred Compensation Plan (Plan)

The State of Illinois periodically reviews the Plan's investment options to ensure they continue to help you meet your retirement and financial goals. Among the items considered are the range of investment options available and each investment option's performance and value.

As a result of a recent review, certain investment options currently offered through the Plan will be closed, and all existing balances and future contributions will be transferred to new investment options, effective Tuesday, September 1, 2020. In addition, the Plan will introduce new investment option names that are intended to better align with each option's investment category and objective.

See below for the upcoming investment option changes:

Current Investment Option		Replacement Investment Option
Vanguard Treasury Money Market Fund Category: Active Capital Preservation Investment Manager: Vanguard Expense Ratio: 0.090%	➡	**Stable Return Fund** Category: Active Capital Preservation Investment Manager: Invesco Expense Ratio: 0.267%
Vanguard Total Bond Market Index Fund Category: Passive Investment-Grade Bonds Investment Manager: Vanguard Expense Ratio: 0.030%	➡	**Bond Fund** Category: Passive Investment-Grade Bonds Investment Manager: BlackRock Expense Ratio: 0.021%
Vanguard Institutional 500 Index Trust Category: Passive U.S. Large-Company Stocks Investment Manager: Vanguard Expense Ratio: 0.010%	➡	**US Large Company Stocks Fund** Category: Passive U.S. Large-Company Stocks Investment Manager: BlackRock Expense Ratio: 0.006%
Northern Trust Collective Russell 2000 Index Fund Category: Passive U.S. Small-Company Stocks Investment Manager: Northern Trust Global Investments Expense Ratio: 0.040%	➡	**US Small/Mid Company Stocks Fund** Category: Passive U.S. Small-/Mid-Company Stocks Investment Manager: BlackRock Expense Ratio: 0.014%
Northern Trust MSCI ACWI ex-US Fund Category: Passive Non-U.S. Stocks Investment Manager: Northern Trust Global Investments Expense Ratio: 0.080%	➡	**Non-US Company Stocks Fund** Category: Passive Non-U.S. Stocks Investment Manager: BlackRock Expense Ratio: 0.049%

Expense ratios are based on the information available at the time of this notice.

See below for the upcoming changes to investment option names:

Current Investment Option		Replacement Investment Option Name
Vanguard Target Retirement Income Trust **Vanguard Target Retirement 2015 Trust** **Vanguard Target Retirement 2020 Trust** **Vanguard Target Retirement 2025 Trust** **Vanguard Target Retirement 2030 Trust** **Vanguard Target Retirement 2035 Trust** **Vanguard Target Retirement 2040 Trust** **Vanguard Target Retirement 2045 Trust** **Vanguard Target Retirement 2050 Trust** **Vanguard Target Retirement 2055 Trust** **Vanguard Target Retirement 2060 Trust** **Vanguard Target Retirement 2065 Trust** Category: Target Retirement Date Funds Investment Manager: Vanguard Expense Ratio: 0.05%	➡	**Target Retirement Income Fund** **Target Retirement 2015 Fund** **Target Retirement 2020 Fund** **Target Retirement 2025 Fund** **Target Retirement 2030 Fund** **Target Retirement 2035 Fund** **Target Retirement 2040 Fund** **Target Retirement 2045 Fund** **Target Retirement 2050 Fund** **Target Retirement 2055 Fund** **Target Retirement 2060 Fund** **Target Retirement 2065 Fund** Category: Target Retirement Date Funds Investment Manager: Vanguard Expense Ratio: 0.05%
Invesco Stable Return Fund Category: Capital Preservation Investment Manager: Invesco Expense Ratio: 0.267%	➡	**Stable Return Fund** Category: Active Capital Preservation Investment Manager: Invesco Expense Ratio: 0.267%

Expense ratios are based on the information available at the time of this notice.

The principal value of target date funds is not guaranteed at any time, including at or after the target date, which is the approximate year an investor plans to retire. These funds typically invest in a broad range of underlying funds that include stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. In addition, the objectives of target date funds typically change over time to become more conservative.

HERE'S WHY

The purpose of the changes is to provide you with more cost-efficient investment options, broader access to U.S. and non-U.S. stocks, and investment option names that more clearly reflect their asset class and investment objective.

HOW THIS CHANGE MAY AFFECT YOU

If you are invested in one of the funds being replaced, your existing balance and future contributions will automatically be redirected to the replacement investment options. You don't need to do anything unless you want to make changes to your Plan account. Just keep these things in mind:

- **The balances in the Plan's current investment options** will be exchanged into the replacement investment option noted in the chart as of the close of the New York Stock Exchange on August 31, 2020. Any new contributions will be automatically redirected as well.
- **There will be a short break in account activity** while the change to the replacement investment options is taking place. You won't have access to your balance or be able to make transactions in any of the Plan's investment options. This break will start at 3 p.m. central time on Thursday, August 27, 2020.
- **You will have full access to your account at the start of business on September 1, 2020**, after the break in account activity has ended. You may redirect your future contributions or exchange an existing balance to any investment option in the Plan.