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IMRF and 2008 Markets

Focusing on long-term financial soundness, recognizing employers' budget challenges

Since 1941, IMRF has partnered with local units of government to provide modest financial security to working and retired public sector employees

- Created by the General Assembly in 1939, IMRF administers a program of disability, retirement and death benefits on behalf of approximately 2,900 local units of government (IMRF employers).
- Approximately 178,000 working public sector employees (active members) and 87,000 retired members participate.
- IMRF's defined benefit pension is a form of deferred compensation and is based upon a member's years of service and salary. It provides a modest retirement benefit, averaging $835 a month.

As a defined benefit pension plan, IMRF has three sources of funding

- **Members**: contribute a portion of their salary; members in the regular plan contribute 4.5% of salary. The member contribution is determined by state statute and can be changed only by the General Assembly.
- **Employers**: each pays its own unique rate determined by outside actuaries. The rate is based upon the employer's member demographics (age, gender, years of service, salary, etc.) and the individual funded status of the employer's plan.
- **Investment income**: historically the largest contributor to the plan. From 1995 through 2008, we estimate that IMRF averaged a 7.4% annual investment return and earned more than $11.4 billion in investment income, despite major market downturns in 2000-2002 and in 2008.

IMRF's portfolio is highly diversified, designed to achieve the greatest return with an acceptable amount of risk, and remains focused on the long term

- Unlike private investors, who may have a five-, 10- or 15-year investment horizon, IMRF's investment horizon spans the working and retired lifetimes of more than 265,000 members.
- IMRF's investments are diversified by type, geographic region and management style; 67 professional investment firms manage IMRF's portfolio in compliance with the Illinois Pension Code and IMRF's policies. Independent investment consultants assist IMRF's internal professional investment staff in the oversight of IMRF assets.
- IMRF's investment managers do not try to "time the market"; they follow disciplined and specific investment guidelines designed to withstand short-term market variations and ensure steady returns over the long term.

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Economic events in 2008 were unprecedented in their scope, speed, and depth

- Not only did U.S. markets suffer sharp downturns, international markets suffered significant losses as well. Sharp drops in domestic and global investment markets resulted in significant losses for all investors, large and small.
- End-of-year index returns illustrate the effect of contracting economies, disappearing liquidity, and sharply falling stock values:

Dow Jones Industrial Average	-33.8%
S&P 500	-37.0%
MSCI EAFE *(international markets)*	-43.4%

- IMRF is not immune to global economic events. We began 2008 with $24.2 billion in net assets and estimate we will have approximately $18.1 billion at year end. Estimated 2008 return: -24.8%.
- Recent investment losses will not impact IMRF's ability to continue paying our retirees their monthly retirement benefits.
- Because IMRF's investment horizon extends over many decades, we have time to recover from 2008 investment losses.

Employers will be impacted by 2008 markets in three ways:

- **Retirement Reserve**: includes employer contributions made, charges for pensions approved, credits for excess investment earnings, or charges for investment losses. By law, annually IMRF must credit active member and retired member reserves with 7.5% interest:
  - When IMRF earns more than 7.5%, IMRF credits employer retirement reserves with the excess investment income.
  - When IMRF earns less than 7.5%, IMRF charges employer retirement reserves for the 7.5% interest credited to member reserves and the investment loss.

  Employers will see their reserves decrease; on average IMRF will charge each employer's reserve 67% for interest credited to member reserves and for 2008 investment losses.
- **Funding Status**: the difference between benefits promised and assets available to pay them. Each employer has its own unique funding status. With the decrease in employer reserves, employers can expect their funding status to decrease.
- **Employer Contribution Rates**: a two-year lag exists between investment returns and their incorporation into employer contribution rates. Outside actuaries also use a five-year smoothing technique, subject to a 15% corridor, that recognizes only 20% of a year's investment gains or losses when calculating employer rates. Under normal rate setting procedures, the average employer contribution rate would increase from 9.27% in 2009 to 16.63% in 2010 (a 79% increase).

The IMRF Board of Trustees recognizes the budget challenges our employers face and is poised to adopt a plan to phase in 2010 employer rate increases

- The IMRF Board recognizes that our employers are facing their own budgetary pressures and few can afford a 79% rate increase. To help our employers, the IMRF Board will adopt a plan to phase in 2010 employer rate increases.
- The plan maintains IMRF's long-term financial soundness while meeting employers' short-term budgetary needs by:
  - Capping most employers' 2010 rate increase at a fixed percentage of their 2009 rate.
  - Extending the time to pay off any unfunded pension liability to 30 years rolling for taxing bodies and 10 years rolling for non-taxing bodies.
  - Widening the corridor between the market (current) value of assets and the acturial (five-year smoothed) value of assets from 15% to 20%.
- Employers will be provided their actuarially required contribution rate and their phase-in plan rate. Employers can pay either rate or any amount in between the two.