



Illinois Municipal Retirement Fund

Overview

The Illinois Municipal Retirement Fund (IMRF) was created by the Illinois General Assembly in 1939 to provide death, disability, and retirement benefits for employees of local governments and most public school districts. Since 1941, IMRF has partnered with local units of government to administer defined benefit, locally-funded pension plans relying on pooled investments. The fund started with five employers and \$5,000 in assets. Today, IMRF provides pension services for 2,950 local employers; has more than 180,000 active, contributing members, 138,530 inactive members, and 93,262 retirees collecting benefits; and manages \$24.9 billion in assets. A majority of IMRF member employees are also covered by Social Security.

IMRF is governed by an eight-member Board of Trustees, four of whom are elected by employers, three by participating members, and one by retirees. Benefits for all of the local pension plans are established by state statute—with some flexibility for minor customizations—and can only be changed by state legislative action.¹

Pension Funding

IMRF strives to be 100 percent funded and has generally been successful in staying close to that formally adopted strategic goal. Funding for the plan comes from a combination of investment returns (59 percent), employer contributions (27 percent), and member employee contributions (14 percent). IMRF uses the entry age normal (EAN) approach for funding and reporting purposes, which recognizes a larger accumulated pension obligation for active employees and requires a larger contribution than the projected unit

credit method. More than 70 percent of public sector pension plans use the entry age normal method.²

Like all public pension plans, the 2008 economic recession produced significant investment losses, which caused the fund's ratio of assets to liabilities to drop below 90 percent for the first time since the early 1990s.

IMRF assumes an annual return of 7.5 percent on investments. It did not adjust that assumption during the stock market's growth period between 1995 and 1999, when double-digit returns on investments were the norm. Consistent and reasonable actuarial assumptions over time and a highly diversified portfolio, IMRF officials say, help the fund ride out market swings. In 2008, the fund lost 24.8 percent, but saw a record 24.5 percent gain in 2009, followed by 12.9 percent growth in 2010.

Employer and Employee Contributions

The IMRF Board has exclusive authority to set the employer annual required contribution (ARC) rate for its participating local government entities. A more conservative annual investment projection generally leads to a higher ARC to maintain the fund's financial health. The IMRF Board sets the annual contribution rate based on current actuarial assumptions with the 100 percent funded goal in mind. The average annual required contribution rate for participating local governments in 2011 is 12.4 percent up from 9.27 percent before the 2008 investment losses. The IMRF Board gave participating local employers the option of phasing in rate increases in 2010 and 2011 to moderate the impact on local budgets.³

Employees contribute 4.5 percent of regular wages. The member employee contribution is set by state statute.

Funding Ratio for Illinois Municipal Retirement Fund

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
107.2	106.4	101.5	97.6	94.3	94.6	95.3	96.1	84.3	83.2	84.5 (est.)

Sources: Center for State and Local Government Excellence, Center for Retirement Research at Boston College, IMRF Report: 100% Funding Goal in Difficult Markets, and Interview with IMRF Executive Director Louis W. Kosiba

Employees hired before December 31, 2010, are vested after eight years of service. Employees hired after December 31, 2010, will vest in 10 years.

The IMRF Board also has authority to enforce collection of the annual required contribution each year from all participating units of government—including the ability to sue participating governments for failure to pay or asking the state to withhold other funding to that government until its ARC is paid. IMRF officials say there is a long tradition of participating governments meeting their annual required contribution to achieve full funding.

Strategies for Success

IMRF's overall philosophy and formal commitment to achieving 100 percent funding of pension benefits, along with its authority to set and require full payment of the annual employer contribution from all participating governments, have led to consistent financial stability. Other factors that contribute to the fund's success include:

- A conservative, consistent, long-term approach to estimating investment returns that does not change with market swings and achieves the greatest return with an acceptable amount of risk;
- An annual required contribution (ARC) that floats based on current demographics and investment returns;
- Annual review of the annuitant financial reserve to ensure that the fund has 100 percent of the assets needed to pay benefits for those specific retirees; and
- Maintaining fully funded reserves for employees and retirees.⁴

Next Steps

In March 2010, the Illinois General Assembly made significant changes to benefits for all public pension plans—including IMRF—that are designed to reduce long-term pension costs. The changes, which were driven by the state's fiscal challenges and pressure from employers, went into effect for all employees who enroll in IMRF's regular plan after December 31, 2010. Changes include:

- Lengthening the vesting period from eight to 10 years;
- Increasing the normal retirement age for full pension from 60 to 67 years with 10 years of service;
- Increasing the earliest retirement age for a reduced pension from 55 to 62 years with 10 years of service;
- Increasing the number of years used to calculate the final rate of earnings from four to eight;
- Increasing the early retirement pension reduction from 1/4 percent for each month under the normal retirement (64) age to 1/2 percent for each month under the new normal retirement age (67);
- Capping eligible wages for retirement benefits at \$106,800 adjusted for inflation; and
- Changing the annual automatic non-compounding pension increase (COLA) from three percent of the original amount to half of the Consumer Price Index (CPI) or three percent, whichever is less.

IMRF officials say the combination of improving investment returns and the gradual impact of reduced benefits for new employees will lead to lower employer annual contribution rates. For the immediate future, IMRF is confident that its overall funding strategy will sustain the fund's long-term financial performance.⁵

Endnotes

1 Interview with IMRF Executive Director Louis W. Kosiba, January 5, 2011.

2 Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quinby, *The Funding of State and Local Pensions: 2009–2013*, Center for State and Local Government Excellence, April 2010, page 5.

3 Illinois Municipal Retirement Fund Earns Record Investment Returns, IMRF News Release, February 16, 2010.

4 Interview with IMRF Executive Director Louis W. Kosiba, January 5, 2011.

5 Ibid.