Funding Policy of the Illinois Municipal Retirement Fund

Background

The fundamental financial objective of a public employee defined benefit pension plan is to fund the long-term cost of benefits promised to the plan participants. In order to assure that pension benefits will remain sustainable, the governmental plan sponsor should accumulate adequate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees. In pursuit of this objective, the Illinois Municipal Retirement Fund (IMRF) has adopted a funding policy targeting a 100 percent funded ratio.

IMRF believes that its funding policy and its implementation meets the recently released draft “Pension Funding Policy Guidelines” for state and local governments which address the following general policy objectives:

- Ensure pension funding plans are based on actuarially determined contributions
- Build funding discipline into the policy to ensure promised benefits can be paid
- Maintain intergenerational equity so the cost of employee benefits is paid by the generation of taxpayers who receive services
- Make employer costs a consistent percentage of payroll
- Require clear reporting to show how and when pension plans will be adequately funded

Implementation of Funding Policy

In order to actualize the aforementioned funding policy, the IMRF Board will set employer contribution rates required to fully fund promised benefits utilizing the following principles:

1. An actuarially determined annual required contribution expressed as a percentage of payroll will be calculated which will include a factor for normal cost for current service for each eligible plan and tier based upon the benefit provisions in the Illinois Pension Code and a factor to collect or refund any under or over funded amount.

2. Annual employer contributions will be calculated utilizing the annual required contribution rate.
3. In situations where the annual contributions based upon the annual required contribution rate times employer payroll are insufficient to reduce an unfunded liability, a minimum contribution will be calculated which will pay down the unfunded liability over a closed 20 year period.

4. Normal cost will be calculated using the entry age normal level percentage of payroll actuarial cost method utilizing the following:
   a. Economic assumptions based upon the latest applicable triennial experience study. The current economic assumptions are as follows:
      i. Investment rate of return – 7.5%
      ii. Assumed wage inflation rate – 4%
   b. Non-economic assumptions based upon the latest applicable triennial experience study including the following:
      i. Rates of quitting among actives
      ii. Rates of disability among actives
      iii. Patterns of merit and longevity increases among actives
      iv. Rates of retirements
      v. Rates of mortality

5. Amortization of under or over funded status will be determined based upon the following:
   a. Actuarial assets will be determined using a five-year smooth market related basis with a 20% corridor
   b. Amortization will be based on a level percentage of payroll
   c. The amortization period for taxing bodies will be a closed 29 years until it reaches 15 years at which time it will switch to a 15 year open period
   d. The amortization period for non-taxing bodies will be a 10 year open period

6. IMRF will annually furnish employers information on the annual required contributions and the actual contributions received and a schedule of funding progress based on the above actuarial principles and assumptions.

All aspects of the funding policy and the individual factors in the calculation of the employer contribution rate which is the resultant of the above process are subject to the review and approval of the IMRF Board of Trustees and are subject to change if deemed appropriate and in the best interests of IMRF sponsors and participants.

Adopted by the IMRF Board of Trustees on December 21, 2012