

Popular Annual Financial Report for Members



for the year ending December 31, 2010

Published June 2011

Staying on course in a changing landscape

Recent times have proven challenging for pension funds. From the 2008 severe market losses to the continued attacks on public pensions, IMRF has worked to share its story as a successful and sustainable public pension fund.

Regardless of the market environment, IMRF has “stayed the course” with our investment strategy. This decision resulted in a 24.5% return in 2009 and a 13.6% investment return in 2010.

IMRF’s “asset allocation,” or how and where we invest our assets, is a key decision by the IMRF Board of Trustees. You can see a breakdown of how we invest our assets on page 4.

Key decision for success

Annually, IMRF staff with our independent investment consultant reviews IMRF’s asset allocation to determine if the “weighting” to the various asset classes (stocks, fixed income [bonds], real estate, etc.) is appropriate. The most recent review confirmed that the current asset allocation remains appropriate.

In addition to our employers making their required contributions when due, IMRF’s investment strategy is key to our success.

After the severe market loss in 2008, IMRF focused on our long-term investment goals. We are not investing for one lifetime or for one retirement. Some of our members are age 20 and will work for another 30 or 40 years. Some of our retirees are age 60 and will remain in retirement for 20 or 25 years. Because we are investing for more than 300,000 lives, IMRF has an “infinite” investment horizon.

Also, as a pension fund, we can “ride out” the market fluctuations unlike some private investors. IMRF’s strength allowed us to focus on our long-term goals and to take advantage of market gains in 2009 and 2010.

Investment income funds benefits

Staying on course becomes even more important when you realize that investment income is the largest contributor to IMRF.

If we look at our income from 1982 (when IMRF’s investment authority was expanded) through 2010 (which includes several years of market losses), 60% of our income came from our investments.

This is an important point since many taxpayers believe they contribute 100% to the cost of IMRF pensions.

Regardless of the landscape, IMRF will continue to stay the course and to remain focused on providing retirement security to our members.

IMRF’s *Popular Annual Financial Report* summarizes some of the information available in our *Comprehensive Annual Financial Report*.

The *2010 Comprehensive Annual Financial Report*—available at www.imrf.org or 1-800-ASK-IMRF—offers detailed information regarding IMRF’s investment performance and funding as well as detailed demographic information for IMRF members and employers.

IMRF Assets	page 2
Funding Status	page 3
Investment Returns and Portfolio	page 4
Benefit Payments	page 5
IMRF Members	page 6
Looking back at 2010	page 7



Growing IMRF's Net Assets through investments and contributions

What are net assets?

Simply put, it's the value of all of your assets less your liabilities.

For example: you have \$10,000 in the bank (assets), but owe \$2,000 on your credit cards (liability). Your net assets equal \$8,000.

IMRF accumulates money needed to pay benefits through member and employer contributions and from returns on our investments.

In 2010, members and employers contributed \$1,095 million, 11.3% more than in 2009.

Member contributions

Members contributed \$325 million in 2010, a slight increase from 2009. The slight increase in member contributions is due to higher payments by members to reinstate past service.

Those additional member contributions more than offset the 2.6% decrease in the total number of active members due to staff reductions at IMRF employers.

The member contribution rate remained at 4.5% of earnings for Regular members and 7.5% for Sheriff's Law Enforcement Personnel and the optional Elected County Official plan.

Employer contributions

Employers contributed \$770 million in 2010, an increase of 16.7% from 2009. This increase was driven primarily by the increase in the average composite employer contribution rate from 9.62% in 2009 to 11.26% in 2010.

The 2010 rates are the first rates which reflect the dramatic 2008 investment losses. For rate setting purposes there is a two-year lag when setting employer contribution rates.

Investment return and member demographic data from 2008 was sent to IMRF's independent actuaries in 2009 and was used to calculate 2010 employer rates.

Net investment gain

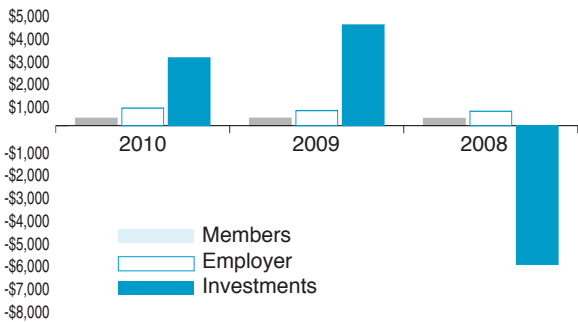
IMRF's net investment gain of \$2,977 million was made up of \$2,552 million of net appreciation in the value of investments, \$479 million of interest, dividend, and equity income, and \$7 million of security lending income, less direct investment expenses of \$61 million.

Deductions to plan assets

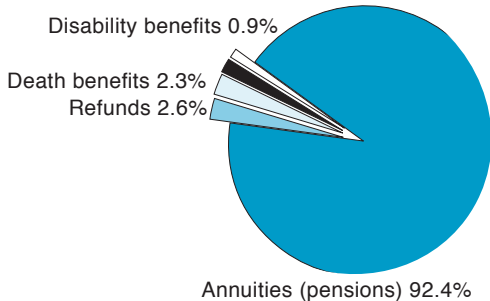
The expenses paid by IMRF include benefit payments, refunds, and administrative expenses. Expenses for 2010 totaled \$1,233 million, an increase of \$106 million over 2009.

The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 97,281 in 2010 from 93,298 in 2009 as well as an increase in the amount of the average benefit.

Revenues by Source (in millions)



2010 Expenses by Type



Condensed Statements of Changes in Plan Net Assets (in millions)

	2010	2009	Dollar Change	Percent Change
Additions				
Member contributions	\$ 325	\$ 324	\$ 1	--%
Employer contributions	770	660	110	17%
Net investment gain	2,977	4,424	(1,447)	(33)%
<i>Total additions</i>	<u>4,072</u>	<u>5,408</u>	<u>(1,336)</u>	<u>(25)%</u>
Deductions				
Benefits	1,179	1,078	101	9%
Refunds	32	27	5	19%
Administrative expenses	22	22	--	--
<i>Total deductions</i>	<u>1,233</u>	<u>1,127</u>	<u>106</u>	<u>9%</u>
Net increase (decrease) in plan net assets	<u>\$2,839</u>	<u>\$4,281</u>	<u>\$(1,442)</u>	<u>(34)%</u>
Net Assets Held in Trust for Pension Benefits				
Beginning of year	22,303	18,022	\$4,281	24%
End of year	<u>\$25,142</u>	<u>\$22,303</u>	<u>\$2,839</u>	<u>13%</u>

Revealing IMRF's financial strength through our funding status

While the *Statement of Changes in Plan Net Assets* shown on page 2 shows the changes in the value of IMRF's net assets, another important factor needs to be considered in order to determine IMRF's financial health.

That additional factor is IMRF's funded status. The funded status compares IMRF assets to our liabilities.

You can look at the value of IMRF's assets and liabilities in one of two ways: Market Value and Actuarial Value.

Market value

The first method is the simplest and most familiar: the market value.

What is the value of IMRF's assets and liabilities today? Or, what was the value on December 31, 2010?

As of December 31, 2010, the market value of IMRF's net assets was \$25.1 billion. IMRF's actuarial liability (our "benefit promises") was \$29.1 billion. This meant, that on a market value basis, IMRF was 86.3% funded, which is considered well funded by most industry standards, especially considering the severe market drop in 2008.

Actuarial value

The other method is less familiar—and not as simple. This method is called the "actuarial value" of

assets. IMRF's actuaries determine the actuarial value of IMRF's assets by using a "five-year smoothing" technique.

With five-year smoothing, investment gains (or losses) are spread over five years; they are not "recognized" completely in one year. The smoothing helps to prevent employer contribution rates from changing drastically year to year because of short-term fluctuations in the financial markets.

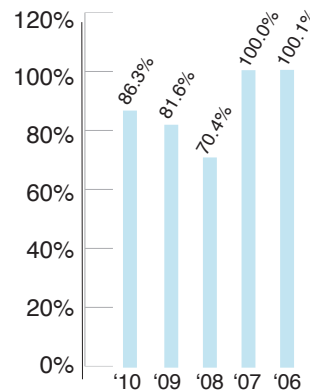
Despite IMRF's 13.6% investment return in 2010, the 83.3% actuarial funding ratio increased only slightly from the 2009 actuarial funding ratio of 83.2%; this is the result of 2008 investment losses that are being recognized over a five-year period.

The ratios described here are for IMRF as a whole. Each IMRF employer funds the pensions for its own employees. Funding ratios for individual employers and individual plans vary widely.

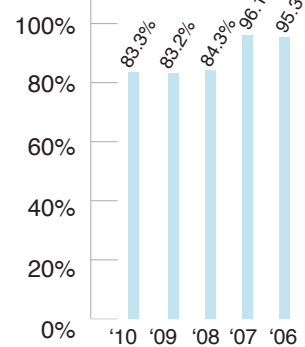
Sense of security

You can look with a sense of security to IMRF's net asset base of \$25.1 billion because these assets are irrevocably committed to the payment of our current retirees' pensions and your future pension when you retire.

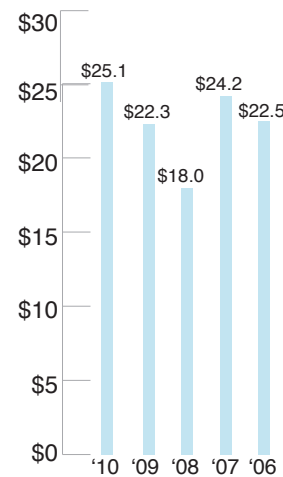
Market Funding Status
(for the past 5 years)



Actuarial Funding Status
(for the past 5 years)



Net Assets for the Past 5 Years
(in billions)



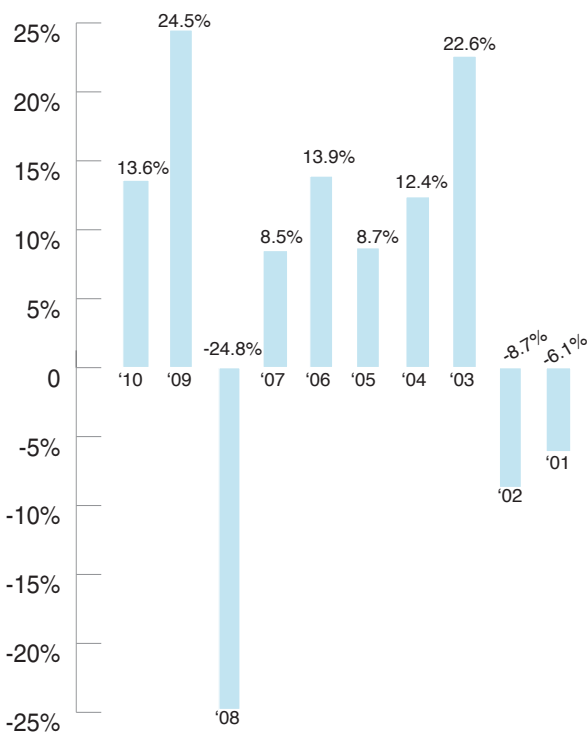
IMRF's 100% funding goal

Working toward a 100% funding goal ensures that today's taxpayers pay for today's public services and that the cost is not postponed for future generations to bear.

As of December 31, 2010

Actuarial liability (benefit promises).....	\$29.1 billion
Market value of plan net assets.....	\$25.1 billion
Actuarial value of plan net assets	\$24.2 billion

IMRF investments: a successful long-term, prudent & diversified approach



Major contributor to IMRF

If we look at IMRF funding from 1978 through 2010, members contributed 14%, employers (taxpayers) contributed 26%, and investment income represented 60%.

Over this period, for every dollar collected for retirement benefits, only 26 cents comes from taxpayers.

Strength in diversification

IMRF designs its portfolio to achieve the greatest return with an acceptable amount of risk. It is highly diversified by investment type, geographic region and management style to withstand short-term market variations and ensure steady returns over the long-term.

Investment gains for 2010 were a very strong 13.6% but significantly less than the 24.5% return in 2009, which was aided by the unprecedented stimulus efforts by the federal government.

The \$3 billion investment gain in 2010 represents a \$1.4 billion decrease from the \$4.4 billion gain in 2009. IMRF's 2010 total investment portfolio return reflected the continued recovery from the housing decline, credit crisis and dramatic slow down in the global economy in 2008.

Major contributor

Even though IMRF employers and members both contribute to IMRF, earnings on IMRF's investments are the major contributor. In 2010, IMRF earned \$3 billion—this amount represents 73.1% of Plan Additions for the year.

As of December 31, 2010, IMRF's investments totaled \$25.5 billion, up from \$22.3 billion at the end of 2009.

Professional management

Currently, 66 professional

investment management firms, handling 80 separate accounts, manage the investment portfolio.

These firms make investment decisions under the prudent man rule authorized by Article 1 of the Illinois Pension Code and by investment policy guidelines adopted by the IMRF Board of Trustees.

The Board employs an investment consultant to monitor and evaluate the investment management firms' performance, to aid in the selection of investment management firms and to assist in the development of investment policy.

Long-term results

IMRF takes a conservative, long-term approach to investing on your behalf. IMRF designs our investment portfolio to achieve the greatest return with an acceptable amount of risk. Our diversified investment strategy results in steady and responsible returns.

The Board of Trustees, its consultant and IMRF staff review the investment asset allocation annually.

Investment Portfolio Summary as of December 31

(in millions)

	2010		2009	
	Market Value	% of Total	Market Value	% of Total
Fixed Income	\$7,685.6	30.1%	\$6,797.0	30.4%
Stocks	15,817.0	61.9%	13,569.1	60.7%
Real Estate	466.6	1.8%	413.1	1.8%
Alternative	964.2	3.8%	906.2	4.1%
Short-Term	613.5	2.4%	662.3	3.0%
Total	\$25,546.9	100.0%	\$22,347.7	100.0%

IMRF benefits protect members, contribute to Illinois economy

IMRF paid more than \$1.1 billion in retirement benefits to more than 96,000 retired members and survivors in 2010. In Illinois alone, IMRF paid \$988 million to retired members and survivors.

However, IMRF is more than just a retirement system. Our mission of protecting our members' income begins long before retirement.

Protecting you and your loved ones

Few of us imagine a time when we will become injured or sick and must be off work. If that happens to you, you can turn to the IMRF disability benefit.

In 2010, IMRF paid approximately \$11.5 million in disability benefits to more than 1,200 members.

Not only are these members receiving monthly disability benefit payments from IMRF, they are also earning IMRF service credit toward a future pension and their IMRF death benefit protection continues.

If we think little about being injured or sick, we probably think even less about our own death. But you can be assured that if your death occurs, your survivors will be protected by the IMRF death benefit.

IMRF paid approximately \$28 million in lump sum death benefits to members' survivors in 2010. Of the \$1.1 billion in retirement benefits paid in 2010, approximately \$66.2 million in monthly survivor benefits was paid to more than 13,000 surviving spouses and beneficiaries.

Local economic engine

The economic impact of IMRF reaches far beyond just those municipal workers who are earning or have earned retirement benefits in the system. After all, IMRF retirees are also consumers and taxpayers.

IMRF benefit payments ripple through the economy as retirees spend those payments in their local communities, creating income for other households, firms, and even various levels of government.

The income received by these households, firms and governments is, in turn, spent, thus creating additional income effects for other households and firms.

Funding

Our investment returns are the largest source of IMRF income. For 2010, investment income represented 73.1% of Plan Additions for the year. IMRF administrative and direct investment costs are financed by investment income. However, members and employers also contribute to IMRF.

IMRF member contribution rates—4.5% for the Regular plan, 7.5% for the Sheriff's Law Enforcement Personnel and the Elected County Officials plans—are determined by Illinois statute.

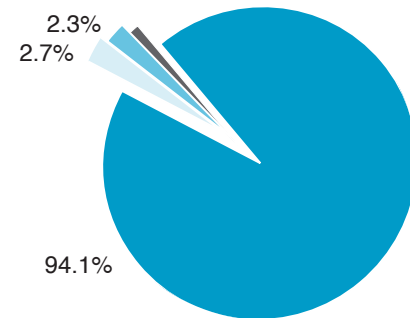
Illinois statutes also require each IMRF employer to contribute the amount needed to finance the pensions of its own employees.

Employer contributions for disability benefits, death benefits, and the "13th payment" are pooled.

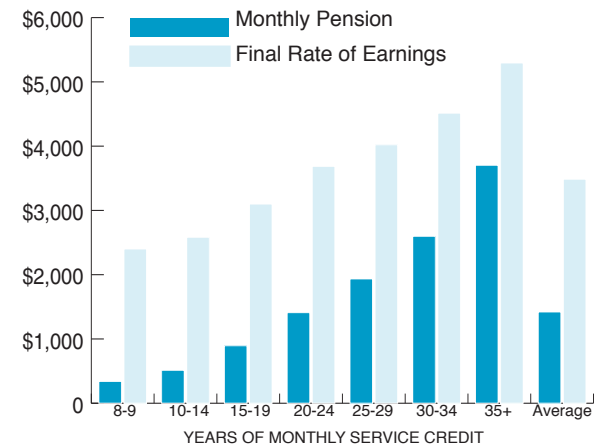
Benefits Paid in 2010

(in millions)

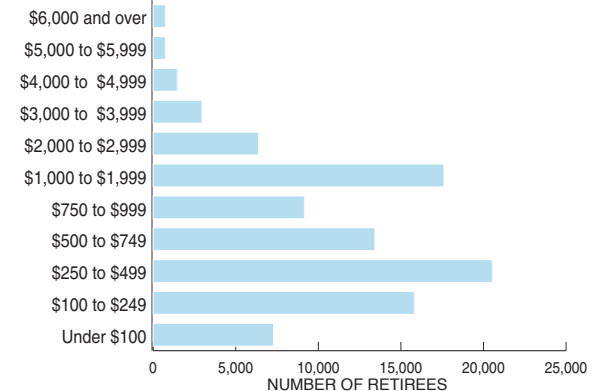
Pensions.....	\$1,138.5
Refunds.....	32.2
Death.....	28.0
Disability.....	11.5



Initial monthly pension payments for members who retired in 2010 under the Regular Plan



Current retirees by monthly pension amount



IMRF members: working in ways big and small to make our lives better

Local government workers, from the people who staff the school lunch room to the people who make sure our sanitation systems work to the people who fix our roads, are all individuals we count on every day without even knowing it.

At IMRF, we're well acquainted with the services local government provides. IMRF employers include cities, villages, counties, parks, libraries, and support personnel at school districts—in other words, the people who make our communities run.

Defined benefit public pension plans like IMRF are a form of deferred compensation, promises made to workers. Both you and your employer contribute toward your future retirement benefit. You contribute a percentage of your salary as established by Illinois law.

More than 97% of IMRF members participate in the Regular plan and contribute 4.5% of their wages toward an IMRF pension. Less than 3% of members participate in the Sheriff's Law Enforcement Personnel or Elected County Official plans; these members contribute 7.5%.

Are you an "average" member?

As of December 31, 2010, out of 176,703 active members, the "average" member is:

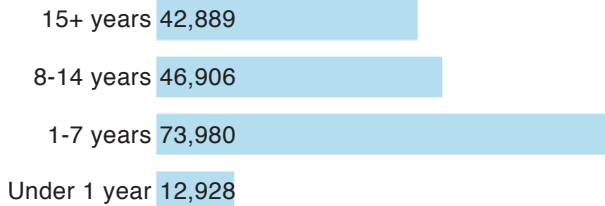
- Female
- 47 years old
- Participates in the Regular Plan
- Most likely works for a school district
- Earns \$36,277 a year
- Received a 1.4% salary increase in 2010
- Has 10.3 years of service credit

Are you an "average" retiree?

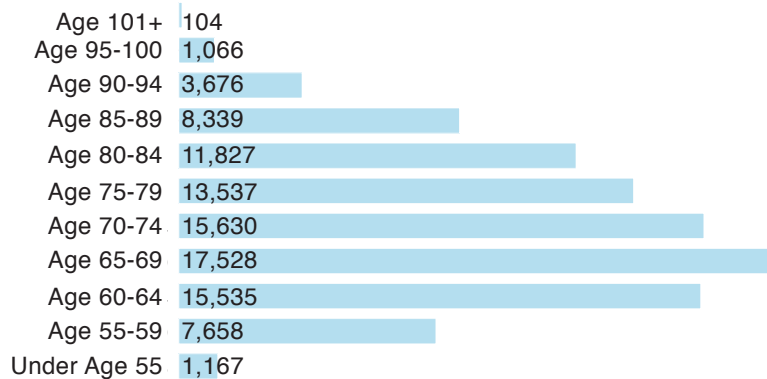
Of the 4,851 members who retired in 2010 under the Regular plan, the average retiree is:

- Female
- Had a final rate of earnings of \$3,486 a month
- Retired with approximately 22 years of service credit
- Receives a pension of approximately \$1,421 a month

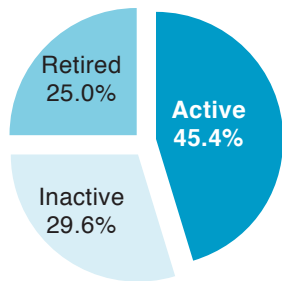
Active members by years of service



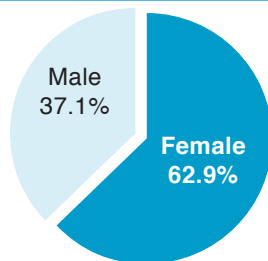
Retired members (retirees, surviving spouses, beneficiaries)



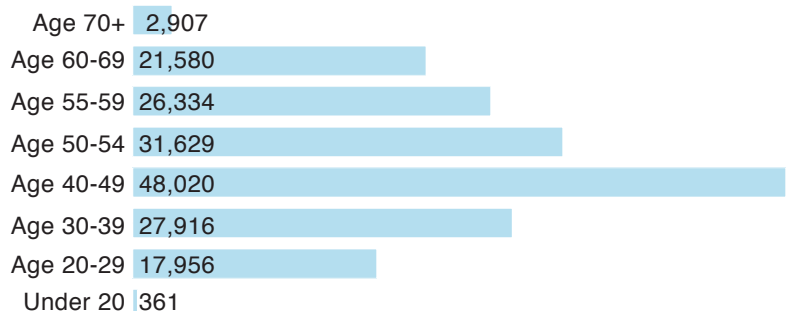
All members by participation



Active members



Active members by age



2010: A year of strategic planning, recognition, legislation & technology

Strategic Plan

The IMRF Board of Trustees and staff expanded our strategic planning process in 2010 to include elements of the *Baldrige Criteria for Performance Excellence* to ensure we align our objectives, processes, and resources with our Vision.

Our 2011 - 2013 IMRF Strategic Plan includes Strategic Objectives for each of our five Key Result Areas:

- Investment Returns
- Customer Satisfaction
- Employee Engagement
- Financial Health and Sustainability
- Service and Operational Excellence

To clarify our Vision, we used the Baldrige framework which offers a blueprint for organizations striving to become the best.

Baldrige recipient organizations often set their overarching strategic objectives to achieve a top decile ranking in each key area of importance. We are following that same path, as our Strategic Objectives challenge us to achieve top 10% performance for most key result areas. These objectives are supported by a set of key strategies critical to the success of our plan.

Our Strategic Plan provides IMRF with a road map for meeting the challenges and opportunities in providing the highest quality retirement services to our members, their beneficiaries, and employers in a cost-effective manner. It guides our efforts to continuously improve our service to our employers, members, and the taxpayers of Illinois.

Recognition of Excellence

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to IMRF for our comprehensive annual financial report for the year ended December 31, 2009. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

IMRF also received a Certificate of Achievement for Excellence in Financial Reporting for our popular annual financial report for the year ended December 31, 2009.

Each year, the editors of *PLANSPONSOR* magazine recognize retirement plan sponsors that demonstrate leadership in providing a more secure retirement for workers. IMRF was selected as a 2011 finalist for the Public Sector Plan Sponsor of the Year.

Legislative activity

On April 14, 2010, the Governor signed Public Act 96-0889 which created a second tier of IMRF benefits for Regular and Elected County Official members who are first enrolled in IMRF on or after January 1, 2011.

The new law does not affect members who participated in IMRF or a reciprocal system prior to January 1, 2011.

On December 30, 2010, the Governor signed Public Act 96-1495 which created a second tier of IMRF benefits for Sheriff's Law Enforcement Plan (SLEP) members who are first enrolled in IMRF on or after January 1, 2011. The new law does not affect members who participated in the SLEP plan prior to January 1, 2011.

Board of Trustees

John Piechocinski, Head Custodian for Plainfield Community Consolidated School District 202, was elected as an employee trustee. His five-year term began January 1, 2011.

Systems development

IMRF's major system development efforts in 2010 included:

- Providing comprehensive, online access to in-depth investments information to improve transparency of investment activities.
- Reengineering past service payment processing to improve internal efficiency and dramatically speed turnaround times.
- Implementing support across all applications

P.A. 96-0889 Major Tier 2 changes include:

- Increases vesting for a pension from 8 years to 10.
- Increases the age for full pension from 60 to 67.
- Increases the age for reduced pension from 55 to 62.
- Increases the pension reduction from 1/4% per month to 1/2% for each month member is under age 67.
- Increases number of months used to calculate the final rate of earnings from highest 48 to highest 96.
- Caps final rate of earnings at \$106,800 (increases annually by 3% or 1/2 the increase of Consumer Price Index, whichever is lower.)
- Limits annual pension increase to 3% or 1/2 the increase of Consumer Price Index, whichever is lower.
- Delays annual pension increases until age 67.

continued on page 8

Looking back at 2010

from page 7

IMRF 2011 Board of Trustees

Marvin R. Shoop, Jr.

President
Employee Trustee
City of Peoria

Gwen Henry

Vice President
Executive Trustee
DuPage County

William Stafford

Secretary
Executive Trustee
Evanston High School
Dist. 202

Ruth E. Fakis

Executive Trustee
Prairie Trails Public
Library District

John Piechocinski

Employee Trustee
Plainfield Community
Consolidated School
District 202

Martha H. Rademacher

Executive Trustee
Park District Risk
Management Agency

Natalie Copper

Employee Trustee
Evanston School Dist. 65

Sharon U. Thompson

Annuitant Trustee
(Formerly) Lee County

and platforms for legislation establishing a new benefit tier for Tier 2 members.

IMRF's major 2011 system development priorities focus on:

- Expanding our Member Access website self-service options including changing beneficiaries, comparing multiple pension estimates, and applying for benefits.
- Modernizing our correspondence generation process to more effectively deliver our key messages and to better support electronic delivery and archiving.
- Developing a long-term strategy for the overall modernization of our enterprise pension administration system.

CEM Benchmarking, Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF has participated in this benchmarking program since 2001. This program provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF again received high service level scores and was ranked at or near the top in both our peer group and in the total universe of the 73 participating retirement systems.

Though IMRF received high marks for our excellent customer service, the real value of the study is identifying areas for further improvement. We will continue our participation in this benchmarking program, as it is an important part of our Continuous Process Improvement Program.

DB Administration Benchmarking Analysis

IMRF's *Popular Annual Financial Report* summarizes some of the information available in our *Comprehensive Annual Financial Report*. The *Comprehensive Report* offers detailed information regarding IMRF's investment performance and funding as well as detailed demographic information for IMRF members and employers. You can read the *2010 Comprehensive Annual Financial Report* at www.imrf.org or request one at 1-800-ASK-IMRF (1-800-275-4673) 7:30 a.m. to 5:30 p.m., Monday through Friday.



Illinois Municipal Retirement Fund

Popular Annual Financial Report for Members

for the year ending December 31, 2010

Published June 2011

IMRF Main Office & Mail Address
2211 York Road
Suite 500
Oak Brook, IL 60523-2337

Springfield Regional
Counseling Center
3000 Professional Drive, Suite 101
Springfield, IL 62703

