Illinois Municipal Retirement Fund

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GENERAL MEMORANDUM

Number: 579

Date: November 7, 2008

To: All Authorized Agents

Subject: Update: IMRF's financial status

Executive Summary

On an unaudited basis, IMRF's assets have declined by approximately $2.5 billion between September 30, 2008, and October 31, 2008. Estimated and unaudited 2008 investment income losses through October 31, 2008, are approximately $5.9 billion. Year-to-date returns are -24.6%. IMRF's aggregate funding level was 100% on January 1, 2008, and is projected to be approximately 70% as of December 31, 2008.

In 2010, employer rates will begin a multi-year upward trend. If nothing changes between now and year end, and if IMRF were to follow its normal rate setting methodology, the average employer contribution rate for the Regular plan could move as high as 16.31%.

The IMRF Board of Trustees has approved, in concept, a phase-in approach to employer rate increases in 2010 and beyond. A rate phase-in of 15 to 20 percent of the amount of the increase normally required was discussed. A decision regarding any definitive phase-in percentage would not occur until January 2009, when preliminary 2008 investment returns will be known.

Employers will be given the option of not phasing-in increases and absorbing the full increase in 2010. Payment in full has the advantage of reducing employer obligations over the long term, increasing employer account reserves, and increasing returns on account reserves when IMRF experiences positive investment returns.

IMRF is a well diversified, long-term investor and will participate fully in future market upturns.

This is the second memorandum in a series which will keep you informed of IMRF's investment performance, potential affects on employer contribution rates for 2010, and actions taken by the IMRF Board of Trustees.

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Broad declines in the domestic and international financial markets accelerated in early to mid-October. Returns stabilized and improved by month's end. Nonetheless, IMRF's assets, on an unaudited basis, have declined by $2.5 billion between September 30, 2008, and October 31, 2008. Estimated and unaudited 2008 investment income losses through October 31, 2008, are approximately $5.9 billion.

IMRF's fiscal year is the same as the calendar year. Year-to-date returns are -24.6%. IMRF's aggregate funding level was 100% on a market value basis on January 1, 2008. Based on year-to-date estimated investment returns, we are projecting that our funded status will be approximately 70% as of December 31, 2008.

Impact on employer contribution rates

In 2008, the average employer contribution rate for the Regular plan is 9.47%. That rate will be 9.27% in 2009.

Because employers fund benefits for their own employees and demographic experiences vary widely between employers, not all employers will see rate declines next year. On the other hand, many employers will see declines which are much larger than -0.20% (20 basis points). It is reasonable to conclude that 2009 will be the low point for rates for the next several years. In 2010, rates will begin a multi-year upward trend.

The magnitude of the increases cannot be calculated until after year-end. As you may know, investment and demographic data is gathered in January of each year and delivered to IMRF's independent actuaries in February. Preliminary rate notices are issued in early April for the following year, allowing taxing bodies to request appropriate real estate tax levies.

If nothing changes between now and year end and if IMRF were to follow its normal rate setting methodology, the average employer contribution rate for the Regular plan could move as high as 16.31%.

Board of Trustees review

At its October 24, 2008, meeting, the IMRF Board of Trustees was updated on financial market conditions by the IMRF investment staff and independent consultants (Ennis Knupp)*. The Board also reviewed performance by individual investment managers. Gabriel, Roeder, Smith & Co., consulting actuaries, also reviewed IMRF's actuarial experience to determine whether assumptions used to project IMRF's assets and liabilities were appropriate. Finally, the Board conducted a thorough review of alternatives to ameliorate 2010 employer rate increases, if necessary.

The Board approved, in concept, a phase-in approach to moderate employer rate increases in 2010 and beyond. A final decision on the amount of the moderation and the length of time to phase-in the increases was not set. A rate phase-in of 15 to 20 percent of the amount of the increase normally required was discussed. A decision concerning any definitive phase-in percentage will not occur until January 2009, when preliminary 2008 investment returns will be known.

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Details of a phase-in plan

The mechanics of how a phase-in plan will be implemented have not been finalized. Employers whose 2009 rate is less than the cost of the IMRF program (8.67% for the Regular plan) will be required to pay at least the cost of the IMRF program in 2010 since it is anticipated that the overfunded status that resulted in the lower rate will have evaporated by year-end 2008. Similarly, Early Retirement Incentives (ERI) are a separate option adopted by employers, and increases in rates due to an ERI would not be phased-in.

Given the nature of the year-to-date investment losses, you should plan on the phase-in extending beyond 2010. Any extension and its application would be impacted by future investment returns.

Employers would be given the option of not phasing-in increases and absorbing the full increase in 2010. Payment in full has the advantage of reducing employer contributions over the long term, increasing employer account reserves, and increasing returns on account reserves when IMRF experiences positive investment returns. Employers who choose to phase-in the 2010 rate increase will be required to record a net pension obligation on their books in accordance with generally accepted governmental accounting principles.

Things to consider

My goal is to keep you and your employer informed so that better decisions can be made as we work through this period of increasing employer contribution rates. A few things to consider and remember:

- IMRF is well diversified; it is a long-term investor; it will participate fully in future market upturns.
- If your employer is a taxing body, consider optimal ways to handle your IMRF tax levy.
- If your employer is an instrumentality, keep your participating employers informed of your expected financial needs to meet your IMRF obligations.
- Future Early Retirement Incentives must be paid for within 10 years (if you adopted a shorter amortization period, the period can be extended to help your employer adjust to rising IMRF costs, but no longer than 10 years from adoption).

In closing, let us recognize we are partners in providing a reasonable, secure benefit for your employees. IMRF staff is available to answer questions and address issues. Our website can be a valuable resource to you. Please download and share information as necessary.

Sincerely,

Louis W. Kosiba
Executive Director

* Ennis Knupp was named as consultant to the U.S. Department of Treasury to oversee the federal government's investment portfolio arising from the $700 billion Emergency Economic Stabilization Act of 2008.