Illinois Municipal Retirement Fund
Suite 500 2211 York Road Oak Brook IL 60523-2337
Member Services Representatives 1-800-ASK-IMRF
www.imrf.org

GENERAL MEMORANDUM

Number: 586

Date: March 3, 2009

To: All Authorized Agents

Subject: IMRF Board's Response to the Impact of 2008 Investment Return on Future Employer Contribution Rates

We encourage each Authorized Agent to share this memorandum with the unit of government's chief financial officer, other officials, and governing body members.

Executive Summary

This preliminary information is based on unaudited investment return data and projected actuarial information. All finalized information will not be available until early May 2009.

The estimated 2008 investment return for IMRF is a negative 24.8%. This return translates into investment loss of approximately $6.1 billion. If IMRF were to follow its normal rate setting procedures, the magnitude of this loss would dramatically impact employer contribution rates for 2010.

To moderate the impact of the 2008 investment losses on employers, the IMRF Board took the following actions at its February 27, 2009, Board meeting:

- Changed two actuarial techniques which will provide short-term and longer-term relief for employer rates and funded status.
- Adopted a phase-in plan for employer contribution rates which will cap most employer rate increases at 10% and provide immediate rate relief in 2010 and subsequent years.

Preliminary phase-in plan rates will be available the week of March 2, 2009, on IMRF's employer website and are subject to change based upon the final actuarial data.

Employers will receive preliminary rate notices in mid-April 2009. Final rate notices will be available in November 2009. The preliminary rate notices will show the full actuarial required contribution (ARC) and the finalized phase-in rate.

Although employers may contribute the full ARC rate, the phase-in rate or some rate between the two, employers who are capable of funding the additional costs are encouraged to choose the higher ARC rate.

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Actions Taken by IMRF Board

At its February 27, 2009 meeting, the Board took several actions to moderate the impact on employers' funded status and contribution rates. It made three changes to the actuarial techniques used to calculate employer funded status and the actuarial required contribution rates (ARC):

- Widened the allowable corridor between the market and actuarial value of assets from 15% to 20%;
- Changed the amortization method from a closed to a rolling one and changed the period to 30 years for taxing bodies and 10 years for non-taxing bodies; and
- Increased the threshold for the rapid amortization of over funding credits to reduce employer contribution rates from 100% to 120%.

Second, the Board adopted an optional phase-in plan for employer contribution rates with the following components:

- Capped most employer contribution rate increases at 10% of the 2009 rate, excluding ERI and SLEP enhancement costs (For example, an employer with a 10% rate would increase to 11%);
- Maintained the Board's policy of requiring all employers to pay the full cost for current service regardless of the percentage increase (for example, using the full cost of the IMRF program for 2009, the minimum employer contribution rates for the regular, SLEP and ECO plans for most employers would be 8.37%, 12.58% and 25.69% respectively in 2010);
- Provided employers the option of paying the full actuarial required contribution (ARC), the phase-in rate or some rate between the ARC and the phase-in rate; and
- Provided the Board the prerogative to review the phase-in plan annually and to modify it based on actual future investment returns and other relevant factors.

Employer Contribution Rates

The average employer rate for the Regular plan was 9.47% for 2008 and is 9.27% for 2009, a decrease of 20 basis points or 2.1%. The 2009 rate reflects the fact that the Regular plan was less than 100% funded on an actuarial basis as of December 31, 2007.

The impact of 2008 investment losses on individual employer contribution rates is difficult to forecast, since each employer has a unique rate affected by its own demographics and funded status. IMRF's *actuarial* return (used to determine employer contribution rates and actuarial funding status) is estimated to be a negative 6.7% in 2008, significantly less than the 7.5% assumed return.

Therefore, despite the moderating impact of widening the corridor to 20% and changing the amortization method to a rolling 30 years for taxing bodies and to a rolling 10 years for non-taxing bodies, the average employer rate for the Regular plan is expected to increase to 14% in 2010, an increase of 4.73%, or a 51% increase from the 2009 rate.

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Phase-in Plan rates

Because of this dramatic increase, the IMRF Board adopted the phase-in plan discussed above. Most employers will see their 2010 contribution rates increase by 10% from their 2009 rates. For example, if an employer had a 10% contribution rate in 2009, the optional phase-in rate would be 11% for 2010. The phase-in plan applies to all three of IMRF's plans—the regular plan, the SLEP plan and the ECO plan. Employers who are paying less than the full cost of the IMRF program in 2009 (8.37% for the regular plan, 12.58% for SLEP and 25.69% for ECO) because they were over funded as of December 31, 2007, will have to pay the full cost of the IMRF program in 2010.

The preliminary phase-in plan rates will be available the week of March 2, 2009, on IMRF's employer website. We believe these rates will be very close to the finalized phase-in rates but are subject to change based upon the final actuarial data which will be available in late April.

Rate Notices

As in prior years, employers will receive preliminary rate notices in mid-April 2009. Final rate notices will be available in November 2009. The preliminary rate notices, which will be available in April, will show the full actuarial required contribution (ARC) and the finalized phase-in rate. IMRF employers will be given the option to contribute based on the full ARC rate, the phase-in rate or some rate between the two.

In conjunction with the preliminary rate notice, employers will receive a memorandum outlining how the phase-in plan will work for contribution year 2010 and beyond. Since selecting the phase-in rate delays the recovery of unfunded pension costs, over the long-term the phase-in rate is more costly for employers than the ARC rate. Because of the additional cost, employers who are capable of funding the additional costs are encouraged to choose the higher ARC rate. IMRF will assume that an employer has chosen the lower phase-in rate unless the employer contacts IMRF with a different rate by August 31, 2009.

Questions?

If you have any questions regarding the information presented in this memorandum, please call or e-mail Chief Financial Officer Richard DeCleene at (630) 368-5345 or rdecleene@imrf.org.

Sincerely,

Louis W. Kosiba
Executive Director