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: 587

Date: April 14, 2009

To: All Authorized Agents

Subject: Preliminary Notice of IMRF Contribution Rate for Calendar Year 2010

We encourage you to share this memorandum with your chief financial officer, other officials, and governing body members.

Executive Summary

Each employer's "Preliminary Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2010" was made available the week of April 13, 2009.

- The notice shows the actuarial required contribution rate, or "ARC," for 2010 for each employer plan as well as the optional phase-in plan rate, if applicable. Out of the 2,999 employers in the Regular plan, 34% will not be offered a phase-in rate since their ARC is lower than the phase-in rate.
- The higher ARC rate was calculated by IMRF's actuaries and reflects the recovery of your employer's actuarial accrued unfunded liability.
- The lower rate, the optional phase-in contribution rate, is based upon the IMRF Board of Trustees' phase-in plan.
- Beginning in 2010, employers who choose to contribute less than the ARC will be required to record a net pension obligation on their books for the difference between what they actually contributed and what would have been contributed using the ARC.
- Employers have until August 31, 2009, to select their 2010 contribution rate. **If IMRF does not hear from an employer by August 31, 2009, we will assume the employer has chosen the optional phase-in rate.**
- While the phase-in rate is lower and results in lower contributions currently, it does result in higher contributions over the long term due to the additional carrying costs on the resulting higher unfunded liability. IMRF encourages employers who have the financial capability to contribute at the higher level.
- If an employer is concerned with its ability to sustain a commitment to a higher contribution level, it could select the lower phase-in rate for 2010 and make additional voluntary contributions to reduce its unfunded liability. This would allow the employer to reduce its long term pension costs while maintaining maximum flexibility to manage its contribution rate in future years.
- **If an employer wishes to contribute an amount above the optional phase-in rate in connection with the normal monthly wage reporting process, contact IMRF.**
- Employers should carefully consider their selection of their 2010 contribution rate since the rate selected for 2010 will impact the choices that will be available in 2011.

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Preliminary 2010 Rate Notice

Recently we advised you that your employer's "Preliminary Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2010" was available. This notice provided two rates for each IMRF plan your employer offers, e.g. Regular, Sheriff's Law Enforcement Personnel ("SLEP") or Elected County Official ("ECO") plans, if applicable:

- The higher rate, the annual required contribution or "ARC," was calculated by IMRF's actuaries and reflects the recovery of your employer's actuarial accrued unfunded liability ("Funding Adjustment") over 30 years for employers who can levy property taxes and over 10 years for employers who cannot.

- The lower rate, the optional phase-in contribution rate, is based upon the IMRF Board of Trustees' decision. The Board wanted to provide employers flexibility because of the dramatic increase in employer contribution rates caused by large investment losses suffered by IMRF in 2008.

  If you were not offered an optional phase-in rate
  If an employer was not offered an optional phase-in contribution rate for one of its plans, that means that the employer's ARC rate for that plan was lower than the optional phase-in rate. Out of the 2,999 employers in the Regular plan, 34% were not offered a phase-in rate since their ARC was lower than the phase-in rate.

  If your rate includes ERI or SLEP enhancement
  For most employers, the optional phase-in plan contribution rate will be 10% higher than their 2009 contribution rate. Employers who have an Early Retirement Incentive ("ERI") or SLEP Enhancement component of their contribution rate may have an increase of less than 10% because ERI and SLEP Enhancement costs are based on a fixed liability and are not directly impacted by investment returns.

  If you were overfunded as of December 31, 2007
  Employers who were over funded as of December 31, 2007, and had a 2009 employer contribution rate that was less than the full cost of the IMRF program will be required to pay—at a minimum—the full cost of pension service earned by its IMRF members in 2010. The average full cost of current service for 2010 is 8.52% for the Regular plan, 12.91% for SLEP, and 18.18% for ECO.

  Individual employers' full cost of 2010 current pension service can vary from these averages. If an employer's 2009 contribution rate was less than the full cost of current service in 2009, the employer will see their 2010 contribution rate increase to at least the full cost of current service for 2010. In all cases these employers will see at least a 10% increase in their 2010 employer contribution rate.

Options Available for 2010 Employer Contribution Rates
Employers may select:

- The optional phase-in employer rate,
- The ARC, or
- A rate between the optional phase-in rate and the ARC.

If an employer wishes to contribute an amount above the optional phase-in rate in connection with the normal monthly wage reporting process, contact IMRF staff. (See the "Questions" section for whom to contact.)

If IMRF does not hear from you by August 31, 2009, we will assume you have chosen the optional phase-in rate. This rate will be reflected on your "Final Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2010," which will be available in November 2009.

If you have the financial capability to select the higher ARC contribution rate, IMRF encourages you to do so since higher contributions will lower your pension costs over the long term. An employer's actuarial accrued unfunded liability is subject to interest charges based upon IMRF's actuarial assumed rate of return, currently 7.5%. By selecting the higher ARC rate, you will reduce your unfunded balance more quickly thus reducing the long-term carrying costs of the unfunded liability.

Choice letters: Employers that are more than 120% funded
Approximately 75 employers are more than 120% funded on a market value basis as of December 31, 2008. These employers have an additional option. They may chose a lower minimum contribution rate calculated by IMRF.

In May, IMRF will mail these employers a "choice letter" explaining this additional option.

Lump sum payments
In addition to paying normal contributions through the monthly wage reporting process, employers can make lump sum contributions to reduce their unfunded liability.

While these contributions can be made at any time throughout the year, from the employer's perspective it is most advantageous to make such payments in December since IMRF grants interest on beginning of the calendar year balances.

Any employers thinking of making additional payments may want to contact IMRF staff before doing so. (See Exhibit 1 of this memorandum for detailed instructions on how to make additional contributions using IMRF's Electronic Funds Transfer system.)

Recording net pension obligation

From a financial accounting perspective, an employer's pension expense is based on its ARC rate. The fact that an employer is allowed to contribute something less than its ARC does not change the employer's actual pension cost.

Beginning in 2010, employers who choose to contribute less than the ARC will be required by generally accepted governmental accounting principles to record a net pension obligation on their books for the difference between what they actually contributed and what would have been contributed using the ARC. GASB Statement 27 "Accounting for Pensions by State and Local Governmental Employers" has a detailed example on how to account for this difference.

Impact of 2010 Choices on 2011 and Beyond

Because of the significant investment losses suffered in 2008, IMRF currently believes that the optional phase-in plan placed into effect for 2010 will extend beyond 2010. At the present time, IMRF intends to offer optional phase-in rates for 2011 which will be capped at 10% in a manner similar to 2010. Thus for most employers, the 2011 optional phase-in rate will be 10% higher than the 2010 contribution rate selected by the employer. **The rate an employer selects for 2010 will impact its rate in 2011.**

For example, assume two identical employers, A and B, had the following choices for 2010: a phase-in rate of 9.5% or an ARC rate of 12%:

- For 2010, Employer A selects the 9.5% phase-in rate for 2010 and employer B selects the ARC rate of 12%.

- For 2011,
  - Employer A will have a phase-in rate option of 10.45% (10% over its 2010 rate of 9.5%) or its 2011 ARC rate computed by IMRF's actuaries.
  - Employer B will have a phase-in rate option of 13.2% (10% over its 2010 rate of 12%) or its 2011 ARC rate computed by IMRF's actuaries. It is possible that Employer B's 2011 ARC rate might be less than the 2011 phase-in rate. In this case, IMRF's optional phase-in plan would no longer be applicable to employer B since it would not provide any benefit.

Assuming IMRF were to earn 7.5% on its investments over the next four years, it is estimated that the average ARC for the Regular plan would increase approximately 6% per year over that time period. The 6% increase is due to the $3.6 billion of unrecognized losses which will be included in employer rate calculations over that time. The unrecognized losses are included in the rate calculations because of the actuarial smoothing technique actuaries use for investment gains and losses.

As noted above, IMRF strongly encourages employers with the financial ability to contribute at the higher ARC level because it is cost beneficial. However, we realize there is a great deal of economic uncertainty at this time and employers may be reluctant to commit to higher contribution levels in 2010 in light of its impact on 2011 and later years.

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If an employer is concerned with its ability to sustain a commitment to a higher contribution level, it could select the lower phase-in rate for 2010 and make additional voluntary contributions to reduce its unfunded liability. This would allow the employer to reduce its long term pension costs while maintaining maximum flexibility to manage its contribution rate in future years.

IMRF's Annual Review of the Optional Phase-in Plan

When the IMRF Board adopted the optional phase-in plan at its February 27, 2009, meeting, it retained the right to review the phase-in plan annually and to modify it based on future investment returns and other relevant factors.

At this time, IMRF believes that the phase-in plan will not be modified for 2011 rate contribution purposes. If the IMRF Board believes that the plan will have to be modified for 2011 rates, IMRF will promptly communicate that information to employers. Since the current plan calls for increasing an employer's contribution rate 10% a year until the rate reaches the ARC, the current phase-in plan has a built-in sunset provision.

Questions?

If you have any questions regarding the information presented in this memorandum, please call or e-mail IMRF Employer Relations Audit Supervisor Audrey Brown-Ryce at (630) 706-4246 or abrown-ryce@imrf.org or IMRF Employer Account Associate Analyst Corey Lockwood at (630) 706-4226 or coreylockwood@imrf.org.

Sincerely,

Louis W. Kosiba
Executive Director

Exhibit 1

Submitting additional payments using IMRF's Electronic Funds Transfer payment system

You can submit an additional payment using IMRF's Electronic Funds Transfer (EFT) payment system. Remember payments must be initiated by 2:30 p.m. Central Time, at least one business banking day prior to December 31st, in order for the payment to settle in IMRF's bank account on December 31st.

Web Based System Instructions

- On the *Log On* screen, enter your assigned **EFT number** and **PIN** (Personal Identification Number) and press **Log On**.
- The *Select Payment Option* screen will be displayed. Select the **Additional Funding of your Pension Obligation** (Payment Type Code 024) payment type.
- The *Make Payment* screen will be displayed. Enter the appropriate values in the displayed fields. Press **Continue**.
- The *Confirm Payment* screen will be displayed. Review the information to ensure accuracy. If it is correct, press **Submit Payment**. If incorrect, press the **Edit Payment** button to make corrections.
- The *Payment Acknowledgement* screen will be displayed. Your Payment Reference Number will be listed. Print this page as a receipt for your payment. *Log off*.

Pay-by-Phone System Instructions -
Call 1-877-610-3706

- On your touch-tone phone, please press '1', followed by the # sign.
- To expedite your call, press the # sign after each entry and after the system repeats your entry. If your entry or what you hear is not correct, press the * key and the system will re-prompt that field. At any time during the recording, press the * key three times to transfer to an operator.
- Enter your EFT Employer Number followed by the # sign.
- If this number is correct, press the # sign again.
- Enter your PIN (Personal Identification Number) followed by the # sign.
- To make a payment, press 1 followed by the # sign. To cancel or inquire about a payment, press 2 followed by the # sign. To change your password, press 3 followed by the # sign.
- Enter the Payment Type 024 Additional Funding of your Pension Obligation.
- Enter the appropriate payment amount you wish to make.
- Enter the date you would like your bank account debited.
- The system will respond with the Payment Acknowledgement and reference number.