Illinois Municipal Retirement Fund
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Member Services Representatives 1-800-ASK-IMRF
www.imrf.org

GENERAL MEMORANDUM

Number: 625

Date: March 30, 2012

To: All Authorized Agents

Subject: Preliminary Notice of IMRF Contribution Rate for Calendar Year 2013

Please 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 2013" is available in your Employer Document Archive in your Employer Access account under the EFINANCE category.

- The notice shows the actuarial required contribution rate, or "ARC," for 2013 for each employer plan as well as the optional phase-in plan rate, if applicable. Only 13% of Regular plan employers will be offered a phase-in rate for 2013.
- The ARC rate was calculated by IMRF's actuaries and reflects the recovery of your employer's actuarial accrued unfunded liability. The rate also reflects the impact of Tier 2 members on an employer's normal cost.
- **If you are offered a phase0in rate**:
  - The lower rate, the optional phase-in contribution rate, is based upon the IMRF Board of Trustees' phase-in plan which was adopted in 2009 (and amended in 2011) in response to 2008 investment losses.
  - If you choose to contribute less than the ARC, you will be required to record a net pension obligation (NPO) on your books for the difference between what you actually contributed and what would have been contributed using the ARC. IMRF developed an Excel spreadsheet which will help you calculate the NPO. You can download the spreadsheet from www.imrf.org. Employers without Internet access can request a copy on CD by contacting IMRF Employer Account Analyst Corey Lockwood at 630-706-4226
  - You have until August 31, 2012, to select your 2013 contribution rate. Please advise IMRF **in writing** (fax 630-368-5398, email coreylockwood@imrf.org, or U.S. Postal mail) of your selection. **If IMRF does not receive a written response from you by August 31, 2012, we will assume you have selected the optional phase-in rate.**
  - While the phase-in rate results in lower contributions currently, it results 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 you are concerned with your ability to sustain a commitment to a higher contribution level, you could select the lower phase-in rate for 2013 and make additional voluntary contributions to reduce your unfunded liability. This would allow you to reduce long term pension costs while maintaining maximum flexibility to manage your contribution rate in future years.
  - **If you wish to contribute an amount above the optional phase-in rate in connection with the normal monthly wage reporting process, contact IMRF.**
  - You should carefully consider your selection of your 2013 contribution rate since the rate selected for 2013 will impact the choices that will be available in 2014.

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Your employer's "Preliminary Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2013" is available. The majority of employers' Preliminary Notice provides the annual required contribution or "ARC" only.

For some employers (13% of Regular plan employers) the Preliminary Notice provides two rates for each IMRF plan the employer offers, e.g. Regular, Sheriff's Law Enforcement Personnel ("SLEP") or Elected County Official ("ECO") plans, if applicable.

Rates provided on the Preliminary Notice

- All employers will see their annual required contribution or "ARC," which was calculated by IMRF's actuaries. The ARC reflects the recovery of the 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 impact of the employer's Tier 2 members is reflected in its 2013 ARC rate.

- Some employers will also see a lower rate, the optional phase-in contribution rate, which is based upon the IMRF Board of Trustees' phase-in plan which was adopted in 2009 in response to 2008 investment losses.

  In 2011, the IMRF Board of Trustees amended the phase-in plan to ensure that all employers would be contributing the ARC by 2015. If you were on the phase-in plan in 2012, your Preliminary Notice provides an optional 2013 phase-in rate which is the higher of:

    - 10% higher than your 2012 phase-in rate or
    - One-third of the difference between your 2012 phase-in rate and your 2013 ARC rate.

Impact of Tier 2

As noted above, 2013 employer contribution rates reflect the impact of Tier 2 members on an employer's normal cost. Each employer's blended normal cost reflects its own mix of Tier 1 and Tier 2 members.

The following table shows the composition of the aggregate average normal cost by plan. If you have a higher or lower blended normal cost, this means you have a lower or higher percentage of Tier 2 members than the aggregate average.

	Normal Cost		
	Tier 1	**Tier 2**	**Blended**
Regular	7.89%	4.68%	7.77%
SLEP	12.84%	9.12%	12.74%
ECO	17.64%	13.58%	17.63%

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 either the employer's ARC rate for that plan was lower than the optional phase-in rate, or the employer's 2012 rate was based on the ARC and it is not eligible for a phase in rate for 2013. Only 13% of Regular plan employers were offered a phase-in rate for 2013.

If your rate includes ERI or SLEP enhancement

For most employers who are offered a phase-in contribution rate, the optional phase-in contribution rate will be 10% higher than their 2012 contribution rate. Employers who have an Early Retirement Incentive ("ERI") or SLEP enhancement component of their contribution rate may have an increase more or 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 12/31/10 but underfunded as of 12/31/11

Employers who were overfunded as of December 31, 2010, but underfunded as of December 31, 2011, and had a 2012 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 service credit earned by its IMRF members in 2013. The average full cost of current service for 2013 is 8.69% for the Regular plan, 13.67% for SLEP, and 18.56% for ECO.

Individual employers' full cost of 2013 current service credit can vary from these averages. If an employer's 2012 contribution rate was less than the full cost of current service credit in 2012, the employer will see its 2013 contribution rate increase to at least the full cost of current service credit for 2013. In all cases, these employers will see at least a 10% increase in their 2013 employer contribution rate.

Options Available for 2013 Employer Contribution Rates

Employers may select:

- The ARC, or
- The optional phase-in employer rate (if available), or
- A rate between the optional phase-in rate and the ARC

If you have been offered a phase-in rate:

- **If you wish 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.)

- You have until August 31, 2012, to select your 2013 contribution rate. Please advise IMRF **in writing** (fax 630-368-5398, email coreylockwood@imrf.org, or U.S. Postal mail) of your selection.

- **If IMRF does not receive a written response from you by August 31, 2012, we will assume you have selected the optional phase-in rate.** This rate will be reflected on your "Final Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2013," which will be available in November 2012.

- If you have the financial capability to select the higher ARC contribution rate, IMRF encourages you to do so because 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

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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 who are more than 120% funded

Employers who are more than 120% funded on a market value basis as of December 31, 2011, have an additional option. They may choose 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.

Employers who choose to contribute less than the ARC will be required by generally accepted governmental accounting principles to record a net pension obligation (NPO) 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.

To help employers determine their NPO, IMRF developed an Excel spreadsheet which will help employers calculate the NPO. Employers can download the spreadsheet from www.imrf.org. Employers without Internet access can request a copy of the spreadsheet on CD by contacting IMRF Employer Account Analyst Corey Lockwood at 630-706-4226.

The spreadsheet includes instructions on how to use it and how to journalize the amount it calculates.

Impact of 2013 choices on 2014 rates

The optional phase-in plan placed into effect for 2010 will end after 2014. For 2014 employer contribution rates, employers who were on the phase-in plan in 2013 will be offered an optional 2014 phase-in rate which will be the higher of either:

- A rate that is 10% higher than the 2013 phase-in rate, or
- A rate which increases the 2014 phase-in rate by one-half of the difference between the 2013 phase-in rate and the 2014 ARC.

The rate an employer selects for 2013 will impact its rate in 2014.

Assuming IMRF were to earn 7.5% on its investments in 2012, it is estimated that the average ARC for the Regular plan for 2014 would decrease from 12.85% to 12.83%.

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 2013 in light of its impact on 2014.

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 2013 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.

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 arbrown-ryce@imrf.org, IMRF Employer Account Analyst Corey Lockwood at (630) 706-4226 or coreylockwood@imrf.org, or IMRF Chief Financial Officer Richard DeCleene at (630) 368-5345 or rdecleene@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.