2211 York Road, Suite 500 Oak Brook, IL 60523-2337 1-800-ASK-IMRF (275-4673)

www.imrf.org

GENERAL MEMORANDUM #659

To: **All Authorized Agents**
Subject: **Impact of 2015 Investment Return on Employer Funding Status, Employer Reserves, and Future Employer Contribution Rates**
Date: **January 29, 2016**

Please share this memorandum with your chief financial officer, governing body members, business managers, and other officials.

Executive Summary

This preliminary information is based on unaudited investment return data and projected actuarial information. Final information will be available in May 2016.

The estimated 2015 investment return for IMRF is 0.32%, which fell short of the 7.5% target. This return translates into investment income of approximately $147.43 million, after investment and administrative expenses. The Illinois Pension Code requires IMRF to annually credit 7.5% interest to the IMRF member and annuitant reserves. Because the IMRF portfolio did not return 7.5% in 2015, the required funds are drawn from IMRF employers' reserve accounts. This reflects the fact that, as sponsors of a defined benefit pension plan, IMRF employers share all the risks and rewards of investment returns. Therefore, approximately $2.62 billion will be withdrawn from the employer reserve accounts, an average reduction of 21.32% from beginning of the year balances.

In April 2016, IMRF will present a series of local rate meetings throughout the state. At these meetings, the impact of year-end financial and actuarial data on IMRF as a whole and its estimated impact on individual employers will be discussed. Current topics impacting IMRF and pension plans in general will also be discussed. IMRF will present the same information in an online webinar in May 2016.

Investment Returns

IMRF investment returns reflect financial markets over a calendar year. IMRF reports both a market basis return and an actuarial return. IMRF's estimated 2015 investment return on a market basis is 0.32%. IMRF's actuarial return is 1.4%. The actuarial return is used to determine employer contribution rates and actuarial funding status. This technique moderates fluctuation in employer contribution rates, and delays the recognition of market returns that either exceed or fall short of the assumed actuarial return of 7.5%.

Employer Funding Status

IMRF's 2015 aggregate funding status on a market basis is projected to decrease from 93.1% as of year-end 2014 to 87.4% at year-end 2015.

On an actuarial basis, IMRF's aggregate funding status is expected to increase from 87.3% as of year-end 2014 to 88.5% at year-end 2015.

Absent any significant changes in actuarial experience, most individual employers can expect the funding status of their plan to slightly decrease on both an actuarial and market value basis.

In April 2016, IMRF will furnish each employer its annual GASB 50 footnote information as well as GASB 68 information for 2015. This information will disclose both the actuarial and market-based funding status for all plans for each employer's active and inactive members.

Impact on Employer Reserves

By statute, IMRF must credit member and retiree reserves with 7.5% interest and pay approximately $145.68 million in administrative and investment expenses.

Employer reserve balances will experience an average reduction of 21.32% from beginning of the year balances. This charge reflects the fact that, as sponsors of a defined benefit plan, IMRF employers share all the risks and rewards of investment returns. The actual amount charged to individual employers will vary from the average due to differences in annuitant reserve amounts.

Over the last ten years, IMRF employers have been credited or (charged) the following amounts: ($2.62) billion in 2015; $719.6 million in 2014; $3.973 billion in 2013; $1.927 billion in 2012; ($1.436) billion in 2011; $1.713 billion in 2010; $3.461 billion in 2009; ($7.100) billion in 2008; $871 million in 2007; and $1.879 billion in 2006.

Employer Contribution Rates

Employer contribution rates consist of as many as six parts:

- Normal retirement costs
- Death in service benefits
- Temporary disability benefits
- Supplemental retirement benefits (13^{th} payment)
- Amortization of over- or underfunding
- Early Retirement Incentives (employer option)

The ongoing cost of the IMRF benefit package for the regular plan covering normal retirement costs, death in service benefits, temporary disability benefits, and supplemental retirement benefits was 7.75% of payroll in 2015. Put another way, for each dollar of service an employee renders, the employer also incurs a pension cost of 7.75 cents. If an employer is *overfunded*, the 7.75 cents is ***reduced*** and IMRF draws from the surplus. If an employer is *underfunded*, the 7.75 cents is ***increased*** to collect the shortfall.

The average employer rate was 11.69% in 2015. The rate for 2016 is 11.72%, and the projected rate for 2017 is 11.22%. The 11.69% rate reflects the fact that the plan was less than 100% funded in the aggregate on an actuarial basis as of December 31, 2015.

The impact of 2015 investment returns on individual employer 2017 contribution rates is difficult to forecast since each employer has a unique rate affected by its own demographics and funding status, as well as its mix of Tier 1 and Tier 2 members.

IMRF Meetings

To discuss the potential impact on individual employers in 2016 and beyond, IMRF will conduct a series of Employer Rate Meetings throughout the state, beginning in April 2016. Current topics impacting IMRF and pension plans in general will also be discussed. In May 2016, IMRF will present an online webinar program that will similarly discuss this information.

Details and registration information for the Employer Rate Meetings and online webinar will be available on IMRF's website, www.imrf.org, and in upcoming editions of the *Employer Digest* e-newsletter.

Questions

If you have any questions regarding the information presented in this General Memo, please call or email Mark Nannini, Chief Financial Officer, at (630) 368-5345 or mnannini@imrf.org.

Sincerely,

Louis W. Kosiba
Executive Director