

# FUNDAMENTALS

IMRF

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## Five challenges and how IMRF is meeting them head-on

The changing times create new challenges that IMRF is uniquely well positioned to manage and overcome

In 2002, IMRF Executive Director Louis W. Kosiba outlined for the IMRF Board of Trustees several challenges that IMRF was facing. With improvements in technology and strategic planning, IMRF resolved those challenges over time, but as Kosiba prepares to retire at the end of 2017, new challenges have emerged. Kosiba predicts IMRF will proactively overcome these new challenges through five key tactics:

- Educating Illinois legislators about IMRF as an organization.
- Advocating for IMRF as a successful system in the public eye.
- Safeguarding its members' data against cybercriminals.
- Updating its technology to provide members with the best possible customer service.
- Implementing the Baldrige Criteria for Performance Excellence to improve IMRF's operations as a whole.

### Outreach to legislators

Not every Illinois legislator fully understands how IMRF works or how successful it is as a pension system. As a result, they sometimes include IMRF in legislation meant to solve problems in the state's other public pension systems. The financial crisis faced by Illinois's state-funded systems is not a problem that applies to IMRF.

**“What we're trying to do is protect the ability of IMRF to do its work, and protect the interests of our members and employers.”**

*Louis W. Kosiba,  
IMRF Executive Director*

To address this challenge, IMRF proactively connects with Illinois legislators to educate them about what IMRF does, how it operates, and what makes it unique in Illinois.

IMRF Legislative Liaison Bonnie Shadid regularly meets with members of the Senate and House pension committees. Additionally, the IMRF Executive Director is always available to testify before any legislative committees on pension issues. The IMRF Board of Trustees also takes positions on proposed legislation, and IMRF's Legislative Liaison shares the Board's reasoning with legislators through formal position papers.

IMRF's legislative outreach gets results. For example, several bills introduced this year would have created a third tier for new members in IMRF that included a defined contribution component. 401(k)s are an example of a defined contribution plan. IMRF believes that defined benefit plans like IMRF, in which members receive a monthly

pension for life, are more cost-effective and better for its membership.

“I testified at two hearings regarding those bills, and through the work of Bonnie Shadid, we were able to have IMRF removed from that legislation,” Kosiba said.

IMRF also prides itself on being highly transparent and responsive to any legislators who have questions about IMRF and other public pensions in Illinois. Beyond being the right thing to do, Kosiba also said this helps staff build relationships of mutual respect with legislators. This increases the likelihood that legislators will more carefully consider the Board of Trustees' position on pending legislation involving IMRF.

“What we're trying to do is protect the ability of IMRF to do its work, and protect the interests of our members and employers,” Kosiba said.

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## Public opinion

Shifts in public opinion often drive legislative challenges to public pensions in Illinois. The financial crises the state-funded pension systems are facing have created the false impression among many Illinois residents that all public pensions are failing. In the case of IMRF, that is simply not true. IMRF developed a robust public outreach program to share the other side of the story with the public.

“IMRF’s nearly 90% funded, and we have more than \$36 billion in assets. We’ve never missed a pension payment and we never will,”

noted John Krupa, IMRF Communications Manager. “That’s the story that, if we don’t attempt to tell it, nobody will, and the public at large will have a false perception of the pension landscape in Illinois.”

IMRF is proactive in making the case for its success to the media and to the public. This two-pronged approach includes:

- **Media outreach:** IMRF conducts media interviews, submits letters to the editor, writes op-eds, and appears on radio and television programs.
- **Public outreach:** IMRF speaks to groups

like the Rotary Club, Kiwanis Club, Lions Club, and chambers of commerce to educate them about IMRF and public pensions in general.

“We want all our stakeholders to understand the value that units of government, employees, and taxpayers are receiving through IMRF,” Krupa explained. “These educational efforts support our long-term sustainability, and our ability to provide retirement security to our members, and to provide a valuable employee retention and recruitment tool for our employers.”

## Cybersecurity

NBC News reported this past January that data breaches reached an all-time high in 2016. Any company with customer data can become the target of thieves. In fact, every year, IMRF is subject to more than 900 million attempts to breach its firewall. Keeping members’ information safe is of the utmost importance to IMRF.

“We take security seriously, and we have processes in place that constantly monitor what’s going on,” said Glenn Engstrom, IMRF’s Chief Information Security Officer.

IMRF mounts its cybersecurity efforts on several different fronts:

- **Improvements in technology.** IMRF installed a new firewall early in 2017 to guard against criminal activity, and filter incoming email for potential threats.
- **Increased training of IMRF staff.** “One of our most important ways to protect member data is to train the person sitting behind the computer,” Engstrom said. Knowing this, IMRF rigorously trains its staff to recognize and report phishing emails.
- **Auditing of security.** IMRF utilizes an independent firm to test the organization’s cybersecurity measures. These tests include trying to breach IMRF’s firewall, sending fake phishing emails to staff, and even “social engineering,” in which the firm calls IMRF staff members and attempts to influence them to reveal compromising information. The firm submits reports that help IMRF identify and eliminate any security weaknesses.

## Technology

IMRF is always looking at ways to better serve its customers. Continually upgrading its technology is one piece of that puzzle. Some recent technology advancements include:

- Replacing [www.imrf.org](http://www.imrf.org).
- Expanding the Call Center and adding a dedicated number for employers.
- Providing iPads for members to give feedback on counseling sessions on the spot.
- Streamlining the online process employers use to report wage adjustments.

“We want to provide our members world-class retirement services,” Kosiba said. “To do so, we have to continually upgrade our technology to respond to our customers’ needs.”

## Performance excellence

As part of IMRF’s efforts to be a world-class provider of retirement services, it adopted the Baldrige Criteria for Performance Excellence. These standards have broader aims than solving a problem; they provide a framework for continuous improvement as an organization.

“With Baldrige, what you’re really doing is trying to identify model organizations that do things right and are sustainable,” Kosiba said. “Baldrige is not proscriptive; it doesn’t tell you what to do. It asks the questions that all successful, sustainable organizations must address. Good organizations understand what their customers want.”

To better understand its customers, its staff, and its investments, IMRF gathers data from a variety of comparative

studies and surveys that establish benchmarks for success. Using this data, IMRF is reengineering its business processes to become more efficient and provide IMRF members and employers world-class customer service.

Guiding this process is IMRF’s independent Board of Trustees, which is elected by its membership.

“There’s no governor or mayor appointing anyone to the Board, so the Trustees are able to focus on the important issues: investing assets, getting funding from employers, how IMRF is presented to the world, and making sound actuarial decisions. They provide oversight and don’t micromanage, and really are interested in ensuring the success of staff and the organization,” Kosiba said. “That gives me a lot of optimism for the future.” ■

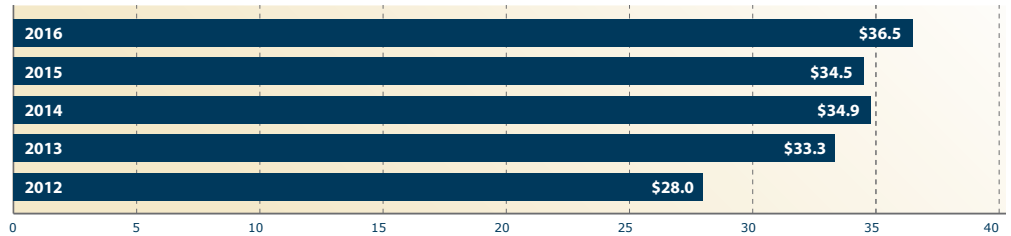
# Strong investment returns bolster assets

IMRF's fiduciary net position up \$2 billion last year due to strong investment returns.

## FIDUCIARY NET POSITION

IMRF's fiduciary net position—total assets minus liabilities—was \$36.5 billion as of December 31, 2016.

That was an increase of \$2 billion, or about 6%, from 2015. The increase is attributable to strong 2016 investment returns. Over the last five years, IMRF's fiduciary net position has increased by \$8.5 billion.



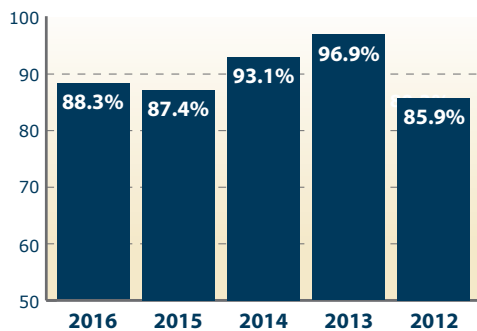
## FUNDING STATUS

IMRF's funding status is a key indicator of its financial health. It reflects the percentage of benefit promises that IMRF has assets to pay. IMRF strives toward full funding because it guarantees that the system can meet its obligations. Full funding is also most cost effective for taxpayers.

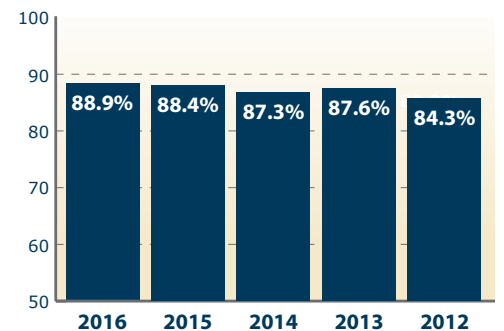
There are two measures of funding status. Market funding status describes the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. As of December 31, 2016, IMRF was 88.3% funded on a market basis. IMRF's market funding status increased from 2015 to 2016 due to strong investment returns.

The other measure is actuarial funding status. For this measure, independent actuaries determine the actuarial value of IMRF assets using a "smoothing" technique that recognizes investment gains and losses over a five-year period. The actuarial funding status is less volatile than the market funding status, which is why it is used to set IMRF contribution rates for participating units of government. As of December 31, 2016, IMRF was 88.9% funded on an actuarial basis.

MARKET FUNDING STATUS: PAST 5 YEARS



ACTUARIAL FUNDING STATUS: PAST 5 YEARS



## INVESTMENTS

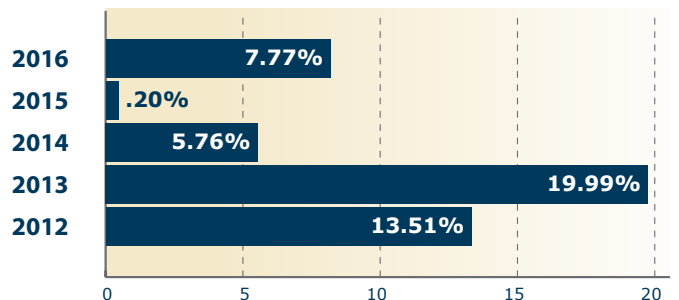
The IMRF investment portfolio returned 7.77%, after investment management fees, during 2016.

This positive return came during a tumultuous year, in which the outcomes of the United Kingdom's "Brexit" vote in June and the U.S. Presidential election in November defied investors' expectations.

IMRF's U.S. equity and real estate holdings performed particularly well during 2016, driving much of the overall return. IMRF's allocation to U.S. equity returned 12.35% after fees during 2016. IMRF's real estate investments returned 8.97% after fees.

IMRF's long-term goal is to earn an annualized total fund return of 7.5%, after investment-management fees. With a return of 7.77% in 2016, IMRF achieved its goal. IMRF has also achieved its investment return goal over longer time horizons. For example, over the last five years, IMRF has earned 9.29% after paying investment-management fees.

TOTAL FUND RETURNS FOR THE PAST 5 YEARS





PRESORTED STANDARD  
U.S. POSTAGE PAID  
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**FUNDAMENTALS**

is published twice a year for inactive members of IMRF.

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1-800-ASK-IMRF (275-4673) • [www.imrf.org](http://www.imrf.org)

**Don't leave money on the table!**

IMRF urges you to apply for your pension now if you are an inactive Tier 1 member who is:

- Vested
- At least age 55
- Not working for a reciprocal system

You might think it is better to wait until age 60 or 62 to start your IMRF pension, but in most cases you will end up losing money by waiting:

*The earlier you start payments the more total payments you receive over time.*

**If you are between 55-60**

Although your pension will be reduced since you are under age 60, the earlier you start payments the more **total** payments you will receive. Over time you will get more money, even with the reduced amount. The longer you wait, the more payments you will miss out on.

**If you are at least 60**

You have reached full IMRF retirement age. IMRF pensions **do not** follow the same rules as Social Security. Waiting until age 62 or later for your IMRF pension will most likely not increase your pension, and you will be missing out on years of monthly payments.

Visit [www.imrf.org](http://www.imrf.org) or call 1-800-ASK-IMRF (275-4673) if you have any questions. ■