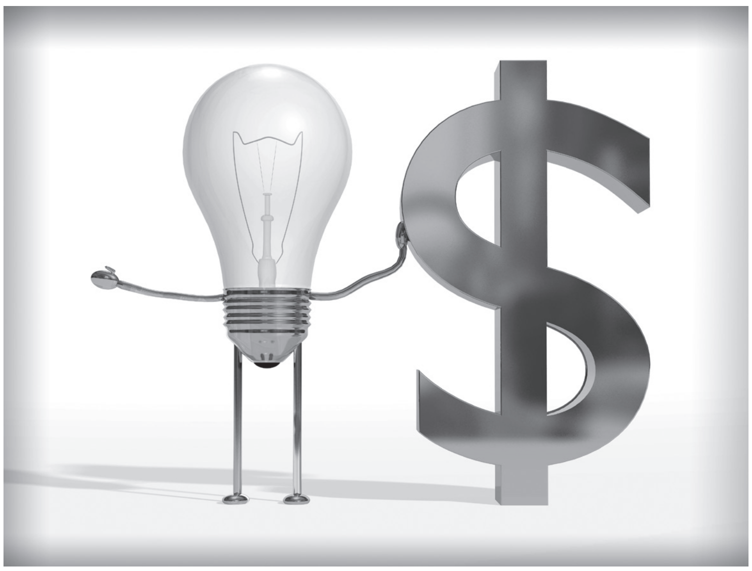
Retiree FUNDamentals
News for retired members of the Illinois Municipal Retirement Fund
V. 29 No. 3
Summer 2014
Annual Report Edition

Simplify your finances with automation

Is juggling your finances becoming too much to handle comfortably? Is keeping track of your various accounts taking up time and energy you'd like to devote to other parts of your busy life?

Karen Chan has been educating the public on financial matters for twenty years, previously as a Consumer Economics educator with the University of Illinois Extension and now through her own business, Karen Chan Financial Education & Consulting. As part of this year's Money Smart Week, April 5-12, 2014, her free class, "Ten Ways to Simplify Your Finances," offered tips on using automated processes to reduce the time and effort you spend on managing your money.

"The main point is, we want to set things up so that it's easier to get these financial tasks done," Chan said. "There are often costs, or foregone opportunities, when we don't."



"I'm a fan of automation, because it means that I set something up where it requires no action on my part,"said financial educator Karen Chan. "It takes none of my time; it takes none of my attention."

Automate bill payments and savings

By automating individual transactions (whether payments, deposits, or withdrawals) and setting up your accounts to look after themselves, you can make sure your finances are managed according to your own advance planning.

"I'm a fan of automation, because it means that I set something up where it requires no action on my part," Chan said. "It takes none of my time; it takes none of my attention."

IMRF and Social Security already mandate direct deposit; you may also have certain bills set up to be paid automatically, which ensures they're paid on

Continued on page four

Louis W. Kosiba
IMRF Executive Director

In response to an IMRF survey, a recent retiree said, "Louis Kosiba has consistently overstated in newsletters the degree to which IMRF members should feel confident that the state government will not successfully diminish IMRF pensions. The future in this regard is very uncertain."

From the Executive Director

Threats: likely and remote

As an employee of IMRF, I am in the same boat. IMRF is my pension too. I have the same concerns as you. But, I can honestly say, this is not something I lose sleep over.

With that in mind, let's agree, you can never say "never." But you need to balance the likely versus the remote. With funding at more than 96% and employer contribution rates coming down, successful diminishment of IMRF pensions for active and retired members, in my opinion, is extremely remote. And here's why.

Illinois Constitution

Article 13 Section 5 provides that public pensions cannot be diminished or impaired. Last year the General Assembly tried to do just that for four of the systems, the state funds. By court order, that attempt is not being implemented, and it is being litigated. Eventually, the Illinois Supreme Court will settle the matter.

No Crisis

To justify changing benefits for state funded systems, the General Assembly argued there was a crisis and that public health and safety were in jeopardy because the state budget cannot pay for pensions and all the other services it provides. With over 96% funding, IMRF as a whole is not in crisis. We do consist of more than 2,970 local units of government, which have their own budgets and their own fiscal houses—some of which are stressed. But our reliance on 2,970+ different local budgets becomes a strength and a shield.

Legacy Costs

The state retirement funds have $100 billion in unfunded liabilities, or promises not covered by assets. One employer, the state of Illinois, needs to cover that cost. At IMRF, the underfunding is $1.4 billion and shared between more than 2,970 employers. The need to further reduce IMRF benefits does not exist.

Life is uncertain; institutions which once seemed so permanent are gone; people who said it could never happen were wrong. As for me, I will focus on the things likely to happen—increased medical costs, inflation, the challenges of aging. Now those are the things I could lose sleep over. ❖

Stellar 2013 investment return leads to record-high IMRF portfolio

IMRF's vision statement compels us to provide the best—world-class—retirement services to our members, their beneficiaries, and our employers.

Everyone at IMRF—the Board of Trustees, senior leaders, and other IMRF team members—are singularly focused on the continued achievement of this vision.

This dedication is reflected in IMRF's impressive 2013 investment return of 20%, yielding $5.6 billion in investment gains.

IMRF assets at historic high

With this outstanding investment return, IMRF's total portfolio grew to a record high of more than $33 billion at the close of our fiscal year on December 31, 2013.

IMRF's U.S. stock portfolio alone returned 37.3% during 2013, as compared to the 33.5% for the Dow Jones Total Stock Market Index.

IMRF has recorded double-digit returns four out of the last five years.

IMRF funding status rebounds

2013's historic returns boosted IMRF's funding status significantly. IMRF ended its fiscal year 96.7% funded on a market basis. A very healthy figure by industry standards, our funding status shows that IMRF has largely recovered from the losses of the recession.

In the long-term, IMRF is committed to regaining the 100% funding status it held prior to the economic downturn.

Committed to your retirement

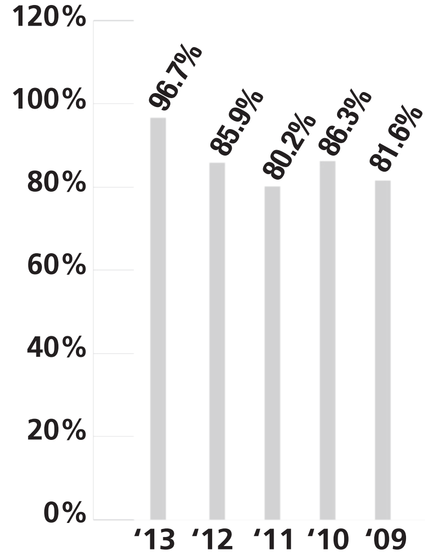
You can look with a sense of security to IMRF's net asset base of $33.3 billion. These assets are irrevocably committed to the payment of our current retirees' pensions and future pensions of IMRF members. It doesn't matter whether you are a current retiree or working for an IMRF employer: IMRF will be there for you when you need us.

Expert management for the long haul

Currently, 88 professional investment management firms, handling 119 separate accounts, manage the investment portfolio. These firms make investment decisions under the Illinois Pension Code's prudent man rule and by investment policy guidelines adopted by the Board of Trustees. The Board also employs an investment consultant who monitors the firms' performance.

IMRF takes a conservative, long-term approach to investing on your behalf. IMRF designs our investment portfolio to achieve the greatest return with an acceptable amount of risk. Our diversified investment strategy results in steady and responsible returns. ❖

Market Funding Status
(for the past 5 years)



Simplify your finances with automation

Continued from the front page

time. You can also automate your savings—"Pay yourself first," as Chan puts it—and have money automatically deposited every month into your savings account. "That takes all the overthinking out of it, which tends to make us better investors," Chan said.

Automate your Required Minimum Distribution (RMD)

Eventually, it won't be your savings that you need to automate, but your withdrawals. If you have a retirement account, at age 70-½ you must also begin withdrawing a minimum amount each year. This is known as the Required Minimum Distribution (RMD). You must make each year's RMD by December 31.

Required Minimum Distribution (RMD)

Your required minimum distribution is the minimum amount you must withdraw from your retirement account each year. You generally have to start taking withdrawals from your IRA or retirement plan account when you reach age 70-½. Roth IRAs do not require withdrawals until after the death of the owner.

*(Source: **www.irs.gov**)*

"So what happens if you take some lovely vacation the last four weeks of the year and your mind is on anything but the IRS, and you miss taking your distribution? A penalty equal to 50% of what you failed to take out. Yes, really. You don't mess around with this one," Chan said. "And of course, as time passes, there's a chance that we will deteriorate at some point, and you may reach a point where you forget or you're unable to manage your affairs."

The good news is, most financial institutions will allow you to set up your account to automatically calculate the amount of your RMD and then automatically transfer it to the account of your choice on the day you designate. That way, you will never accidentally miss an RMD.

However, Chan notes that during bank mergers, sometimes this setup can be lost. "If you see that your financial institutions are merging, go to verify, if you've set this up to happen automatically, that it is still going to happen that way."

Automate asset allocation

Whether you're saving or withdrawing from your IRA or 401(k), you will also need to consider asset allocation, or how you want your savings to be distributed.

"Let's say your allocation was supposed to be 60% in stocks, 30% in bonds, and 10% in cash," Chan said. "Let's say you did that in 2010. Here we are in 2014. What's happened over the last four years? Stocks have gone up hugely. So if you started out at 60/30/10 and haven't done anything, you might well be looking at 75% or 80% of your money now in stocks, which might be a riskier or more aggressive position than you intended."

For many 401(k) plans, and sometimes for IRAs, financial institutions offer automatic rebalancing. If you choose automatic rebalancing, your financial institution will periodically restore the percentage of money allocated to each type of savings to the percentages you decided on. "The reason you're seeing this right now in retirement accounts and not regular accounts is that with retirement accounts there are no tax consequences to moving stuff around, so it's easier," Chan explained.

Automate your estate

When you are planning your estate, you can also make use of certain tools to distribute certain assets to your heirs in a way that will take precedence over your will, bypassing probate.

One way to pass a particular asset on to another person is to designate it as jointly owned with right of survivorship (WROS). "It means that two people own it now," Chan said. "Eventually somebody's going to pass away, and when that happens the survivor owns the entire thing." However, this also gives the joint owner more power over that property.

For money market accounts, CDs, and many other types of bank accounts, you can designate an individual to whom the account will be payable on death (POD). POD avoids taking on the risks of joint ownership. "During your lifetime, that person has no claim to the account, but at your death all they would have to do is show a death certificate, proof of their identity, and the account would be signed over to them," Chan said.

Keep in mind that any assets transferred to your heirs by WROS or POD will not be included in the property distributed by your will. "A will only handles what's left," Chan said. ❖

With Right of Survivorship (WROS)

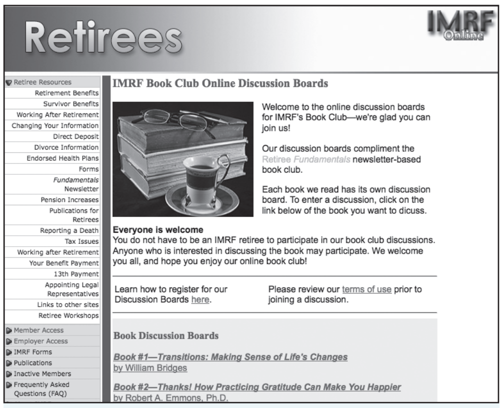
Designating certain assets as jointly owned with rights of survivorship (WROS) can more easily transfer them to the surviving party after the death of the other owner. The jointly owned asset simply becomes the property of the co-owner, bypassing probate. However, designating an individual as co-owner also gives that person more control over the property before the original owner's death.

Payable on Death (POD)

You can designate various types of bank accounts as payable on death (POD) to a specific person. When that person presents a copy of your death certificate, they will directly inherit the money in the account, bypassing probate and with no consideration to other information in your will.

Please share your impressions of Book #4!

Book Club members, have you had the chance to read Book #4? We would love to hear your thoughts on this intriguing exploration of the personal benefits of generosity and compassion.



Visit our online book club discussion boards!

Interested in discussing a Book Club book online? Go to **www.imrf.org** and click on the "Retirees" link at the top of the page, then click the "IMRF Book Club Discussion Boards" link.

IMRF Book Club—Book #4

Why Good Things Happen to Good People

by Stephen Post and Jill Neimark

Feedback due date: **October 3, 2014**

Send your feedback to:

Louis Kosiba, IMRF Executive Director

(We welcome all feedback, whether by email, written letter, or conversation on our discussion boards.)

Email: **louiskosiba-executivedirector@imrf.org**

Letter: **IMRF, 2211 York Road, Suite 500**
Oak Brook, IL, 60523-2337

Do you have a vacation home part of the year?

Remember to change your address with IMRF!

If you are one of the many IMRF members who spend extended time away from home and forward your mail, it is important to change your address with IMRF to avoid your pension payment being delayed or put on hold. (This applies to all benefit payments, including direct deposit.) Please notify IMRF **in addition** to notifying the Post Office.

Change your address quickly and easily through Member Access:

www.imrf.org/myimrf

IMRF requests that you notify us directly of your temporary new address. (Don't forget to also let us know when you return to your permanent address.)

You can change your address online through Member Access or download Form 6.20R (*Annuitant Information Change*) at **www.imrf.org**. You can also mail IMRF a short note with your signature, or fax your note to IMRF at 630-368-5398. ❖

IMRF piloting workshops on reverse mortgages

This fall, IMRF will pilot a new retiree workshop series called "IMRF Financial Literacy Workshops: Exploring Reverse Mortgages."

Workshops will be held in October in Arlington Heights, Springfield, and Peoria. The pilot program is limited to these three locations. IMRF may offer additional Financial Literacy Workshops in the future, depending on the level of interest.

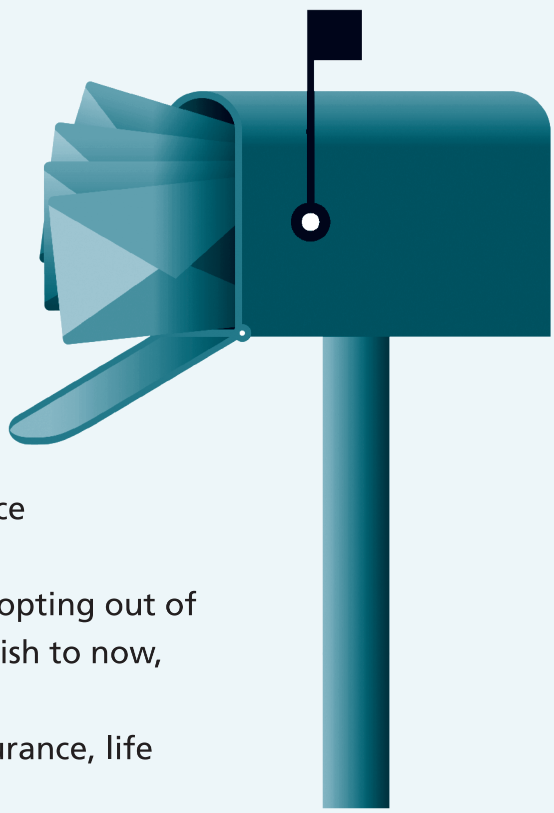
The workshops are free for IMRF retirees and a guest.

- October 17 – Euro Crystal, Arlington Heights
- October 21 – IMRF Office in Springfield
- October 22 – Peoria Public Library, Main/Downtown Branch, Peoria

Reverse mortgages are often marketed to seniors as a viable source of income during retirement. But are they really the right choice? Participants will explore the pros and cons of reverse mortgages so they are better equipped to answer this question for themselves.

For details on workshop dates, times, locations, and to register, visit **www.imrf.org/myimrf** or call 1-800-ASK-IMRF (275-4673). Seating is limited so register today! ❖

Call IMRF to opt-out of third-party solicitations



Certain requirements of the Illinois Pension Code caused IMRF to adopt a policy on mailing to IMRF members and retirees. These are blind mailings, which means that the members' addresses are never given to anyone but a bonded mail house. IMRF does not share confidential member information, including mailing addresses.

These mailings may come from labor organizations, candidates for the IMRF Board of Trustees, or from Doyle Rowe LTD, which is an independent insurance broker that works with IMRF to offer endorsed insurance products.

When you first retired, you were given the choice of opting out of these mailings. If you did not opt out at the time but wish to now, you may do so by calling 1-800-ASK-IMRF.

This year, there will be mailings related to health insurance, life insurance, and union membership. ❖

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Oak Brook, IL 60523-2337

Fundamentals

is published four times a year for retired IMRF members.
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Previous editions of Fundamentals newsletters are available online at www.imrf.org

Coming this fall!

Your IMRF Benefit Statement for 2015

IMRF retirees, surviving spouses, and beneficiary annuitants receive an annual benefit statement. This statement ensures you have up-to-date information about your IMRF benefits and account information. **We will mail *Your IMRF Benefit Statement for 2015* in late November 2014**. *Your IMRF Benefit Statement for 2015* will include information such as:

- The amount of your annual 3% increase and the amount of your 2015 pension
- Current beneficiary information (for retirees)
- Information about your 1099-R tax form

Please note: If you retired in 2014, you will not receive a statement this fall. You will receive your first IMRF benefit statement in the fall of 2015. ❖

View archived benefit statements and other important documents through the "Documents" tab of your Member Access account:

www.imrf.org/myimrf

IMRF Retiree *Fundamentals V.29 No.3*

In this issue: