

# Popular Annual Financial Report

for the fiscal year ending December 31, 2005

For members

Published June 2006

## Charting a course for the future

Planning plays a large part in the advice we give to members. We often tell you to “plan for your retirement,” because your retirement will arrive one day whether you plan for it or not. As baseball legend Yogi Berra said, “You got to be careful if you don’t know where you’re going, because you might not get there.”

In 2005, IMRF staff and our Board of Trustees took some of our own advice and, for the first time in IMRF’s history, developed a Strategic Plan. Whether it is an individual, family, small business, or public pension fund developing a Strategic Plan, three questions must be answered:

**Situation**....Where are we now, how did we get here?

**Target**.....Where do we want to be, what are our objectives?

**Path**.....How do we get there?

IMRF followed a formal 14-step methodology to develop our Strategic Plan. The 14 steps included examining our Mission Statement, Vision, and Values.

We identified external trends that could impact IMRF, such as Defined Benefit plans coming under attack, greater awareness of pension issues in the media, and the coming Baby Boomer retirements. We also identified IMRF’s strengths, weaknesses, limitations, opportunities and threats.

### Road map for the future

Out of those many discussions came IMRF’s Strategic Plan. Ultimately, IMRF’s Strategic Plan provides a road map for 2006 and beyond to meet the challenges and opportunities as we strive to provide our members and employers

with excellent retirement services.

IMRF’s Strategic Plan includes the following:

### 1. Advocate Preservation of the Defined Benefit Plan

Traditionally, retirement planners have viewed a financially secure retirement as a three-legged stool: personal savings, Social Security, and an employer-provided pension.

However, as workers are hard pressed to save for retirement, and the security of Social Security benefits becomes less certain, preserving IMRF as a Defined Benefit plan is essential to providing your retirement security.

A Defined Benefit plan provides a secure, cost-efficient lifetime benefit for members and their beneficiaries. IMRF needs to promote the preservation of Defined Benefit plans, as they are increasingly under attack in both the public and private sectors.

### 2. Advocate Existing Autonomy of IMRF Administration and Investment Authority

One reason for IMRF’s funding success (94.6% at the end of 2005) has been our independently elected Board of Trustees that has the authority to invest assets and set employer rates based upon sound actuarial principles.

The IMRF Board has significant independence in administering IMRF and selecting our investments. This freedom allows the Board and IMRF staff to work toward fulfilling IMRF’s Mission, Vision, and Values. Moreover, IMRF members and employers retain control of key decisions

*please turn to page 8*

### 2005 Snapshot

As of 12/31/05

Funding Status  
(page 3) 94.6%

Assets Market Value  
(page 3)  
\$19.9 billion

Investment Return  
(page 4) 8.7%

Investment Earnings  
(page 4)  
\$1.6 billion

Read the 2005  
**Comprehensive**  
Annual Financial  
Report by visiting  
[www.imrf.org](http://www.imrf.org)  
or by calling  
1-800-ASK-IMRF.

# 2005 Additions to Plan Net Assets

As a Defined Benefit pension fund, IMRF accumulates assets to provide benefits to members today and in the future.

IMRF accumulates money needed to fund benefits through member and employer contributions as well as returns on invested funds. Member and employer contributions for 2005 totaled \$809 million which was 13 percent more than 2004.

While investment returns for 2005 were strong, they did not match the 2004 return. The \$1,608 million investment gain in 2005 represents a \$402 million decrease from the \$2,010 gain in 2004. IMRF's total investment portfolio, reflecting a slowing in the bull market that has existed since 2003, returned 8.7 percent in 2005 compared to 12.4 percent in 2004.

- **Member contributions**

The increase in member contributions is due to an increase in total member earnings to \$5,375 million from \$5,161 million in 2004.

- **Employer contributions**

The increase in employer contributions is the net effect of several factors. Member earnings increased overall by 4.1 percent. This increase in member earnings caused employer contributions to increase.

In addition, the average Regular Plan and SLEP Plan employer rates increased to 9.25 percent from 7.82 percent, and 17.15 percent

from 16.29 percent respectively. The average rate for the very small ECO plan decreased from 44.90 percent to 42.66 percent. The employer rate increases are primarily due to negative investment returns in 2002 and 2001.

- **Net investment gain**

In 2005, IMRF achieved net appreciation in the value of investments of \$1,227 million, a \$474 million decrease from the \$1,701 million of appreciation recorded in 2004.

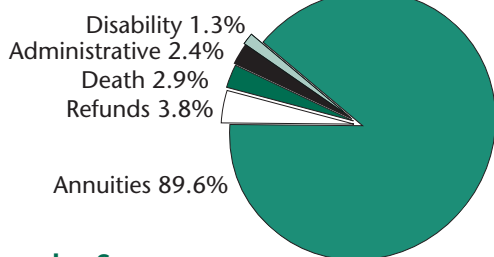
Interest, dividends and equity fund income totaled \$426 million, an increase of \$76 million from 2004. Securities lending income net of related expenses was \$7.2 million for 2005, an increase of \$2.1 million from 2004. Direct investment expenses increased to \$52.0 million in 2005 from \$45.2 million in 2004.

- **Deductions to plan assets**

The expenses paid by IMRF include benefit payments, refunds, and administrative expenses. Expenses for 2005 totaled \$843 million, an increase of \$59 million over 2004.

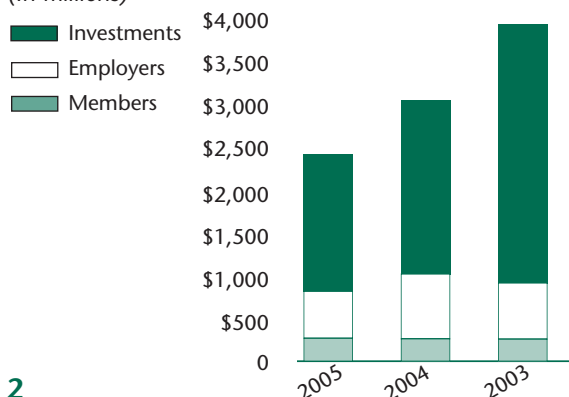
The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 82,108 in 2005 from 79,628 in 2004 as well as an increase in the amount of the average benefit.

## 2005 Expenses by Type



## Revenues by Source

(In millions)



## Condensed Statements of Changes in Plan Net Assets

(In millions)

	2005	2004	Change	Change
<b>Additions</b>				
Member contributions	\$ 266	\$ 260	\$ 6	2%
Employer contributions	543	456	87	19
Net investment gain	1,608	2,010	(402)	(20)
Total additions	<u>2,417</u>	<u>2,726</u>	<u>(309)</u>	<u>(11)</u>
<b>Deductions</b>				
Benefits	791	734	57	8
Refunds	32	31	1	3
Administrative expenses	20	19	1	5
Total deductions	<u>843</u>	<u>784</u>	<u>59</u>	<u>8</u>
Net increase in plan net assets	\$ 1,574	\$ 1,942	\$ (368)	(19)%
<b>Net Assets Held in Trust for Pension Benefits</b>				
Beginning of year	18,299	16,357	1,942	12%
End of year	<u>19,873</u>	<u>18,299</u>	<u>1,574</u>	<u>9%</u>

You can think of IMRF's actuarial liability as the dollar value of "benefit promises" to our members.

If you are vested, you have a promise from IMRF that we will pay you a certain amount (your pension) at a certain age. The more service you earn and the larger your salary, the greater the dollar value of the promise.

If you are retired, you have a promise from IMRF that we will pay you a certain amount every month for the rest of your life. If your spouse is eligible for a surviving spouse pension, he or she also has a promise from IMRF.

IMRF benefit promises also include refunds and death benefits.

When you add up all of the "benefit promises" IMRF has with all of our members—including members who left IMRF but still have contributions on deposit—you have the value of IMRF's actuarial liability.

In 2005, IMRF collected member and employer contributions of \$809 million; spent \$843 million for benefit payments, refunds and administrative costs; and earned investment income of \$1,608 million.

These net results brought IMRF's net asset base to \$19.9 billion. By law, those net assets are permanently committed to the payment of all of our benefit promises, including current retirees' pensions and your future IMRF pension.

## Valuing IMRF assets

IMRF's assets include the contributions we collect from members and employers, and the

value of our investments. When looking at the value of IMRF assets, you can look at them in one of two ways:

- **Market value**

The first method is the simplest and most familiar: the market value. What is the value of IMRF's assets and liabilities today?

Or, for the purposes of this Popular Annual Report, what was the value on December 31, 2005? As of December 21, 2005, the market value of IMRF's net assets was \$19.9 billion.

- **Actuarial value**

The other method is less familiar—and not as simple. That method is called the "actuarial value" of assets. IMRF's outside actuaries determine the actuarial value of IMRF's assets by using a "five-year smoothing" technique.

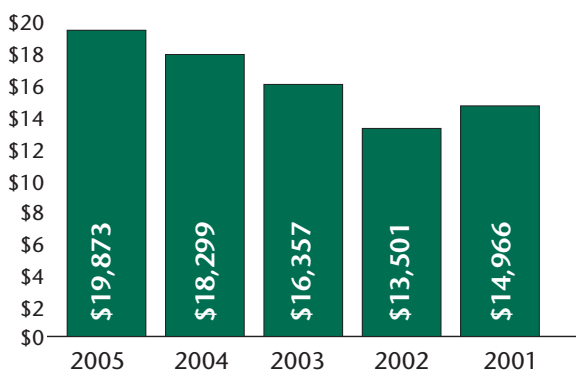
With five-year smoothing, investment gains (or losses) are spread over five years; they are not "recognized" completely in one year. The smoothing prevents employer contribution rates from changing drastically year-to-year because of short-term fluctuations in the financial markets.

IMRF's actuarial funding at the end of 2005 was \$19.7 billion. As of December 31, 2005, IMRF's market-based funding value was greater than the actuarial funding value since there were \$95 million of unrecognized investments gains which will be reflected in the 2006 through 2009 period in keeping with the five-year smoothing discussed above.

**IMRF's funded status—the difference between the benefits promised and the assets needed to pay those benefits—is one way to measure IMRF's financial health.**

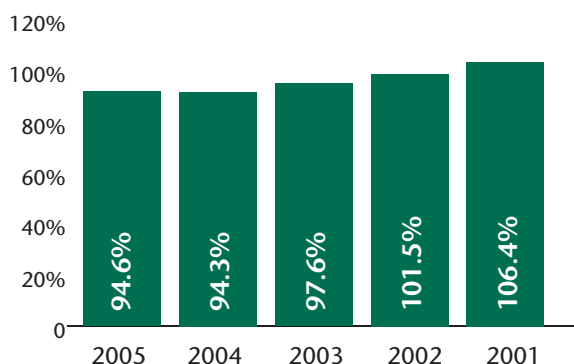
## Net Assets for the Past 5 Years

(in millions)



## Actuarial Funding Status

(for the past 5 years)



As of December 31, 2005

Actuarial value of plan net assets: \$19.7 billion

Market value of plan net assets: \$19.9 billion

Actuarial liability (benefit promises): \$20.8 billion

On an actuarial basis, the assets held fund 94.6% of the actuarial liability, on a market basis, the assets held fund 95.5% of the actuarial liability.

# 2005 Investment Summary

**IMRF's income comes from three sources: member contributions, employer contributions, and investment income.**

Even though IMRF employers and members both contribute to IMRF, the earnings on IMRF's investments are a major contributor to the Fund. In 2005, IMRF earned \$1,608 million on its investments.

The total rate of return for IMRF's portfolio in 2005 was 8.7% compared to 12.4% in 2004. As of December 31, 2005, IMRF's investments totaled \$20.1 billion, up from \$18.5 billion at the end of 2004.

### Long-term results

When looking at IMRF's investment returns, it is important to remember that, as a pension fund, IMRF has a long-term view. IMRF's investment program is designed to weather the ups and downs of the market. Some of the longer-term results for the total fund are:

Three years	14.4% per year (2003 through 2005)
Five years	5.1% per year (2001 through 2005)
Ten years	9.1% per year (1996 through 2005)

In 2005, investment earnings were \$1,608 million and represented 66.5% of plan additions. In the five years 2005 through 2001, investment income represented the following percentage of additions to plan net assets:

### Investment Income as a Percentage of Plan Additions

Year	Investment Income as a Percentage of Plan Additions
2005	66.5%
2004	73.7%
2003	83.9%
2002	(166.4)%
2001	(209.9)%

For the four months ended April 30, 2006, the overall return on IMRF's investments has been approximately 6%. As of April 30, 2006, IMRF's total investments are approximately \$21.3 billion, an increase of \$1.2 billion since December 31, 2005.

However, IMRF invests for the lifetimes of more than 300,000 members and their beneficiaries. Our diversified portfolio is designed to weather the ups—and the downs—of the market.

### Professional Management

Currently 60 professional investment management firms, handling 71 separate accounts, manage IMRF's investment portfolio. These firms make investment decisions under the "prudent man" rule authorized by the Illinois Pension Code and by IMRF investment policy guidelines.

The IMRF Board of Trustees employs an investment consultant who monitors

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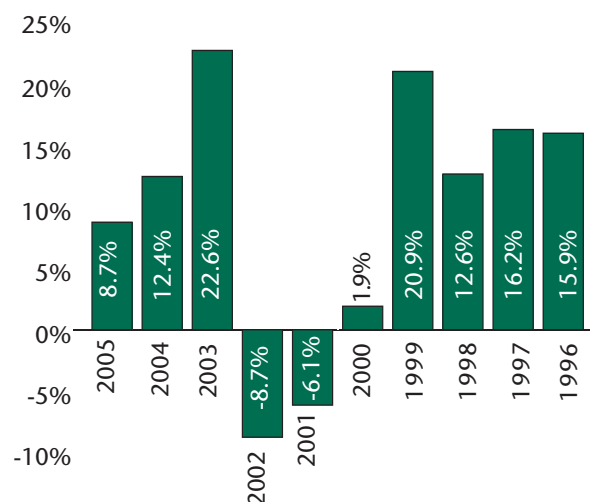
### Investment Portfolio Summary as of December 31

(in millions)

	2005		2004	
	Market Value	% of Total Market Value	Market Value	% of Total Market Value
Fixed Income	6,429.0	31.9%	5,923.9	32.0%
Stocks	11,849.9	58.9%	10,997.6	59.5%
Real Estate	698.4	3.5%	639.0	3.4%
Alternative	634.3	3.1%	564.5	3.1%
Short-Term	518.2	2.6%	371.9	2.0%
<b>Total</b>	<b>\$20,129.8</b>	<b>100.0%</b>	<b>\$18,496.9</b>	<b>100.0%</b>

### Investment Rates of Return

Past 10 Years



IMRF is entirely funded by member contributions, investment returns, and contributions from IMRF employers.

IMRF is **not a state pension fund** and is **not funded by any state dollars**.

The retirement plan IMRF offers is a Defined Benefit plan. In a Defined Benefit plan, the amount of the retirement benefit is based on a member's final salary and years of service credit.

A different type of plan that helps you save for retirement is a Defined Contribution plan. You may be familiar with an Internal Revenue Code 457 deferred compensation plan or a 403(b) tax-deferred annuity. These plans function like Defined Contribution plans.

Two words clarify the fundamental difference between a Defined Benefit plan and a Defined Contribution plan: investment risk.

When you contribute to a Defined Contribution plan, you bear the investment risk. The amount you will receive in retirement is based upon how well you invested your contributions.

However, as a member of IMRF, investment returns do not determine the amount of your pension. Your IMRF Defined Benefit pension is based upon a formula that includes your salary and years of service credit. Your IMRF pension is also payable for life; you can never outlive your pension.

Although 170,928 public employees across

Illinois participate in IMRF, IMRF is a local program.

Your employer builds up its own account to provide future benefits for its own employees. As of December 31, 2005, a total of 2,896 local units of government participated in IMRF. IMRF employers include cities, villages, counties, school districts, townships and various special districts, such as parks, forest preserves, and sanitary districts. IMRF employers are not state agencies.

IMRF employers must enroll an employee in IMRF if the employee's position meets the qualifications for IMRF membership. However, some exceptions exist for city hospital employees and elected officials.

### Funding

IMRF member contribution rates—4.5% for the Regular Plan, 6.5% for Sheriff's Law Enforcement Personnel Plan (in 2005), and 7.5% for the Elected County Officials Plan—are determined by Illinois statute.

Illinois statutes also require each IMRF employer to contribute, in addition to contributions from members, the amount needed to finance the retirement coverage of its own employees.

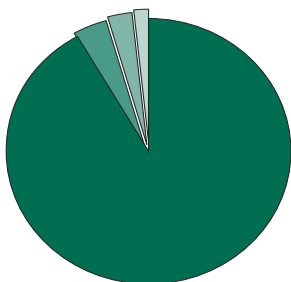
Employer contributions for disability benefits, death benefits, and the "13th check" are pooled. IMRF administrative and direct investment costs are financed by investment income.

**Investment returns do not determine the amount of your pension. Your IMRF Defined Benefit pension is based upon a formula that includes your salary and years of service credit.**

### Benefits Paid in 2005

in millions

Pensions*	755.4	91.7%
Refunds	32.1	3.9%
Death	24.7	3.0%
Disability**	\$11.3	1.4%
	<u>\$823.5</u>	<u>100.0%</u>

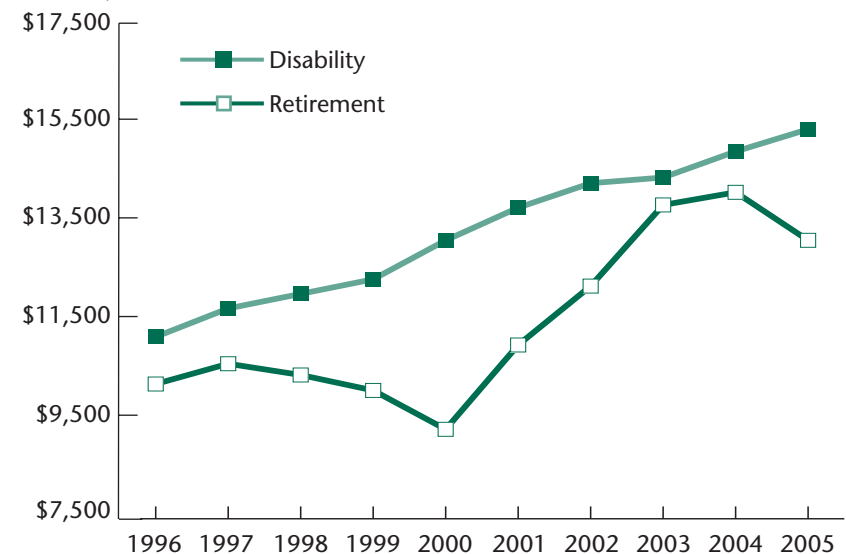


\*Retirement, Surviving Spouse, Beneficiary, and Supplemental ("13th Check")

\*\*Temporary and Total and Permanent

### Average Annual Benefit Payment Amounts

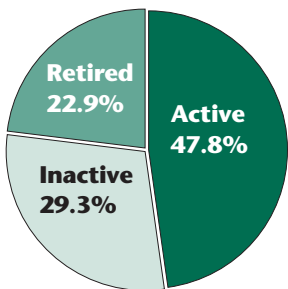
Past 10 years



# IMRF Members and Retirees

Actuarial assumptions are a formal set of estimates of what will happen to IMRF members, such as retirement rates, life expectancies, and salary increases.

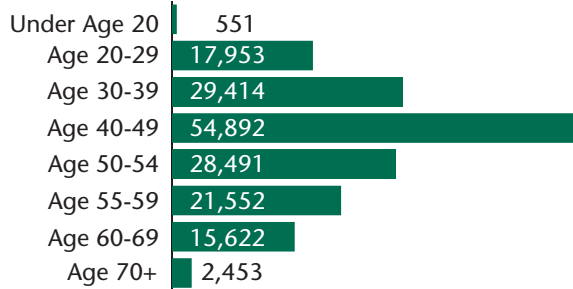
## All Members by Participation



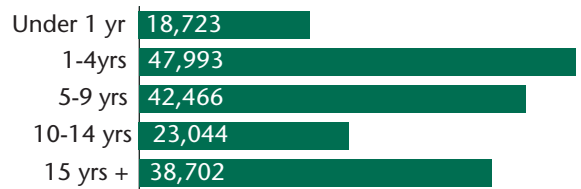
For detailed actuarial information, refer to the Actuarial Section of IMRF's 2005 Comprehensive Annual Financial Report.

## Active Members

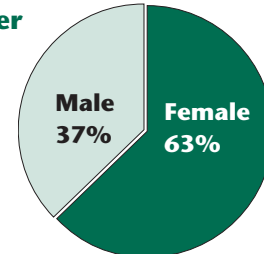
### By Age



### By Length of Service

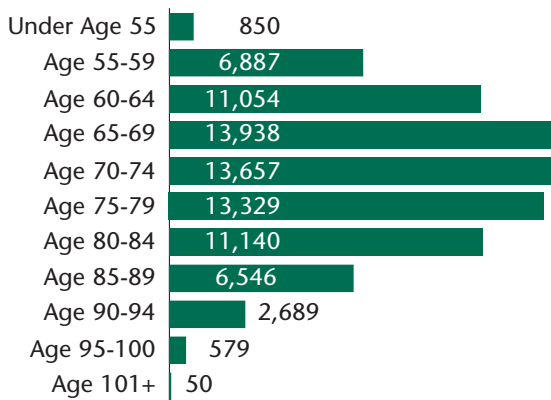


### By Gender

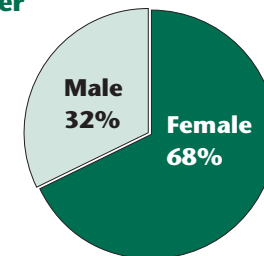


## Retired Members (Retirees, Surviving Spouses, Beneficiaries)

### By Age



### By Gender



## Where does the money come from?

Both you and your employer contribute toward your future retirement benefits. You contribute a percentage of your salary as established by the Illinois Pension Code.

The percentage depends on which IMRF plan you participate in: Regular members contribute 4.5%, SLEP members contribute 6.5% (in 2005), and ECO members contribute 7.5%.

IMRF employers each have a unique contribution rate based upon their own situation—their members' salaries, ages, years of service credit, etc. Employers pay most of the cost for member and survivor pensions and all of the cost for supplemental, death and disability benefits.

Employer contributions will be greater in 2006 than in 2005 due to a projected increase in member payroll which is consistent with past historical trends and higher average employer rates for the Regular, SLEP and ECO plans due to investment return shortfalls in 2002 and 2001. The average Regular Plan rate for employers—which accounts for the vast majority of covered payroll—will increase from 9.25 percent to 10.04 percent, an increase of 8.5 percent.

## Are you an "average" member?

As of December 31, 2005, out of 170,928 active members, the "average" member is:

- Female
- 46 years old
- Participates in the Regular Plan
- Most likely works for a school district
- Earns \$31,640 a year
- Received a 2.4% salary increase in 2005
- Has 9.1 years of service credit

## Are you an "average" retiree?

Of the 3,705 members who retired in 2005 under the Regular plan, the average retiree is:

- Female
- Had a final rate of earnings of \$2,807 a month
- Retired with approximately 20 years of service credit
- Receiving a pension of approximately \$1,063 a month

## Strategic Plan

The IMRF staff and Board of Trustees initiated a strategic planning process in 2005.

The resulting Strategic Plan document provides IMRF a road map for meeting the challenges and opportunities in providing excellent retirement services to our members, employers, and annuitants.

## Improving customer service through computer system development

IMRF's major system development effort in 2005 focused on the new secure Employer Access area of our website.

In May, IMRF rolled out the new Web Wage Reporting system that allows both large and small employers to transmit their members' wage and contribution data over a secure network. The Web-based system also allows IMRF to highlight any reporting problems before the employer submits the report.

By year end, more than 2,000 employers were using the new Web Wage Reporting system. In addition, employers can access IMRF's document archives to view and print employer-specific documents online as needed.

IMRF also implemented redundant (backup) Web hardware and Internet connectivity to ensure the highest levels of reliability and availability.

## e-Service Goals and Strategy

IMRF offers access to both member- and employer-specific data through secure areas on our website. Use of these areas continued to grow in 2005.

Our e-service goals include improving customer service, reducing administrative costs, providing uncompromised privacy and security of information, and instituting business process re-engineering.

To capture the benefits of our e-service initiatives, we will be asking all IMRF employers to use our enhanced website.

## Board of Trustees

Sharon U. Thompson, former Treasurer of Lee County, was re-elected as the Annuitant (retiree) Trustee.

W. Thomas Ross, Winnebago County Auditor, was re-elected as an Executive Trustee.

Marvin R. Shoop, Jr., a civil engineer for the city of Peoria, was re-elected as an Employee Trustee.

Judi S. Voller, a paraeducator/teacher assistant for East Maine School District 63, was elected as an Employee Trustee.

All newly and re-elected Trustees will serve five-year terms beginning January 1, 2006.

## Awards and Acknowledgements

IMRF received an Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association of the United States and Canada for our Popular Annual Financial Report for the fiscal year ended December 31, 2004.

The Award for Outstanding Achievement in Popular Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

**In 2005, IMRF continued to focus on improving customer service through computer systems development, improving e-service functions, and developing a Strategic Plan for 2006 and beyond.**

Read the complete list of accomplishments in the 2005

**Comprehensive** Annual Financial Report. Call 1-800-ASK-IMRF or visit [www.imrf.org](http://www.imrf.org).

## Member Contributions Paid vs. Retirement Benefits Received

When you apply for your IMRF pension, we calculate the total cost of your pension. We then subtract the member contributions you paid from the cost of your pension. Whatever cost remains is deducted from your former IMRF employer's account. Typically, the employer pays approximately 80% of the cost for an IMRF pension. Employers pay for all of the costs for disability benefits, death benefits, and the "13th check."

To illustrate the value of an IMRF pension, the chart at right compares what an average member paid in contributions to what an average retired member received in retirement benefits for each of the past five years.



# Board of Trustees

## 2006 Trustees

Sharon U. Thompson  
*president*

Annuitant Trustee  
(Formerly) Lee County

Marvin R. Shoop, Jr.  
*vice president*  
Employee Trustee  
City of Peoria

John Lotus Novak  
*secretary*  
Executive Trustee  
DuPage County

Max F. Bochmann  
Employee Trustee  
Naperville CUSD #203

Martha H. Rademacher  
Executive Trustee  
Park District Risk  
Management Agency

W. Thomas Ross  
Executive Trustee  
Winnebago County

R. Steven Sonnemaker  
Executive Trustee  
Peoria County

Judi S. Voller  
Employee Trustee  
East Maine School  
District 63

## 2005 Investment Summary

*from page 4*

and evaluates the investment management firms' performance, aids in the selection of investment management firms, and assists in the development of investment policy.

IMRF's uppermost goal is to achieve the highest long-term total return on our investments within an acceptable level of risk. We work toward that goal by diversifying our investments.

The IMRF Board, its consultant, and IMRF

staff review IMRF's asset allocation annually.

Through diversification of investment type (stocks, bonds, real estate, etc.), region (domestic, international, global, etc.), and management style (growth, value, small, medium, or large capitalization, etc.), we enhance our goal of improving expected long-term returns while maintaining an acceptable level of risk.

## Charting a Course for the Future

*from page 1*

because they elect the IMRF Board; Board members are not appointed. Recent legislative proposals have attempted to limit or remove this autonomy. IMRF will work to maintain the independence of the IMRF Board of Trustees.

### 3. Advocate Preservation of the 100% Funding Goal

IMRF believes that its 100% funding goal is in the best interests of all of its stakeholders—active members, retirees, employers and taxpayers. By fully funding the benefits promised to members and retirees:

- Employers and taxpayers are made aware of the true cost of those benefits. They can determine if the pension system has sufficient assets to continue paying those benefits.
- Taxpayers who receive the services provided by public employees pay the cost of those services. Inappropriate "generational cost shifting" is avoided.

- The pension system accumulates additional assets that are used to earn an investment return. These accumulated investment earnings are available to help pay the promised benefits when they become due.

In contrast, failing to fully fund benefits results in higher employer contribution rates. Due to lower investment earnings, the employer has to make up the shortfall needed to pay promised benefits.

Some outside groups have recently advocated something less than a 100% funding goal. IMRF will continue to oppose such proposals and work toward preserving our 100% funding goal.

### Excellent Customer Service

We believe our Strategic Plan will help IMRF change its focus from "are we doing things right?" to "are we doing the right things?" It will also help us meet future challenges, respond to trends, and provide our members and employers with excellent customer service.



Illinois Municipal Retirement Fund

## Popular Annual Financial Report for Members

*for the fiscal year ending December 31, 2005*

Published June 2006

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Read the  
complete 2005  
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Annual  
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at [www.imrf.org](http://www.imrf.org) or  
requesting one at  
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