Popular Annual Financial Report for Members

for the year ending December 31, 2006

Published June 2007

Time can sneak up on us. Who hasn't said, "Where has the month gone?" Holidays, birthdays, anniversaries…they come and go and return before we know it.

But sometimes you need to take time. Time to stop and think about all you've achieved.

And for IMRF, that time is now.

As of December 31, 2006, IMRF was 100.1% funded on a market basis, the only major public pension fund in Illinois to achieve this funding level.

What does that mean to you?

It means you can rest assured knowing that, if you are currently receiving an IMRF pension, IMRF has the funds today to continue paying you for the rest of your life—and for the life of your spouse, if he or she will receive a surviving spouse pension.

If your time to retire hasn't yet arrived, you can be assured when it does, IMRF will have the funds to pay you and your spouse's pension for the rest of your lives.

But what makes IMRF such a successful plan? Basically, we are structured for success.

Independent Board & investment authority

A key reason for our success is your independent Board of Trustees—a Board elected by our members and employers.

Your Trustees have the authority to invest IMRF assets. Their goal is to achieve the highest rate of return with an acceptable level of risk. This allows IMRF to increase our assets and earn the best possible investment returns.

The result: IMRF's diversified investment portfolio earned 13.9% in 2006—more than $2.6 billion.

Setting and collecting employer rates

Your Trustees also have the authority to set employer contribution rates based on sound actuarial principles. The rate an employer pays is based on its members' demographics and other financial information specific to that employer. Your Board also has the authority to collect employer contributions when they are due. And when employers pay their contributions when due, IMRF has additional funds to invest which increases IMRF's earning potential.

Recipe for success

Taken together, an independent Board with the authority to invest our assets, to set employer contribution rates, and to collect those contributions when they are due results in your IMRF: a financially strong, well-managed pension fund.

IMRF's *Popular Annual Financial Report* summarizes some of the information available in our *Comprehensive Annual Financial Report*. The *Comprehensive Report* offers detailed information regarding IMRF's investment performance and funding as well as detailed demographic information for IMRF members and employers. You can read the *2006 Comprehensive Annual Financial Report* at www.imrf.org or request one at 1-800-ASK-IMRF.

Growing IMRF's Net Assets

What are net assets?

Simply put, it's the value of all of your assets less your liabilities. For example: you have $10,000 in the bank (assets), but owe $2,000 on your credit cards (liability). Your net assets equal $8,000.

IMRF's assets consist of member and employer contributions and the value of our investments. When you subtract accrued expenses and benefit payments, you come up with IMRF's net assets.

IMRF accumulates money needed to pay benefits through member and employer contributions and returns on our investments.

In 2006, members and employers contributed $884 million, 9% more than 2005.

Investment returns for 2006 were quite strong and surpassed those of 2005. In 2006, IMRF earned $2,668 million on our investments. IMRF's total investment portfolio earned 13.9% in 2006 compared to 8.7% in 2005.

Member contributions

The increase in member contributions is due to an increase in member earnings reported by IMRF employers from $5,375 million in 2005 to $5,631 million in 2006.

Employer contributions

The increase in employer contributions is the result of several factors. Member earnings increased overall by 4.8%. This increase in member earnings caused employer contributions to increase.

In addition, the average employer rates for the Regular plan, SLEP plan and ECO plan increased to 10.04% from 9.25%, to 18.25% from 17.15% and to 44.90% from 42.66%, respectively. These employer rate increases are primarily due to the negative investment return in 2002.

Net investment gain

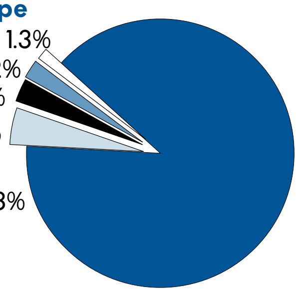
IMRF's net investment gain of $2,668 million was made up of $2,175 million of net appreciation in the value of investments, interest, dividend, and equity income of $543 million, and security lending income, less direct investment expenses.

Deductions to plan assets

IMRF expenses include benefit payments, refunds, and administrative expenses. Expenses for 2006 totaled $917 million, an increase of $74 million over 2005.

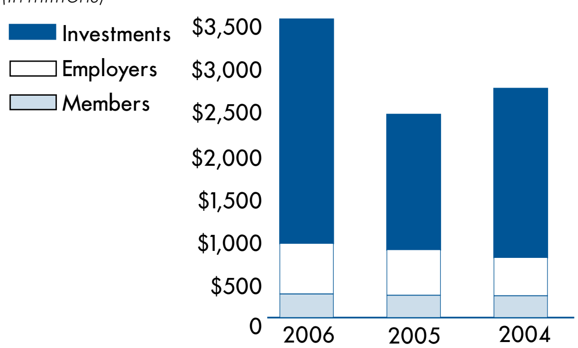
The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants (retirees) from 82,108 in 2005 to 84,704 in 2006 as well as an increase in the amount of the average benefit.

2006 Expenses by Type



Revenues by Source

(In millions)



Condensed Statements of Changes in Plan Net Assets

(In millions)

	2006	2005	Dollar Change	Percent Change
Additions				
Member contributions	$ 281	$ 266	$ 15	6%
Employer contributions	603	543	60	11
Net investment gain	2,668	1,608	1,060	66
Total additions	3,552	2,417	1,135	47
Deductions				
Benefits	857	791	66	8
Refunds	40	32	8	25
Administrative expenses	20	20	--	--
Total deductions	917	843	74	9
Net increase in plan net assets	$2,635	$1,574	$1,061	67
Net Assets Held in Trust for Pension Benefits				
Beginning of year	19,873	18,299	1,574	9
End of year	$22,508	$19,873	$2,635	13%

Celebrating IMRF's Financial Health

At the end of 2006, on a market value basis, IMRF was 100.1 percent funded—the only major public pension fund in Illinois to achieve this funding level.

IMRF benefit promises include pensions, 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."

When you compare IMRF's actuarial liability to our $22.5 billion in assets you come up with our funded ratio—a very important number and one that illustrates a pension system's financial health.

You can look at the value of IMRF's assets and liabilities 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, what was the value on December 31, 2006?

As of December 31, 2006, the market value of IMRF's net assets was $22.5 billion. However, IMRF's actuarial liability (our "benefit promises") was just less than $22.5 billion. This meant, that on a market value basis, IMRF was 100.1% funded—the only major public pension fund in Illinois to achieve this funding level in 2006.

What does 100% funding mean to you? If IMRF went out of business tomorrow—which of course we won't—we have enough money to pay for all of our benefit promises to our active, inactive and retired members and their beneficiaries. Read more about funding on page 5.

Actuarial value

The other method is less familiar—and not as simple. This 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.

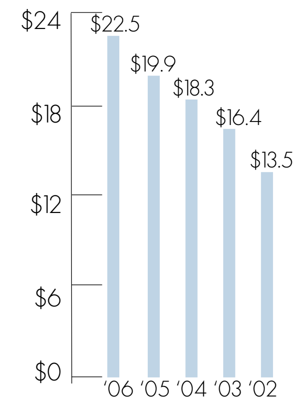
As of December 31, 2006, IMRF's actuarial funding at the end of 2006 was $21.4 billion, less than the market-based funding value. It was less because there are $1,025 million of unrecognized investments gains which will be recognized in the 2007 through 2010 period in keeping with the five-year smoothing technique.

As of December 31, 2006

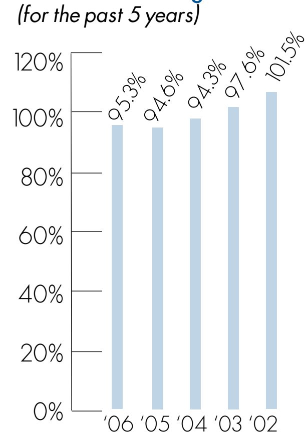
Actuarial liability (benefit promises)	$22.5 billion
Market value of plan net assets	$22.5 billion
Actuarial value of plan net assets	$21.4 billion

On an actuarial basis, the assets held fund 95.3% of IMRF's actuarial liability. On a market basis, the assets held fund 100.1% of IMRF's actuarial liability.

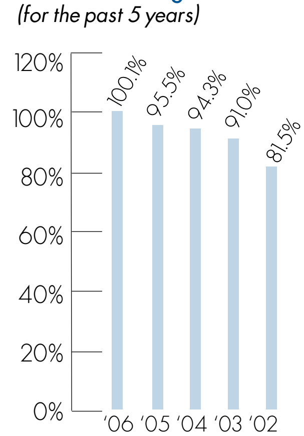
Net Assets for the Past 5 Years
(in billions)



Actuarial Funding Status
(for the past 5 years)



Market Funding Status
(for the past 5 years)



2006 Investment Summary

"Plan Additions" represent income that increases our assets.

Investment income is the largest contributor to our assets.

The following chart illustrates investment income as a percentage of plan additions

Year	
2006	75.1%
2005	66.5%
2004	73.7%
2003	83.9%
2002	(166.4)%

As a private investor, you may grapple with investing several thousand, or tens of thousands of dollars. How would you invest $22.5 billion dollars?

When you consider your investments, you may have a 20-, 30-, or 40-year time frame. In contrast, IMRF is investing for the lifetimes of more than 367,000 members, some as young as 20 and some age 80 or better.

We take very seriously our promise to provide a guaranteed, lifetime benefit to each of our 367,000 members and beneficiaries. Therefore, we design our investment portfolio to achieve the greatest return with an acceptable amount of risk. Our diversified investment strategy results in steady and responsible returns.

Largest contributor to the plan

Even though IMRF employers and members both contribute to IMRF, earnings on IMRF's investments are a major contributor. In 2006, IMRF earned $2,668 million on our investments.

The total rate of return for IMRF's portfolio in 2006 was 13.9% compared to 8.7% in 2005. As of December 31, 2006, IMRF's investments totaled $23 billion, up from $20.1 billion at the end of 2005.

Long-term results

IMRF takes a conservative, long-term approach to investing on your behalf. In addition, IMRF's investment program is designed to weather the ups and downs of the market. Our portfolio is highly diversified by investment type, geographic region and management style to withstand market variations and ensure steady returns over the long term.

Period Ended December 31, 2006

Period	Annualized Returns
Three years	11.6% per year
Five years	9.3% per year
Ten years	8.9% per year

IMRF earned $2,668 million on our investments in 2006. This investment income represents 75.1% of "Plan Additions."

For the four months ended April 30, 2007, the overall return on IMRF's investments has been approximately 5%. As of April 30, 2007, IMRF's total

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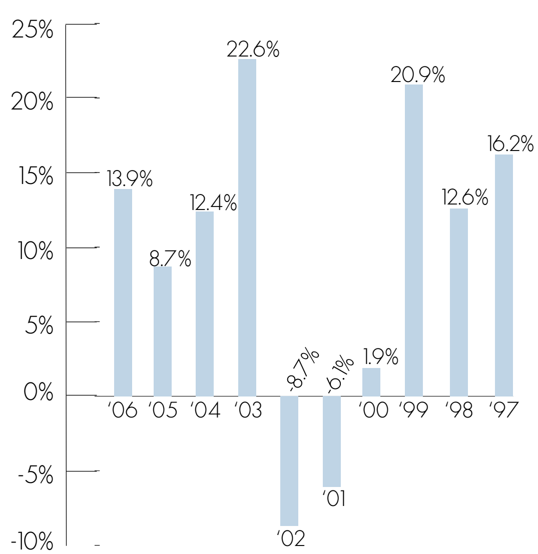
Investment Rates of Return

Past 10 Years



Investment Portfolio Summary as of December 31

(in millions)

	2006		2005	
	Market Value	% of Total Market Value	Market Value	% of Total Market Value
Fixed Income	$ 7,713.1	33.5%	$ 6,429.0	31.9%
Stocks	13,300.6	57.8%	11,849.9	58.9%
Real Estate	676.2	3.0%	698.4	3.5%
Alternative	735.0	3.2%	634.3	3.1%
Short-Term	577.9	2.5%	518.2	2.6%
Total	$23,022.8	100.0%	$20,129.8	100.0%

IMRF Benefits & Funding

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

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.

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 your pension. Your IMRF Defined Benefit pension is based upon a formula that includes your salary and years of service credit. Also, your IMRF pension is payable for life.

Although 174,008 public employees across Illinois currently 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, 2006, a total of 2,909 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.

Two words clarify the fundamental difference between IMRF's Defined Benefit plan and Defined Contribution plans: investment risk.

As a member of IMRF, investment returns do not determine the amount of your pension.

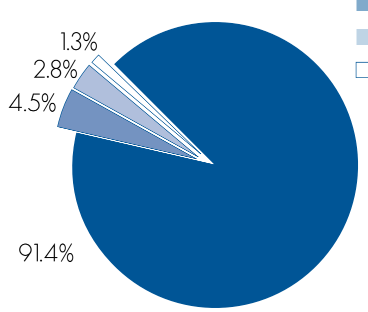
Funding

IMRF member contribution rates—4.5% for the Regular plan, 7.5% for Sheriff's Law Enforcement Personnel plan (6.5% prior to June 1, 2006) 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 payment" are pooled. IMRF administrative and direct investment costs are financed by investment income.

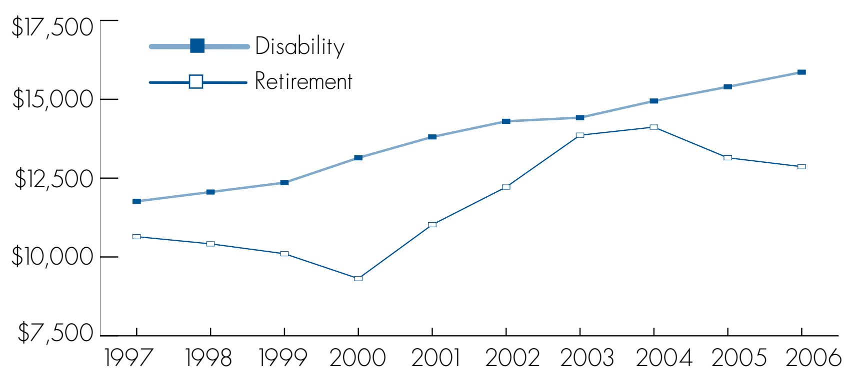
Benefits Paid in 2006
in millions



Pensions*	$818.9
Refunds	40.1
Death	25.6
Disability**	11.7
	$896.3

*Retirement, Surviving Spouse, Beneficiary, and Supplemental ("13th Payment")
**Includes payments for both Temporary disability benefits and for Total and Permanent disability benefits

Average Annual Benefit Payment Amounts
Past 10 years



How do you match up?

Are you an "average" member?

As of December 31, 2006, out of 174,008 active members, the "average" member is:

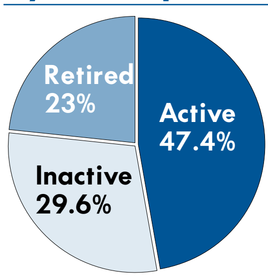
- Female
- 46 years old
- Participates in the Regular Plan
- Most likely works for a school district
- Earns $32,535 a year
- Received a 2.8% salary increase in 2006
- Has 9.1 years of service credit

Are you an "average" retiree?

Of the 3,700 members who retired in 2006 under the Regular plan, the average retiree is:

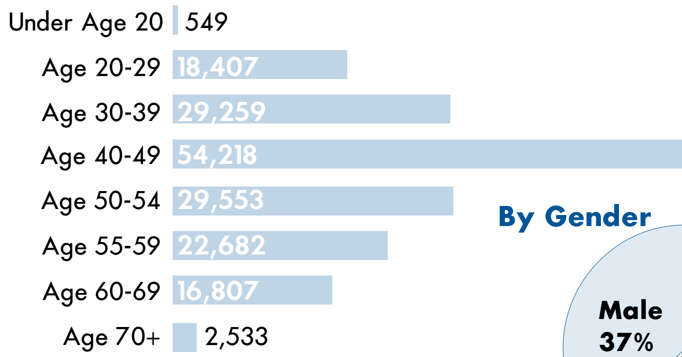
- Female
- Had a final rate of earnings of $2,984 a month
- Retired with approximately 20 years of service credit
- Receiving a pension of approximately $1,137 a month

All Members By Participation

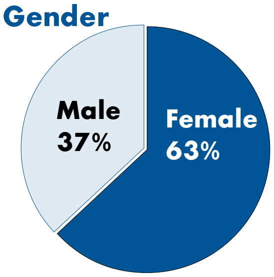


Active Members

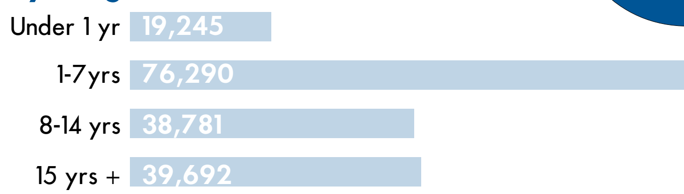
By Age



By Gender

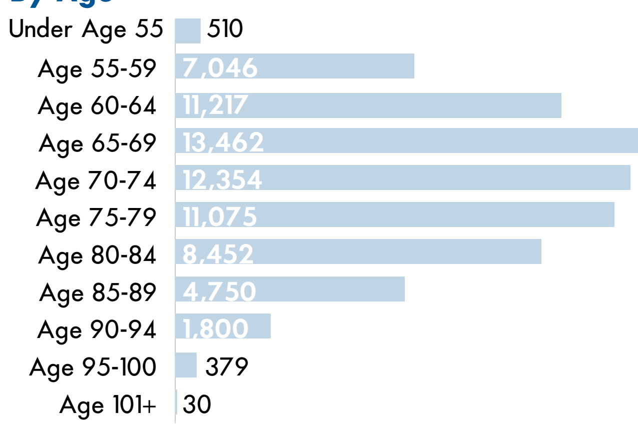


By Length of Service

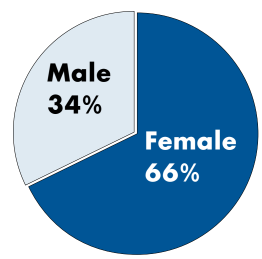


Retired Members (Retirees, Surviving Spouses, Beneficiaries)

By Age



By Gender



Although investment income provides the greatest source of IMRF income, both you and your employer contribute toward your future retirement benefit. You contribute a percentage of your salary as established by the Illinois Pension Code.

More than 97% of IMRF members participate in the Regular plan and contribute 4.5% of their wages toward an IMRF pension. Less than 3% of members participate in the Sheriff's Law Enforcement Personnel or Elected County Official plans; these members contribute 7.5% toward a future pension.

Although IMRF calculates an "average employer contribution rate," in fact every IMRF employer has its own unique contribution rate.

These unique rates are based upon the employer's individual situation—their members' salaries, ages, years of service credit, their own individual funded status, etc. Employers pay most of the cost for member and survivor pensions and all of the cost for supplemental, death and disability benefits.

Strategic Plan

The IMRF Strategic Plan provides IMRF with a road map for meeting the challenges and opportunities in providing world class retirement services for our retirees, members, and employers.

It sets goals and objectives for improving customer service, increasing efficiencies, and advocating the preservation of a prudent defined benefit program for our members and employers.

The IMRF Strategic Plan is a two-year plan, covering 2006 and 2007. We are working to update and expand the Plan for 2008 and beyond.

Continue to improve customer service through computer system development

IMRF's major system development efforts in 2006 focused on modifying functionality to support newly enacted pension legislation including:

- SLEP Plan benefit enhancements
- The federal Pension Protection Act of 2006
- Revised methods for dividing benefits during a divorce accomplished through a Qualified Illinois Domestic Relations Order
- Reciprocal retirement enhancements for teacher aides with less than one year of service who become teachers

e-Service Goals and Strategy

IMRF offers access to both member and employer specific data through secure areas on our website, www. imrf.org. Use of these areas continued to grow in 2006. Our e-service goals include improving customer service, reducing administrative costs, providing uncompromised privacy and security of information and instituting business process reengineering.

As of December 31, 2006, approximately 95% of our employers reported their wages and contributions via our on-line web reporting system. A number of enhancements to our e-Service offerings are contemplated for 2007 including on-line enrollment of new members.

Defined Benefit Administration Benchmarking Analysis

CEM Benchmarking, Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF has participated in this benchmarking program since 2001.

IMRF received the highest service level score of the 51 participating retirement systems for both 2005 and 2006.

Though IMRF receives high marks for our excellent customer service, the real value of the study is identifying areas for further improvement.

Business Continuity Planning

IMRF expanded its disaster recovery and business continuity planning process during 2006. We have plans in place to effectively and efficiently restore key data and operating systems at a "hot site" in the event a disaster prevents access to our current office space.

Our goal is to have the capacity to provide service to our membership within 24 hours of any disaster event. We work to continuously improve our readiness. In 2007, we will focus on the readiness and recovery of our secure member, employer, and reciprocal websites.

Board of Trustees

Martha H. Rademacher, Director of Finance and Programs for the Park

please turn to page 8

The CEM Defined Benefit Administration Benchmarking Study provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF received the highest service level score of the 51 retirement systems that participated in the study.

2007 Board of Trustees

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Looking back at 2006, contd.

District Risk Management Agency, was re-elected as an executive trustee. Her five-year term began January 1, 2007.

James W. Rasins, DuPage County Auditor, was elected as an executive trustee. His two-year term began January 1, 2007.

Ruth E. Faklis, Library Director for Prairie Trails Public Library District, was appointed February 23, 2007, as an executive trustee to fill the unexpired term of R. Steven Sonnemaker, who resigned effective December 1, 2006. Her term ends December 31, 2007.

Awards and Acknowledgements

IMRF received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for its popular annual financial report for the year ended December 31, 2005.

IMRF was presented with the Public Pension Standards 2006 Award by the Public Pension Coordinating Council in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

Investment summary, contd.

investments are approximately $24 billion, an increase of $1 billion since December 31, 2006.

Professional Management

Currently 67 professional investment management firms, handling 77 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 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 with 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.

Illinois Municipal Retirement Fund
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IMRF Main Office & Mail Address
2211 York Road
Suite 500
Oak Brook, IL 60523-2337

Springfield Regional
Counseling Center
3000 Professional Drive, Suite 101
Springfield, IL 62703