



Popular Annual Financial Report for Members

for the year ending December 31, 2008

Published June 2009

IMRF employers...essential to Illinois life

Pretend for a moment that you wake up tomorrow morning and when you turn on your faucet—nothing happens.

What if all the street lights went dark? What if local schools, libraries and parks disappeared? What if potholes today became craters next winter, rendering roads virtually impassable?

You'd be living in a world without local government—without IMRF employers.

Making our lives better, safer

Local government works in ways big and small to make all of our lives better. From cleaning streets to planning our towns to providing emergency services, local government is an integral part of life.

But, for many of us, it's out of sight. The services provided by IMRF employers are pieces of our daily lives we often take for granted.

These local government workers—IMRF members—from the people who staff the school lunch room to the people who make sure our sanitation systems work—are all individuals we count on every day without even knowing it.

Managing the impact of 2008

Just as Illinois citizens count on IMRF employers to provide essential services, our member and employers count on IMRF to safeguard the retirement assets entrusted to us.

IMRF's goal has always been to protect and grow those assets through a program

of investment diversification. If we look at 1998 through 2007, IMRF earned around \$13 billion on our investments, despite market downturns in 2001 and 2002. If we include 2008 investment losses (the largest loss in IMRF history), IMRF earned approximately \$7 billion.

IMRF is not immune to market events. In the last quarter of 2008, we saw the collapse of the housing sector, the credit crisis, and an overall slowdown in the global economy. However, it is important to remember that IMRF's investment horizon extends over many decades. We are confident our diversified portfolio will continue to be a reliable source of income in the long-term.

Giving employers options

Members contribute a fixed percentage of their salary toward their future pension. In contrast, each employer has its own unique contribution rate, partially determined by our investment returns. To assist in maintaining level employer contributions, our investments gains and losses are "recognized" over five years. This "smoothing" is designed to minimize sharp increases and decreases in employer contributions.

In light of the severe losses experienced in 2008, IMRF developed an additional plan to allow employers to phase in their contribution increases.

This additional plan for employers to phase in their contribution increases is just one example of IMRF's efforts to continue to work to earn the trust placed in us.



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 about IMRF members and employers. You can read the 2008 *Comprehensive Annual Financial Report* at www.imrf.org or request one at 1-800-ASK-IMRF.



Imagine...

... your community without clean drinking water, faucets that run dry, impassable roads—a world without the vital services of IMRF employers.

IMRF Assets

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

In 2008, members and employers contributed \$945 million, 5.2% more than 2007. However, member and employer contributions were dwarfed by investment losses of \$6,096 million.

In 2008, IMRF's investment portfolio lost 24.8% (compared to earning 8.5% in 2007) because of the housing collapse, credit crisis and downturn in the global economy.

Member contributions

Members contributed \$314 million in 2008, an increase of 6% from 2007. The increase is due to an increase in member wages; employers reported \$6,259 million of member wages in 2008 as compared to \$5,931 million in 2007.

Employer contributions

The increase in employer contributions was

the result of several factors. Employers contribute a percentage of their members' wages; member wages reported in 2008 increased overall by 5.5%.

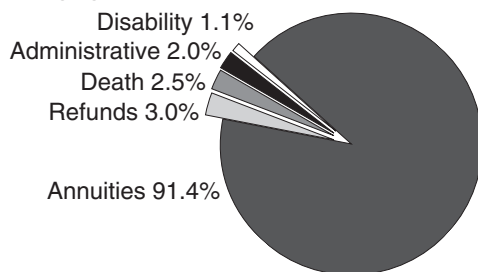
The average employer contribution rate for all IMRF plans decreased from 10.13% in 2007 to 10.08% in 2008. (This rate reflects the average employer rate if we combine all IMRF plans. Each employer has its own unique rate for each IMRF plan it offers.)

The decrease in the "combined" average employer contribution rate is the result of IMRF's improved overall actuarial funded status from 2006 to 2007. However, the growth in member earnings more than offset the decrease in the average employer rate, which resulted in total employer contributions increasing in 2008.

Investment losses

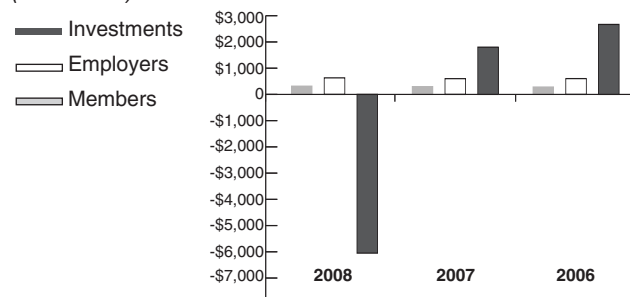
IMRF lost \$6,096 million (-24.8%) on our investments in 2008. This loss contrasts sharply with the \$1,799 million gain in 2007.

2008 Expenses by Type



Revenues by Source

(In millions)



Condensed Statements of Changes in Plan Net Assets (In millions)

	2008	2007	Dollar Change	Percent Change
Additions				
Member contributions	\$ 314	\$ 297	\$ 17	6%
Employer contributions	631	601	30	5
Net investment (loss) gain	(6,096)	1,799	(7,895)	NM
Total additions	<u>(5,151)</u>	<u>2,697</u>	<u>(7,848)</u>	NM
Deductions				
Benefits	997	924	73	8
Refunds	32	36	(4)	(11)
Administrative expenses	21	21	--	--
Total deductions	<u>1,050</u>	<u>981</u>	<u>69</u>	7
Net (decrease) increase in plan net assets	<u>\$ (6,201)</u>	<u>\$ 1,716</u>	<u>\$ (7,917)</u>	NM
Net Assets Held in Trust for Pension Benefits				
Beginning of year	<u>24,233</u>	<u>22,507</u>	<u>1,726</u>	8
End of year	<u>\$18,022</u>	<u>\$24,223</u>	<u>(\$6,201)</u>	(26)%

Travel...

... down a road built and maintained by IMRF employers, expertly measured, paved and marked for safety; designed in conjunction with city/county planners, accounting for the green, tree-lined view along the way.



IMRF's financial health: a plan for the future

When you add up all of IMRF's "benefit promises" (pensions, disability, refunds, and death benefits), you have the value of IMRF's "actuarial liability."

When you compare IMRF's actuarial liability to our assets, you come up with our funded ratio. It is important to remember that a pension system's funded ratio is a "moving target." You cannot look at just one year to determine the health of a pension fund. You need to look at the trend, is the number moving up or down?

After 2008 investment losses, it was inevitable that IMRF's funded ratio would decrease. However, we were 100% funded at the beginning of the year—providing some "cushion" for the losses. Moreover, just as IMRF has done over our 68-year history, we will continue to work to build our assets and increase our funding ratio.

Looking at assets & liabilities

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, 2008?

As of December 31, 2008, the market value of IMRF's net assets was \$18 billion. IMRF's actuarial liability (our "benefit promises") was \$25.6 billion. This meant, that on a market value basis, IMRF was 70.4% funded.

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.

Employer rates for 2010 are partially based on 2008 investment returns. The unprecedented losses of 2008 would have resulted in unacceptable employer rate increases. Therefore, the IMRF Board of Trustees developed an additional plan to "phase-in" employer rate increases. The plan included changes to certain actuarial techniques and capped most employer rate increases at 10% of their 2008 rate. The Board will review this plan annually.

As of December 31, 2008, the actuarial value of IMRF assets of \$21.6 billion is greater than the market-based value. It is greater because \$3.6 billion of unrecognized investments losses will be recognized in the 2009 through 2012 period in keeping with IMRF's five-year smoothing technique.

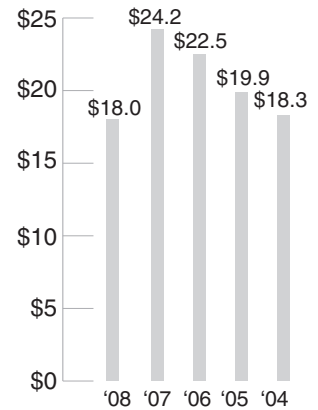
As of December 31, 2008

in billions

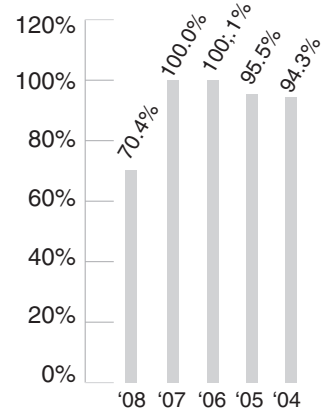
Actuarial liability (benefit promises).....	\$25.6
Market value of plan net assets.....	\$18.0
Actuarial value of plan net assets.....	\$21.6

Although 2008 investment losses reduce IMRF's funding status, it is important to remember that IMRF has sufficient assets to continue paying current retirees and decades to recover the losses in order to pay future retirees.

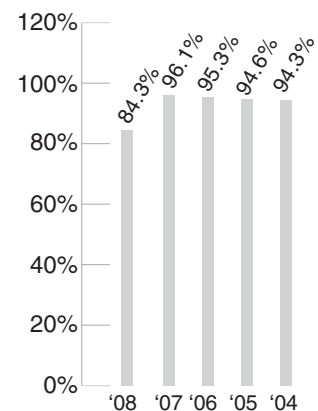
Net Assets for the Past 5 Years
(in billions)



Market Funding Status
(for the past 5 years)



Actuarial Funding Status
(for the past 5 years)





Envision...

... navigating through your community in the dark. What if all the street lights went out? Thanks to IMRF employers, Illinois residents can find their way home.

2008 Investments: long-term view

“Plan Additions” represent income that increases our assets.

Historically, investment income is the largest contributor to our assets.

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

Year	Percentage
2008	-118.3%
2007	66.7%
2006	75.1%
2005	66.5%
2004	73.7%

Determining how IMRF invests its \$18 billion portfolio is one of the most important decisions the IMRF Board of Trustees makes.

Just as you may consider which mutual fund to select based upon its mix of stocks and bonds, a pension fund’s “asset allocation” is key to its investment strategy. Annually, the IMRF Board determines what percentage of our assets will be invested in equities (stocks), fixed income (bonds), real estate, etc.

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.

Historically largest contributor

Even though IMRF employers and members both contribute to IMRF, historically, earnings on IMRF’s investments are the major contributor. However, the economic downturn that started in 2008 resulted in

a \$7,895 million decrease in investment income. In contrast, in 2007, IMRF earned \$1.8 billion on our investments.

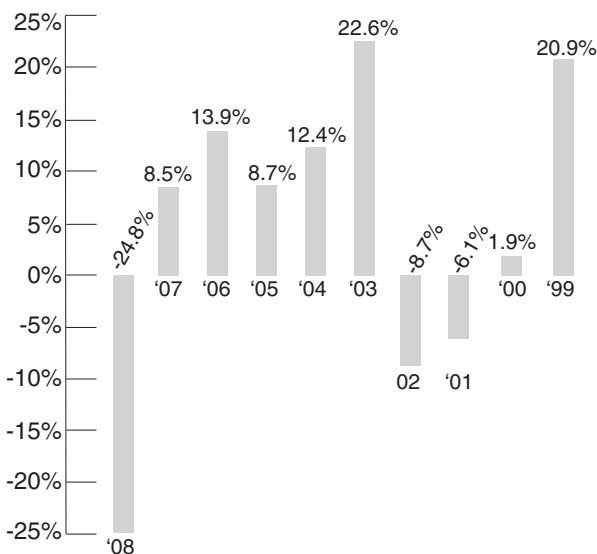
The total rate of return for IMRF’s portfolio in 2008 was negative 24.8 percent versus a total return in 2007 of 8.5 percent. As of December 31, 2008, IMRF’s investments totaled \$18.4 billion, down from \$24.7 billion at the end of 2007.

Long-term results

Regardless of events that occurred in 2008 and resulted in unprecedented losses, IMRF will continue to take a conservative, long-term approach to investing on your behalf. We will also continue to design our investment portfolio to achieve the greatest return with an acceptable amount of risk.

The estimated investment return for the four months ended April 30, 2009, has been approximately 1.5 percent, a 4.5 percent return on an annualized basis. IMRF’s total investments as of April 30, 2009, are approximately \$18.6 billion, an increase of \$200 million since year-end.

Investment Rates of Return Past 10 Years



Investment Portfolio Summary as of December 31 (in millions)

	2008		2007	
	Market Value	% of Total Market Value	Market Value	% of Total Market Value
Fixed Income	\$8,401.8	45.6%	\$8,615.6	34.9%
Stocks	7,907.1	43.0%	13,738.1	55.6%
Real Estate	506.4	2.8%	624.3	2.5%
Alternative	873.1	4.7%	940.8	3.8%
Short-Term	724.4	3.9%	788.5	3.2%
Total	\$18,412.8	100.0%	24,707.3	100.0%

Consider...

... the beauty of Illinois parks, recreation areas and forest preserves, thanks to IMRF employers.



IMRF benefits: more than retirement

IMRF paid more than \$959 million in retirement benefits to 88,954 retired members in 2008.

However, IMRF is more than just a retirement system. Our mission of protecting our members' income begins long before retirement.

Protecting you and your loved ones

Few of us imagine a time when we will become injured or sick and must be off work. If that happens to you, you can turn to the IMRF disability benefit.

In 2008, IMRF paid more than \$11 million in disability benefits to more than 1,200 members. These members are also earning IMRF service credit toward a future pension and their IMRF death benefit protection continues.

If we think little about being injured or sick, we probably think even less about our own death. But you can be assured that if your death occurs, your survivors will be protected by the IMRF death benefit.

IMRF paid more than \$26 million in death benefits. Included in the \$959 million retirement benefits paid in 2008 are

approximately \$57 million in monthly benefit payments to more than 12,000 members' surviving spouses and beneficiaries.

IMRF also provides various pension payment options; if a member retires under age 62, he or she can choose to receive a larger pension until age 62 and a reduced pension thereafter.

For members who wish to provide someone a monthly pension separate from the surviving spouse pension, he or she can select a Special Needs pension payout.

Contribution rates

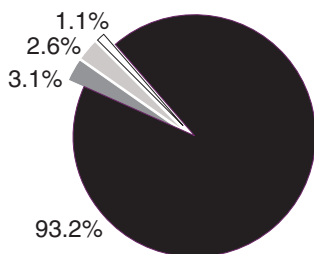
IMRF member contribution rates—4.5% for the Regular plan, 7.5% for the Sheriff's Law Enforcement Personnel and the Elected County Officials plans—are determined by Illinois statute.

Illinois statutes also require each IMRF employer to contribute the amount needed to finance the pensions of its own employees. Each employer has a unique rate for each IMRF plan it offers.

Employer contributions for disability benefits, death benefits, and the "13th payment" are pooled.

IMRF's goal of protecting our members' income covers every phase of life.

Benefits Paid in 2008 millions

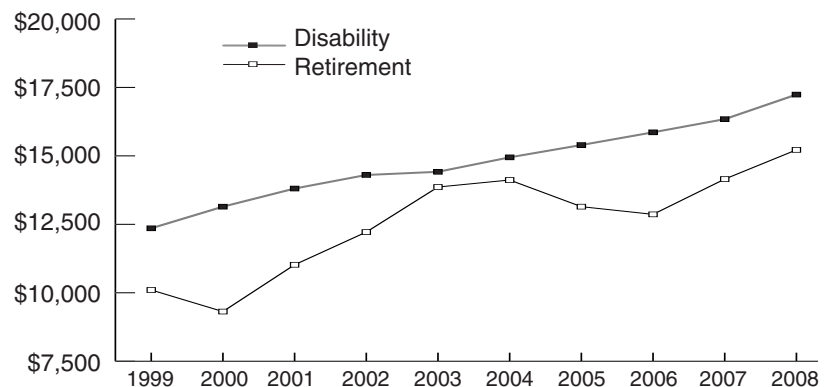


■ Pensions*	\$959.7
■ Refunds	31.9
■ Death	26.5
□ Disability**	11.3
	\$1,029.4

*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





Believe...

...in the power of education, fueled by IMRF employers — promoting involved citizenship and enriched communities.

Are you an “average” member?

As of December 31, 2008, out of 181,678 active members, the “average” member is:

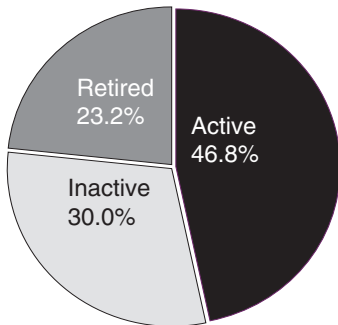
- Female
- 46.8 years old
- Participates in the Regular Plan
- Most likely works for a school district
- Earns \$34,655 a year
- Received a 3.1% salary increase in 2008
- Has 9.6 years of service credit

Are you an “average” retiree?

Of the 3,743 members who retired in 2008 under the Regular plan, the average retiree is:

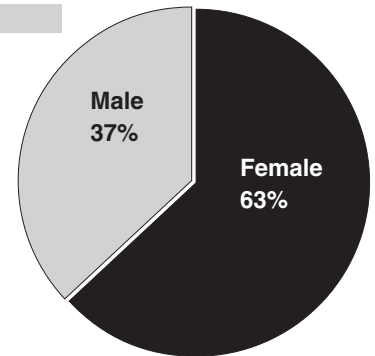
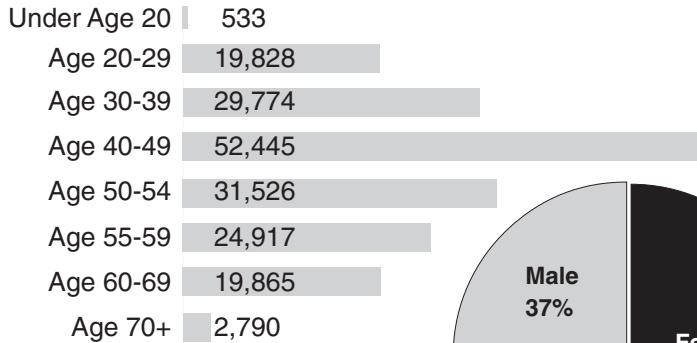
- Female
- Had a final rate of earnings of \$3,212 a month
- Retired with approximately 20 years of service credit
- Receiving a pension of approximately \$1,248 a month

All Members by Participation

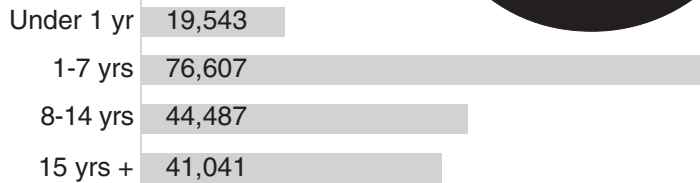


Active Members

By Age



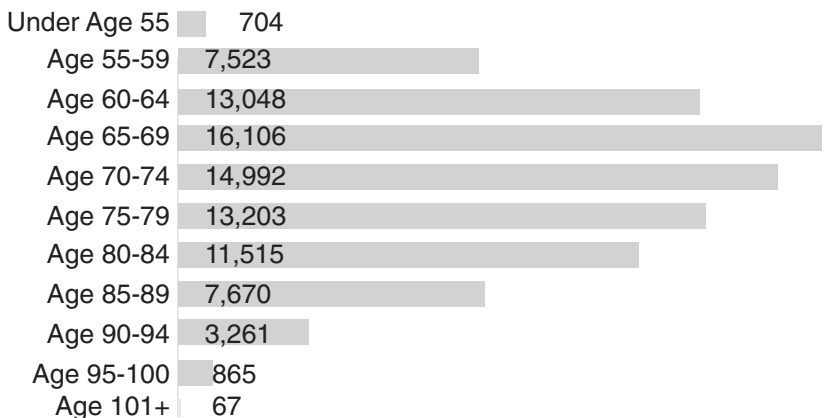
By Length of Service



47.1% of active IMRF members are vested for a pension (have eight or more years of service credit).

Retired Members (Retirees, Surviving Spouses, Beneficiaries)

By Age



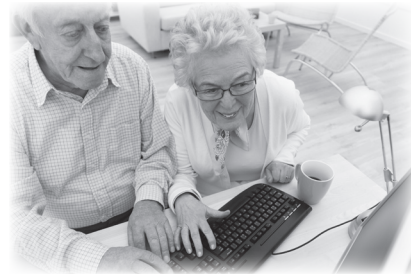
Both you and your employer contribute toward your future retirement benefit. You contribute a percentage of your salary as established by the Illinois Pension Code.

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.

Treasure...

...the gifts of Illinois citizens, and watch them thrive in senior centers and social programs, thanks to IMRF employers.



Looking back on 2008

Strategic Plan

The IMRF Strategic Plan for 2008 – 2010 includes six inter-related strategic goals:

- Improve IMRF's effectiveness in addressing legislative issues
- Prepare the IMRF organization for changing demands in customer service
- Advocate preservation of the defined benefit plan
- Continue to promote the IMRF brand
- Maintain and promote the Board's independence
- Advocate preservation of the 100% funding goal

We will pursue a series of action plans to achieve these goals as we strive to achieve both our Mission and Vision.

Continuous Process Improvement Program

One of IMRF's Strategic goals is "To prepare the IMRF Organization for Changing Demands in Customer Service." To assist us in meeting that goal, IMRF is implementing a Continuous Process Improvement (CPI) program.

A CPI program provides a method to formalize the manner in which we analyze our processes and procedures.

Complementing our CPI program and helping us identify opportunities for improvement is IMRF's application for the 2009 Lincoln Award for Performance Excellence. The application process allows us to compare our practices, policies, operations, and results against the Malcolm Baldrige National Quality Program's seven *Criteria for Performance Excellence*.

These seven criteria are: Leadership; Strategic Planning; Customer Focus; Measurement, Analysis, and Knowledge Management; Workforce Focus; Process Management; and Results.

Improve customer service through computer system development

IMRF's efforts in 2008 to enhance our computer systems focused on modifying our web-based and mainframe functions:

- Member Statement
 - Redesigning the annual Member Statement to better communicate the value of IMRF benefits.
- Web-based functions
 - Implementing a revised Member Access website to expand self-service options.
 - Automating processing of the growing number of Reciprocal Claims to speed approval times.
- Call Center
 - Implementing new telephone and call center systems to further enhance service to members and employers.

In 2009, IMRF's system development efforts are focusing on:

- Providing comprehensive, online access to in-depth investments information to improve transparency of IMRF investment activities.
- Redesigning past service payment processing to improve internal efficiency and dramatically speed turnaround times.
- Expanding our Member Access website self-service options including changing beneficiaries, comparing multiple pension estimates, and applying for benefits.

e-Service Goals and Strategy

IMRF offers access to both member and employer specific data through secure areas on our website—*imrf.org*. Use of these areas continued to grow in 2008.

For the third year in a row, IMRF received the highest service level score of the 77 retirement systems that participated in the CEM Defined Benefit Administration Benchmarking Study.

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IMRF 2009 Board of Trustees

Sharon U. Thompson

President
Annuitant Trustee
(Formerly) Lee County

Ruth E. Faklis

Vice-President
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Marvin Shoop, Jr.

Employee Trustee
City of Peoria

William Stafford

Executive Trustee
Evanston Township High School
District 202

Michael D. Suppan

Employee Trustee
City of Joliet



Rest assured...

... IMRF employers work around the clock in ways big and small to improve the lives of all Illinois citizens.

Looking back on 2008, contd.

from page 7

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

Our 2,940 employers enroll more than 30,000 members per year and, as of December 31, 2008, 90 percent of new members were being enrolled online, thus speeding enrollment and reducing errors.

A number of enhancements to our e-Service offerings are planned for wide rollout in 2009, including additional self-service transactions for our 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.

This program provides insight into benefit administration costs, customer service levels, and industry best practices.

In 2007, IMRF received the highest service level score in our peer group and was ranked near the top of the of the 77 participating retirement systems.

Though IMRF receives high marks for our excellent customer service, the real value of the study is identifying areas for further improvement. We will continue our participation in this program.

Board of Trustees

Gwen Henry, DuPage County Treasurer, was elected as an executive trustee. Her two-year term began January 1, 2009.

William Stafford, Chief Financial Officer for Evanston Township High School District 202, was elected as an executive trustee. His five-year term began January 1, 2009.

Michael D. Suppan, Director of Human Resources for the City of Joliet, was appointed March 27, 2009, as an employee trustee until December 31, 2009, to fill a portion of the unexpired term of Judi S. Voller who resigned from the Board effective February 1, 2009.

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Illinois Municipal Retirement Fund

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