

Popular Annual Financial Report for Members

for the year ending December 31, 2011

Published June 2012



Success begins with the right direction

Rowing harder doesn't help if the boat is headed in the wrong direction.



Heading in the right direction is key for an organization's success. IMRF determines its direction by developing a Strategic Plan. IMRF's 2011-2013 Strategic Plan not only provides the right direction but allows us to develop a road map to help IMRF get "where we want to go." And where is that? To successfully meet the changing needs and demands of our members and employers.

The development of our 2011-2013 Strategic Plan started in 2010, when the IMRF Board of Trustees and staff examined and validated IMRF's Mission, Vision, and Values.

We also completed a comprehensive overview of our external environment, as well as an analysis of our strengths, weaknesses, opportunities, and threats. These analyses resulted in a list of strategic advantages and challenges that allowed us to develop our new Strategic Objectives.

Our Strategic Objectives force us to think strategically about how we can achieve and/or maintain excellence in our five key result areas:

Financial Health and Sustainability

Strategic Objective: To achieve a funding level whereby we are in the top 10% on a market-value basis, as measured versus a universe of public pension funds with December 31st year-ends.

Investment Returns

Strategic Objective: Achieve a 7.5% net annual return and outperform the annual total portfolio benchmark.

Customer Satisfaction

Strategic Objective: To achieve a level of satisfaction whereby a minimum of 90% of member and employer survey respondents assign us a "Very Satisfied" rating.

Workforce Engagement

Strategic Objective: To achieve a top 10% ranking in overall workforce engagement as measured by a nationally benchmarked survey.

Service & Operational Excellence

Strategic Objective: To achieve a top 10% ranking in overall service as measured by the CEM Benchmarking Inc. annual Defined Benefit Administration Benchmarking Study Service Score while keeping our "per member" cost near the median of the CEM administrative cost measure.

Each Strategic Objective is supported by several key strategies, and IMRF developed action plans for each key strategy. While the measures of success that we use for our Strategic Objectives may change over time, we will strive to achieve top 10% performance for most key result areas.

IMRF's Strategic Plan provides a road map that guides our efforts to continuously improve our service to our 2,964 employers; 175,844 participating members; 99,684 benefit recipients; and the taxpayers of Illinois.

M I S S I O N
"To efficiently and impartially develop, implement and administer programs that provide income protection to members and their beneficiaries on behalf of participating employers in a prudent manner"

FINANCIAL HEALTH & SUSTAINABILITY

"To achieve a funding level whereby we are in the top 10% on a market-value basis."

IMRF Assets: continuing to provide security

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

In 2011, members and employers contributed \$1,128 million, 3% more than 2010.

In 2011, IMRF's investment portfolio returned a negative .5%. The 2011 return was significantly less than the 13.4% return in 2010. IMRF's 2011 investment return was negatively impacted by the volatility caused by shifts between optimism in the U.S. economic recovery and fear of a recession as well as the concern over European debt.

Member contributions

Members contributed \$327 million in 2011, an increase of 1% from 2010.

The slight increase in member contributions is due to a .6% increase in the member payroll employers reported to IMRF in 2011. That slight increase offset a

.5% decrease in the total number of active members resulting from employers reducing the number of their employees.

The member contribution rate remained at 4.5 percent of earnings for Regular members and 7.5 percent for Sheriff's Law Enforcement Personnel (SLEP) and the optional Elected County Officials (ECO) members.

Employer contributions

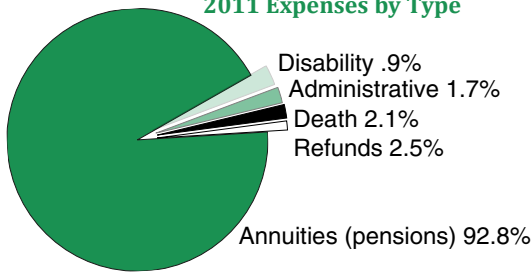
Employer contributions increased 4.0%. This increase was driven primarily by the increase in the average employer contribution rate from 12.05% in 2010 to 12.45% in 2011.

The 2011 rates reflect the impact of the 24.3% return in 2009 which helped to mitigate the dramatic investment losses incurred in 2008.

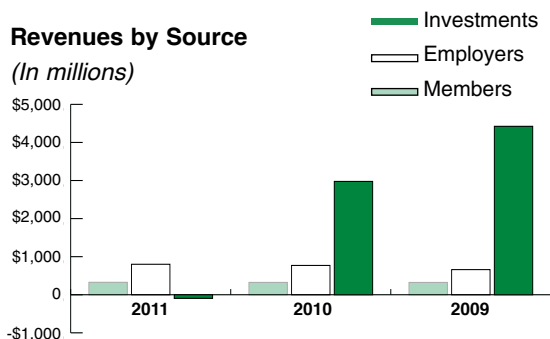
Investment losses

IMRF lost \$93 million on our investments in 2011. This loss contrasts sharply with the \$2,977 million gain in 2010.

2011 Expenses by Type



Revenues by Source
(In millions)



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

	2011	2010	Dollar Change	Percent Change
Additions				
Member contributions	\$ 327	\$ 325	\$ 2	1%
Employer contributions	801	770	31	4
Net investment gain (loss)	(93)	2,977	(3,070)	(103)
Total additions	<u>1,035</u>	<u>4,072</u>	<u>(3,037)</u>	<u>(75)</u>
Deductions				
Benefits	1,284	1,179	105	9
Refunds	33	32	1	3
Administrative expenses	23	22	1	5
Total deductions	<u>1,340</u>	<u>1,233</u>	<u>107</u>	<u>9</u>
Net (decrease) increase in plan net assets	<u>\$(305)</u>	<u>\$2,839</u>	<u>\$(3,144)</u>	<u>(111)</u>
Net Assets Held in Trust for Pension Benefits				
Beginning of year	25,142	22,303	2,839	13
End of year	<u>\$24,837</u>	<u>\$25,142</u>	<u>\$(305)</u>	<u>(1)%</u>

CUSTOMER SATISFACTION

"To achieve a level whereby a minimum of 90% of members and employers assign us a "Very Satisfied" rating."

IMRF's financial health: a plan for the future

While the *Condensed Statements of Changes in Plan Net Assets* shown on page 2 shows the changes in the value of IMRF's net assets, another important factor needs to be considered in order to determine IMRF's financial health.

That additional factor is IMRF's funded status. The funded status compares IMRF assets to our liabilities.

You can look at the value of IMRF's assets and liabilities in one of two ways: market value and actuarial value.

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, 2011?

As of December 31, 2011, the market value of IMRF's net assets was \$24.8 billion. IMRF's actuarial liability (our "benefit promises") was \$31 billion. This meant, that on a market value basis, IMRF was 80.2% funded, which is considered well funded by most industry standards.

As of December 31, 2011, IMRF's market-based funding value was less than the actuarial funding value because there are \$878 million of "unrecognized investment losses" which will be reflected in the actuarial calculation (explained at right) over the next four years. This action is in keeping with the five-year smoothing technique discussed at right.

Actuarial value

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

With five-year smoothing, investment gains (or losses) that differ from IMRF's 7.50% investment return assumption are spread over five years; they are not "recognized" completely in one year. The smoothing helps to prevent employer contribution rates from changing drastically year to year because of short-term fluctuations in the financial markets.

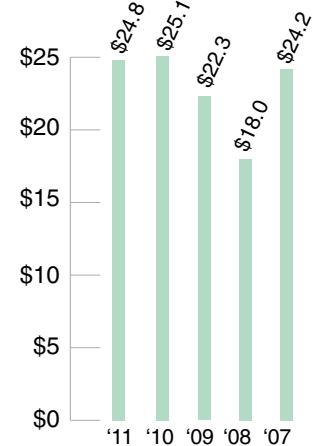
As a result of IMRF's flat 2011 investment return and a revision to IMRF's mortality assumptions (retired members are living longer), the 2011 actuarial funding ratio of 83% decreased slightly from the 2010 actuarial funding ratio of 83.3%.

The ratios described here are for IMRF as a whole. Each IMRF employer funds the pensions for its own employees. Funding ratios for individual employers and individual plans vary widely.

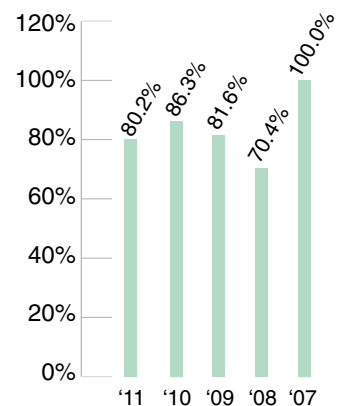
Sense of security

You can look with a sense of security to IMRF's net asset base of \$24.8 billion because these assets are irrevocably committed to the payment of our current retirees' pensions and your future pension when you retire.

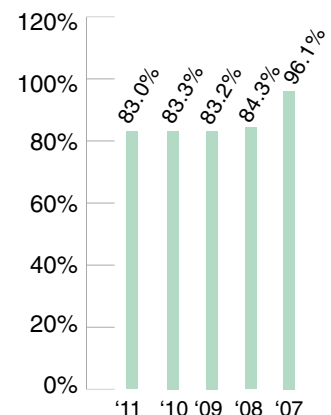
Net Assets for the Past 5 Years (in billions)



Market Funding Status (for the past 5 years)



Actuarial Funding Status (for the past 5 years)



As of December 31, 2011 in billions

Actuarial liability (benefit promises).....	\$31.0
Market value of plan net assets.....	\$24.8
Actuarial value of plan net assets.....	\$25.7



INVESTMENT RETURNS

"To achieve a 7.5% net annual return and outperform the annual total portfolio benchmark."

2011 Investments: long-term view

"Plan Additions" represent income that increases our assets.

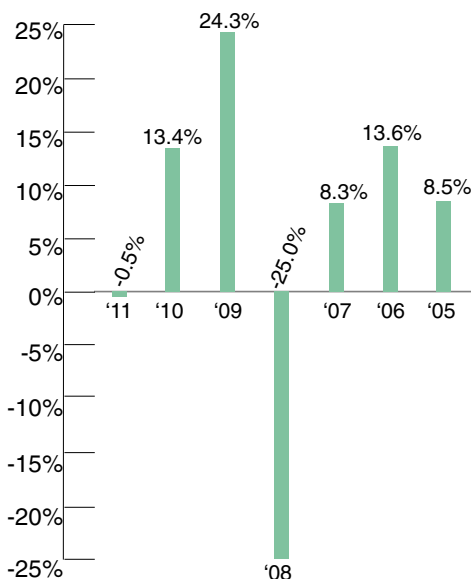
Historically, investment income is the largest contributor to our assets.

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

Year	Percentage
2011	-9.0%
2010	73.1%
2009	81.8%
2008	-118.3%
2007	66.7%

Investment Rates of Return

Past 7 Years (net of investment fees)



Determining how IMRF invests its \$25 billion portfolio is one of the most important decisions the IMRF Board of Trustees makes.

Just as you may consider what 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.

Currently, 69 professional investment management firms, handling 87 separate accounts, manage the investment portfolio.

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.

Annually, the Board of Trustees, its investment consultant and IMRF staff review the investment asset allocation. In March of 2012, IMRF's asset allocation was reviewed and reconfirmed.

Historically largest contributor

Even though IMRF employers and members both contribute to IMRF, historically, earnings on IMRF's investments are the major contributor. Although the total rate of return for IMRF's portfolio in 2011 was negative .5%, in 2010, IMRF earned 13.4% or \$3 billion on our investments.

As of December 31, 2011, IMRF's investments totaled \$25 billion, down from \$25.5 billion at the end of 2010.

Long-term results

It is important to remember that IMRF has a long-term investment horizon; we are investing for the 20-year-old who joined IMRF in 2011 as well as the 62-year-old who will retire in 2012.

If we look at investment returns from 1982 (when IMRF was given broader investment authority) through 2011, IMRF averaged an annual 9.95% return.

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.

Investment Portfolio Summary as of December 31

(in millions)

	2011		2010	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
Fixed Income	\$7,735.1	30.9%	\$7,685.6	30.1%
Stocks	14,701.4	58.8%	15,817.0	61.9%
Real Estate	725.7	2.9%	466.6	1.8%
Alternative	997.4	4.0%	964.2	3.8%
Short-Term	863.3	3.4%	613.5	2.4%
Total	\$25,022.9	100.0%	\$25,546.9	100.0%

VISION

"To provide the highest quality retirement services to our members, their beneficiaries and employers."

IMRF benefits: more than retirement

IMRF paid more than \$1.2 billion in retirement benefits to 99,684 retired members in 2011.

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

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 2011, IMRF paid more than \$11.6 million in disability benefits to more than 1,000 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 survivor (death) benefit.

In 2011, IMRF paid more than \$28 million in lump sum death benefits. Included in the \$1.2 billion retirement benefits paid in 2011 are approximately \$73 million in monthly benefit

payments to more than 12,000 members' surviving spouses and beneficiaries.

IMRF also provides various pension payment options; if a Tier 1 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 Reversionary (Special Needs) pension payout.

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.

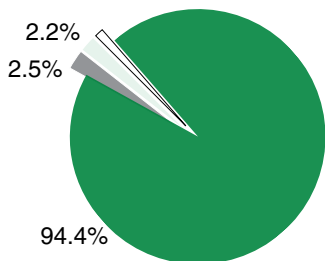
Employer contributions for disability benefits, death benefits, and the "13th (Supplemental) payment" are pooled.

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

Benefits Paid in 2011

in millions

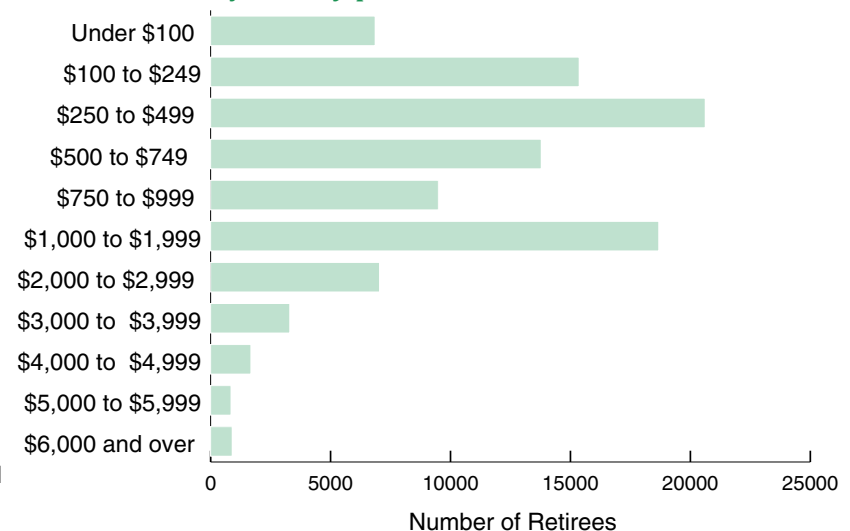
Pensions*	\$1,244.2
Refunds	32.9
Death	28.6
Disability**	11.6
	<hr/>
	\$1,317.3



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

**Includes payments for both Temporary disability and for Total and Permanent disability benefits

Current retirees by monthly pension amount



EMPLOYEE ENGAGEMENT

"To achieve a top 10% ranking in overall workforce engagement as measured by a nationally benchmarked survey."

Are you an "average" member?

As of December 31, 2011, out of 175,844 active members, the "average" member is:

- Female
- 47.7 years old
- Participates in the Regular plan
- Most likely works for a school district
- Earns \$36,701 a year
- Received a 1.2% salary increase in 2011
- Has 10.4 years of service credit

Are you an "average" retiree?

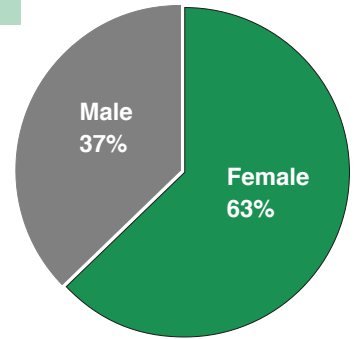
Of the 4,880 members who retired in 2011 under the Regular plan, the average retiree is:

- Female
- Had a final rate of earnings of \$3,542 a month
- Retired with approximately 22 years of service credit
- Receiving a pension of approximately \$1,437 a month

Active Members

By Age

Under Age 20	313
Age 20-29	17,847
Age 30-39	27,590
Age 40-49	46,242
Age 50-54	31,359
Age 55-59	26,997
Age 60-69	22,427
Age 70+	3,069

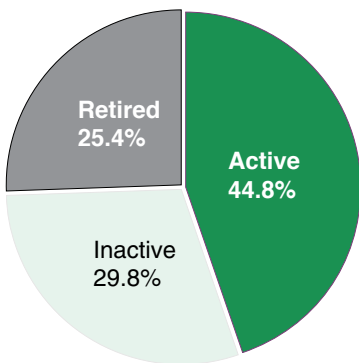


By Length of Service

Under 1 yr	15,158
1-7 yrs	70,518
8-14 yrs	46,459
15 yrs +	43,709

51.3% of active IMRF members are vested for a pension

All Members by Participation



Retired Members (Retirees, Surviving Spouses, Beneficiaries)

By Age

Under Age 55	746
Age 55-59	8,273
Age 60-64	16,514
Age 65-69	18,878
Age 70-74	16,170
Age 75-79	13,665
Age 80-84	11,680
Age 85-89	8,068
Age 90-94	3,650
Age 95-99	866
Age 100+	90

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.

SERVICE & OPERATIONAL EXCELLENCE

“To achieve a top 10% ranking in overall service as measured by CEM Service Score, while keeping our “per member” cost prudent.”

Looking back on 2011

Strategic Plan

IMRF's 2011-2013 Strategic Plan provides us with a road map for meeting the challenges and opportunities in providing the highest quality retirement services—in a cost-effective manner—to our members and employers. It also guides our efforts to continuously improve our customer service.

IMRF completed the first year of our Strategic Plan in 2011 by implementing 19 action plans that support our five Strategic Objectives. Progress towards our Objectives is measured using five Key Results Areas:

- Financial Health and Sustainability
- Investment Returns
- Customer Satisfaction
- Employee Engagement
- Service and Operational Excellence

IMRF's 2011-2013 Strategic Plan includes elements of the *Baldrige Criteria for Performance Excellence* to ensure we align our objectives, processes, and resources with our Vision. The Baldrige Program is the nation's public-private partnership dedicated to performance excellence.

Organizations that have been recognized with a Baldrige award for performance excellence often set their overarching strategic objectives to achieve a top decile ranking in each key area of importance to their stakeholders.

IMRF is following that same path, as our Strategic Objectives challenge us to achieve top 10% performance for most key result areas. To help measure and validate our progress with organizational effectiveness processes implemented in recent years, IMRF will apply for the *Illinois Performance Excellence Award* in 2012.

Improve customer service through computer system development

IMRF's major system development efforts in 2011 focused on:

- Developing a long-term strategy for the overall modernization of our enterprise pension administration system, business processes, and supporting systems.
- Implementing support for significant new legislation: an additional benefit tier (“Tier 2”), civil unions, and a more equitable split of employer pension cost across multiple employers.
- Upgrading our technology infrastructure and processes to continue to achieve the highest levels of service, security, availability, and performance.

IMRF's major 2012 system development priorities focus on:

- Completing the initiation and procurement phases of the modernization strategy approved by the IMRF Board of Trustees in 2011, including issuance of a comprehensive Request for Proposal and selection of our key technology vendor.
- Continuing technology and process upgrades to ensure that our infrastructure is prepared to meet the future needs of the modernization initiative.
- Expanding our Member Access website self-service options to include applying for a pension; managing direct deposit of benefit payments, income tax withholding, and beneficiary information; and viewing all key documents online.

continued on page 8



IMRF 2012 Board of Trustees

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Executive Trustee
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William Stafford
Vice-President
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High School Dist. 202

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Jeffrey A. Stulir
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Sheriff's Department

Sharon U. Thompson
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IMRF's *Popular Annual Financial Report* provides a summary of information contained in the *2011 Comprehensive Annual Financial Report*. The comprehensive report provides detailed information regarding investment performance, funding, and member and employer demographics. You can read the *2011 Comprehensive Annual Financial Report* at www.imrf.org or request one at 1-800-ASK-IMRF.

VALUES

Accuracy • Accountability • Respect • Empathy • Honesty • Courage

Looking back on 2011, contd.

from page 7

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.

IMRF again received high service level scores and was ranked near the top in our peer group of 46 participating retirement systems. We will continue our participation in this benchmarking program, as it is an important part of our Continuous Process Improvement Program.

Board of Trustees

Mark F. Nannini, Director of Finance and Treasurer for the city of Crystal Lake, was elected as an executive trustee. His five-year term began January 1, 2012.

Jeffrey A. Stulir, Inmate Services Officer for Rock Island County, was appointed on February 24, 2012, to serve as an employee trustee through December 31, 2012. Mr. Stulir is filling a vacancy that occurred upon the resignation of former Employee Trustee Marvin R. Shoop, Jr. An election will be held later this year to fill the remainder of Mr. Shoop's unexpired term.

Awards

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to IMRF for our comprehensive annual financial report for the year ended December 31, 2010.

In 2011 in recognition of meeting professional standards for plan administration and funding as set forth in the Public Pension Standards, IMRF was given awards for plan funding and administration by the Public Pension Coordinating Council.



Illinois Municipal Retirement Fund

Popular Annual Financial Report for Members

for the year ending December 31, 2011

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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 62703-5912