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FUNDAMENTALS

is published twice a year for inactive members of IMRF.

Erin Cochran, editor, ecochran@imrf.org
1-800-ASK-IMRF (275-4673) • www.imrf.org

Don't leave money on the table!

IMRF urges you to apply for your pension now if you are an inactive Tier 1 member who is:

- Vested
- At least age 55
- Not working for a reciprocal system

You might think it is better to wait until age 60 or 62 to start your IMRF pension, but in most cases you will end up losing money by waiting:

The earlier you start payments the more total payments you receive over time.

If you are between 55-60

Although your pension will be reduced since you are under age 60, the earlier you start payments the more **total** payments you will receive. Over time you will get more money, even with the reduced amount. The longer you wait, the more payments you will miss out on.

If you are at least 60

You have reached full IMRF retirement age. IMRF pensions **do not** follow the same rules as Social Security. Waiting until age 62 or later for your IMRF pension will most likely not increase your pension, and you will be missing out on years of monthly payments.

Visit www.imrf.org or call 1-800-ASK-IMRF (275-4673) if you have any questions. ■

FUNDAMENTALS

IMRF

INACTIVE MEMBER EDITION

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Mind over money? Making wise financial choices

Most of us know that we'll need to supplement our eventual IMRF pension with personal savings. We may even put together sensible budgets and figure out how much we can afford to set aside for the future. But when push comes to shove, many of us aren't saving what we need to for retirement.

So why is it so hard to save—or sometimes, even think about saving—when we know it's in our long-term best interest?

“Thinking Money: The Psychology Behind Our Best and Worst Financial Decisions” is a public television documentary produced in association with the FINRA (Financial Industry Regulatory

“By knowing that by no fault of your own we have a natural tendency to seek information that confirms what we want to believe, we can help people overcome that bias—through practice, over time, not immediately,” said Christine Kieffer, senior director of the FINRA Foundation.

Authority) Investor Education Foundation. It explores the answers to the above question and many others, like why we fall victim to fraud, why we have a hard time deciding how to invest, and why we go into debt for momentary pleasure.

“For most people money is inherently emotional, and so therefore our money decisions are naturally guided by our emotionally driven biases,” said Christine Kieffer, senior director of the FINRA Foundation. “What we hope to do with this film is to bring additional awareness of these biases and emotions, so that people can really better understand and connect with why they make the decisions they make, and in some cases, why we fail to make a decision at all. By knowing that by no fault of your own we have a natural tendency to seek information that confirms what we want to believe, we can help people overcome that bias—through practice, over time—not immediately.”

Tricks our minds play

The FINRA Foundation applies the principles of behavioral economics to educate consumers and investors. This relatively new field of study has begun to reveal how frequently our rational brain

loses out to our desires of the moment. “Thinking Money” shows us several examples of how the way our minds work interferes with rational decision-making:

- *Stress impairs our thinking.* Financial stressors are all around us, in the form of debt, underemployment, a lack of savings, and even advertising—the desire to “keep up with the Joneses” can itself be a stressor. And all that stress takes a toll on our minds. One study showed that contemplating a major financial loss while taking a test caused the test-takers’ IQs to fall more points than a night without sleep.
- *Price brings pleasure.* Scientists found that when tasters sampled a wine they were told was expensive, the pleasure centers in their brains were more active than those of tasters who sampled the same wine, but were told how inexpensive it actually was.
- *Overconfidence bias.* In many cases, people report being confident in their

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ability to save for the future even when they've saved nothing at all. Generally, we are biased toward thinking "it will all work out." This can lead us to make risky investments or take out loans that charge increasingly exorbitant interest over time, thinking we can pay them back sooner than we really can.

- *The halo effect.* When we know and like someone for other reasons—maybe they're a family member or our favorite columnist—we're more likely to trust them in financial matters whether or not they're knowledgeable or qualified.
- *Confirmation bias.* We have a tendency to seek out information that confirms what we want to believe, regardless of that information's accuracy.
- *Choice paralysis.* When we're faced with too many choices, sometimes we make no choice at all. Many of us are overwhelmed by the variety of investment possibilities and let our savings sit in a low-interest account because we can't decide what to do with it.

Disturbingly, these tendencies are effortless and automatic. Counteracting them isn't simply a matter of correcting our biases on an intellectual level.

Harnessing our emotions

Kieffer suggests that people recognize strong emotion in a financial situation as a reason in itself to take a step back and think more carefully about what could go wrong. "Whether it's sweaty palms or a racing heartbeat, keep in tune with your own physiological reactions to money decisions," she said.

Additionally, she suggests getting in the habit of seeking out balanced information when making financial decisions. "Actively seek information that goes against what you want to happen," Kieffer said. "It could be that you're underestimating risk, or only looking at the positive information about a potential outcome. Make sure to balance the information that you're reading not just with the positive... or not just with the negative. Maybe your inclination is to be very risk-averse and only look for negative information."

The FINRA Foundation offers additional tips for making our emotions work for our rational minds, not the other way around:

- *Categorize information.* Using sources like *Consumer Reports* to break down a multitude of choices into more digestible categories can help combat choice paralysis.
- *Connect with your future self.* In one study, people who "met" simulated elderly versions of themselves saved more for retirement. Experiment with age-morphing apps to achieve a similar effect.



- *Keep a visual representation of your savings goal on the refrigerator.* "Say you're saving for a vacation, or a car, or a house in a different neighborhood, or a mortgage-free retirement—whatever it is, have a picture that's a tangible connection to that dream," Kieffer said.
- *Save with a money buddy.* Whether it's a spouse, a family member, or a friend, find a partner to save with so you can challenge and encourage each other.
- *Take advantage of technology.* Make use of mobile apps that let you see all of your transactions at a glance or nudge you to save rather than spend.
- *Apply positive reinforcement.* "We need to feel rewarded for the decisions we're making throughout our life," Kieffer said. "Not everybody needs to be completely frugal and cut all positive reinforcement from their life in terms of purchases. If that's something you need to do for yourself, then set some parameters to it." ■

How you can watch "Thinking Money"

- Watch the hour-long documentary streamed online at the Maryland Public Television website: video.mpt.tv/video/2365353075/
- Order a free DVD from FINRA's www.saveandinvest.org website at: [74.121.201.86/FINRAThinkingMoney/](tel:74.121.201.86)

2014 Annual Financial Report

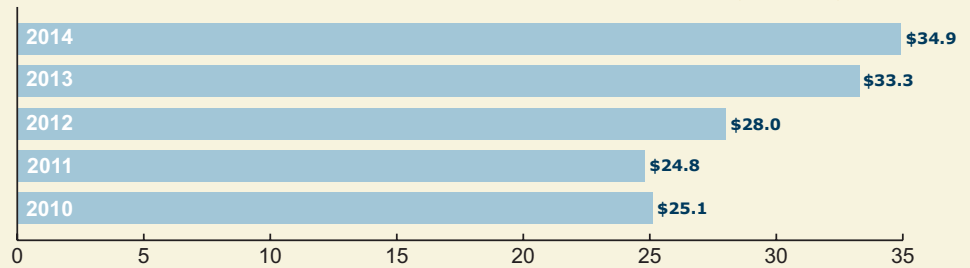
IMRF financials remain strong for the long haul

With its fiduciary net position up \$9.8 billion over five years, IMRF continues its overall strong financial performance.

Fiduciary net position

IMRF's fiduciary net position—total assets minus liabilities—was \$34.9 billion as of December 31, 2014. That was an increase of \$1.6 billion, or about 5%, from 2013. Most of the increase is attributable to 2014 investment gains. Over the last five years, IMRF's fiduciary net position has increased by \$9.8 billion.

FIDUCIARY NET POSITION FOR THE PAST FIVE YEARS (in billions)



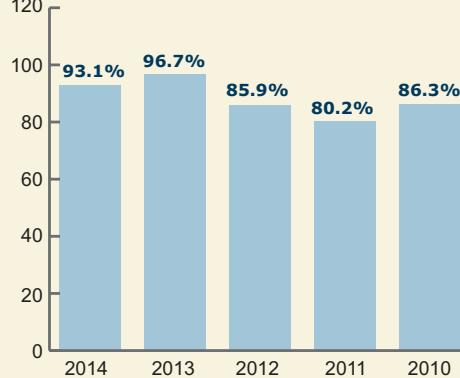
Funding status

IMRF's funding status is a key indicator of its financial health. It reflects the percentage of IMRF's benefit promises that IMRF has assets to pay. IMRF strives toward full funding because it guarantees that IMRF can meet its obligations. Full funding is also cost effective for taxpayers.

IMRF's market funding status decreased slightly from 2013 to 2014 largely due to the adoption of new mortality tables and reassessment of other actuarial assumptions. The new tables increased IMRF's member lifespan assumptions, thereby increasing IMRF's liabilities.

Market funding status is the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. **As of December 31, 2014, IMRF was 93.1% funded on a market basis.**

MARKET FUNDING STATUS FOR THE PAST 5 YEARS



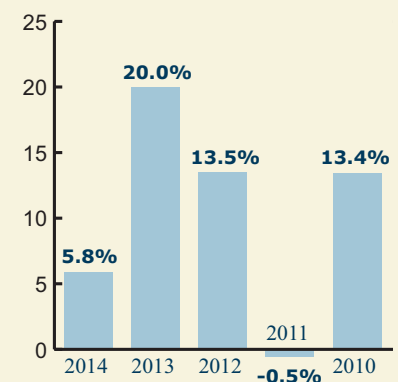
historically been the largest contributor to the fund. In 2014, IMRF achieved a 5.8% annual rate of return (after paying investment management fees), earning \$2 billion in investment income.

IMRF hires professional firms to invest IMRF assets. These firms make investment decisions according to the Board's policy guidelines and are monitored by IMRF's Chief Investment Officer and staff, with assistance from an independent consultant.

Revenue

IMRF's revenue comes from member contributions, contributions from

INVESTMENT RATES OF RETURN FOR THE PAST FIVE YEARS



participating units of government (also called IMRF employers), and investment income. IMRF's total revenue during 2014 totaled almost \$3.3 billion.

Video Highlights

For the first time ever, you can view a video summary of IMRF's 2014 Popular Annual Financial Report. To see the video, go to www.imrf.org/videos and click "2014 PAFR Summary." This four-minute video provides an informative visual overview of the report's most important points, including increases in IMRF's assets, membership, and much more. ■

Investments

One of the IMRF Board of Trustees' most important functions is to decide how IMRF will invest its member and employer contributions. IMRF's target asset allocation is designed to deliver maximum return with an acceptable level of risk. IMRF's investment portfolio is broadly diversified across many asset classes.

Earnings on the investment of IMRF member and employer contributions have

This article is an excerpt from our 2014 Popular Annual Financial Report for Members. To read the full report, visit www.imrf.org/annual-financial-report.