

# FUNDAMENTALS

## IMRF

ACTIVE MEMBER OVER 40 EDITION

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## Five future challenges and how IMRF is meeting them head-on

The changing times create new challenges that IMRF is uniquely well positioned to manage and overcome.

In the spring issue of *Fundamentals*, IMRF Executive Director Louis W. Kosiba outlined a few of the critical issues facing the organization when he first became Executive Director in 2002, and how, by 2017, IMRF had resolved them. As Kosiba prepares to retire at the end of 2017, new challenges have emerged. Kosiba predicts IMRF will proactively overcome these new challenges through five key tactics:

- Educating Illinois legislators about IMRF as an organization.
- Advocating for IMRF as a successful system in the public eye.
- Updating its technology to provide members with the best possible customer service.
- Safeguarding its members' data against cybercriminals.
- Implementing the Baldrige Criteria for Performance Excellence to improve IMRF's operations as a whole.

### Outreach to legislators

Not every Illinois legislator fully understands how IMRF works or how successful it is as a pension system. As a result, they sometimes include IMRF in legislation meant to solve problems in the state's other public pension systems. The financial crisis faced by Illinois's state-funded systems are facing is not a problem that applies to IMRF.

To address this challenge, IMRF proactively connects with Illinois legislators to educate them about what IMRF does, how it operates, and what makes it unique in Illinois.

IMRF Legislative Liaison Bonnie Shadid regularly meets with members of the Senate and House pension committees. Additionally, the IMRF Executive Director is always available

to testify before any legislative committees on pension issues. The IMRF Board of Trustees also takes positions on proposed legislation, and IMRF's Legislative Liaison shares the Board's reasoning with legislators through formal position papers.

IMRF's legislative outreach gets results. For example, several bills introduced this year would have created a third tier for new members in IMRF that included a defined contribution component. 401(k)s are an example of a defined contribution plan. IMRF believes that defined benefit plans like IMRF, in which members receive a monthly pension for life, are more cost-effective and better for its membership.

"I testified at two hearings regarding those bills, and through the work of

Bonnie Shadid, we were able to have IMRF removed from that legislation," Kosiba said.

IMRF also prides itself on being highly transparent and responsive to any legislators that have questions about IMRF and other public pensions in Illinois. Beyond being the right thing to do, Kosiba said, this helps staff build relationships of mutual respect with legislators. This increases the likelihood that legislators will more carefully consider the Board of Trustees' position on pending legislation involving IMRF.

"What we're trying to do is protect the ability of IMRF to do its work, and protect the interests of our members and employers," Kosiba said.

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### Public opinion

Shifts in public opinion often drive legislative challenges to public pensions in Illinois. The financial crises the state-funded pension systems are facing have created the false impression among many Illinois residents that all public pensions are failing. In the case of IMRF, that is simply not true. IMRF developed a robust public outreach program to share the other side of the story with the public.

“IMRF’s nearly 90% funded, and we have more than \$36 billion in assets. We’ve never missed a pension payment and we never will,” noted John Krupa,

IMRF Communications Manager. “That’s the story that, if we don’t attempt to tell it, nobody will, and the public at large will have a false perception of the pension landscape in Illinois.”

IMRF is proactive in making the case for its success to the media and to the public. This two-pronged approach includes:

- **Media outreach:** IMRF conducts media interviews, submits letters to the editor, writes op-eds, and appears on radio and television programs.
- **Public outreach:** IMRF speaks to groups like the Rotary Club,

Kiwanis Club, Lions Club, and chambers of commerce to educate them about IMRF and public pensions in general.

“We want all our stakeholders to understand the value that units of government, employees, and taxpayers are receiving through IMRF,” Krupa explained. “These educational efforts support our long-term sustainability, and our ability to provide retirement security to our members, and to provide a valuable employee retention and recruitment tool for our employers.”

### Technology

IMRF is always looking at ways to better serve its customers. Continually upgrading its technology is one piece of that puzzle.

Some recent technology advancements include:

- Replacing [www.imrf.org](http://www.imrf.org).
- Expanding the Call Center and adding a dedicated number for employers.
- Providing iPads for members to give feedback on counseling sessions on the spot.
- Streamlining the online process employers use to report wage adjustments.

“We want to provide our members world-class retirement services,” Kosiba said. “To do so, we have to continually upgrade our technology to respond to our customers’ needs.”

### Cybersecurity

NBC News reported this past January that data breaches reached an all-time high in 2016. Any company with customer data can become the target of thieves. In fact, every year, IMRF is subject to more than 900 million attempts to breach its firewall. Keeping members’ information safe is of the utmost importance to IMRF.

“We take security seriously, and we have processes in place that constantly monitor what’s going on,” said Glenn Engstrom, IMRF’s Chief Information Security Officer.

IMRF mounts its cybersecurity efforts on several different fronts:

- **Improvements in technology.** IMRF installed a new firewall early in 2017 to guard against increased criminal activity, and filter incoming email for potential threats.
- **Increased training of IMRF staff.** “One of our most important ways to protect member data is to train the person sitting behind the computer,” Engstrom said. Knowing this, IMRF rigorously trains its staff to recognize and report phishing emails.
- **Auditing of security.** IMRF utilizes an independent firm to test the organization’s cybersecurity measures. These tests include trying to breach IMRF’s firewall, sending fake phishing emails to staff, and even “social engineering,” in which the firm calls IMRF staff members and attempts to influence them to reveal compromising information. The firm submits reports that help IMRF identify and eliminate any security weaknesses.

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“We take security seriously, and we have processes in place that constantly monitor what’s going on.”

*Glenn Engstrom,  
IMRF Chief Information  
Security Officer*

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### Performance excellence

As part of IMRF's efforts to be a world-class provider of retirement services, it adopted the Baldrige Criteria for Performance Excellence. These standards have broader aims than solving a problem; they provide a framework for continuous improvement as an organization.

"With Baldrige, what you're really doing is trying to identify model organizations that do things right and are sustainable," Kosiba said. "Baldrige is not proscriptive; it doesn't tell you what to do. It asks the questions that all successful, sustainable organizations must address. Good organizations understand what their customers want."

To better understand its customers, its staff, and its investments, IMRF gathers data from a variety of comparative studies and surveys that establish benchmarks for success. Using this data, IMRF is reengineering its business processes to become more efficient and provide IMRF members and employers with world-class customer service.

Guiding this process is IMRF's independent Board of Trustees, which is elected by its membership.

"There's no governor or mayor appointing anyone to the Board, so the Trustees are able to focus on the important issues: investing assets, getting funding from employers, how IMRF is presented to the world, and making sound actuarial decisions. They provide oversight and don't micromanage, and really are interested in ensuring the success of staff and the organization," Kosiba said. "That gives me a lot of optimism for the future." ■

From the Executive Director:

## A word on pension reform

*This spring and early summer saw Illinois's state budget impasse. It was the biggest topic in the news. We heard about revenue (increased taxes), expenditures (funding schools and pensions), and power politics. Pension reform was discussed as well. So, a few words on reform.*



Louis W. Kosiba  
IMRF Executive Director

### No pension cuts for IMRF members

Part of the "reform" discussion concerns benefit cuts. This is being driven by the enormous unfunded liabilities (about \$130 billion) for the five state systems. Taxpayers are responsible for that debt—but, luckily, it is not due and payable today. This is an issue because nearly 25% (and rising) of the state's general revenue fund is paid out for pensions, so there is pressure to reduce the debt.

That debate does not affect you; it does not affect IMRF. Tier 2 is already reducing the pension costs for new hires. The \$130 billion is a legacy debt for Tier 1 and there is no constitutional way to meaningfully reduce that cost. IMRF, in the aggregate, had \$4.5 billion in underfunding, but with nearly 3,000 different units of government participating in IMRF the liability is spread out. Funding levels vary by employer. A new employer which has just joined IMRF has very little in assets. Some employers are over 100% funded. The IMRF unfunded liability is due mainly to investment market fluctuations. For the state, the unfunded liability is due mainly to its failure to make necessary contributions over decades.

### Preventing "gaming"—in everyone's interest

Another part of the pension reform discussion concerns "gaming" the system such as double-dipping and salary spiking. The activity is legal but has little or no effect on a pension system's liabilities. However, the press and public resent it. Lost in that discussion is that "gaming" also occurs in private sector pension programs, but private sector pensions do not translate into taxpayer dollars. Preventing "gaming" is in the interests of the pension systems because this activity undermines support for public pensions. IMRF addresses the "gaming" issue appropriately.

So, the next time you hear or read about pension reform, please remember your benefits are guaranteed. They are protected by both the Illinois Constitution and the nearly 90% funding level achieved by IMRF. ■

# How IMRF is improving your customer service experience

IMRF is dedicated to making your customer service experience a better one. After listening to feedback from members and employers, we identify opportunities for improvement and look into ways to implement solutions. Here are a few of the improvements that IMRF has recently made or is in the process of implementing:

- Over the past year, IMRF’s Call Center has brought down average hold times from about 2-1/2 minutes to less than 1-1/2 minutes! This allows you to reach a Member Services Representative more quickly when you call us at 1-800-ASK-IMRF (275-4673).
- Members can now conveniently upload documents such as birth certificates or marriage certificates to IMRF through their Member Access accounts. You no longer have to fax or mail them in separately.
- Employers can now make multi-year adjustments to members’ records when changes are needed. This means that members’ information is updated faster than ever before!
- In the fourth quarter of 2017, IMRF is launching a new, automated system of printing and mailing members’ pension estimates to minimize human error. ■

## It may not be too late to start making Voluntary Additional Contributions

With U.S. savings bond rates in August 2017 hovering at 1.96%, and many Certificates of Deposit earning even less, it can be difficult to find a savings method that is both low-risk and profitable.

One option for IMRF members is our Voluntary Additional Contributions program (VAC), a savings vehicle unique to IMRF that can help you shore up additional resources for retirement.

### How VAC works

VAC lets you save between 1% and 10% of your reported earnings in an account that currently earns 7-1/2% interest. Contributions are after-tax and do not reduce your taxable income as in a 457 or 403(b) plan. The interest is credited at the end of the year based on the opening balance at the beginning of the year.

If you elect to make contributions, fill out IMRF Form 6.30 and take it to your employer to be signed by your Authorized Agent. Your contributions will be deducted from your paycheck automatically and will continue to earn interest for as long as you leave them on file.

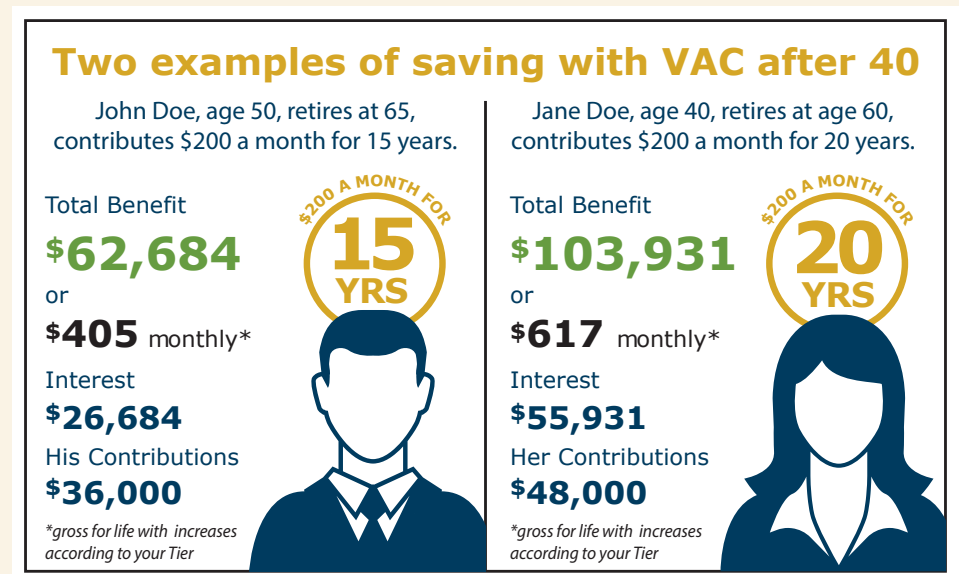
Upon retirement, you can take your contributions with interest as a lump sum. Alternatively, you may be able to annuitize it, adding an additional monthly benefit alongside your pension that will increase yearly as your pension does and never runs out.

If you take a refund of your VAC prior to retirement, your interest must remain on

file until you stop working for your IMRF employer. (That interest will continue to earn additional interest.) Not taking a refund will generate much more interest for you over time.

### A powerful savings vehicle

See the graphic below for a demonstration of how saving with VAC can add to your retirement income. ■





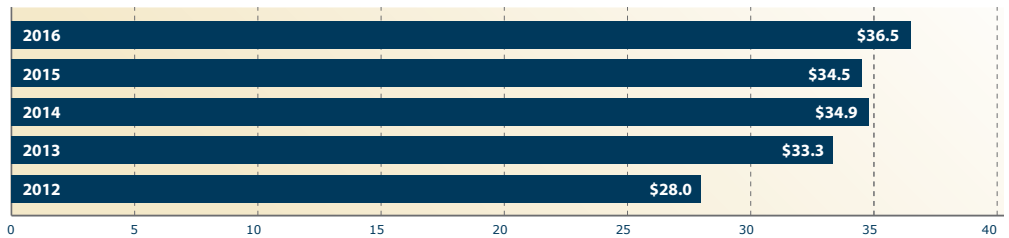
# Strong investment returns bolster assets

IMRF's fiduciary net position up \$2 billion last year due to strong investment returns.

## FIDUCIARY NET POSITION

IMRF's fiduciary net position—total assets minus liabilities—was \$36.5 billion as of December 31, 2016.

That was an increase of \$2 billion, or about 6%, from 2015. The increase is attributable to strong 2016 investment returns. Over the last five years, IMRF's fiduciary net position has increased by \$8.5 billion.



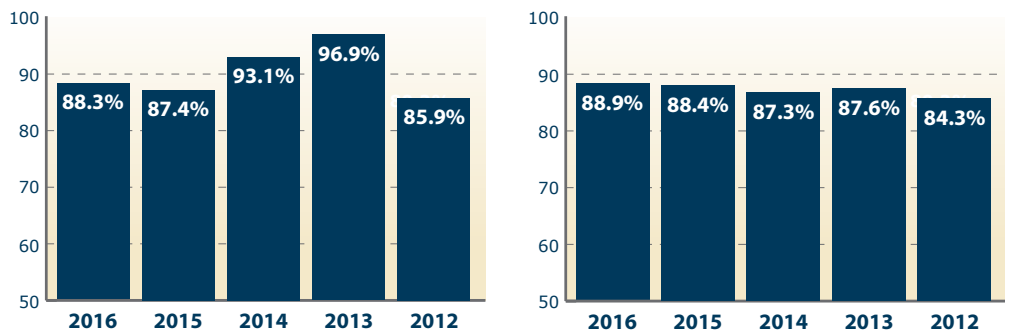
## FUNDING STATUS

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

There are two measures of funding status. Market funding status describes the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. As of December 31, 2016, IMRF was 88.3% funded on a market basis. IMRF's market funding status increased from 2015 to 2016 due to strong investment returns.

The other measure is actuarial funding status. For this measure, independent actuaries determine the actuarial value of IMRF assets using a "smoothing" technique that recognizes investment gains and losses over a five-year period. The actuarial funding status is less volatile than the market funding status, which is why it is used to set IMRF contribution rates for participating units of government. As of December 31, 2016, IMRF was 88.9% funded on an actuarial basis.

MARKET FUNDING STATUS: PAST 5 YEARS    ACTUARIAL FUNDING STATUS: PAST 5 YEARS



## INVESTMENTS

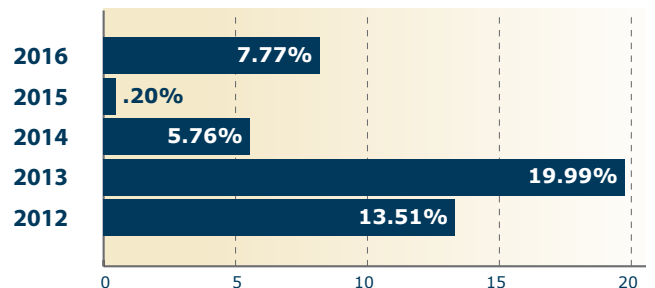
The IMRF investment portfolio returned 7.77%, after investment management fees, during 2016.

This positive return came during a tumultuous year, in which the outcomes of the United Kingdom's "Brexit" vote in June and the U.S. Presidential election in November defied investors' expectations.

IMRF's U.S. equity and real estate holdings performed particularly well during 2016, driving much of the overall return. IMRF's allocation to U.S. equity returned 12.35% after fees during 2016. IMRF's real estate investments returned 8.97% after fees.

IMRF's long-term goal is to earn an annualized total fund return of 7.5%, after investment-management fees. With a return of 7.77% in 2016, IMRF achieved its goal. IMRF has also achieved its investment return goal over longer time horizons. For example, over the last five years, IMRF has earned 9.29% after paying investment-management fees.

TOTAL FUND RETURNS FOR THE PAST 5 YEARS



# Make your retirement years golden; learn about your benefits by attending a Pre-Retirement Workshop



Our Pre-Retirement Workshop schedule is updated through the end of the year. Register online today through your Member Access account (the best and fastest way) or by calling IMRF. These workshops can benefit you no matter how close you are to retirement. We recommend attending a workshop as soon as you're vested, then a second time five years before your earliest possible retirement date, and once more when you're ready to retire. But the closer you are to retirement, the more important it is that you attend. Many first-time attendees tell us they wish they'd gone to one sooner.

## Workshop topics include:

- How and when to file for retirement.
- How earnings and service affect your retirement benefit calculations.
- How to purchase past service credit.

## Who should attend?

- Vested members who want to learn about their IMRF benefits.
- Members within five years of retirement.
- Spouses, partners, or others who assist with your retirement planning.

## 2017 Pre-Retirement Workshop Dates and Locations

### September

<i>DATE</i>	<i>LOCATION</i>	<i>START TIME</i>
(Tue) 9/26	Carlyle	9 AM

### October

<i>DATE</i>	<i>LOCATION</i>	<i>START TIME</i>
(Tue) 10/03	Aurora	9:30 AM
(Wed) 10/04	Princeton	10 AM
(Sat) 10/07	Champaign	1 PM
(Thu) 10/12	Dundee	1 PM
(Mon) 10/16	Charleston	1 PM
(Tue) 10/24	Bloomington	6 PM
(Wed) 10/25	Moline	9 AM

### November

<i>DATE</i>	<i>LOCATION</i>	<i>START TIME</i>
(Wed) 11/01	Mt. Vernon	1 PM
(Tue) 11/07	Countryside	1 PM
(Tue) 11/07	Collinsville	5 PM
(Wed) 11/08	Bolingbrook	10 AM
(Wed) 11/08	Peoria	6 PM
(Tue) 11/14	Aurora	6 PM

(Wed) 11/15	Decatur	5 PM
(Tue) 11/28	Effingham	5 PM

### December

<i>DATE</i>	<i>LOCATION</i>	<i>START TIME</i>
(Sat) 12/02	Rockford	9 AM
(Mon) 12/04	Champaign	5 PM
(Tue) 12/05	Rockford	9 AM
(Tue) 12/05	Mt. Prospect	1 PM
(Sat) 12/09	Centralia	1 PM
(Wed) 12/13	Morris	6:30 PM
(Sat) 12/16	Moline	9 AM

Workshops that have already been filled do not appear on this list. Visit [www.imrf.org](http://www.imrf.org) for the most current list of workshops.

Workshops fill up quickly, and additional dates/locations are added throughout the year.

# Is an optional Personal Benefits Review right for you?

A Personal Benefits Review (PBR) is an optional, one-on-one, 15-minute meeting with an IMRF Field Representative to discuss account issues that a call to 1-800-ASK-IMRF (275-4673) was not able to answer. We know your time is precious—if you don't have particular questions or concerns about your account, there's no need to attend one of these sessions. **Remember: Before you schedule a PBR, you should already have attended a Pre-Retirement Workshop.** Try to book your PBR several months before you need it; appointments fill up fast!

## Is a Personal Benefits Review right for you?

- Have you already attended a Pre-Retirement Workshop?
- Do you have specific account questions that weren't answered in the workshop?
- After a call to 1-800-ASK-IMRF (275-4673), has a representative referred you to a PBR?

If you answered yes, a Personal Benefits Review might help you answer your remaining questions.

## What to bring to a Personal Benefits Review

- Bring a pension estimate or your Personal Statement of Benefits—available through your Member Access account or by calling 1-800-ASK-IMRF (275-4673).
- Bring the questions you have that are specific to your IMRF account.

Personal Benefits Review time is limited; make sure you are on time and prepared!

## 2017 Personal Benefits Review Dates and Locations

### September

DATE	LOCATION	START TIME
(Tue) 9/26	Gibson City	1 PM

### October

DATE	LOCATION	START TIME
(Tue) 10/03	Zion	1 PM
(Wed) 10/11	Princeton	10 AM
(Wed) 10/11	Centralia	10:30 AM
(Mon) 10/23	Springfield	5 PM
(Wed) 10/25	Charleston	4 PM
(Thu) 10/26	Moline	9 AM
(Thu) 10/26	Champaign	11 AM
(Tue) 10/31	Ullin	10:30 AM

### November

DATE	LOCATION	START TIME
(Wed) 11/01	Pontiac	1 PM
(Wed) 11/08	Mt. Vernon	10:30 AM
(Thu) 11/09	Oak Brook	10 AM
(Wed) 11/15	Peoria	10:30 AM
(Mon) 11/20	Carterville	10:30 AM
(Tue) 11/21	Decatur	11 AM
(Tue) 11/28	Du Quoin	10 AM

(Wed) 11/29	Effingham	8 AM
(Wed) 11/29	Oak Brook	10 AM
(Thu) 11/30	Oak Brook	10 AM

### December

DATE	LOCATION	START TIME
(Tue) 12/05	Champaign	11 AM
(Thu) 12/07	Mt. Prospect	1 PM
(Tue) 12/12	Rockford	9 AM
(Wed) 12/13	Springfield	5 PM

Personal Benefits Reviews that have already been filled do not appear on this list. Visit [www.imrf.org](http://www.imrf.org) for the most current list of appointments. Personal Benefits Reviews fill up quickly, and additional dates/locations are added throughout the year.



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Erin Cochran, editor, [ecochran@imrf.org](mailto:ecochran@imrf.org)  
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**A Personal Benefits Review,  
up close and personal**

Experience what it's like to attend a Personal Benefits Review by coming along for the ride with our retiring Executive Director! In IMRF's latest video, which will be posted to [www.imrf.org](http://www.imrf.org) this September, IMRF Executive Director Louis W. Kosiba sits down with IMRF Field Representative Tecya Anderson prior to his retirement this coming December.

View this video and previous installments of our series, which focuses on the IMRF retirement process as viewed through the lens of Kosiba's retirement, at [www.imrf.org/kosibaretirement](http://www.imrf.org/kosibaretirement). ■