

FUNDAMENTALS

IMRF

RETIRED MEMBER EDITION

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5 challenges and how IMRF is meeting them head-on

The changing times create new challenges that IMRF is uniquely 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.
- Updating its technology to provide members with the best possible customer service.
- Advocating for IMRF as a successful system in the public eye.
- 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 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

continued on page 6





Louis W. Kosiba
IMRF Executive Director

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.

From the Executive Director:

A word on pension reform

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.

I hope this information better illustrates the important financial engine that is IMRF. Our investments bring wealth into the state of Illinois at a reasonable risk—wealth which protects active members and retirees alike. ■

The transformative power of saying “yes”

Year of Yes: How to Dance It Out, Stand In the Sun and Be Your Own Person by Shonda Rhimes, the creative mind behind TV’s *Grey’s Anatomy* and *Scandal*, chronicles how her sister’s challenge to say “yes” to every unexpected invitation for a year broke her out of a fear-based rut and opened up unexpected horizons. Those reading along delighted in her successes and were inspired to push the boundaries of their own comfort zones. ■

“I enjoyed Shonda Rhimes’s account about saying ‘yes’ to things that were WAY outside of her comfort zone. This has often been difficult for me, and I will remember her courage as I try to say ‘yes’ more often. I was especially touched by her telling of the letting go of some people who had been good friends (she thought) when they became angered/threatened by her successes in her *Year of Yes*. I feel it was very honest of her to include those incidents, as some self-help books would leave this out. A person needs a great deal of inner strength to let go of some ‘safe’ situations.”

“It took Shonda out of her ‘comfort zone.’ She had so many experiences and realized that you don’t have to be ‘perfect’ in every situation, just be yourself. We should all learn the same thing, although a year is a very long time to commit! Maybe some of us need to take baby steps...”

“Another interesting book! I am a ‘writer-wanna-be’ ... there were phrases throughout the book that stuck with me, [such as] ‘...the story is what you tell yourself.’ How true. We tell ourselves how we perceive things, thinking that’s how it ‘has to be,’ but that’s so untrue. We are our own future.

“Her *Year of Yes* was a message to ‘get a grip.’ The mind controls everything. We can do whatever we want to, once we let our mind and our subconscious know we are in control!

“Maybe even write instead of being a ‘wanna-be’...?”

“I found [*Year of Yes*] very informative and a good read. I really enjoy watching her shows on TV, and when I saw her name mentioned in the newsletter it sparked my interest. It was great reading about her imagination as a child and how she was now able to develop these awesome shows!”

IMRF Book Club—Book #10

A Man Called Ove

by Fredrik Backman

Feedback due date: **December 15, 2017**

As Louis retires, his last Book Club selection is *A Man Called Ove* by Swedish author Fredrik Backman. In this bestselling novel, the “hero” loses a job and his purpose, but finds a new reason for living through helping others. Ove’s experience may be unique, but the underlying challenges are universal.

Send your feedback to: **Louis W. Kosiba, IMRF Executive Director**

Email: louiskosiba-executivedirector@imrf.org

Letter: **IMRF, 2211 York Rd., Ste. 500, Oak Brook, IL 60523-2337**

We welcome all feedback, whether by email, written letter, or as a reply on our website (click the “Retirees” tab, then “IMRF Book Club,” then select the book you would like to discuss).

IMRF retirees on how to make your retirement a happy one

As IMRF Executive Director Louis W. Kosiba prepares to retire this fall, readers wrote in giving him their best advice for making the most of his retirement years. Here, we share a few of our favorites:

"I've been open to accepting positive relationship-building opportunities beyond my normal comfort level, taking in these often simple experiences with joy. Some examples are helping out a neighbor or friend (offering to help and having time to do it), trying a new sport or hobby, attending a sporting or cultural event with a niece, nephew, or their child."

Gary Balling

"Do not postpone your desire to travel after retirement on various trips such as cruises and travel abroad. Do it while you're in good health, and enjoy them while you're able to get around without being physically limited for whatever the reason."

Cynthia Christo

"As soon as you retire, check out the 'Lifelong Learner' classes at your local junior college. There are so many to pick from each semester. My favorites are the computer training and financial courses. You may even develop some new hobbies through these classes!"

Maryann Russ

"My strong suggestion is to plan the first year of your retirement. Look at what you want to do—teach or volunteer, where you want to live the rest of your life—and lay the groundwork."

Edward K. Downey

"Retiring from your career is OK, but DO NOT retire from life. Find something to do, whether it be a hobby, volunteering or a part-time job doing something completely different. That is the secret to a successful retirement."

Billie Mickelson

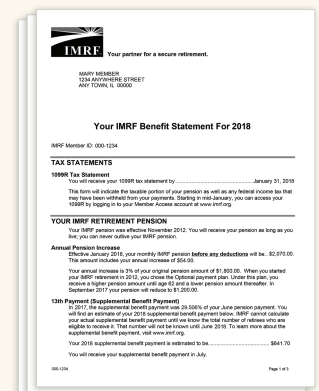
Coming this fall...

Your IMRF Benefit Statement for 2018

IMRF retirees, surviving spouses, and beneficiary annuitants receive an annual Benefit Statement. This statement ensures you have up-to-date information about your IMRF benefits and account information. We will mail your IMRF Benefit Statement for 2018 in late November 2017. It will include information such as:

- The amount of your annual increase and the amount of your 2018 pension.
- Current beneficiary information (for retirees).
- Information about your 1099-R tax form.

Please note: If you retired in 2017, you will not receive a statement this fall. You will receive your first IMRF Benefit Statement in the fall of 2018. ■



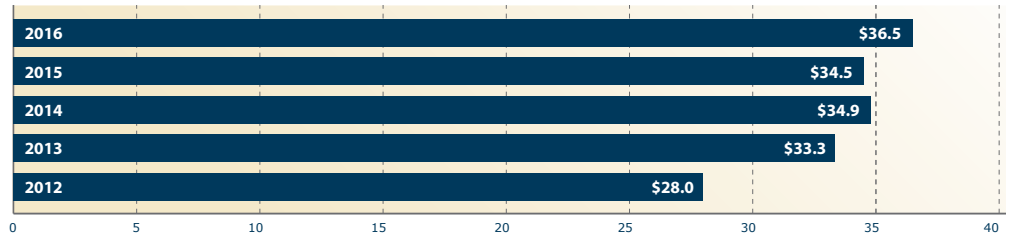
Strong investment returns bolster assets

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.



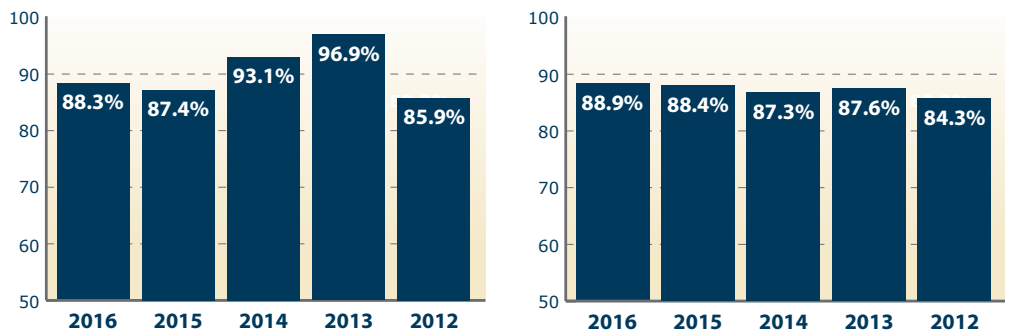
FUNDING STATUS

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

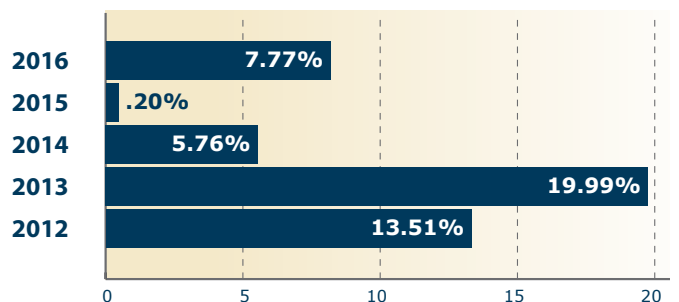
The IMRF investment portfolio returned 7.77%, after investment management fees, during 2016.

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



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 who 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 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.

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.
- 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.”

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.”

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.

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 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, 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." ■



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Away on an extended stay? Tell IMRF!

Are you one of the many IMRF members who spend extended time away from home and forward your mail?

If so, **make sure to change your address with IMRF to avoid your pension payment being delayed or put on hold.** (This applies to all benefit payments, including direct deposit.) Please notify IMRF in addition to notifying the post office.

Change your address quickly and easily through Member Access at www.imrf.org

IMRF requests that you notify us directly of your temporary new address. (Don't forget to also let us know when you return to your permanent address.)

You can change your address online through Member Access or send Form 6.20R (Annuitant Information Change) to IMRF by mail or by fax at 630-706-4289. ■

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