

FUNDAMENTALS

IMRF

RETIRED MEMBER EDITION

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Staying the course in a volatile market

No matter what turns the market takes, IMRF's long-term investment strategy balances risk and reward to ensure the health of the fund.

Investment returns down in 2018

2018 was an unusually tumultuous year for investments. The markets seesawed between enthusiasm and caution, sometimes swinging as much as 1,000 points in a single session. Then, at year's end, prices dropped sharply across many broad asset classes amid trade tensions and inflation concerns.

"The S&P 500 and the Dow Jones Industrial Averages were both down 5% and 6%," said IMRF Executive Director Brian Collins. "We were down right along with them, about 4.4%."

By the year's end, the IMRF total portfolio had fallen by \$1.76 billion to \$38.8 billion. However, during the first two months of 2019, the portfolio bounced back by \$2.8 billion to close at \$41.5 billion at the end of February.

"So it's not all bad news," Collins said. "We are still among the best-funded public pension funds in the country, at 90%."

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—Brian Collins, IMRF Executive Director

Investing for the long haul

As a long-term investor, IMRF's investment approach is about making strong returns over time rather than responding to short-term market fluctuations.

For example, during the 2008 stock market crash, IMRF's portfolio saw losses of 24%. Knowing that downturns in the market are followed by upturns, IMRF weathered the tough times and stayed invested. The following year, IMRF's investments earned more than 24%.

By contrast, many individuals panicked and sold their investments at a loss, then missed the upturn in the markets. If IMRF had done the same, we would have locked in these losses rather than benefiting from later market gains.

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Staying the course in a volatile market

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In March 2019, Bloomberg reported that losses during a bear market average 28%. By comparison, gains during a bull market average 129%. Selling off investments when times get tough means missing out on much larger gains when the market recovers.

A diverse investment portfolio

Diversification in investments is essential for guarding against market fluctuations and balancing high returns with reduced risk. Even if one asset class is underperforming at a given time, others will compensate for the loss, providing protection against excessive losses over the long term.

To mitigate risk while maximizing return, IMRF invests in a wide range of equities both domestic and international. Additionally, our position as a long-term institutional investor offers investment opportunities an individual investor couldn't afford to pursue.

In recent years, IMRF has made it a priority to increase our investment allocation in illiquid but profitable asset classes like private equity and real estate. IMRF's alternative assets also include agriculture holdings such as vineyards and timberland as well as pistachios and walnuts, which capitalize on our long-

term time horizon and the world's expanding population.

Expanding investments

During IMRF's early history, the law restricted the investments of public sector pension funds primarily to bonds and government securities in order to limit risk.

That also sharply limited IMRF's investment income to around 2-1/2% to 3% annually.

Back then, the Board of Trustees made granular investment decisions, deciding on individual shares of bonds and stocks to purchase. IMRF hired consultants but did not do business with any investment firms.

In 1982, public sector pension funds, including IMRF, gained the ability to invest without restriction. This rule allowed the pension funds to make any investment that

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a prudent person would make and to hire money managers bound to the same standards as the fund.

At first, IMRF hired just a few managers. But the growth of IMRF's assets demanded that our investment management increase in sophistication.

Today the search casts a far wider net. IMRF researches managers with the aid of databases and solicits bids from potential managers through a "request for proposal" (RFP) process. Each search is customized to the asset class under management (fixed income, equity, private markets, etc.). Staff carefully researches bids, then narrows down the list through interviews and office visits. Finally, they present a manager to the Board, which votes on whether or not to make the hire.

IMRF now partners with approximately 90 investment firms to invest our assets.

Looking ahead

As IMRF looks to the future, we will continue to look for the best ways to deploy our capital, whether that means exploring new strategies and asset classes or fine-tuning existing practices. Every investment decision will be guided by our vision statement: "To provide the highest quality retirement services to our members, their beneficiaries and employers." ■

IMRF stays strong despite tough market

Although 2018 was a rough year for the stock market and our investment portfolio, IMRF remains one of the nation's best-funded retirement systems.

INVESTMENTS

IMRF's investment portfolio was valued at \$38.5 billion on December 31, 2018.

The portfolio lost 4.41% after investment management fees during 2018, decreasing the value of the portfolio by \$2.7 billion from December 31, 2017.

Investors' appetite for risk, while elevated for much of 2018, evaporated as the year drew to a close and wiped out positive returns for the year across many broad assets classes.

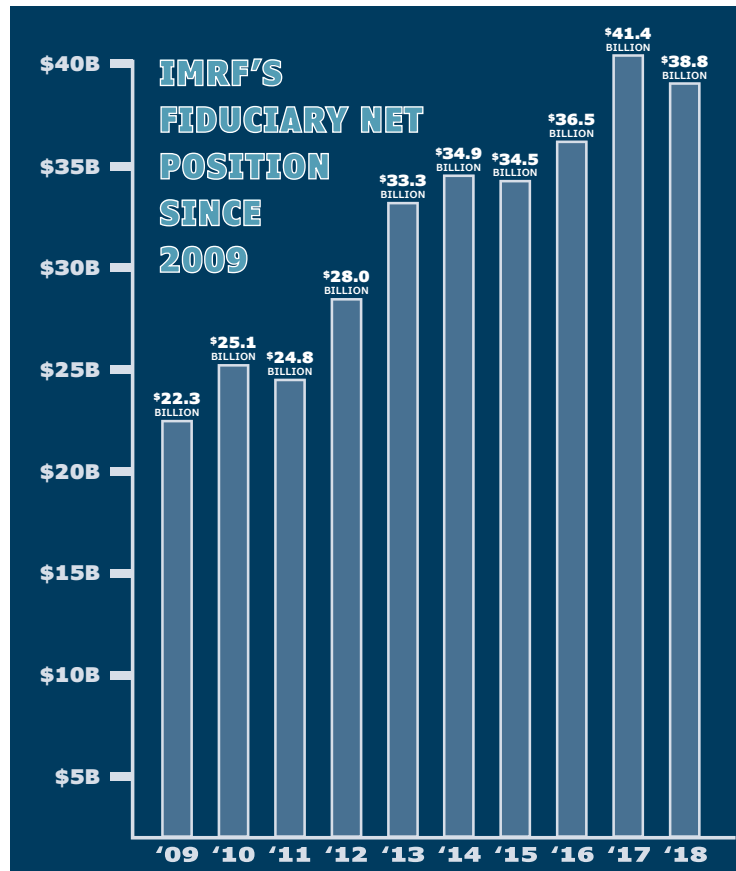
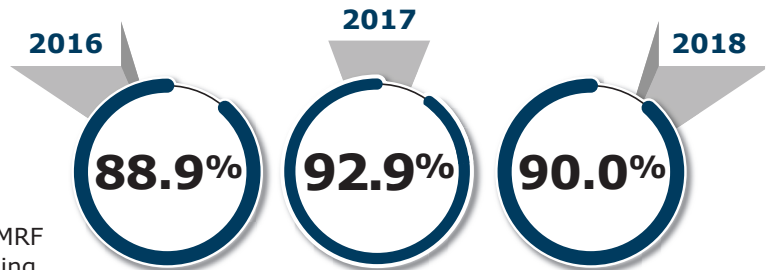
IMRF's domestic equity portfolio lost 6.3% after fees while the international equity portfolio lost 14.4% after fees in 2018. Conversely, IMRF's real estate portfolio returned 8.4% after fees and the alternative investments portfolio returned 17.1% after fees in 2018.

IMRF's long-term goal is to earn an annualized total fund return greater than the assumed rate or return, after investment management fees. While IMRF did not achieve this goal in 2018, IMRF does achieve its investment return goal over longer time horizons.

FUNDING STATUS

IMRF's funding status is a key indicator of our overall financial health. It reflects the percentage of benefit promises that IMRF has assets to pay. IMRF strives toward 100% funding because it guarantees that the system can meet its obligations and is most cost effective for taxpayers.

As of December 31, 2018, IMRF was 90% funded on an actuarial basis. IMRF's actuarial funding status is determined by independent actuaries using a "smoothing" technique that recognizes investment gains and losses over a five year period. The actuarial funding status is used to set IMRF contribution rates for participating units of government.



FIDUCIARY NET POSITION

IMRF's fiduciary net position—total assets and deferred outflow of resources minus liabilities and deferred inflow of resources—was \$38.8 billion as of December 31, 2018. This was a decrease of \$2.6 billion, or about 6.3%, from 2017. The decrease reflects the decline in investment returns in 2018.

IMRF's financial position remains strong. With 74% growth from 2009 to 2018—an addition of \$16.5 billion—IMRF will continue to provide secure and stable retirements for thousands of public employees in Illinois long into the future. ■

2019 RETIREE WORKSHOPS

July 17 (Wed) • 10:30 AM
Oak Brook

July 31 (Wed) • 10 AM
Rockford

August 1 (Thu) • 10 AM
Springfield

August 2 (Fri) • 10 AM & 1:30 PM
Naperville

August 7 (Wed) • 10 AM
Champaign

August 9 (Fri) • 10 AM
Peoria

August 14 (Wed) • 10 AM
Tinley Park

August 28 (Wed) • 10:30 AM
Arlington Heights

LIFESTYLE WORKSHOP:

I'm positive, I'm aging

Presented by University of Illinois Extension educators. Workshop is approximately two hours long, depending upon amount of audience participation.

What is the secret to successful aging? Believe it or not, it has nothing to do with your income, being free



from illness, or a life free from disappointments. Living a healthy lifestyle, but also maintaining a positive attitude and friendships are just a few ways to age well. "I'm positive, I'm aging" will help participants explore the characteristics of positive aging and making the most of our later years. There will also be a discussion on ageism and how it affects those of all ages, as well as the many similarities older generations have with younger ones.

September 9 (Mon) • 10 AM
Rockford

September 10 (Tue) • 10 AM
Mundelein

September 13 (Fri) • 10:30 AM
Arlington Heights

September 24 (Tue) • 2 PM
Bloomington

September 26 (Thu) • 10 AM
Tinley Park

October 10 (Thu) • 10 AM
Mount Vernon

October 11 (Fri) • 10 AM
Springfield

October 17 (Thu) • 10 AM & 2 PM
Naperville

FINANCIAL LITERACY WORKSHOP:

Financial checkup for retirees

Presented by financial educator Karen Chan. Workshop is approximately 90 minutes long, depending upon amount of audience participation.

You probably see your dentist and your doctor on a regular basis. But how long has it been since you had a financial checkup? This class will show you how to do your own review, using checklists you can personalize. Knowing that your financial house is in order will make life easier for you and others who may assist you. You'll learn how to:

- Protect your private information to reduce the chance of fraud.
- Check that you are receiving all the local, state, and federal senior services for which you're eligible.
- Simplify management of your bills and financial accounts.
- Shop around for the best home and auto insurance.
- Review your estate plan to make sure it is up to date.
- Organize documents and information so that you or your family members can lay your hands on the info when needed.
- Prepare for future challenges such as loss of a spouse or leaving your home.

THE VOTES ARE IN!

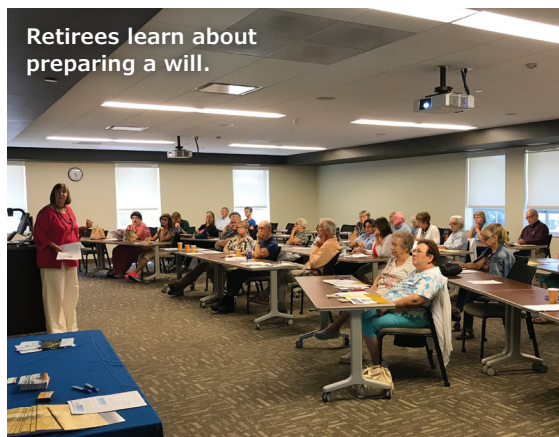
This past April, retirees chose this year's workshop topics through polls on our Facebook page, www.facebook.com/theimrf. Follow us on Facebook for the latest news and voting opportunities!

Snapshots from past workshops

LIFESTYLE



Attendees brainstorm ideas for their "bucket list."



Retirees learn about preparing a will.

FINANCIAL LITERACY



Financial educator Karen Chan chats with retirees in Rockford.



Financial educator Karen Chan offers tips for estate planning.

Workshops are free for IMRF retirees/beneficiaries and a guest.

Dress in layers if you are sensitive to temperature changes—meeting room temperatures can vary.

Beverages are the only refreshments provided.

Register quickly and easily with Member Access

Registration is required to attend an IMRF Retiree Workshop. Seating is limited and workshops can fill up fast—registering online through Member Access at www.imrf.org is the best way to register. Member Access gives you the most up-to-date workshop availability, and you will receive a confirmation letter including the workshop location immediately after registering. If you go online to register and a particular workshop doesn't show up, that workshop is already full.

Additional registration info

If you do decide to register by phone, call 1-800-ASK-IMRF (275-4673) to reach a Member Services Representative. You will need:

1. Your IMRF Member ID Number (can be found in your Member Access Account or on your annual Personal Statement of Benefits).
2. City and date of the workshop you wish to attend.
3. Best phone number to reach you.
4. Number of people attending. (If your guest is also an IMRF retiree/beneficiary, please provide the requested information for both of you.)

For more registration information, visit www.imrf.org.

Employee Trustee election this fall

This fall, active IMRF members will elect one Employee Trustee to the Board of Trustees for a five-year term, which will run from January 1, 2020, through December 31, 2024.

About IMRF's Board

IMRF is governed by an eight-member Board of Trustees. Three are elected by actively participating IMRF members, four by IMRF employers, and one by IMRF retirees. The IMRF Board remains the only public pension fund board in Illinois that is fully elected by its membership, with no appointed or *ex-officio* trustees. ■

Do you want to opt out of third-party mailings sent through IMRF?

On occasion, IMRF receives requests from various organizations to mail information to our retired members. These mailings are done as "blind mailings," which means that the members' names and addresses are never given to anyone but a bonded mail house. IMRF never sells or rents confidential member information, including mailing addresses.

These mailings may come from labor organizations, candidates for the IMRF Board of Trustees, or from Doyle Rowe LTD, which is an independent insurance broker that works with IMRF to offer endorsed insurance products.

When you first retired, you were given the choice to opt out of these mailings. If you did not opt out at the time but wish to now, you may do so by calling 1-800-ASK-IMRF (275-4673) or by filling out and sending back the following form: go to www.imrf.org/retireeforms and click on Blind Mailings Removal Request Form.

Keep in mind that opting out of blind mailings means that you will not receive **any** such mailings whether or not they are of interest to you, including health insurance opportunities from Doyle Rowe, so choose carefully. ■

Your 13th Payment is coming this July

The supplemental benefit payment, also known as the "13th Payment," is paid to eligible retired members (or to their surviving spouses) every July.

To be eligible for this year's 13th Payment, you must have retired on or before June 30, 2018, and received 12 consecutive monthly benefit payments from July 2018 to June 2019. You should receive your 13th Payment for 2019 by July 8.

Percentage of this year's payment

Your 2019 13th Payment is estimated to be approximately 27.16% of your June benefit payment amount. Your percentage is based upon a calculation that includes:

- The amount of your June payment
- The total amount of eligible June payments to all retired members
- The contribution made by employers (which is based on active member payrolls)

The greater the number of retirees for every actively working member, the lower the percentage of the 13th Payment. ■

HOW TO CALCULATE YOUR 13TH PAYMENT

Multiply the amount of your June benefit payment by .2716...



...to get the amount of your 2019 13th Payment!

IMRF named Plan Sponsor of the Year

On Thursday, March 28, IMRF won the 2019 Plan Sponsor of the Year Award at *PLANSPONSOR Magazine's* Excellence in Retirement Awards ceremony in New York City.

The magazine recognized IMRF as the top public defined benefit plan in the United States.

“The Plan Sponsor of the Year annual award program recognizes retirement plan sponsors that show a commitment to their participants’ financial health and retirement success,” according to *PLANSPONSOR*. “The award is given in many categories to recognize all plan types, so any plan sponsor can be eligible.”

IMRF, serving public employees in Illinois communities since 1941, earned this year’s designation for a high funding level, disciplined investment approach and focus on continuous improvement.

“This is a great honor and it means a lot to us because it shows that a defined benefit plan can work,” IMRF Executive Director Brian Collins said.

Upon accepting the award at the semi-formal event at Chelsea Piers, Pier 60 in New York City, Collins shared his gratitude for the retirement plan’s employees, public workers, and professional partners in communities across the state.

“I want to thank all of the men and women at IMRF who work so hard every day to ensure that the 420,000 members we serve will have the retirement plans that they so richly deserve,” Collins said. “I also want to thank the 3,000 communities across the state who trust us to make good on the pension promises we’ve made, and I also want to thank our Board of Trustees for their guidance throughout the years.”

At the close of 2018, IMRF was 90% funded on an actuarial basis and held \$38.8 billion in assets.

One of two noteworthy finalists, IMRF went head-to-head with the nationally-recognized Missouri Local Government Employees Retirement System (LAGERS) for this year’s top spot. “It’s an honor to be in such good company,” Collins said. “What a joy to know

“This is a great honor and it means a lot to us because it shows that a defined benefit plan can work.”

—*Brian Collins, IMRF Executive Director*



that two Midwestern states are leading the way for public defined benefit plans, nationwide. We are proud to share this award with our team and our neighbors at LAGERS.”

This is IMRF’s second recognition from *PLANSPONSOR* within the last four years, as the plan earned a “Standout” award from the magazine in 2016. This special category applauds a retirement plan’s “richness of program offerings, commitment to the program, leadership, and innovation.”

Visit www.plansponsor.com to read more about the magazine, the award, the categories, and the criteria. ■



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Member Access

LETS YOU SAFELY & EASILY...



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View your 1099-R and direct deposit statements before they are mailed



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View details of your current and past pension payments



View and print your IMRF Member ID card

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