

IMRF STRATEGIC PLAN

November 2008

The Illinois Municipal Retirement Fund Board of Trustees and staff are proud to present the 2008 - 2010 IMRF Strategic Plan.

This document provides the Fund with a road map for meeting the challenges and opportunities in providing the highest quality retirement services to our members, their beneficiaries, and employers. It guides us in our critical relationship with our 2,900 employers; 178,000 members; 86,000 benefit recipients, and the taxpayers of Illinois.

Our Strategic Plan sets goals for improving customer service, increasing efficiencies, enhancing the IMRF brand, and advocating the preservation of a prudent defined benefit plan for our membership. These goals are supported by a comprehensive set of strategies critical to the success of our plan.

We appreciate your interest in IMRF and welcome your feedback.

Louis W. Kosiba
Executive Director

Illinois Municipal Retirement Fund

STRATEGIC PLAN

2008 – 2010

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Executive Summary

IMRF implemented a formal strategic planning process and methodology in 2005 with the objective of ensuring the IMRF Board of Trustees and staff plan for the future needs of the Fund. This systematic process facilitates discussion and agreement between the Board of Trustees and staff on the appropriate direction for IMRF. The process was updated in 2007 to develop our 2008-2009 Strategic Plan*. We believe a dynamic Strategic Plan is a crucial factor in successfully addressing opportunities and threats, allowing us to meet the needs of our participants and employers with the highest level of service.

Historically, IMRF staff implemented operational improvements in response to the increasing needs and demands of our constituents. These changes allowed the Fund to effectively and efficiently respond to many challenges, including new benefit programs and ever increasing workloads. Our success continues to be validated through the high marks received on customer satisfaction surveys and through outside benchmarking services. However, our historical incremental improvements generally addressed internal operations through our emphasis on *doing things right*. We realize we also needed to address external challenges by *doing the right things* for our members, annuitants, and employers.

Our formal 14-step methodology provides a strategic approach to our planning process. The Board of Trustees and staff completed the Development Phase of our methodology during 2007. This phase included a re-examination and validation of our Mission Statement. It also included revisions to our Vision and Values statements. We completed a comprehensive overview of our external environment, as well as an analysis of our internal strengths, weaknesses, opportunities, and threats. Our analyses provided a list of strategic issues leading to the following.

Strategic Goals for 2008 - 2010

- **Improve IMRF's Effectiveness in Addressing Legislative Issues**
- **Prepare the IMRF Organization for Changing Demands in Customer Service**
- **Advocate Preservation of the Defined Benefit Plan**
- **Continue to Support the IMRF "Brand"**
- **Maintain and Promote the Board's Independence**
- **Advocate Preservation of the 100% Funding Goal**

These inter-related goals provide the basis for our 2008 - 2010 Strategic Plan. Staff will develop action plans, including timelines, for these goals.

* The IMRF Board of Trustees agreed to extend the Strategic Plan to a three-year plan at the October 2008 Board Meeting.

IMRF MISSION, VISION, and VALUES STATEMENTS

Mission Statement

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

Vision

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

Values

Accuracy

Performing our duties in an accurate and timely manner ensures our members receive the service and benefits to which they are entitled

Accountability

Accepting responsibility for our actions cultivates the trust of our coworkers, members, and employers

Respect

Recognizing the worth, uniqueness, and importance of ourselves, our coworkers, and our membership builds collaboration and cooperation

Empathy

Being aware of the feelings of others and how our actions affect them enables us to be responsive to the needs of our membership

Honesty

Acting in a truthful, ethical, and professional manner builds confidence with our membership and the public

Courage

Recognizing the need for new ideas and being willing to change strengthens our ability to meet future challenges and opportunities

(Approved August 2007)

STRATEGIC PLAN FOR 2008 - 2010

The achievement of six Strategic Goals constitutes our Strategic Plan for 2008 - 2010. These six inter-related goals address both internal and external challenges, and their action plans overlap. This integration is critical to the success of our Strategic Plan, as these goals must be considered as six parts of one plan. The Plan highlights the six Strategic Goals, and provides an overview of possible action plans we will follow to successfully achieve these goals.

Improve IMRF's Effectiveness in Addressing Legislative Issues

The IMRF plan is found in the Illinois Pension Code. Any change to our plan requires changes to the Code, which must be enacted by the Illinois General Assembly. An attack on the Defined Benefit Plan, on the IMRF Board's independence, or on our 100% funding goal would come in the General Assembly. Mandates for certain investments, such as those economically targeted or aimed at social goals are becoming more frequent. Our fragmented membership has no clear voice for IMRF in legislative matters. This makes it difficult both to defend against attacks and to make positive changes. We want to ensure the IMRF benefit plan is appropriate for 21st century employees at a reasonable cost to their employers. We also advocate that IMRF remains a Defined Benefit Plan governed under the prudent person fiduciary standard by an autonomous Board.

Action plans leading to the successful achievement of this goal include the following:

- Engage IMRF membership. Make our members aware of our legislative agenda and equip them with the tools necessary to advocate that agenda to members of the General Assembly.
- Engage IMRF interest groups in search of a "champion" for IMRF-proposed legislation
- Engage IMRF employers with interest groups taking the lead
- Engage members of the General Assembly
- Complete other actions as adopted by the Board's Legislative Committee

Prepare the IMRF Organization for Changing Demands in Customer Service

An analysis of the demographics of IMRF's membership projects an increasing workload as more members file for benefit payments. The level of service expected by our members, annuitants, and employers is also increasing. IMRF must be prepared to successfully meet these challenges in order to fulfill our Vision of providing the highest quality retirement services to our members, their beneficiaries, and employers.

IMRF is developing a customer-centric continuous process improvement program. Through this program we are initiating high priority process and technology driven opportunities. Our continuous process improvement program

will be applied to all Fund activities, and will be the basic tool for proactively meeting future customer service needs.

Action plans leading to the successful achievement of this goal include the following:

- Complete implementation of our current high priority improvement projects
 - Enhanced Secure Employer and Member Web Sites
- Work with management sponsors to instill the continuous process improvement program in all Key Service Areas throughout the Fund
- Identify process and technology driven improvements, and implement based upon priority. Improvements will include the following:
 - Refine our customer satisfaction survey program and use the results to further enhance customer service
 - Apply a quality assurance program to all internal processes
 - Develop a comprehensive documentation process for procedures and policies and make accessible for all staff
 - Evaluate all processes with an eye towards improving accuracy and reducing turn-around times

Advocate Preservation of the Defined Benefit Plan

The necessity of preserving public defined benefit plans has only grown since this strategic goal was first established. Congress has failed to address anticipated shortfalls in the Social Security and Medicare trust funds. Personal savings have reached lows not experienced since the 1930s and the Great Depression. Health care cost growth continues to outpace inflation and continues to grow as a percent of the Gross Domestic Product.

The major domestic and international investment market declines in September and October 2008 will result in substantial increased employer contribution rates over the near term, beginning in 2010. Local government will be adjusting budget priorities and real estate tax levies to accommodate IMRF funding requirements. There will be increased criticism of public defined benefit plans (pension envy). IMRF will be in a more defensive mode as it addresses these issues.

Action plans leading to the successful achievement of this goal include the following:

- Continue the education of members, employers and the public on the benefits of defined benefit plans and IMRF, in particular, through articles, interviews and press releases using all forms of communication, including the IMRF web site, the Fundamentals newsletter, and opportunities developed by IMRF's public relations firm
- Coordinate actions with unions, which have developed their own umbrella organization to support defined benefit plans
- Engage the Illinois General Assembly and develop support for defined benefit plans and IMRF in particular

- Leverage IMRF Branding efforts to support the defined benefit plan, especially through confronting negative news articles and editorials
- Work constructively with IMRF employers to meet IMRF's increasing funding requirements.

Continue to Promote the IMRF Brand

A brand is a collection of perceptions in the mind of the consumer. A brand distinguishes an organization from other organizations in the minds of its stakeholders. It identifies how it meets the needs of its customers *in a way that is different* from other organizations. IMRF's branding efforts have resulted in positive media coverage, the development of relationships with media outlets across the state, and the identification of additional branding opportunities. Promoting the IMRF brand includes more than "separating IMRF from the pack". Our key messages support other strategic goals: promoting the value of a DB plan, the importance of 100% funding and the need for an autonomous Board. Key messages are refined to meet current needs. Future key messages could include support for legislative proposals such as stabilizing the 13th payment.

Action plans leading to the successful achievement of this goal include the following:

- Apply research findings to branding activities
- Refine key messages
- Provide media training for IMRF staff and Trustees
- Continue to build media relations: press releases, and increased media coverage of the spring Rate Meetings

Maintain and Promote the Board's Independence

The IMRF Board of Trustees remains the only Board in the State fully elected by its participants, retirees and employers without any appointments or ex officio members. Its ability to set employer contribution rates based on sound actuarial principles is key to achieving a 100% funding level. Full funding results in the lowest long term cost to the taxpayers, who are ultimately responsible for IMRF benefit expenses. The Board's independent investment authority also plays a key role in funding benefits. Historically, investment returns have been the largest income contributor. This independence is tempered by comprehensive oversight by internal and external auditors, compliance with the Illinois Pension Code, reporting requirements to the membership and State of Illinois, and an Ethics Policy reflecting their obligations as fiduciaries, the highest standard of care recognized by law.

Major investment losses in 2008 and the continuing criminal investigation of influence peddling at a major Illinois Public Pension System is drawing notice by the press and unfavorable comments from the public. Those events may very well translate into legislative proposals before the Illinois General Assembly.

Action plans to ensure the successful completion of this goal include the following:

- Continue educating interest groups on the value of an independent Board and defending against inappropriate limitations on its membership composition; or, its authority to set employer contributions, make administrative decisions and to invest assets
- Engage the Illinois General Assembly and develop support for the IMRF Board of Trustees
- Leverage IMRF Branding efforts to support the Board's independence
- Address legislation encroachments through action by staff and lobbyists and, when appropriate, through more expansive measures utilizing members, retirees and employers
- Maintain transparency and be proactive with employers concerning increased IMRF funding requirements.

Advocate Preservation of the 100% Funding Goal

IMRF believes 100 percent funding is the soundest long-term approach for managing its assets and liabilities because it:

- Enhances investment performance
- Provides additional assurance that promised benefits will be paid when due
- Achieves the lowest possible employer contribution rates in the long term
- Provides intergenerational equity among taxpayers
- Provides full transparency for the actual cost of promised benefits
- Complies with the Illinois Pension Code and generally accepted accounting principles (GAAP) and is consistent with the Pension Protection Act of 2006

Despite the strong advantages derived from being fully funded, some outside groups continue to seek something less than a 100% funding goal. Given the historic investment losses anticipated in 2008, IMRF's funded status is going to decline dramatically between 2007 and 2008. IMRF's Board of Trustees has shown its flexibility by adopting a phase-in approach for the significant employer rate increases which will begin in 2010. Despite the Board's willingness to phase-in necessary employer contribution increases, we still need to strongly advocate the preservation of the 100% funding goal.

Action plans to ensure the successful completion of this goal include the following activities:

- Update IMRF's materials supporting the value of a 100% funding goal with the latest data and statistics
- Develop a coordinated communications approach consistent with our Branding initiative to share IMRF's position on 100% funding with our stakeholders
- Develop a position paper on the compatibility of the Board's phase-in approach with our 100% funding goal

IMPLEMENTATION OF THE STRATEGIC PLAN

ACTION PLANS

Each Strategic Goal is assigned sponsorship by an IMRF director or manager. Each sponsor is responsible for assigning team members and developing high level action plans for the Strategic Goal. These action plans provide direction towards the achievement of the goals, but will be expanded to include a greater level of detail and corresponding timelines. The various components of the action plans will be assigned a schedule to ensure timely completion. Action plans are continually reviewed and revised to ensure the Strategic Plan remains both relevant and responsive to the needs of our membership.

ANNUAL OPERATING BUDGET

Implementation of the action plans may require some incremental increases in the IMRF administrative budget. Hiring a public relations firm, travel expenses to meet with legislators, retaining an independent lobbyist, and additional meeting costs highlight these potential incremental increases. Costs associated with the Strategic Plan will be included in the 2009 administrative budget.

INTEGRATION OF STRATEGIC GOALS INTO PERFORMANCE MANAGEMENT

There is an adage that “What gets measured gets managed.” We will apply this concept to the Strategic Plan to ensure it receives the appropriate attention needed to be implemented successfully. We will update the performance goals of senior management such that they are aligned with the Strategic Plan. Senior management will complete this same exercise for the management group. Performance towards completing the Strategic Plan will play an important role in the evaluation of the manager’s performance.

COMMUNICATION PLAN

The Strategic Plan is a tool, one that must become part of the culture of IMRF. Therefore, we must emphasize the communication of the Plan to our staff, Board of Trustees, and all stakeholders. Our communication plan will be simple, but possess a systematic approach to spreading our message.

IMRF Staff

A formal introduction of our Plan was made to our staff. The full Plan is posted for review on our Intranet. The Strategic Goals and operational objectives will be highlighted in employee meetings. All employees will be reminded of our Vision, and gain an understanding of their role in achieving our Strategic Goals.

Board of Trustees

The Trustees reviewed and validated the Strategic Plan as part of the 2008 Planning and Budget Document at the November 2007 Board Meeting. We provided periodic status updates to the Trustees during 2008, and will continue to do so throughout 2009 and 2010. In October 2008, the Board extended our Strategic Plan to a three-year cycle, making our current plan effective through 2010. Another comprehensive strategic planning process will be completed by staff and the Board in 2010.

IMRF Stakeholders

We will include highlights of the Plan in Fundamental newsletter articles and in memos to our employers. We will also post our Plan at www.imrf.org.

* * *

BOARD AUTHORIZATION

The IMRF Board of Trustees and IMRF management understand, support, and adopt the IMRF Strategic Plan for 2008 - 2010 as described in this document.

Max F. Bochmann
Board President

Louis W. Kosiba
Executive Director

APPENDIX A

ORGANIZATION OVERVIEW **ABOUT THE ILLINOIS MUNICIPAL RETIREMENT FUND**

The Illinois Municipal Retirement Fund was created in 1939 by the Illinois General Assembly and began operating in 1941 with five original employers and \$5,000 in assets. Today, IMRF services 2,909 employers and has more than \$24.0 billion in assets.

Since 1941, IMRF has provided employees of local governments and public school districts (with the exception of the City of Chicago and Cook County) with a sound and efficient system for the payment of retirement, disability, and death benefits. IMRF has a long history of excellence in providing service to our membership, and we are always striving to further enhance that tradition.

As of December 2007, the date of the latest annual report, IMRF had 177,783 active members, 86,362 benefit recipients, and 2,926 units of local government in Illinois.

IMRF is established under statutes adopted by the Illinois General Assembly. It is governed by a board of seven trustees who must be vested, active members of IMRF and one trustee who must be receiving an IMRF annuity.

Four trustees are elected by employers, three are elected by participating members, and one non-voting trustee is elected by IMRF annuitants (individuals receiving IMRF retirement benefits). Trustees receive no compensation, only reimbursement for expenses.

The Board appoints an Executive Director who is responsible for all administrative functions and supervision of staff employees. The Board also appoints medical and investment consultants, an actuary, and an independent auditor.

IMRF administers three plans: Regular, Sheriff's Law Enforcement Personnel (SLEP), and Elected County Official (ECO).

APPENDIX B

STRATEGIC PLANNING PROCESS & METHODOLOGY (14 STEPS TOWARDS A SUCCESSFUL FUTURE)

IMRF Staff Planning Team:

Louis Kosiba, Walt Koziol, Kathy O'Brien, Dan Duquette (Process Facilitator), Dick DeCleene, Bob Woollen, Tom Raitt, Phyllis Walker, Bill Pettry, Linda Horrell, Linda Bieniek, Rosalee Dodson, and Maureen Enright (Scribe)

DEVELOPMENT PHASE

(Requires active involvement of the Board of Trustees and IMRF staff)

- 1. Examine** our current **Mission Statement** (Does it answer “Why does our organization exist?”), our current **Vision Statement** (Does it tell us “What do we want for our membership?”), and our **Values** (Do they represent the priorities in how IMRF carries out our activities with our stake holders?)
- 2. Conduct an External Analysis:**
Discuss how social, technological, political, and economic trends are impacting IMRF. The National Association of State Retirement Administrators (NASRA) articles and other local and national news articles will help frame this discussion. Review recent or pending legislation, demographic trends, possible competitive factors, and how our stakeholders perceive IMRF. This process will utilize the STEP (Social, Technological, Economic, and Political) Analysis.
- 3. Conduct an Internal Analysis:**
Document our major strengths and weaknesses. Examine the major threats and opportunities facing IMRF. Consider how our reputation, funding, finances, operational efficiencies, and current monopolistic position affect the Fund. Review staff issues, including employee expertise, depth of knowledge, staff development, succession planning, expectations, and possible threats. Assess our Information Services applications and technology, as well as overall processes. Examine comparisons to other funds as measured by the Cost Effectiveness Measurement (CEM) Study. This process will utilize the SWOT (Strengths, Weaknesses, Opportunities, and Threats) Analysis.

4. Identify Strategic Issues:

Document the major immediate and near-term issues that IMRF must address. To address key issues identified during our strategic analyses, we should consider the following guidelines:

- In light of the weaknesses and threats we identified, what are the major issues we see? Consider issues over the term of our strategic plan, but especially look closely at the next year. We should not get tripped up looking too far down the road.
- Consider each issue. Determine if the issue is “important” or “urgent”. Concentrate only on the “important” issues as part of our plan. (“Urgent” items are typically operational issues to be resolved in the short-term.)
- Deal only with those issues we can affect. We do not want to become bogged down with broad issues which we cannot control.
- Issues should be documented clearly enough for someone outside IMRF to read and understand.

5. Establish Strategic Goals

Develop Strategic Goals to address the issues identified in Step 4. This can include both short-term goals, as well as more forward-looking, developmental goals. Goals define desired outcomes and achievements. Goals must be realistic, and rewarding to our membership. We must ensure the goals and strategies align with our Mission, Vision, and Values. We consider multi-year goals, and add a mechanism to revalidate and update our process and plan every two years.

IMPLEMENTATION PHASE

(To be completed by staff, with periodic reports to the Board of Trustees)

1. Establish Strategies to Reach Goals

Develop the general approaches needed to successfully reach our goals. Consider strategies over the term of the Strategic Plan, but pay particular attention to the next 12 months.

2. Develop a Staffing Plan

Review the strategies to reach the goals, and consider the capabilities needed to implement the strategies. Determine if our current staffing meets these needs. If not, develop a plan to restructure, add staff, or take other measures needed to align capabilities with what is needed to reach the goals.

3. Conduct Action Planning

Document the actions that must be achieved while implementing each

strategy. Determine when the actions must be completed and develop corresponding timelines. Identify who is responsible for completing each action, and adjust staffing plan as needed.

4. Develop an Annual Operating Budget for the Plan

Document the resources needed to achieve the goals in the Strategic Plan, and what it will cost to obtain and use these resources. Develop a budget for each of the years included in the Plan, but especially consider the first year.

5. Associate Strategic Goals and Operational Objectives to Performance Goals for Board and Staff

Senior management should be responsible for goals directly aligned with the Strategic Plan. The Board should update the performance goals of the Executive Director such that they are aligned with the achievement of the Strategic Plan. The Executive Director should complete this same exercise for the senior management group.

6. Specify How Implementation of Plan will be Monitored and Evaluated

Document how the status of implementation will be monitored and evaluated. Provide monthly status reports to Executive Director, and quarterly reports to the Board of Trustees. Status reports will address if goals are being met, current issues, and resources needed to implement the Plan.

7. Specify How Plan will be Communicated

Document how the Plan will be communicated to staff, Trustees, and our membership. Distribute highlights of the Plan to all employees. Discuss the Plan at Board Meetings. Consider publishing portions of the Plan in member newsletters and employer memos.

8. Complete Strategic Plan Document

Complete all sections of the Plan document. Include an Executive Summary, develop a Board Authorization section, and develop an Organization Information section that includes a history of the Fund, our services, and a description of the process used to develop the strategic plan.

9. Acknowledge the Completion of the Plan

Develop a plan to communicate and celebrate our successes. Employee events and Board recognition should be considered.

APPENDIX C

DEVELOPING STRATEGIC ISSUES, GOALS, & OPERATIONAL OBJECTIVES

The Trustees and staff identified seven strategic issues during the 2007 Trustee Roundtable using factors from the STEP and SWOT analyses. We developed six Strategic Goals from these seven issues during the October 26, 2007 Board Meeting. We believe a dynamic Strategic Plan is a crucial factor in successfully meeting threats and opportunities.

Strategic Issues are those major issues that IMRF must address to ensure we can successfully achieve our Mission and Vision statements. These issues were identified during a review and grouping of the factors resulting from the STEP (social, technological, environmental, political) and SWOT (strengths, weaknesses, opportunities, threats) analyses.

Strategic Goals are statements of what we need to achieve to successfully address the strategic issues potentially blocking our ability to fulfill our Mission and Vision.

The seven **strategic issues** identified and presented by staff at the 2007 Roundtable are as follows.

- Limited Ability to Affect Legislation
- Defined Benefit Plan Under Attack
- Threats to our Board Independence
- Pressure to Reduce Rates Despite Long-Term Costs
- No Clear Identity
- Continue to Improve Service to Members in Light of Increasing Workload
- Leverage Technology

The Board and staff developed the following Strategic Goals to address these issues.

1. **Improve IMRF's Effectiveness in Addressing Legislative Issues**
2. **Prepare the IMRF Organization for Changing Demands in Customer Service**
3. **Advocate Preservation of the Defined Benefit Plan**
4. **Continue to Support the IMRF "Brand"**
5. **Maintain and Promote the Board's Independence**
6. **Advocate Preservation of the 100% Funding Goal**

These six goals form the basis of our 2008 – 2010 Strategic Plan and are highlighted earlier in this document.