



Frequently Asked Questions About IMRF

What is IMRF?

IMRF is a defined benefit public pension fund covering units of municipal government in Illinois. These include cities, villages, counties, parks, libraries, non-teacher personnel at school districts, and firefighters and police officers whose communities do not have local fire or police funds.

In addition to retirement benefits, IMRF also provides death and disability benefits. IMRF is independently managed by an autonomous board of trustees representing participating employers, employees and retirees.

How many people does IMRF serve?

IMRF has more than 182,000 active members working for nearly 3,000 different units of government, including school districts, counties, cities and villages, parks and libraries. It provides benefits to more than 89,000 retirees.

How is IMRF funded?

IMRF is funded by three sources: employee contributions, employer contributions, and investment returns. IMRF receives no funding from the state of Illinois. Historically, investment returns are the largest contributor to IMRF. Employee contributions are static, and employer contributions rise and fall depending on investment returns.

IMRF believes 100 percent funding is the soundest long-term approach for managing its assets and liabilities. As a result, IMRF works toward 100 percent funding. This allows IMRF to maximize investment gains and provide benefits to its members at the lowest possible long-term cost to the taxpayer.

What is a “defined benefit” pension plan?

How is this different from a “defined contribution” pension plan?

Defined benefit pension plans—such as IMRF—provide a modest guaranteed benefit of a specific amount to eligible employees for as long as they live in retirement. This guarantee is a form of deferred compensation (in IMRF, you give up some of your wage today, in return for a pension later) that helps ensure retirees’ financial independence.

Defined contribution pension plans—such as a 401(k)—do not offer a guaranteed benefit to employees. Instead, employees contribute the amount of their choice (sometimes with an employer match) to be invested. Investment returns and how much the employee chooses to contribute determine a lump sum available upon retirement. This means the employee bears all the investment risk. Without the security of a defined benefit pension plan, defined contribution plans often place employees and their retirement savings at the whims of the financial markets.

What's a better deal for taxpayers, a defined benefit pension or a defined contribution pension?

When financial markets experience a major decline — as they did in 2000-2002 and 2008 — public pensions such as IMRF have to make up some of the losses through increased employer contribution rates. This can raise questions about the costs and the true value of a defined benefit pension plan.

In fact, defined benefit (DB) plans are more cost-effective than defined contribution (DC) plans. According to the National Institute on Retirement Security, a DB plan provides the same retirement income at nearly half the cost— 46% less than individual DC accounts. This is because:

- DB plans only need to save for an average life expectancy. Thus, they avoid over-saving.
- DB plans maintain optimal asset allocation because they exist across generations and are never forced to “sell low” because an individual is entering retirement
- DB plans enjoy higher annual returns than DC plans due to professional asset management and lower fees.

What about switching from DB to DC?

At a time when some people are calling for a transition from DB to DC, it's important to know that this switch can be expensive, costing taxpayers more in the short term — with no guarantee of long-term savings. For example:

- In 2009, three bills were introduced in Alaska that, if passed, would have reopened the DB plan and abandoned the DC plan that was implemented in 2006.
 - The DC plan harmed Alaska's ability to attract and retain employees. Alaska considered DB legislation because of the immediate, dramatic, negative impact on recruitment.
- In 2005, the West Virginia Teachers' Retirement System began enrolling new members into a DB plan
 - In 1991 West Virginia closed its teachers' DB plan and gave new hires a DC plan.
 - The DC plan proved more expensive. Some retirees with inadequate savings even had to go on welfare.
 - The state found that it could save approximately \$1.8 billion over 30 years by switching back to a DB plan.
- In 2002, Nebraska replaced its DC plan with a DB cash balance plan
 - The typical return on DC accounts was 6% to 7%, while DB money managers had average returns of 11%.
 - State and county plan members were retiring with inadequate retirement income, and the DC plan had high administrative expenses—particularly for employee investment education.

How does IMRF benefit local taxpayers?

IMRF benefits local taxpayers in several ways. First, it helps municipalities attract and retain quality workers so vital services such as educational support, road maintenance, public safety and other municipal services are performed by experienced employees.

Second, a secure pension for municipal workers helps them remain financially independent when they retire. This helps minimize the likelihood that they will become financially dependent on government programs or on family members.

IMRF pension payments also make a significant contribution to the Illinois and national economy. Eighty-five percent of retired municipal workers remain in Illinois and plow their retirement dollars back into the state's economy. In fact, a recent study found that 2008 benefit payments from IMRF produced nearly \$1.4 billion in economic activity and created more than 10,000 jobs in the state of Illinois. As retirees spend their pension payments, those payments ripple through the economy: one retiree's pension becomes another worker's salary.

Nationally, public pension plans hold more than \$2 trillion in assets, equal to nearly 20 percent of the nation's entire GDP. Defined benefit pensions are vital to stimulating the U.S. economy, providing long-term, patient investment capital for businesses, technology and medical advancements.

How has IMRF been affected by the 2008 financial crisis?

The 2008 recession and dramatic decline in value of nearly all investment classes was tough on investors — including pension funds like IMRF. Fortunately, IMRF was 100 percent funded when the recession started in 2008 and already has begun its recovery.

As of December 31, 2009, IMRF had an estimated \$22.4 billion in assets and was 81.4 percent funded on a market basis. IMRF has a full funding goal and maintains a long-term, prudent, and diversified approach to investments. It will use the proven structures and practices it has used in the past to recover from recent investment losses.

IMRF retirees can rest assured that in spite of the economic decline, IMRF has sufficient assets to continue paying them their regular monthly retirement benefits.

How are IMRF investment decisions made?

IMRF designs its portfolio to achieve the greatest return with an acceptable amount of risk. It is highly diversified by investment type, geographic region and management style to withstand short-term market variations and ensure steady returns over the long-term. Seventy professional investment firms handling 81 separate accounts manage IMRF's investment portfolio in compliance with the Illinois Pension Code and IMRF's policies.

How are employee contribution rates set?

Employee contributions are set by statute and are a percentage of pay (4.5 percent for the Regular plan, 7.5 percent for deputy sheriffs and certain elected county officials).

How are employer contribution rates set?

Each employer has an individual contribution rate, which is expressed as a percentage of payroll and varies from year to year. Each year, an independent actuary works closely with IMRF staff to set appropriate employer contribution rates. This is key to maintaining a fiscally sound retirement fund.

In 2010, the *average* cost to fund benefits under IMRF's Regular plan is 10.76 percent of payroll, but numbers vary widely from employer to employer because they are adjusted to accommodate changes in demographics and differences in local employer policies. For instance, an employer that chooses to approve an Early Retirement Incentive would have a higher contribution rate than one that doesn't.

Are employer contribution rates going up?

Because IMRF is a defined benefit pension, employers contribute a variable amount that increases when investment returns are lower than the assumption (like now) and decreases when investment returns are higher than the assumption (as they were, for example, in 1996 through 1999 and 2003 through 2007). As a result of the 2008 market downturn, 2011 rates will go up.

However, the IMRF Board of Trustees recognizes the budget challenges many employers face and approved a plan to phase in the necessary rate increase over time. IMRF will cap the contribution rate increases of most employers in 2011 at 10 percent over 2010 rates which will help protect the long-term fiscal health of the fund and also mitigate the immediate financial burden on employers.

What is a “full funding goal” and why does it matter?

IMRF’s full funding goal means that IMRF asks for consistent, fiscally responsible employer contributions to work toward reaching 100 percent funded status. Fully funded pension funds have enough money in reserve today to meet future pension obligations for benefits earned to date.

A full funding goal guarantees public workers a secure and fair retirement income at the most reasonable cost to taxpayers. It is cost-effective for taxpayers because more money is available to accrue investment returns. It also ensures that today’s taxpayers pay for today’s public service and that the cost is not passed on to future generations.

How are IMRF benefits determined?

IMRF provides its retirees with a modest, sustainable benefit, which, coupled with Social Security and personal savings, offers sufficient financial security in retirement. An IMRF member retiring in 2009, retired with 20 years of service credit and received an average monthly benefit of \$1,248. This benefit is based on a formula which looks at the employee’s final rate of earning and service credit.

Because pension payments are tied to the employee’s final rate of earnings, employers, not IMRF, determine employee pensions. Further, IMRF is a local program. An employer’s IMRF contribution rate is directly tied to the pensions its employees receive. Therefore, an employer has a long-term financial interest in the salaries it offers.

IMRF cannot control the salary employers choose to offer, but it does take steps to minimize the impact of end of career raises. The final rate of earnings used to calculate an employee’s pension is based on the employee’s highest total earnings during any 48 consecutive months within his last 10 years of IMRF service. However, IMRF reduces earnings if they are 25 percent greater during the last three months than the highest earnings during any of the previous 45 months.

It’s also important to remember that a public pension is a form of deferred compensation. And unlike a DC plan, defined benefit pensions like IMRF also provide survivor and disability benefits, a key component of financial security.

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