

IMRF members: What 100% Funding Means To You

You may have read or heard the terms “100% funding” or “fully funded” in stories about pension funds, or in articles in an IMRF newsletter. But what exactly does 100% funding mean? And how does it impact you as an IMRF member?

What is 100% funding?

“Funded status” is a term used to describe how much money a pension fund has compared to how much money it needs to cover the total costs of its future pension obligations.

When a plan is fully funded, it means that the pension fund has enough money in reserve today to pay for all of its future pension obligations. IMRF believes 100% funding is the best approach to follow.

To use a simplified example, let’s look at a hypothetical pension fund with 10 active members:

The estimated cost to pay for all 10 members’ lifetime pensions, once they retire, is \$2 million dollars.

The pension fund currently has \$1.5 million dollars reserved for these pensions. This pension fund would be considered 75% funded, because if all 10 members were to retire tomorrow, the fund only has 75% of the \$2 million it needs to pay for its members’ lifetime pensions.

If the fund had \$2 million dollars currently reserved for its future pension obligations, it would be considered 100%, or fully, funded.

While this example is simplified, the basic concept carries over to pension funds with hundreds of thousands of members and billions of dollars in future pension obligations.



“By supporting IMRF’s 100% funding goal, you are helping preserve IMRF’s defined benefit plan for current and future IMRF members.”

Why are defined benefit pension plans under scrutiny?

Currently, pension funds have become a hot topic in the media. There have been several recent examples of companies deciding to eliminate or drastically change their employees’ pension plans, due to the overwhelming future cost of their pension obligations.

In addition, some news stories have reported on certain local and state governments’ extremely under-funded pension plans. When a public pension plan is poorly funded, it leads taxpayers to ask: Where is the money going to come from to pay these pensions, and how will it affect our future taxes? As the pressure builds among taxpayers, one of the first options discussed is to cut benefits and eliminate the defined benefit pension plan.

How does 100% funding help keep your IMRF pension safe?

When a pension fund is fully funded, it is much more difficult to make a case for eliminating or reducing its benefits. Because IMRF is nearly 100% funded, no one can argue that IMRF puts an unfair burden on future taxpayers and should be eliminated or converted into a defined contribution plan. With a 100% funded plan, the pension benefits earned to date are already paid for.

So what does 100% funding mean to you?

Having a fully funded pension plan is important because:

- When a pension plan is fully funded like IMRF, its members know that the funds are already in place to pay their future pensions.

- Having 100% funded status provides a strong defense in case IMRF's defined benefit (DB) plan comes under attack.

You have worked hard for your lifetime pension from IMRF, and IMRF believes you are entitled to it. By supporting IMRF's 100% funding goal, you are helping preserve IMRF's defined benefit plan for current and future IMRF members.

Additional information

For additional information about IMRF's 100% funding goal, you can view the white paper "The Case For A 100% Funding Goal for a Defined Benefit Plan," or IMRF's 100% Funding Goal Fact Sheet, "100% Funding at a Glance," available at www.imrf.org or by calling 1-800-ASK-IMRF.

Defined Benefit and Defined Contribution Plans

A defined benefit (DB) plan is a plan such as IMRF's, where based upon your years of service credit and final rate of earnings, you receive a pension amount that you are guaranteed to receive for life. You do not have to worry about how the money is invested. Your employer assumes all investment risk. When you retire, your pension money will never run out—it will be paid to you every month for as long as you live.

A defined contribution (DC) plan is a plan common in the private sector, where you (and possibly your employer) contribute to a retirement account such as an IRA or a company 457 or 401(k) plan. You must decide how your money is invested, and you bear all investment risk. When you retire, what is in your account determines your retirement income. There is no guarantee that you will not outlive the money available to you.