



Defined benefit vs. defined contribution

As an IMRF member, you can estimate your approximate future pension by simply referring to your copy of the IMRF benefit leaflet. Turn to the “Table for Estimating an Approximate Monthly IMRF pension,”

find where your years of creditable service coincide with your final rate of earnings—and you will find an estimate of your future monthly pension.

Defined Benefit

IMRF members can refer to a table that provides approximate future benefits because IMRF is a defined *benefit* pension plan. This means that the amount of future pensions payable to our members is fixed; employer contributions required to fund those pensions are not.

An IMRF member's *portion* of the contribution required to fund his or her future pension is fixed by Illinois state statute. However, IMRF employer contributions are not fixed. Illinois state statute also provides a formula which is used to calculate a future pension. Under the IMRF plan, the formula takes into account 1) a member's years of creditable service and 2) final rate of earnings. (The formula is further explained on page 3.)

Protects against inflation

One advantage of a defined benefit plan (such as IMRF) that uses final rate of earnings in its calculation of pension benefits is the fact that members are given some protection against inflation because salaries tend to rise with the general price level.

Defined Contribution

A different type of pension plan is the defined *contribution* plan. Under a defined contribution plan, the amount of contributions (both member and employer) are fixed, and there is no formula to determine future benefits. An example of a defined contribution plan would be an individual retirement account (IRA). The future pension benefit is based on the amount of investment income earned by the contributions.

Under a defined contribution plan, the member may be able to choose how his or her money will be invested; usually various funds are available which offer the member a choice between aggressive and more conservative investment vehicles. However, the member also bears the *risk* of investment.

Investment risk

Members of defined contribution plans bear the investment risk because upon retirement the amount of money available in a member's account (total contributions plus investment earnings) determines the amount of his or her pension. If the investments performed well, the member's pension will be higher than if the investments performed poorly. The future benefit is unknown.

However, as an IMRF member under a defined benefit plan, you have no

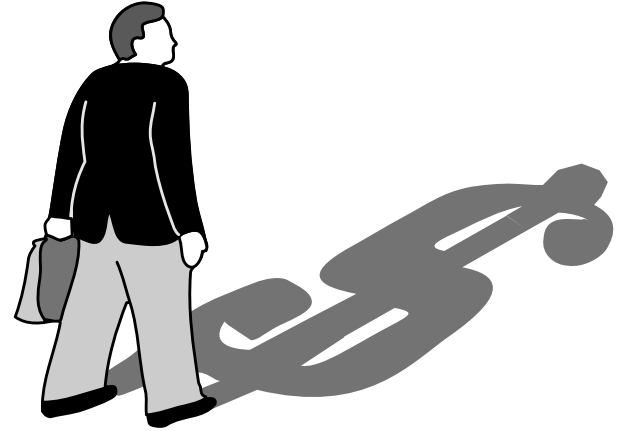
investment risk. Both your contributions and benefits are fixed by state statute. You contribute 4.5 percent of your salary to your future pension. (Sheriff's Law Enforcement Personnel contribute an additional 2 percent.) However, the amount your employer contributes to your pension varies (it's also significantly larger).

Employer rates vary

Employer contribution rates vary because of actuarial differences among employee groups. The actuary makes various assumptions regarding the average age of employees, average length of service, average salary, etc. The actuary also makes an assumption regarding the anticipated rate of return on the pension fund's investments. With these and other assumptions, the actuary calculates an employer's future pension obligation to its employees and the amount of employer contributions required to fund that future pension obligation.

Under IMRF's defined benefit plan, *employers* bear the risk of investment because their contributions must make-up the shortfall between member contributions, investment income and what the actuary determines is necessary to fund present and future benefits.

IMRF pension benefits, as we said earlier, are calculated by a formula. The





(In lieu of "From the Executive Director" and "Q & A," we provide this legislative update.)

In June, IMRF members received a Legislative Update edition of Fundamentals. In that newsletter, we told you about pending legislation which could affect IMRF members. The following is an update regarding those bills. Please refer to your copy of Fundamentals Legislative Update for information regarding bills' sponsors, subject and IMRF position. Three IMRF supported House bills passed both the House and Senate. Two were signed into law, and one was amendatorily vetoed by Governor Jim Thompson:

Signed into Law

H.B. 0126 - Now Public Act 86-0287, this new law amends the Open Meetings Act to provide that closed meetings of boards of trustees of public pension funds may be held to consider matters relating to determination of disability or results of medical exam.

News from Springfield

Members' legislative update

H.B. 0332 - Now Public Act 86-272, this new law eliminates age 70 restrictions on enrollment in IMRF and payment of disability benefits.

Vetoed

H.B. 1819 - Permits units of local government, and by amendment school districts, to apply to the Illinois Director of Central Management Services to cover their employees and dependents and retired employees and dependents under the state group health insurance plan. The cost would be paid for by the local employer. IMRF supports.

The governor amendatorily vetoed this bill. An amendatory veto means the governor changed (amended) the bill somehow. In this case, the governor proposed the creation of a separate local government health insurance fund and a delay in the effective date of this bill to July 1, 1990. We do not know if this bill will be called for a vote to either override the governor's veto or to accept the governor's changes.

Tabled

H.B. 0223	H.B. 0941
H.B. 0324	H.B. 1022
H.B. 0411	H.B. 1035
H.B. 0508	H.B. 1478
H.B. 0578	H.B. 1320
H.B. 0684	H.B. 1321

Bills that have been tabled are, in effect, dead. At the legislature's next session in April, these bills either can be attached to a different bill as an amendment or re-introduced as a new bill and assigned a new number.

H.B. 1321, an IMRF sponsored bill, would have provided for benefit improvements for our members. However, because IMRF's benefits were improved in 1987, a commitment was made part of the legislative record that no further increases in IMRF benefits would be made until 1991.

In committee

S.B. 0103 S.B. 1285

These Senate bills were held in the Senate Insurance Committee and may be re-introduced at the legislature's next session in April.

For more information on any of the above bills, please refer to your Legislative Update issue of Fundamentals or call your state representative or state senator. For general information regarding the status of a bill, you can call the Legislative Hotline at 1/800-252-6300.

We will continue to keep you informed of future legislation.

Pre-retirement workshops offer guidance

In the Spring edition of Fundamentals, we told you about IMRF's plan to expand its Field Service presentations. One outcome of that expansion is IMRF's Pre-retirement Workshops. Designed for members within five years of retirement and their spouses, the workshops will cover IMRF benefits, finances, Social Security, Medicare and legal issues.

"The fact is people are retiring earlier and living longer," said IMRF Field Services Manager Louis Kosiba. "You may spend as much as one-third of your adult life, in some cases 20 years, in retirement, yet many people do very little planning for this time."

The IMRF-sponsored six-hour workshop can be held either on a work day, a Saturday or over two evenings. Speakers will include an IMRF field representative; a representative from a financial institution, such as a bank, brokerage firm or a Certified Financial Planner; an attorney and a representative from Social Security.

In addition, workshop participants will be given a pre-retirement workbook. This workbook will cover in more detail the topics discussed by the speakers, as well as providing additional information, such as programs and assistance for retirees, investments, health and retirement housing.

Participants also will discover a new theory about retirement.

"Historically, the retirement industry told us that there were three legs to retirement: Social Security, personal savings and a company pension, (IMRF)," Mr. Kosiba said. "With people retiring earlier and living longer, a fourth leg has been added—employment during retirement."

Retirement may mean the end of a person's full-time working career—but it need

not mean the end of employment or personal growth.

"Retirement creates opportunities for growth, but if you don't plan, those opportunities decrease," Mr. Kosiba said.

IMRF field representatives will offer one Pre-retirement Workshop a month. The workshops will be by invitation and will be limited to 40 participants, including spouses. Also, as the program develops, IMRF will expand the workshops to include younger members.

"The ideal age to start *significant* retirement planning is age 40. At that age, you still have time to set aside money and invest it," Mr. Kosiba said. "This workshop won't have all the answers for our members—there is a different answer for every person. But we are trying to get people to start thinking about retirement and the opportunities it offers."

"This workshop won't have all the answers for our members...but we are trying to get people to start thinking about retirement."

Defined Benefit

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formula used by IMRF takes into account 1) a member's years of creditable service and 2) final rate of earnings.

Years of service include creditable service earned with IMRF employers and creditable service earned with one of the 12 reciprocal retirement systems.

Under the Reciprocal Agreement, you can combine service from such systems for the purpose of calculating your total future pension from all such systems.

Your final rate of earnings is:

- your highest total earnings during any 48 consecutive months,
 - within your last 10 years of IMRF service,
 - divided by 48.
- (The earnings considered for each of

the last three months of the 48 consecutive months, however, cannot be more than 25 percent greater than the highest earnings in any of the first 45 months.)

Fixed member contributions, fixed future benefits and no investment risk by members are three advantages of IMRF's defined benefit plan. In addition, IMRF members can be assured that their future benefits are being funded on a sound actuarial basis.

Fundamentals

is published quarterly for employee members of the Illinois Municipal Retirement Fund.

Linda Horrell, editor

FUNDamentals welcomes comments and suggestions from its readers. All correspondence should be addressed to the editor at IMRF, 100 South Wacker Drive,

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Employee trustee election ballots to be mailed soon

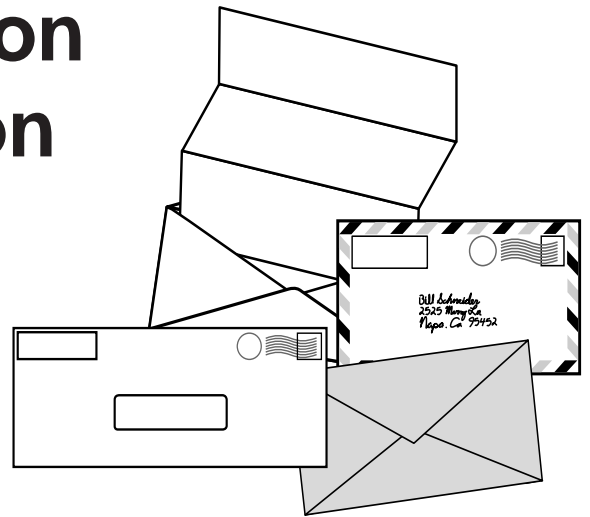
As we told you in the last edition of Fundamentals, next month IMRF members will cast their ballots to elect an employee trustee to the IMRF board. The term of office will run from January 1, 1990, through December 31, 1994.

Ballots, along with candidates' biographies and a return envelope, will be mailed on Thursday, November 9, 1989, to the homes of IMRF members eligible to vote. We are making every effort to ensure that all eligible voters receive a ballot. In addition, we would like our members to be aware of the following:

If you do not receive a ballot by Wednesday, November 22, please call IMRF as soon as possible at

312/346-6722 and request one. If you call later than Wednesday, November 22, we cannot guarantee that you will receive a replacement ballot in time to vote. When you call, we will verify your home address and mail you a replacement ballot request form. After we receive your completed replacement ballot request form, we will forward you a new ballot.

If you are a seasonal worker or if you are paid irregularly, please check with your authorized agent to see if you have been reported. If not, you must call IMRF at 312/346-6722 by Friday, November 3, to receive a ballot. Advise us that you are either a



seasonal worker or are paid irregularly, and we will forward you a ballot. Please be prepared to provide us with your Social Security number and name of employer.

Ballots will be received at the IMRF office through noon, Friday, December 1. Results of the election will be reported in the January edition



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