



Illinois Municipal Retirement Fund

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Service Representatives 1-800-ASK-IMRF

www.imrf.org

GENERAL MEMORANDUM

Number: 483

Date: December 21, 2001

To: Authorized Agents

Subject: Impact of 2001 Investment Returns on Employer Reserves, Employer Funding Status and Employer Contribution Rates in 2003

EXECUTIVE SUMMARY

The estimated investment returns through November 30 for IMRF are a negative 7.27%. As a defined benefit plan, these returns have no impact on the benefits for either active or retired IMRF members. All member benefits are guaranteed. However, these returns will impact individual employer reserve balances, individual employer funding status, and future individual employer contribution rates. We encourage each Authorized Agent to **share this memorandum with your unit of government's chief financial officer.**

BACKGROUND

As a defined benefit plan that is intended to be pre-funded, IMRF has a number of reserves:

Member Reserve – All active employee contributions are posted to this reserve. This reserve is credited with a mandatory interest amount (currently 7.5%) based upon the opening year balance.

Annuitant Reserve – Upon retirement, the present value of the retiree's lifetime benefit is transferred to this account from the member reserve and employer reserve accounts. Like the member reserve, the annuitant reserve also receives a mandatory interest credit (currently 7.5%) based upon the opening year balance.

Employer Reserve – Employer contributions are deposited here. Normally, interest is credited annually on the opening year balance, along with any residual investment income that may be available. Unlike the member and annuitant reserves, crediting interest to the employer reserve is not mandatory.

Earnings and Experience Reserve – Up to twice the annual interest on member, annuitant and employer reserves may be held in this reserve. This reserve can be used when investment income would not otherwise be available to credit the 7.5% interest on the other reserves. At the beginning of 2000, the maximum amount of \$1.8 billion was held in this reserve.

The Board of Trustees of IMRF is empowered to set the interest rate credited to the reserves. The rate has been 7.5% since 1992. Historically, the rate has been consistent with the investment return assumption used for actuarial purposes. The actuary has stated that it is appropriate for these rates to be the same.

For 1995 through 1999, IMRF investments earned 20.68%, 15.87%, 16.19%, 12.63% and 20.93% respectively. After posting interest to member, annuitant and employer reserves, the earnings and experience reserve was funded. Earnings exceeding reserve requirements were distributed back to the employer reserve as residual income. For 1995 through 1999, employer reserves received a total return (residual income and interest) of 70.05%, 38.62%, 27.94%, 22.29% and 23.01%. These returns dramatically increased employer reserve balances, improved employers' funded status, and helped to reduce employer contribution rates. The *average* Regular employer rate dropped from 10.19% in 1995 to 5.87% for 2002. Rates for the SLEP and ECO plans were positively impacted, but less dramatically.

In contrast, the investment return for 2000 was 1.87%, or 5.63% less than the assumed actuarial return on investments of 7.5%. To credit member, annuitant and employer reserves with 7.5% interest, the shortfall was withdrawn from the earnings and experience reserve. This reduced the balance of that reserve to approximately \$992 million as of December 31, 2000.

2001 INVESTMENT RETURNS

As you know, 2001 has been a very difficult investment environment. Through November 30, 2001, IMRF's investment return has been approximately a negative 7.27%. Year-to-date losses have totaled approximately \$1.388 billion. If we assume December will be a break-even month, the following will occur:

- As required, IMRF will credit interest to member and annuitant reserves of approximately \$582 million.
- With a loss of \$1.388 billion, the earnings and experience reserve will be depleted.
- The remaining loss of \$396 million (\$1.388 billion minus the \$992 million for the earnings and experience reserve) plus the required interest of \$582 million for the member and annuitant reserves (a total of \$978 million) will have to be charged to the employer reserve.

IMPACT ON EMPLOYERS

Assuming that results through November 30, 2001, are representative of the entire year, the impact on employers would be as follows:

Employer Reserves – The \$978 million charge to the employer reserve translates into a 13.4% interest charge to each individual employer reserve. In other words, all opening year employer reserve balances will be reduced 13.4%. The employer reserve statements that will be mailed in May 2002 will show the impact of this charge.

Employer Funding Status – At the beginning of the year, IMRF as a whole was 107.2% funded.

Individual employers' funded status varied widely from this amount. Based upon the investment returns through November 30, 2001, it is projected that IMRF's funded status as a whole will drop to 104.3%. While other factors impact funding status, such as the growth in actuarial liabilities, most employers will see a drop in their individual funded status. The GASB 27 Statement information that details funded status will be mailed in April 2002.

Employer Contribution Rates – In order to minimize fluctuations in contribution rates, the actuary uses an average of the last five years of investment returns when calculating rates. **There will be no impact on 2002 employer contribution rates.** Those rates were finalized in November 2001. The 2003 employer contribution rate will be the first rate to reflect both the 2000 and 2001 returns.

A rough calculation of the average employer contribution rate for 2003 is **5.73%**. While this projected average rate is actually **0.14%** lower than the average for 2002, the impact may be more dramatic for individual employers:

- Employers who chose the lowest possible contribution rates in 2001 and 2002—the 13.4% charge to their opening employer reserve balance may cause them to go from an overfunded to an underfunded status. The 13.4% charge could also cause other employers to go to an underfunded status.
- Employers who are underfunded—the average employer rate would be closer to 9.04%.

Currently, employer rates after 2003 are projected to rise. Preliminary rate notices for 2003 will be mailed in April 2002.

IMRF MEETINGS

Due to the significance of the potential impact on individual employers, IMRF has scheduled a series of hour-and-a-half meetings throughout the state to answer any specific questions you might have. The dates and locations are provided on the back of this page. **We encourage the chief financial officer of interested employers to attend.**

QUESTIONS

If you have any questions regarding the information presented in this memo, please call 1-800-ASK-IMRF (1-800-275-4673) and ask for IMRF Chief Financial Officer Richard DeCleene.

Sincerely,



Louis W. Kosiba
Executive Director

Impact of 2001 Investment Return Informational Meeting Dates & Locations

Advance registration is required to attend these meetings

Tuesday January 29, 2002
10:00 A.M.
Arrowhead Golf Club
26W151 Butterfield Road
Wheaton, IL TA

Tuesday February 5, 2002
2:00 P.M.
Crowne Plaza Hotel
3000 S. Dirksen Parkway
Springfield, IL BP

Thursday February 7, 2002
10:00 A.M.
Holiday Inn Hotel & Conference
Center
1001 Kilarney Street
Urbana, IL BP

Wednesday January 30, 2002
10:00 A.M.
Holiday Inn Hotel & Convention
Center
18501 S. Harlem Ave.
Tinley Park, IL PP

Wednesday February 6, 2002
10:00 A.M.
Holiday Inn Collinsville
1000 Eastport Plaza Drive
Collinsville, IL BP

Tuesday February 12, 2002
10:00 A.M.
Clock Tower Resort &
Conference Center
7801 E. State Street
Rockford, IL JR

Tuesday February 5, 2002
10:00 A.M.
Peoria Public Library
107 Monroe
Peoria, IL CG

Wednesday February 6, 2002
2:00 P.M.
Holiday Inn Mt. Vernon
222 Potomac Blvd.
Mt. Vernon, IL JP

Wednesday February 13, 2002
10:00 AM
Warren Newport Public Library
224 N O'Plaine Road
Gurnee IL IF

Impact of 2001 Investment Return Informational Meetings

Please mail your completed registration no later than two weeks prior to the meeting to:
IMRF, Suite 500, 2211 York Rd., Oak Brook, IL 60523-2337.

I will attend an Impact of 2001 Investment Return Informational Meeting

Date of Meeting _____ Location _____

Name (please print) _____ Title _____

Employer Name _____ Employer Number _____ Work phone _____

YOU CAN ALSO FAX YOUR REGISTRATION TO

Donna Cesario
Field Services Meeting Planner
IMRF's Oak Brook Office
FAX: 630-368-5397
PHONE: 630-706-4536

Please allow adequate time to receive confirmation of your registration and directions to the meeting.