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Employer Contributions

7.00 Introduction

This section of the manual explains the participating employer IMRF contribution rate.

Employers with Sheriff's Law Enforcement Personnel (SLEP) members have separate rates. Employers with Elected County Official (ECO) plan members have separate ECO rates. Public Act 96-0889 created a second tier of IMRF benefits for members who are first enrolled in IMRF's Regular, SLEP or ECO Plans on or after January 1, 2011. Employers with members in both tiers, e.g., Regular Tier 1 and Regular Tier 2, will have a blended Regular rate.

The IMRF Board of Trustees appoints an actuary to provide all the actuarial services required by IMRF. One of the functions of the actuary is to determine participating employer IMRF contribution rates. These rates are established separately for each employer and are recomputed annually to reflect changes in funding requirements.

In 2009, the Board took several actions to moderate the impact of 2008 investment losses on employers' funded status and contribution rates. It made three changes to the actuarial techniques used to calculate employer funded status and the actuarial required contribution rates (ARC):

- Widened the allowable corridor between the market and actuarial value of assets from 15% to 20%;
- Changed the amortization method from a closed to a rolling one and changed the period to 30 years for taxing bodies and 10 years for non-taxing bodies (In 2011 the IMRF Board changed the amortization period for taxing bodies to a closed 30-year period beginning for 2013 which will reduce to 15 years at which time it will be a 15-year rolling period); and
- Increased the threshold for the rapid amortization of over funding credits to reduce employer contribution rates from 100% to 120%.

7.00 A. Employer Rate Notices

The Preliminary Rate Notice, which IMRF provides each employer in March or April each year, and the Final Notice, which IMRF provides each employer in November, includes a breakdown of an employer's Regular IMRF rate (as well as SLEP and ECO rates if applicable).

Employers who choose to contribute less than the ARC are required to record a net pension obligation (NPO) on their books for the difference between what they actually contributed and what would have been contributed using the ARC.

To help employers determine their NPO, IMRF developed an Excel spreadsheet which will assist you in doing the calculation. Locate this spreadsheet on the IMRF Internet website at: http://www.imrf.org/pubs/er_pubs/gen_memos/2010_gm/gm_597_NPO.xls.

The rate may include costs for Early Retirement Incentive (ERI) (if applicable) as well as costs for normal retirement, amortization of any over or under actuarial liability, death, disability, and supplemental retirement. The employer's contribution will equal the total rate times payroll unless a higher minimum contribution is required.

7.00 B. Actuarial Assumptions

Changes in funding requirements may result from amendments to the Illinois Pension Code changing IMRF pensions and benefits, from changes in employee status, from changes in the financing status of individual IMRF employers, or from changes in actuarial assumptions.

For 2014, actuarial assumptions in effect for Regular members are as follows:

(a) Investment Return	7.5% per annum, compounded annually, net of expenses, including an inflation component of 4.0%
(b) Payroll Growth	4.00% per annum, compounded annually. Membership is assumed to remain constant.
(c) Retirement Age	Rates varying by age and sex. See table below for sample values.
(d) Mortality for Actives and Annuitants	RP-200 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. Male rates were multiplied by 120% and female rates were multiplied by 92%. The active tables were further modified to reflect IMRF experience. Among the active members, 80% of males and 70% of females were assumed to be married.
(e) Disability	Graduated rates by age. See table below for sample values.
(f) Separation and Salary Increases	Graduated rates by age and service. See table below for sample values.
(h) Asset Valuation Method	Market Related Value that reflects five-year averaging of investment gains and losses.
(i) Liability Valuation Method	The Entry Age Actuarial Cost Method is applied on an aggregate basis to determine plan liabilities. Gains and losses become part of unfunded liabilities.

Sample Annual Rates per 100 Employees					
	Active Mortality		**Disability**		**Pay Increase Next Year**
Age	**Male**	**Female**	**Male**	**Female**	**(6+ Yrs. of Service**
20	0.02%	0.01%	0.01%	0.00%	6.0%
30	0.03%	0.01%	0.01%	0.00%	5.7%
40	0.06%	0.02%	0.03%	0.01%	4.9%
50	0.10%	0.05%	0.07%	0.03%	4.6%
60	0.34%	0.18%	0.14%	0.09%	4.4%
65	0.67%	0.35%	0.15%	0.11%	4.4%

	Separation			**Retirement**					
	Regular (8+ Yrs. of Service)		**SLEP (7+ Yrs. of Service)**	**Reduced Early**		**Normal Unreduced**		**SLEP Service**	
Age	**Male**	**Female**		**Male**	**Female**	**Male**	**Female**	**(< 32 Yrs)**	**(32+ Yrs.)**
30	4.1%	6.1%	3.2%	—%	—%	—%	—%	—%	
35	3.3%	4.9%	2.1%						
40	2.7%	3.9%	1.7%	—	—	—	—	—	
45	2.3%	3.2%	1.7%						
50	2.0%	2.7%	1.7%	—	—	—	—	23.0%	40.0%
55	—	—	—	7.25%	5.75%	33.0%	27.0%	23.0%	40.0%
60	—	—	—	—	—	12.0%	10.0%	8.0%	40.0%
65	—	—	—	—	—	25.0%	23.0%	23.0%	40.0%
70	—	—	—	—	—	20.0%	18.0%	100.0%	100.0%

7.10 Financing Pensions: General

There are three principal methods of financing pension costs:

- Full Funding
- Partial Funding, and
- Pay-As-You-Go

A plan is referred to as actuarially fully funded when the assets set aside at any given time, including future earnings from these assets, are deemed adequate to meet all future pension payments for service credit earned to that given time.

At the opposite extreme is the pay-as-you-go method in which no advance contributions are made, and pension payments are met when they become payable. Partial funding, as the term implies, falls in between full funding and pay-as-you-go.

In general, funding methods relate to the basis of determining the amounts and timing of contributions to a pension fund for the purpose of meeting pension benefit payments when they become due. IMRF finances pension costs under the full funding method.

7.20 Financing the Cost of IMRF Pensions

The basic pensions paid by IMRF are:

1. Member retirement pensions, and
2. Surviving spouse pensions

Although IMRF pensions are financed by member and employer contributions, the larger portion of the cost is borne by the employer. Member contributions are fixed by statute. Currently, the rates applied to earnings are 3.75% for Regular member retirement pensions, plus .75% for surviving spouse pensions, for a total of 4.50%.

The method of determining employer contributions is fixed by statute, and the rates are unique for each employer. Each employer finances the pension costs of its own employees as well as the cost for the $3,000 lump sum death benefit payable upon the death of an IMRF retiree. Employer contribution rates vary because of differences among employee groups, such as average age, average length of service, average salary, and accumulated employer contributions as well as turnover. Because of these differences, it is difficult to compare employer rates unless employee group differences and funding status are also compared.

The biggest factor impacting employer contribution rates and historically the largest contributor to the fund is investment results. For actuarial purposes IMRF currently pays interest based on the current assumed rate of return on its investments after expenses. The Illinois Pension Code mandates that IMRF credit interest on the opening balances of the employee and annuitant reserves. If investment earnings are insufficient to cover the interest credited to employee and annuitant reserves, employer reserves are charged with the shortfall.

On the other hand, if there are excess earnings, opening employer reserve balances may be credited with interest up to the assumed rate of return. Any investment earnings available after crediting the maximum amount to employer reserves are distributed to individual employer reserves as residual investment income.

7.20 A. Entry Age Normal Funding

The method used by IMRF to calculate employer retirement rates is called Entry Age Normal funding. This method is also used by IMRF employers to report pension liabilities in accordance with the Governmental Accounting Standards Board Statement Number 50 (GASB 50).

Under this method, the cost of each individual's pension is allocated on a level percent of payroll between the time employment starts (entry age) and the assumed retirement date. The goal is to spread the cost over the career of the member as a level percentage of payroll.

Through 2014, IMRF will continue to use the Annual Required Contribution (ARC) calculation embedded in GASB Statement No. 27 to determine employer contribution rates. This approach is consistent with actuarial best practices, supports IMRF's 100% funding goal, maintains intergenerational equity, and minimizes disruptions to employers.

Beginning in 2015, in accordance with GASB 68, this calculation will be disclosed as Actuarially Determined Contribution (ADC), which is determined by the actuary.

Because IMRF members also contribute, the required contributions from employers are reduced in anticipation of expected member contributions. Employer contributions are also reduced because of interest and other returns on IMRF investments.

1. Calculating the present value of benefits

Combining all the factors described above into an employer contribution rate is a two-step process. First, the actuary calculates the present value of benefits for each member using the demographic data and the actuarial assumptions at the date of the valuation.

The calculation is extremely complex but a simple example may help to demonstrate the process. Assume we have a female active member, who is 40 years old, has five years of service and a current salary of $30,000. All the steps required to calculate the present value of benefits for an active member will not be shown in the interest of brevity.

First, we calculate the pension she has earned to date. IMRF members earn 1.667% of their final rate of earnings for every year of service through the first 15 years and 2% for each year after that. Our sample member has earned a pension equal to 8.34% (1.667% times 5 years) of her final rate of earnings.

In real life, the actuary would also estimate her final rate of earnings assuming merit and inflation increases up to her expected retirement date. For our example, we will use her current salary.

Current salary	$30,000.00
Multiplied by pension credits earned	.0834
Estimated annual pension earned to date	**$ 2,502.00**

2. Calculating the present value of benefits at retirement

The next step is to calculate the present value of benefits at retirement. Her annuity pension will be paid for her lifetime and increased by 3% of the original amount each year. Upon her death, the survivor's benefit will be paid to her spouse for his lifetime. However, because the annuity will be paid monthly over many years, we do not need all the money available at retirement. We calculate the present value of the life annuities for our member and her spouse.

This calculation includes three estimates: the member's life expectancy, the spouse's life expectancy, and the estimated long-term investment earnings rate.

Annual pension earned to date	$ 2,502.00
Multiplied by the present value factor for a joint and survivor life annuity with a 3% annual increase payable monthly at a 7.25% discount rate using the 1994 Group Annuity Mortality Table.	14.8125
Estimated present value of benefits at retirement	**$37,060.88**

However, our member is not ready to retire yet. Assume she will retire at age 60. IMRF has 20 more years to invest the money at 7.25% before she is ready to retire. We need to calculate the present value of her retirement benefits as of today.

Estimated present value of benefits at retirement.	$37,060.88
Multiplied by the present value factor for 20 years assuming an investment return of 7.25%	.2354
Estimated present value of benefits at age 40	**$ 8,724.13**

The estimated present value of benefits at age 40 is the amount of money that must be set aside now and invested at a 7.25% compound rate in order to pay this member's pension. However, there is no guarantee that she will stay another three years until she is vested. To be more accurate, the present value must be adjusted for the likelihood that she will stay for three more years and vest. The actuary multiplies the estimated present value by the probability of vesting. This probability is .920, that is, out of a group of 1,000 females 40 years of age with five years of service, 920 will stay another three years.

Estimated present value of benefits at age 40	$8,724.13
Estimated probability of vesting	.920
Adjusted present value of benefits	**$8,026.20**

In this simplified example, the present value was adjusted only for the probability of termination. In real rate calculations, it also is adjusted for the probabilities of death, disability, marital status, and future salary increases. As you might expect, the present value of benefits is complex.

7.20 B. Amortization Periods

Generally, each IMRF employer has an unfunded liability due to prior service of employees when the employer joined IMRF and due to benefit increases. The unfunded liability is the estimated cost of retirement benefits earned to date that have not been funded. That is to say, the employer does not have enough assets with IMRF to pay those benefits. A portion of the unfunded liability must be paid each year; that portion is determined by the employer's structure.

For most employers, the unfunded liability is amortized over a 23-year closed period beginning in 2020, reducing to 15 years, and then rolling at 15 years.

For participating instrumentalities (non-taxing bodies), a shorter amortization is imposed due to IMRF not having recourse against the entity for pension obligations should the instrumentality dissolve. Their unfunded liability is amortized over a 10-year open period.

7.20 C. Unfunded Liability

The unfunded liability is calculated for each employer as follows:

Present value of benefits for all employees

Less:

Member assets
Future member contributions
Employer assets
Future employer normal cost contributions

The actuary calculates the present value of the expected retirement benefit for each IMRF member. The sum of the expected benefits for all of an employer's members is the present value of benefits for that employer.

The present value assumes that some employees will retire, some employees will take refunds, and some employees will die.

Members' contributions and interest, both past and estimated future, are subtracted from the present value of benefits for all employees. The employer retirement contributions are needed only for those employees who retire. Usually, the employer has already made some contributions and the employer's asset account has earned investment income, so those amounts are subtracted from the present value for all employers. The employer's future normal cost contributions will pay the cost of future service, so that amount is subtracted as well. The remainder is the employer's unfunded liability.

Some employers ask why they have an unfunded liability. If the actuary has made all these complex calculations, which are supposed to accurately predict the future, why is the unfunded liability so large? The reasons are many and differ from employer to employer. Some of the most common are explained below.

1. Prior Service

Prior service is a common reason for employers who have joined IMRF in the last 40 years. Prior service is service credit granted to employees for employment prior to the date the employer joined IMRF. For example: assume an employer joined IMRF in 2000. When it joined, it had employees already working. These employees were given pension credits (at no additional cost to them) for the period of employment prior to 2000. The employer did not make any additional contributions at that time for this service. The cost was added to the unfunded liability.

2. Benefit Improvements

Benefit improvements granted after a member joins IMRF increase the unfunded liability. Under Entry Age Normal funding, the actuary calculates the expected cost of a member's benefit and spreads it evenly over the expected career of the member. If benefits change during the member's career, the actuary's original calculation will be inaccurate. The actuary can adjust the normal cost for future years to reflect the new benefits. The additional cost for years for which service was already granted is added to the unfunded liability.

3. Past Service Adjustments

Past service adjustments also increase the unfunded liability for an employer. The Pension Code defines circumstances under which a member may establish retroactive, omitted, or other past service credit. When the service is established, the employer is not asked to make any contributions. The employer's cost for this service is added to the unfunded liability.

4. Changes in Actuarial Assumptions

Changes in actuarial assumptions can cause the unfunded liability to increase or decrease depending on how the assumptions change. Every three years the actuary compares the estimates used to project future costs to actual experience. The assumptions are changed to match the experience. These changes can result in additional costs that have not yet been funded, thus adding to the unfunded liability.

5. Employer Demographics

An employer's demographics compared to the demographics of IMRF as a whole can have a significant effect on the employer's unfunded liability. Actuaries calculate the normal cost on IMRF as a whole. To the extent that an employer's employees differ from the average IMRF member, that employer's unfunded liability will vary to make up the difference. The actuary assumes payroll increases will be 4% a year plus merit increases. To the extent that individual employers grant payroll increases more or less than the actuarial assumption, the unfunded liability will be impacted.

6. Investment Earnings

Investment earnings less than or greater than the current assumed rate of return will have an effect on the unfunded liability. If returns are greater than the current assumed rate of return, the unfunded liability will decrease. If returns are less than the current assumed rate of return, the unfunded liability will increase

7.20 D. Amortization of Overfunded Liability

Amortization for employers who are 120% or more overfunded on a market basis is handled differently. Overfunding occurs when the total assets exceed the actuarial obligation. The funding ratio of an employer can be found on the GASB Statement Number 50 disclosure furnished annually by IMRF.

The primary goal of IMRF is to produce stable employer rates. However an employer who is 120% or more overfunded on a market basis will be given the option of selecting a minimum contribution amount as long as the employer remains over 120% funded on a market basis. Selecting the minimum contribution option will increase rate volatility. Some overfunded employers with limited ability to increase tax levies may want to continue with the normal amortization period since it provides more stable rates. Once overfunded amounts are used up, employer rates will increase to the (at a minimum) normal cost rate, death, disability, and supplemental rate plus amortization of any unfunded amounts.

Employers who are over 120% funded on a market basis may use the overfunding to reduce or satisfy its early retirement incentive liability.

7.20 E. Accelerated Payments

Employers are required to immediately pay that portion of the present value of a pension attributable to earnings increases exceeding the greater of 6% or 1.5 times the increase in the CPI-Urban as of the previous September. This applies to earnings increases paid on or after Jan. 1, 2012, to members retiring on or after Feb. 1, 2012.

NOTE: This new law differs from the immediate payment required by school districts for earnings increases paid to TRS members.

When a member applies for a pension, IMRF calculates the member’s final rate of earnings. For pensions with an effective date of February 1, 2012, and later, IMRF will compare each 12 months’ earnings within the final rate of earnings period with the earnings for the previous 12 months.

Each group of 12 months in the 48-month FRE period (or 96-month FRE period for Tier 2 members) will be compared to the immediately preceding 12 months to determine if there is an increase of 6% or more.

Although Accelerated Payments (AP) apply to members retiring on or after February 1, 2012, only earnings increases paid after January 1, 2012 are subject to the limit.

IMRF will calculate the present value of the member’s pension with and without the earnings increases that exceed the limit. The member’s employer will be required to pay that portion of the present value attributable to earnings increases that exceed the limit (Accelerated Payment).

After receiving the Accelerated Payment invoice from IMRF, employers may dispute the increase by providing documentation of any exemption within 30 days or pay the amount due without interest within 90 days. After 90 days, employers will be charged interest based on the current assumed rate of return. The full amount must be paid within three years. When paying with First Data, employers must use the code 025 for Accelerated Payments.

Earnings increases exempted from this limit are those resulting from the following:

- Overload or overtime, including cash-outs of accumulated time credited in lieu of overtime (commonly called "comp time")
- An increase in the number of hours required to be worked
- Standard employment promotions resulting in increased responsibility and workload
- Certain lump sum payments for unused vacation payouts

Also exempted from the earnings increase limit:

- Earnings increases for members who are more than 10 years from retirement eligibility.

- Earnings increases paid under contracts or collective bargaining agreements entered into, amended or renewed before January 1, 2012
- Earnings increases attributable to personnel policies adopted by the governing body before January 1, 2012, and applicable only to members who were participating in IMRF before January 1, 2012.

  Personnel policies eligible for this exemption must:

  1. Be in writing, and
  2. Specifically exempt earnings increases that would trigger an Accelerated Payment for employees hired on or after a specific date (but no later than 1/1/2012), and
  3. Be formally adopted by the employer's governing body on or before 1/1/2012.

The only exemptions are for payments pursuant to formal, written personnel policies in effect before January 1, 2012, and which specifically exempt new hires from eligibility for the AP-triggering payments, or payments pursuant to an exempt collective bargaining agreement (CBA). If cash outs of sick and vacation time are not paid pursuant to exempt personnel policies, or an exempt contract or CBA, and the cash out causes an increase of 6% or more in one of the FRE 12-month periods, the AP will be required.

Employers can claim an exemption from an Accelerated Payment by returning the Exemption Form which will be included with the Accelerated Payment statement. See Exhibit 7B, Form 7.20, Request for an Accelerated Payment Exemption. Acceptable evidence of the exemption will include (this list is not exhaustive):

- Copies of collective bargaining agreements
- Copies of personal services contracts
- Copies of Board minutes adopting personnel policies
- Copies of check stubs or other statements related to employee wages (documenting compensation for overtime or increased hours of work)
- Copies of Board minutes or other official announcements of promotions

If a portion of the increase is attributable to an exemption and IMRF approves the partial exemption, the pension cost due to the increase will be recalculated to consider only the non-exempt compensation. The employer will receive a revised Accelerated Payment Statement.

If the member has more than one employer during the final rate of earnings period, the employer that paid the triggering increase (an increase over compensation previously paid by the same employer) will be responsible for the pension cost of that increase. If both employers paid increases, the cost of those increases will be split in the same proportion as the increased wages that each employer contributed to the additional pension cost.

7.20 F. Pension Impact Statement

Employers are required to request a Pension Impact Statement from IMRF before increasing the earnings of certain members by 12% or more, effective January 1, 2012.

Before an IMRF employer can increase the earnings of an officer, executive, or manager by 12% or more, the employer must request from IMRF a written Pension Impact Statement. See Exhibit 7C – Request for Pension Impact Statement (Form 3.22). The statement will provide:

- The effect the earnings increase could have on the member's pension.
- The estimated Accelerated Payment, defined as the amount the employer would be required to pay immediately: that portion of the present value of the pension attributable to salary increases exceeding 6% or 1.5 times the increase in the Consumer Price Index-Urban as of the previous September if the member retired.

When completed, employers will be required to sign and return the Pension Impact Statement to IMRF.

NOTE: This new provision does not apply to earnings increases for members who are more than 10 years from retirement eligibility.

The following earnings increases are exempted from this requirement. Earnings increases:

- Resulting from standard employment promotions resulting in increased responsibility and workload
- Resulting from an increase in the number of hours required to be worked
- Paid under contracts or collective bargaining agreements entered into, amended or renewed before January 1, 2012

7.20 G. Member retiring with multiple employers

If a retiring member participated with two or more employers (not concurrently), the pension cost will be pro-rated among the member's employers based upon the service credit earned with each employer and the member's final rate of earnings with each employer.

As a result, the pension cost to the employer is proportionate to the service and wages the member earned from that employer.

7.21 Financing the Cost of IMRF Benefits

7.21 A. Death Benefit Reserve Account

Death benefits payable to the beneficiaries of deceased IMRF participating (active) members consist of a refund of member contributions including interest, plus a supplemental amount equal to one year's earnings. The cost of the supplemental portion is borne entirely by the employer. The average death benefit contribution rate for 2020 is 0.12% of participating payroll.

Employer contributions for death purposes are placed in a Death Benefit Reserve for all IMRF employers. However, the assessment to individual employers is on an individual basis, much like a group life insurance premium. The rates are calculated separately for each employer based on the average age of their employees.

7.21 B. Disability Benefit Reserve Account

Disability benefit costs include monthly benefit payments, pension (service) credits, and death benefit protection as if the disabled member were working. These costs are borne entirely by the employer. The disability benefit contribution rate for 2020 is 0.09% of participating payroll.

Employer contributions for disability purposes are placed in a Disability Benefit reserve for all IMRF employers, and the assessment to individual employers is also on a pooled basis. Unlike death benefit contributions, however, all employers pay the same rate.

7.21 C. Supplemental Benefit

The supplemental benefit contributions are used to fund the additional "13th payment" paid in July of every year. Retirees and surviving spouses who have been receiving benefits for at least one year receive a supplemental benefit payment in July each year. The supplemental retirement rate is set by statute and is 0.62% of participating payroll.

7.21 D. Normal Retirement Contributions

Both normal retirement contributions and the amortization of the <overfunded> unfunded liability pay the employer's portion of retirement benefits. However, they are calculated separately.

The normal retirement contribution, also referred to as the normal cost, is the percent of payroll necessary to fund this year's portion of the expected total cost of future benefits for the average IMRF member. While most IMRF employers have the same normal cost for their Tier 1 and Tier 2 members, the blended rate is based on the employer's mix of Tier 1 and Tier 2 members. Therefore the blended normal cost rate differs among employers. For 2020 the average normal cost is 5.98% for regular employers, 11.94% for SLEP employers, and 13.79% for ECO employers.

Employers with more than 400 active members were offered an individual rating option for their normal cost. This option allowed a select group of employers to have an individual calculation of their normal cost based on their own demographics which may reduce their normal cost rate. (Eligible employers who opted to have individual rating of normal cost paid the incremental actuarial fees required for the calculation.)

Except for several large employers who have opted to have their normal cost calculated on an individual basis, the normal cost is calculated for IMRF as a whole.

7.21 E. <Over> Under Funding Adjustment

The employer's portion of retirement benefits consists of the normal retirement contributions and the amortization of the <overfunded> unfunded liability.

The <overfunded> underfunded liability contribution is the percent of payroll necessary to fund the difference between the actuarial liabilities and the actuarial value of member and employer assets over an established amortization period. (Please refer to paragraphs 7.20 B. Amortization Periods and 7.20 D. Amortization of Overfunded Liability.) If an employer is overfunded, this component will be a credit to the retirement rate.

7.22 How Costs are Reflected to Employers

The following basic example shows how the rate is calculated for an employer for the 20120 Regular plan. Assume the actual payroll is $ 93,996.

Present value of benefits	$343,975
Less: Member assets	60,346
Future member contribution	46,369
Employer assets	36,090
Future normal contributions	71,511
Unfunded obligation liability	129,659
Multiplied by the 23-year amortization factor	.0933
Required annual contribution	12,097.18
Divide by estimated annual payroll	93,996
Unfunded amortization	**12.87%**

2020 Total Rate Regular Plan		Payment
Normal cost	5.98%	$5,620.96
Unfunded amortization	12.87%	12,093.42
Death benefit rate	0.12%	112.80
Disability rate	0.09%	84.60
Supplemental rate	0.62%	582.78
Total Rate	19.68%	$ 18,498.41

As illustrated above, the unfunded amortization rate depends not only on the size of the unfunded liability but also on the size of the payroll. An employer's unfunded amortization rate may increase not because the unfunded liability increased, but because the payroll decreased sharply. This situation often arises for small employers when a long-

term employee leaves and is replaced by someone with a much lower salary. Unless the long-term employee takes a refund, the present value of benefits does not decrease. However, because the estimated payroll has decreased markedly, the unfunded rate goes up. The reverse can happen if an employer increases its payroll dramatically.

Contributions are not earmarked for specific members. Employer contributions are accumulated for those members who may qualify for IMRF pensions in the future. Employers with no employees and negative employer assets may be assigned a minimum monthly contribution.

7.23 Financing the Cost of IMRF Early Retirement Incentive (ERI)

Once an employer adopts the IMRF Early Retirement Incentive (ERI) and a member retires under it, a separate ERI reserve account is established. The employer does not receive a bill for the employer's ERI costs. The ERI obligation is factored into the employer's contribution rate.

Annually, the employer's ERI Reserve Account and amortization period will be sent to IMRF's actuary. The actuary will calculate the employer's ERI rate based upon that information. Employer rates are on a two-year lag: 2018 information (members who retired under ERI) sent to the actuary in 2019 is used to calculate 2020 rates.

7.23 A. Amortization Period

An amortization period of 10 years is assumed. If an employer would like an amortization period less than 10 years, it must submit a resolution specifying a shorter amortization period. (See Section 6, Exhibit 6LL, IMRF Form 6.78, "Suggested form of Resolution to Adopt Amortization Period for IMRF Early Retirement Incentive.")

Please note: due to the method IMRF uses to calculate employer contribution rates, only whole year (one through 10) amortization periods are allowed. The amortization period the employer chooses is decreased each year to calculate the employer's ERI rate.

Employers may also choose to pay off the incremental ERI liability by making a lump sum payment. The lump sum payment should be submitted to IMRF using First Data Government Solutions Electronic Funds Transfer Pay-by-Phone or Pay Online system.

7.23 B. Impact on Employer ERI Rate If Member Has Concurrent IMRF Employers

If a member participates with more than one IMRF employer, the employer cost for the ERI is determined as:

1. If one employer adopts ERI and the other does not, the adopting employer ERI bears the entire cost of the ERI.
2. If both employers adopt ERI, both employers will share the cost proportionately based on years of service credit and salary.

7.23 C. Impact on Employer ERI Rate If Member Has Multiple IMRF Employers

If a member participated with more than one IMRF employer during his or her IMRF career, the member's current employer would need to adopt the ERI in order for the member to retire under it.

1. The current employer would bear the entire employer cost for the ERI because the current employer will benefit from reduced payroll/fringe benefit costs.
2. The member's previous employer(s) would not be affected; they would not share the ERI cost nor would their IMRF rate be affected. This is true even if the previous employer adopts ERI. A member can retire under ERI only if his or her current employer adopts it.

7.23 D. Subsequent ERI Offerings

An employer cannot adopt later ERI programs until the cost of the previous ERI is paid in full. If an employer wishes to implement a second ERI program before the cost of the first program has been amortized, the employer should contact IMRF for payoff information. (See Paragraph 7.23, A. Amortization Period).

Effective with ERI windows opened on or after December 31, 2013, another window may not be adopted for five years after the close of the previous window.

7.24 Reserve Statement

The “Employer Retirement Reserve Statement of Account” (Exhibit 7A) reflects the accumulation of assets from the beginning of a unit of government’s participation to December 31 of the Reserve Statement year. These assets include beginning balance, ending balance, employer retirement contributions, interest credited or changed, adjustments, residual investment income credited or loss charged, and the employer’s share of the cost for a member’s or survivor’s pension. The Statement reflects calendar year transactions; it does not reflect a cumulative listing of all employees who retired from the unit of government. The Statement is provided to Authorized Agents during March or April of each year and may include the following:

- Employer Retirement Reserve Statement for your unit of government’s Regular Reserve Account
- If your unit of government participates in the Sheriff’s Law Enforcement Personnel (SLEP) Plan or in the Elected County Official (ECO) Plan, you will find a SLEP Retirement Reserve Statement and/or an ECO Retirement Reserve Statement. You may also find a SLEP Enhancement Reserve Statement.
- If your unit of government offered the IMRF Early Retirement Incentive (ERI), you will find the Regular ERI Retirement Reserve (and, if appropriate, SLEP ERI Retirement Reserve and/or ECO ERI Retirement Reserve) Statement.

The retirement reserve is used to fund retirement benefits for a unit of government’s active IMRF members when they retire. It is also one component of an employer’s actuarial assets which, along with the accrued actuarial liability, helps to determine the employer’s over- or underfunding balance.

For more details, see General Memo 648 Employer Retirement Reserve Statements at https://www.imrf.org/publications-and-archive/general-memos/2014-general-memos/general-memo-648.

7.25 Tax Levy for Employer Contributions

Section 40 ILCS 5/7-171 of the Illinois Pension Code specifically provides that the revenue from the tax levy can be used only for employer IMRF contributions, and may not be transferred for any other use. The proceeds of the IMRF and Social Security levies must be accounted for separately and may not be commingled.

Section 7-173.2 of the Illinois Pension Code (40 ILCS 5/7-173.2) provides that under the Section 414(h) tax deferral plan (“employer pickup”) member contributions must continue to be paid out of the same source of funds used for payment of member earnings and may not be paid from the IMRF tax levy.

7.35 Summary of Employer Contributions

1. Employer contribution rates are determined by IMRF’s consulting actuary on an annual basis and for each employer separately. IMRF will continue to use the Annual Required Contribution (ARC) calculation embedded in GASB Statement No. 27 to determine employer contribution rates through 2014. Note: Beginning in 2015, in accordance with GASB 68, this calculation will be disclosed as Actuarially Determined Contribution (ADC), which is determined by the actuary. The ARC is not necessarily the same as ADC, as required by GASB 27.

2. Each employer pays for the pension costs of its own members only. Employer rates differ because the composition and actuarial experience of member groups vary.
3. The essential difference between municipality and instrumentality rates is the amortization period for the unfunded past service liabilities. The amortization period in 2020 for taxing bodies is for a 23-year closed period reducing to 15 years and then becoming a 15-year open period, and for non-taxing bodies the amortization period is a 10-year open period.
4. Because the annual costs of participation are expressed as a percentage of payroll, assuming similar annual total dollar costs, an employer with a small payroll base will have a higher rate than an employer with a larger payroll base.
5. Employer contributions for supplemental retirement, death, and disability benefits are placed in separate reserves for all IMRF employers.
6. Employer contributions for IMRF pensions are placed in the individual employer's reserve account. This reserve is not earmarked for any specific member. It is used to pay the employer share of pension costs only when a pension is granted to one of its own members.
7. Once retired, members lose their employer identity and participate as part of the whole fund. Any actuarial experience variations, such as living longer or dying earlier, do not affect employer costs on an individual basis. However, employers continue to bear investment risk related to their retired members.