

2017 RATE MEETING Webinar

Presented by:



*Louis W. Kosiba
Executive Director*



*Mark Nannini
Chief Financial Officer*



Agenda

- **General Rate-Making Principles**
- **Annual Documentation**
- **2016 Investment Income**
- **Points to Remember**
- **Appendix**

Please ask questions any time during the presentation.

General Rate-Making Principles

Each Employer:

- Makes contributions intended to pre-fund retirement benefits for its employees *only*
- Has a separate reserve account
- Has contributions invested in a pool
- Has liabilities calculated based on actuarial assumptions set by IMRF and unique events within your workforce

General Rate-Making Principles

IMRF provides demographic and financial data to actuaries

Actuaries apply assumptions to demographics and financial data

Actuaries produce 12/31/16 Actuarial Valuation

Employer Contribution Rates are set for 2018

General Rate-Making Principles

**IMRF assets are held in three
“reserve accounts:”**

Members
\$6.7 Billion
100% Funded

Retirees
\$21.1 Billion
100% Funded

Employers
\$8.6 Billion
(Balancing Account)

As of December 31, 2016



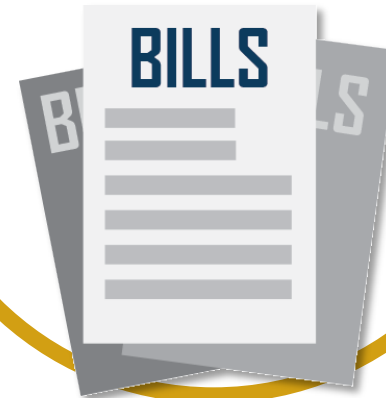
General Rate-Making Principles

Employer Funded Status

EMPLOYER'S
RESERVE
ACCOUNT BALANCE



PROJECTED
LIABILITIES FOR
ACTIVE MEMBERS

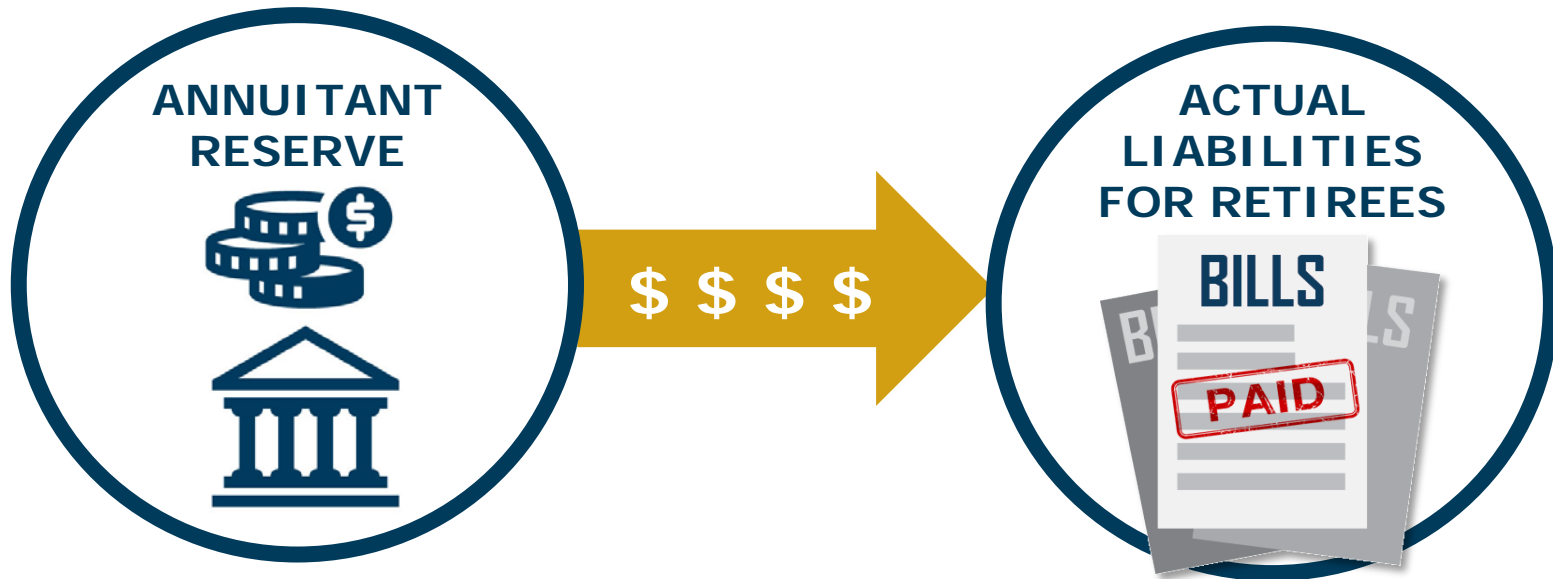


DIFFERENCE =

EMPLOYER FUNDED STATUS

General Rate-Making Principles

The Annuitant Reserve is fully funded



- Liabilities for retirees are 100% funded
- This is not reflected in the GASB 50 Statement
- This is reflected in your employer's funded status for GASB 68

GASB = Governmental Accounting Standards Board

General Rate-Making Principles

Economic Assumptions

1. Price inflation: **2.75%**
2. Wage inflation: **3.5%**
3. Investment return: **7.5%**

Triennial Assessment due later in 2017.

General Rate-Making Principles

What happens if the 7.5% investment return assumption dropped to 7.0%?

CURRENT 7.5%

NEW 7.0%

EMPLOYEE CONTRIBUTION:

4.5% of \$7 billion

\$315 million

\$315 million

INVESTMENT INCOME:

7.5% of \$36 billion

\$2.7 billion

\$2.52 billion

EMPLOYER CONTRIBUTION:

11.24% of \$7 billion

\$786 million

\$966 million

A 22.9% INCREASE

General Rate-Making Principles

Non-economic Assumptions

1. Mortality rates before and after retirement
2. Disability rates
3. Rates of retirement
4. Probabilities of an active member being married
5. Rates of separation from employment (Refunds)

Will be reviewed with the Triennial Assessment in 2017.

General Rate-Making Principles

Causes for rate changes

UNIVERSAL

- Investment returns more or less than 7.5% net
- Legislative changes, such as Tier 2
- Periodic adjustments to actuarial assumptions

UNIQUE

- Wages paid to employees being more or less than assumed
- Rates of disability, retirement, or separation differing from assumptions

General Rate-Making Principles

If 7.5% is not reached ...

Year 2015

IMRF earned 0.20% return

IMPACT: Employer Rates Increase

(\$2.6 billion)
in aggregate

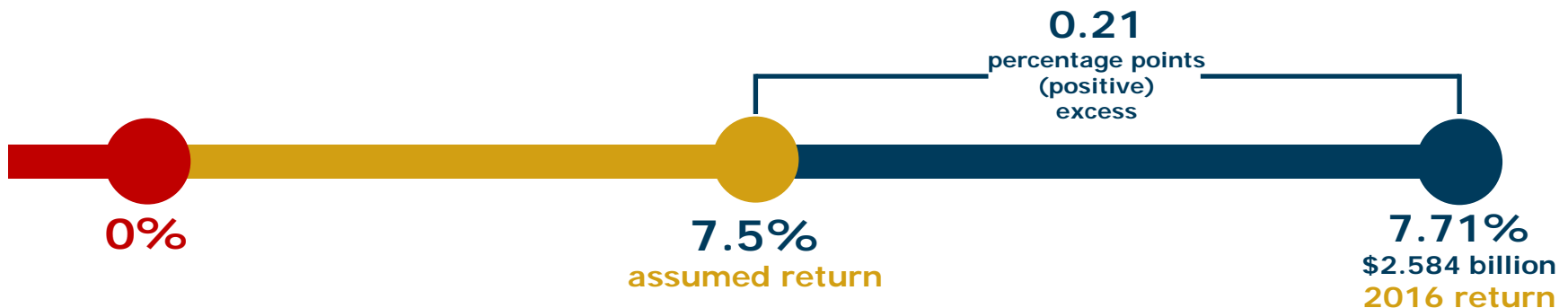
7.30
percentage point gap

0% 0.20%
2015 return

7.5%
assumed return

General Rate-Making Principles

If 7.5% is exceeded ...



General Rate-Making Principles

Investment returns and employer rates

- **Returns are “smoothed” over a five-year period for rate-setting purposes (Actuarial)**
 - Only 1/5th of investment gain or loss recognized annually (*over the assumed return*)
- **Two-year lag between returns and rate impact**
 - i.e.: Year 2016 returns will impact 2018-2022 rates

General Rate-Making Principles

Calendar Year	Percentage Return (gross)	Dollar Return	1/5 Recognition
2016	8.0%	\$2,735,819,894	\$547,163,978
2015	0.44%	\$200,727,209	\$40,145,442
2014	6.01%	\$2,001,420,871	\$400,284,174
2013	20.26%	\$5,583,120,005	\$1,116,624,001
2012	13.75%	\$3,393,689,073	\$678,737,815

Annual Documentation

Employer Reserve Statements:

- **IMRF provided Employer Reserve Statements in February 2017**
- **Statements show employer funds on deposit for current active and inactive members, and current year activity:**
 - Interest credited @ 7.5% less funding for employee and annuitant reserves
 - Employer retirement contributions
 - Adjustments (if any)
 - Reductions for 2016 retirees

Annual Documentation

2016 EMPLOYER RETIREMENT RESERVE STATEMENT REGULAR RESERVE ACCOUNT

NORMAL COST	6.810	DISABILITY	.140
FUNDING ADJ OVR/UND	5.140	DEATH	.160
		SUPPLEMENTAL PENSION	.620
RETIREMENT	11.950		

OPENING BALANCE, JANUARY 1, 2016		13,510,319.35
INTEREST ON OPENING BALANCE - RATE: 7.500%		1,013,273.95
EMPLOYER RETIREMENT CONTRIBUTIONS (11.950% X 17,017,954.97		2,033,645.49
RESIDUAL INVESTMENT LOSS CHARGE		321,925.18-
CHARGE/CREDIT MISC MBR ADJ		207.71-
CORRECTION OF ER CONTRIBUTIONS		3,724.94
CREDIT ER FOR RET RESERVE CONT		2,825,053.56
TOTAL MEMBER AND SURVIVOR ANNUITIES COST		4,108,161.74-
ENDING BALANCE, DECEMBER 31, 2016		14,955,722.66



Annual Documentation

- **Preliminary Rate Notices**
 - Issued April 2017
 - IMRF staff reviews rates to ensure accuracy
 - Employer inquiries are addressed
- **Final Rate Notices**
 - Available November 2017



Final Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2017

Date November 2016

Employer name ANYWHERE SD

Employer No. 00000

IMRF Contributions Regular

Member Contributions (tax-deferred)	4.50%
Employer Contributions	
• Retirement Rate	
Normal Cost	6.60%
Funding Adjustment <over> under	5.51%
Net Retirement Rate	12.11%
• Other Program Benefits	
Death.....	0.16%
Disability.....	0.12%
Supplemental Benefit Payment.....	0.62%
Early Retirement Incentive	0.00%
• TOTAL EMPLOYER RATE	13.01%



Annual Documentation

GASB 50 Disclosures (*Available Now*)

- Shows funded status of each employer's plan for last 3 years for active and inactive members *only*
- Reflects **actuarial** funded status using five-year smoothing of investment returns subject to 20% corridor
- Footnote on schedule discloses funded status on market basis



GASB 50 RSI Information for Employers

Anywhere County
 EMPLOYER NUMBER: 00000R
 REQUIRED SUPPLEMENTARY INFORMATION
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) /c)
		Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)			
12/31/16	\$27,426,050	\$40,584,280	\$13,158,230	67.58	\$17,017,955	77.32
12/31/15	\$25,815,545	\$42,185,293	\$16,369,748	61.20	\$17,536,916	93.34
12/31/14	\$29,947,108	\$44,175,603	\$14,228,495	67.79	\$16,350,449	87.02

On a market value basis, the actuarial value of assets as of December 31, 2016 is \$26,797,059. On a market basis, the funded ratio would be 66.03%.

The actuarial value of assets and accrued liability cover active and inactive members who have service credit with Anywhere County. They do not include amounts for retirees. The actuarial accrued liability for retirees is 100% funded.

Annual Documentation

- **GASB 68 Documents**
(Available April 2017 and May 2017)



- **SOC-1 Type 2 Report**
(Available for April 1, 2016-March 31, 2017)

2016 Investment Income

Unaudited Numbers

IMRF exceeded its annual investment return goal of 7.5%

Estimated (net) Investment Return

7.71%

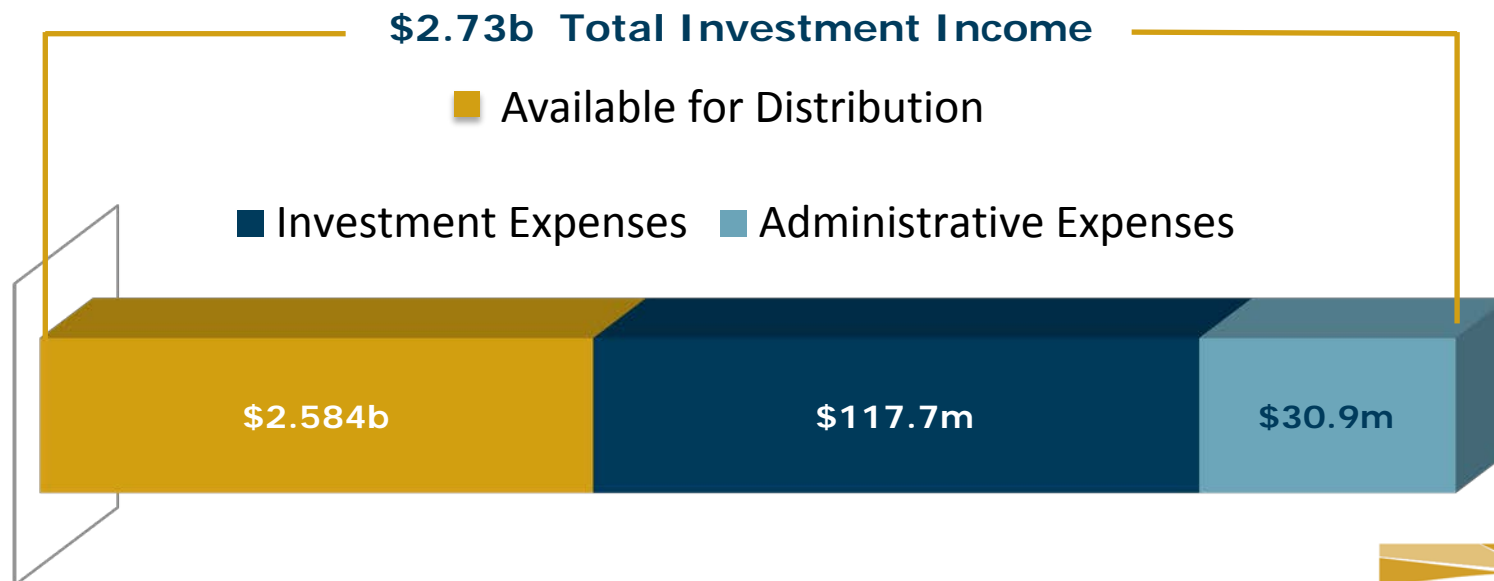
Estimated Investment Income (net)

\$2.584 Billion

2016 Investment Income

What did the return mean for 2016?

- **\$2.73 billion investment income** (*not including*):
 - \$117.7 million of investment expenses
 - \$30.9 million of administrative expenses



2016 Investment Income

What did a (net) 7.71% return mean for 2016?

- **Credited \$1.7 billion of interest to Annuitant Reserve**
 - Balance \$21.1 billion
- **Credited \$430 million to Member Reserve**
 - Balance \$6.7 billion

2016 Investment Income

What did a 7.71% (net) return mean for 2016?

- **Credited \$100 million to Employer Reserves:**
 - Balance **\$8.6 billion**
 - Included **(\$176.9 million)** of residual loss for 2016
 - **Percentage** for individual employers **varies** based upon relationship between its **employer reserve** and **annuitant reserve** compared to the **total of all** employers reserves

2016 Investment Income

2016

Members

\$6.7

Billion

(100% Funded)

Employers

\$8.6

Billion

(Balancing Account)

Retirees

\$21.1

Billion

(100% Funded)

2015

Members

\$6.5 Billion

100% Funded

Employers

\$8.5 Billion

(Balancing Account)

Retirees

\$19.4 Billion

100% Funded

2016 Investment Income

Impact on Funding Ratio

➤ In 2016:

	BEGINNING OF 2016		END OF 2016	
	Market Value	Actuarial Value	Market Value	Actuarial Value
Assets	\$34,513.09	\$34,913.13	\$36,481.50	\$36,773.40
Liabilities	\$39,486.57	\$39,486.57	\$40,852.74	\$41,358.71
Ratio	87.4%	88.4%	89.3%	88.9%

- **Funding Value and Market Value were impacted by:**
 - Investment returns above 7.5%
- **Liabilities grew due to:**
 - One more year of service credit
 - Additional reasons, including interest, etc.

2016 Investment Income

Magnitude of the Unfunded Liability

	2015	2016
Actuarial Liability	\$39.5b	\$41.4b
Actuarial Assets	<u>\$34.9b</u>	<u>\$36.8b</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ 4.6b	\$ 4.6b
Market Value of Assets	\$34.5b	\$36.4b
UAAL on Market Basis	\$5.0b	\$5.0b

Points to Remember



- ✓ IMRF is a defined benefit plan
- ✓ Benefits are based upon a formula that covers the final rate of earnings and years of service.
- ✓ IMRF's benefits are guaranteed by the Illinois Constitution and can only be changed prospectively by the Illinois legislature for new members.

Points to Remember

- There are only **three sources** of **funding**:



- While **member contributions** are fixed by statute, **investment income** varies based on market returns and **employer contributions** fund the balance.

Points to Remember



Points to Remember

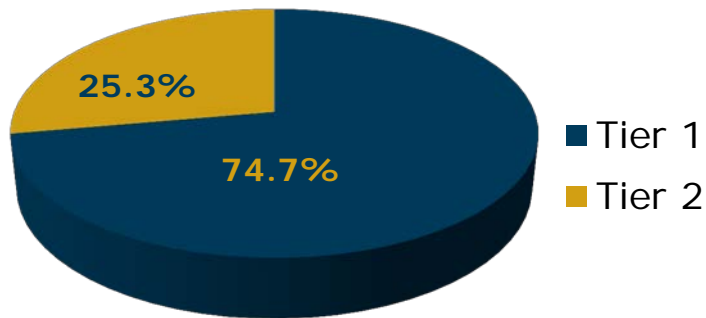
2018 Cost of the IMRF Program

	Regular	SLEP
Retirement	6.61%	11.63%
Disability & Death	.19%	.19%
13 th Payment	.62%	.62%
Unfunded Liabilities	3.82%	7.13%
SLEP Supplemental Liabilities	-	1.92%
TOTAL	11.24%	21.49%

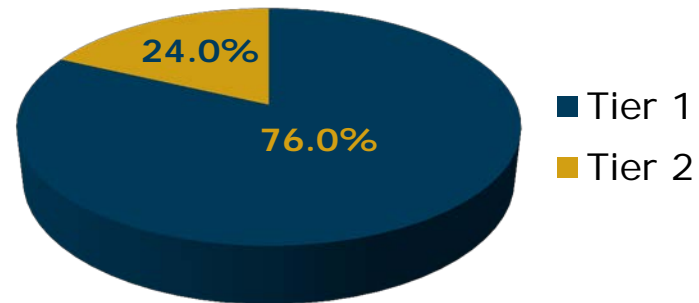
Points to Remember

Impact of Tier 2 on Blended Normal Cost on the Regular Plan

Tier 1 and Tier 2 Members



Projected 2018 Wages
(as % of total IMRF wages)



2018 normal cost for Tier 1	7.29%
2018 normal cost for Tier 2	4.41%
2018 average blended normal cost for Regular Plan	6.61%

Points to Remember

If an employer is less than 100% funded on an actuarial basis:

- 1. Taxing Bodies** – a 26-year closed period for 2017
(reducing to 15 years at which time it becomes a 15-year rolling period)
- 2. Instrumentalities** – a 10-year rolling period

ERI – up to 10 years at employer option

Points to Remember

Employer Audits Result From ...

Typical reasons for an audit:

- IMRF's goal: audit 20% of employers
- Whistleblowers
- Media issues

Typical findings from an audit:

- Enrollment issues
- Incorrect wage reporting

Points to Remember

Board Resolution 2017-02-13



Requires all governing bodies of units of government with elected positions participating in IMRF to pass new resolutions re-affirming that the positions meet the IMRF hourly standard (either 600 or 1,000 hours per year).

All governing bodies with elected officials participating in IMRF must adopt the initial recertification before **SEPTEMBER 1, 2017**, and file it with IMRF (see Form 6.64).

*Failure to recertify
will end IMRF eligibility
for any elected position not recertified.*



Points to Remember



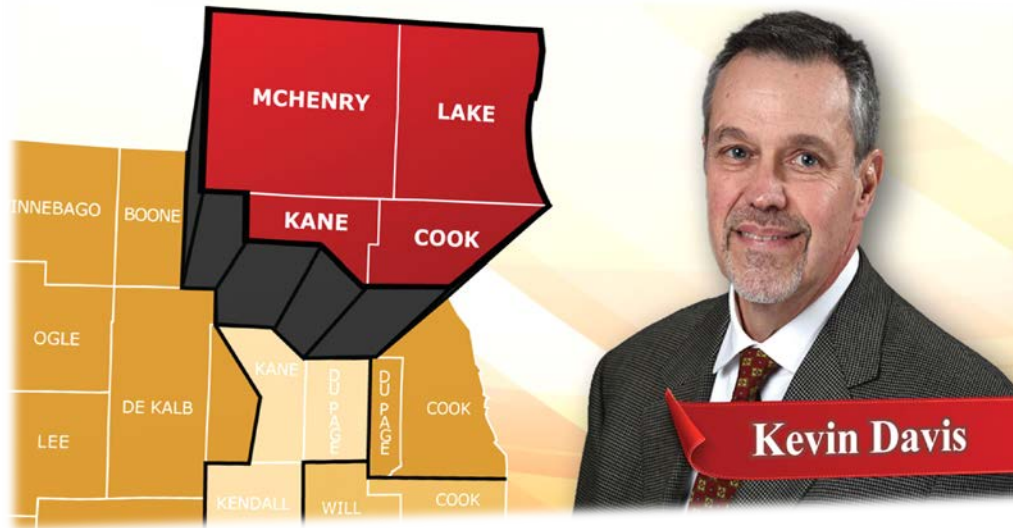
A clipboard with a silver clip at the top, holding a white sheet of paper. The paper contains the following text:

2017 Webinars

Second Quarter	Rate Meeting
Third Quarter	GASB 68
Fourth Quarter	Unfunded Liability & Additional Contributions

Visit www.imrf.org for further information.

Points to Remember



Kevin Davis
Northeast Territory
Field Representative

Northeast Territory includes:

- Lake County
- McHenry County
- Cook County north of Palatine/Willow Road
- Kane County north of Route 20

Contact Kevin:

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Illinois Municipal Retirement Fund

Contact us:

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➤ **Dan Duquette**

- Email: dduquette@imrf.org; Phone: 630-368-5367

➤ **Mark Nannini**

- Email: mnannini@imrf.org; Phone: 630-368-5345

Employer 800-number: 1-800-728-7971

IMRF website: www.imrf.org

- Comprehensive Annual Financial Report
- Annual Budget
- GASB 68 Resources (under the “Employers” tab)
- GASB 50 (in Employer Access)
- SOC-1 Type 2 Document (in Employer Access)



Appendix

- IMRF is an Agent Multiple-Employer Public Employee Retirement System
- Cost method of valuation:
Aggregate Entry Age Normal

Appendix

IMRF Mission, Vision, and Values

Mission - To efficiently and impartially develop, implement, and administer programs that provide income protection to members and their beneficiaries on behalf of participating employers in a prudent manner.

Vision - To provide the highest quality retirement services to our members, their beneficiaries and employers.

Values - (REAACH)

Respect

Empathy

Accountability

Accuracy

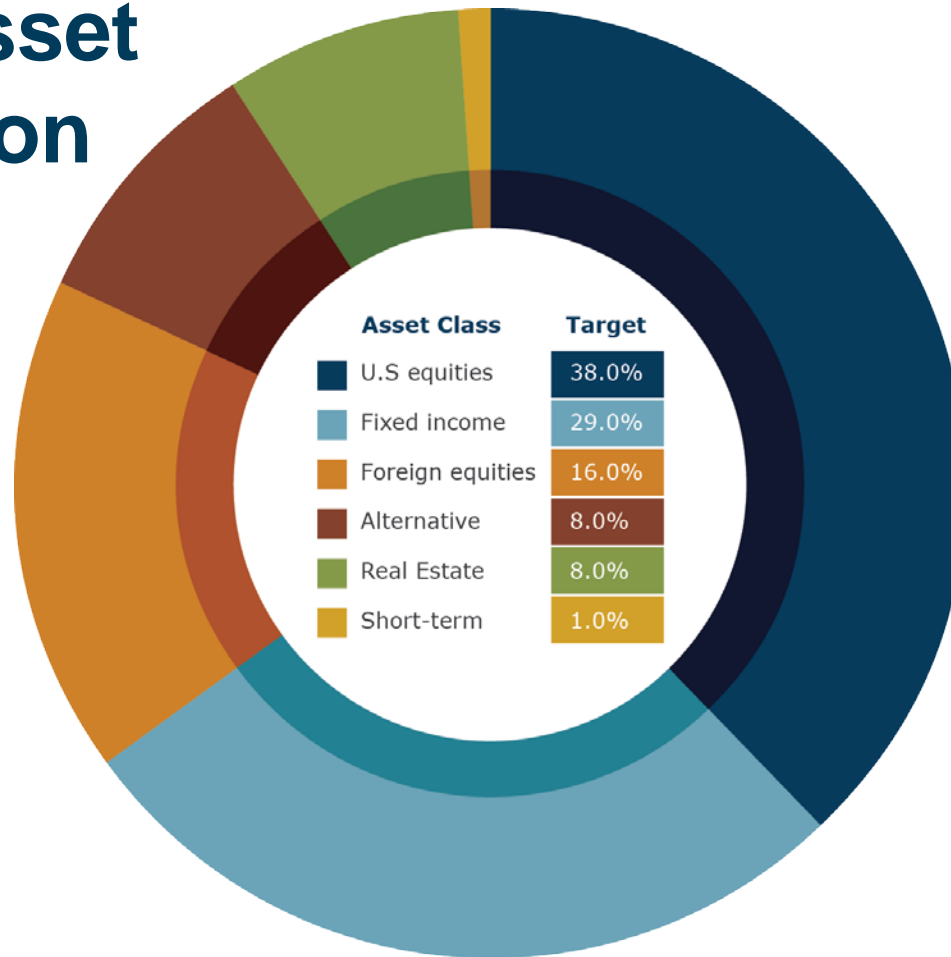
Courage

Honesty



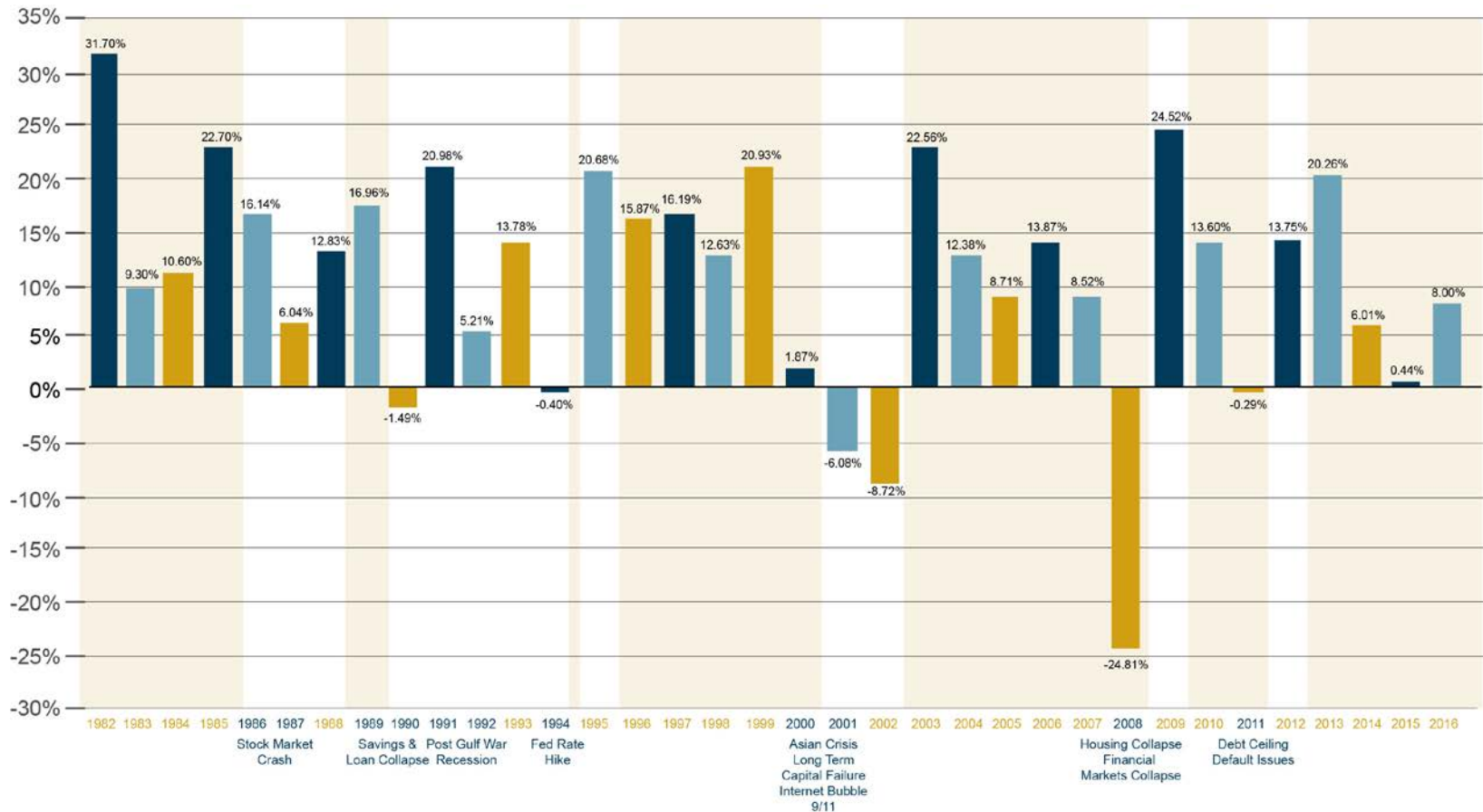
Appendix – Asset Allocation

Target Asset Allocation



Appendix – How is the money invested?

IMRF ANNUAL TOTAL FUND RETURNS (1982-2016)



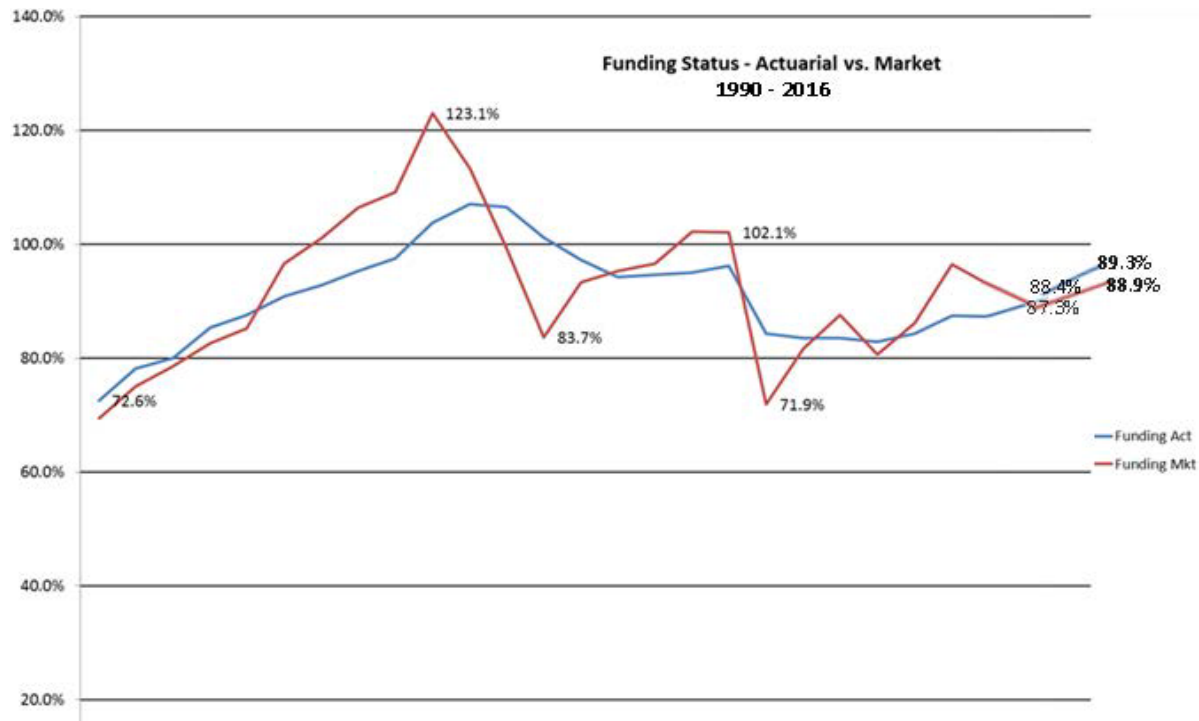
- In 1982, began operating under the “Prudent Person Rule”
- 7.5% assumed return
- **Annualized Total Fund return 1982-2016: 9.38%***
*Gross of fees

- 6 periods in which IMRF lost money
- 11 periods < 7.5%
- 24 periods > 7.5%
- 20 periods double-digit returns



Appendix

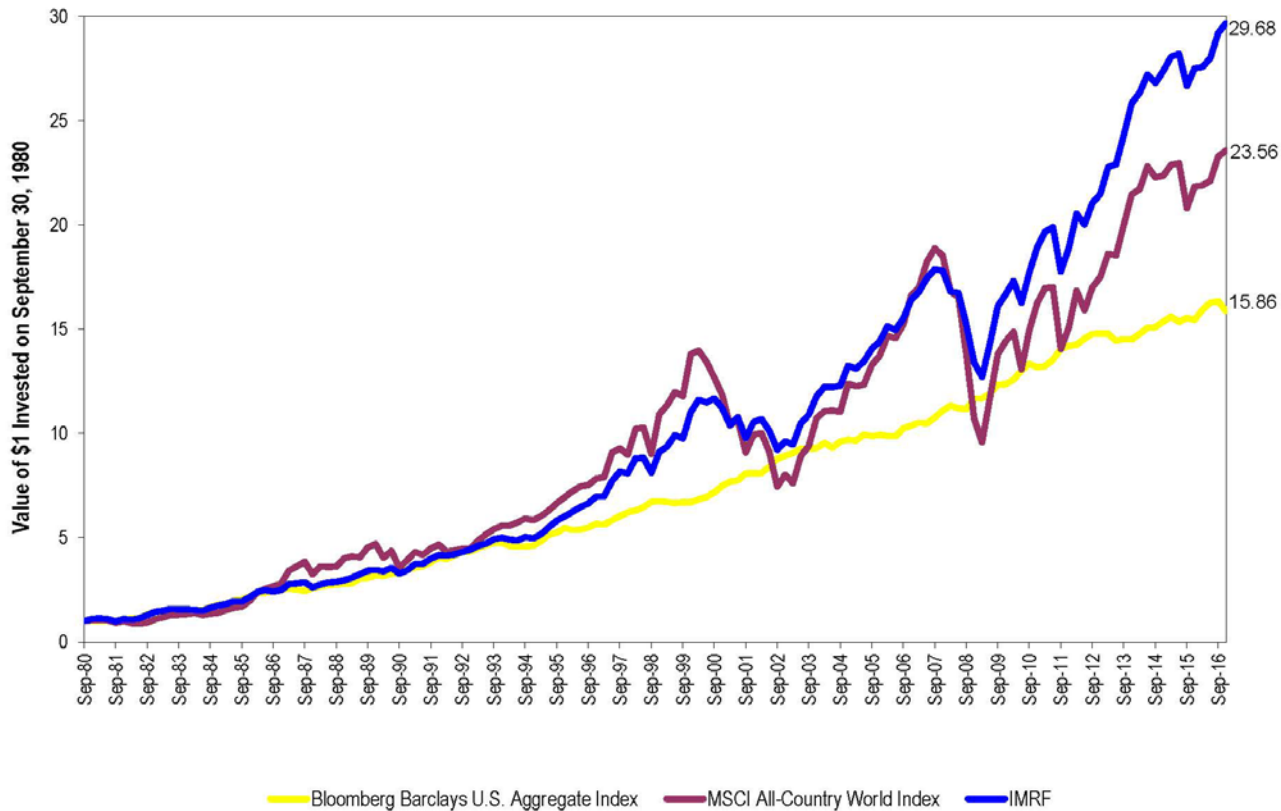
Funding Status Actuarial vs. Market 1990-2016



Appendix

The value of a diversified portfolio

Growth of a Dollar - As of December 31, 2016



Thank you for attending!

2017 Rate Meeting Presentation

