1998 Comprehensive Annual Financial Report

For the year ended December 31, 1998

Illinois Municipal Retirement Fund

Our achievements of today
are but the sum total of our thoughts of yesterday,
you are today where the thoughts of yesterday
have brought you, and you will be tomorrow
where the thoughts of today take you.

–Blaise Pascal
French thinker, mathematician, and scientist
1623 - 1662

Illinois Municipal Retirement Fund
Comprehensive Annual Financial Report
For the year ended December 31, 1998

Prepared by the Finance Department of the
Illinois Municipal Retirement Fund
2211 York Road
Suite 500
Oak Brook, IL 60523-2374

IMRF Mission Statement

"To efficiently and impartially

develop, implement, and administer

in a prudent manner

programs that provide income protection

to members and their beneficiaries

on behalf of participating employers."

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Prepared by:
The Finance Department of the
Illinois Municipal Retirement Fund
2211 York Road
Suite 500
Oak Brook, IL 60523-2374

Robert Cusma
Executive Director

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Board of Trustees

Marvin R. Shoop, Jr.
Employee Trustee
Peoria

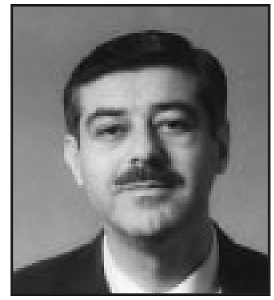
1999 President
1998 Vice President

Term expires:
December 31, 2000

Heidi Baxter
Employee Trustee
Kane County

1999 Vice President

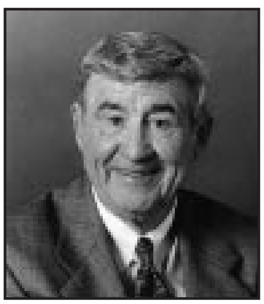
Term expires:
December 31, 2000



R. Steven Sonnemaker
Executive Trustee
Peoria County

1999 Secretary
1998 Secretary

Term expires:
December 31, 2002

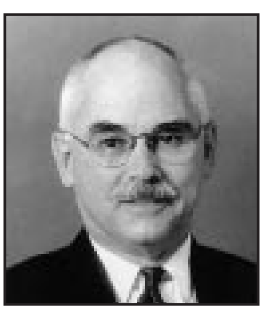


Jack A. Claes
Annuitant Trustee
Elk Grove Village

Term expires:
December 31, 2000

Rita J. Miotti
Employee Trustee
Matteson

Term expires:
December 31, 1999



John Lotus Novak
Executive Trustee
DuPage County

Term expires:
December 31, 2003

Gerald J. Sebesta, Jr.
Executive Trustee
Oak Park

Term expires:
December 31, 2000

Thomas C. Setchell
Executive Trustee
LaSalle County

Term expires:
December 31, 2001

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Organization Chart

BOARD OF TRUSTEES

CONSULTANTS

Investment Consultants | **Investment Managers** | **Master Trustee** | **Medical Consultants** | **Actuary** | **Certified Public Accountant**

STAFF

Human Resources
Linda King

Executive Director
Robert L. Cusma

Internal Audit
Douglas Samz, C.P.A.

Chief Financial Officer
Deanna Lockwood

- **Accounting**
  Patricia Hambrick
  Manager

Director
Operations & Planning
Daniel Duquette

- **Information Services**
  Arnold Rohlwing
  Manager
- **Benefits**
  Tom Raitt
  Manager
- **Office Services**
  Denise Streit
  Manager

Director
Member Services & Legal
Louis Kosiba

- **Chief Legal Counsel**
  Kathleen O'Brien
- **Field Services**
  Sandra Long
  Manager
- **Legislative Liaison**
  Nicholas Yelverton
- **Publications**
  Linda Horrell
  Manager

Director
Investments
Walt Koziol

- **Investments**
  Edward Sambol
  Manager

Consultants — *(Investment Consultants are listed on page 36)*

Actuary
Gabriel Roeder, Smith & Company
Norman L. Jones, F.S.A.
Brian Murphy, F.S.A.
Southfield, Michigan

Auditors
McGladrey & Pullen
Robert Thoma
Olympia Fields, Illinois

Commercial Bank
Northern Trust
Raheela Anwar, Vice President
Chicago, Illinois

Medical Advisor
R. Samuel Mayer, M.D.
Chicago, Illinois
Noel Rao, M.D.
Wheaton, Illinois
Leonard Kessler, M.D.
Highland Park, Illinois

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Illinois Municipal Retirement Fund

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

Douglas R. Ellsworth

President

Jeffrey L. Esser

Executive Director

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Illinois Municipal Retirement Fund

Drake Oak Brook Plaza Suite 500 2211 York Road Oak Brook IL 60523-2374 630-368-1010
Service Representatives 1-800-ASK-IMRF
www.imrf.org

May 28, 1999

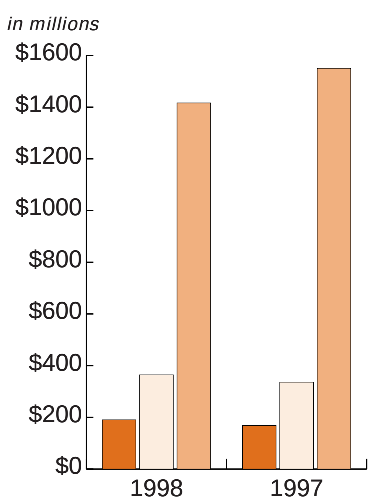
Board of Trustees and
Executive Director
Illinois Municipal Retirement Fund
Oak Brook, Illinois

This is the comprehensive annual financial report of the Illinois Municipal Retirement Fund for the year ended December 31, 1998. The report has five sections. The Introductory Section contains this transmittal letter and organization charts. The Financial Section contains the report of the independent public accountants as well as the financial statements and notes. The Investment Section contains summaries of investments held and the reports of the investment consultant and master trustee. The Actuarial Section contains the report of the actuary, a description of the actuarial assumptions, a summary of benefits, and various ratios and tables. The Statistical Section contains various tables describing the Fund. The management of IMRF is responsible for the compilation and accuracy of the financial, actuarial, investment, and statistical information contained in this report.

The Illinois State Legislature established IMRF in 1939. We began operation in 1941 in order to provide retirement, death, and disability benefits to employees of local units of government in Illinois. The actuarial section of this report includes a summary of the benefits provided. IMRF now serves 2,744 employers, 150,428 participating members, and 67,756 benefit recipients.

Revenues

Revenues needed to fund benefits are accumulated through contributions and returns on invested funds. Contributions and net investment returns for 1998 totaled $1,970.7 million. This represents a decrease of approximately 4 percent from 1997:



	1998 (millions)	1997 (millions)	Increase/(Decrease) Amount	%Change
Member IMRF Contributions	$190.3	$168.5	$21.8	12.9%
Employer IMRF Contributions	364.2	336.3	27.9	8.3%
Investment returns, net	1416.2	1550.4	(134.2)	(8.7)%
	$1,970.7	$2,055.2	$(84.5)	(4.1)%

The increase in member contributions is due to an increase in total member earnings to $3,704.1 million (Table I). The member contribution rate remained at 4.5 percent of earnings for regular members, 6.5 percent for Sheriff's Law Enforcement Personnel (SLEP), and 7.5 percent for the optional Elected County Officials (ECO) plan. In addition, the member contributions were increased by payments for military service credit. The increase in employer contributions is due primarily to the increase in member earnings and increases in the average employer rates. The average Regular Plan employer rate increased to 9.64 percent from 9.61 percent. The average SLEP Plan employer rate increased to 13.94 percent from 11.43 percent. An initial minimum ECO Plan rate was established at 20.00 percent.

In 1998, appreciation in the value of investments was $1,020 million. This was a 14 percent increase from the $893 million recorded in 1997. However, investment income decreased by $256 million over 1997. Securities lending income net of related expenses was $5.4 million for 1998, an increase over the $3.9 million for 1997. Direct investment expenses increased from $33.2 million in 1997 to $40.4 million in 1998.

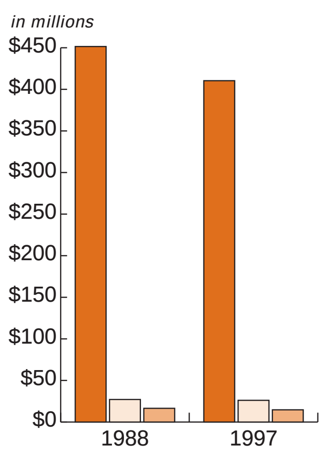
The total rate of return for the portfolio in 1998 was 12.63 percent compared to 16.19 percent in 1997. IMRF's U.S. stock portfolio returned 21.27 percent compared to 28.75 percent for the S&P 500. The U.S. fixed income portfolio returned 7.10 percent compared to 9.47 percent for the Lehman Government Corporate Index. Our international stock portfolio returned 13.16 percent compared to 16.17 percent for the EAFE (Europe, Australia, and Far East) 50 Percent Hedged Index. The global fixed income portfolio returned 15.68 percent compared to 15.29 percent for the Salomon World Government Bond Index. The real estate portfolio returned –0.38 percent compared to 18.18 percent for the Russell Real Estate Index. The alternative investment portfolio returned 19.58 percent versus a target return of 15 percent per annum.When comparing returns it is important to remember that as a pension fund, IMRF's investment program has a very long time horizon. Some of the longer-term results for the total fund are:

Period	Annualized returns
Three years	14.80 percent per year
Five years	12.76 percent per year
Ten years	11.90 percent per year

The investment section of this report shows investment returns by asset class for 1998 as well as three-five-and ten-year returns.

Expenses

The expenses paid by IMRF include benefit payments, refunds, and administrative expenses. Expenses for 1998 totaled $495.1 million, an increase of $43.9 million over 1997.



	1998 (millions)	1997 (millions)	Increase Amount	%Change
Benefits	$451.5	$410.4	41.1	10.0%
Refunds	27.1	26.1	1.0	4.0%
Administrative expenses	16.5	14.7	1.8	12.4%
	$495.1	$451.2	$43.9	9.7%

The increase in benefit payments to members and beneficiaries resulted from growth in the number of annuitants to 66,272 (Table II). Administrative expenses increased due to the costs of implementing new legislation.

Funding

In 1998, additions to net assets of $1,970.7 million exceeded deductions of $495.1 million by $1,475.5 million. This addition brought the Plan's net asset base to $13.1 billion. To calculate employer contribution rates, IMRF's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme variations in employer rates due to short-term fluctuations in the investment markets. For the December 31, 1998, valuation, the actuarial value of assets was $11.64 billion. The aggregate actuarial liability for all IMRF employers was $11.86 billion. The assets held currently fund 98.1 percent of this liability. This is an increase over the funding ratio of 95.1 percent for 1997. The preceding ratios are for the Fund as a whole. Under the Illinois Pension Code, each employer funds the pensions for its own employees. Funding ratios for individual employers vary widely.

IMRF members can look to the net asset base as assets that are irrevocably committed to the payment of their pensions when they retire. The actuary has determined that the present net asset base, expected future contributions, and investment earnings thereon are sufficient to provide for full payment of future benefits under the level payroll percentage method of funding. The actuarial section contains the actuary's letter and further information on IMRF's funding.

Investments

The investment portfolio is a major contributor to the Plan. In a year of double-digit returns, such as 1998, it provides an even larger percentage. In 1998, net investment return provided 72 percent of total additions to the net assets. The employers contributed 18 percent and the employee members contributed 10 percent. The investment section of this report contains a summary of the portfolio.

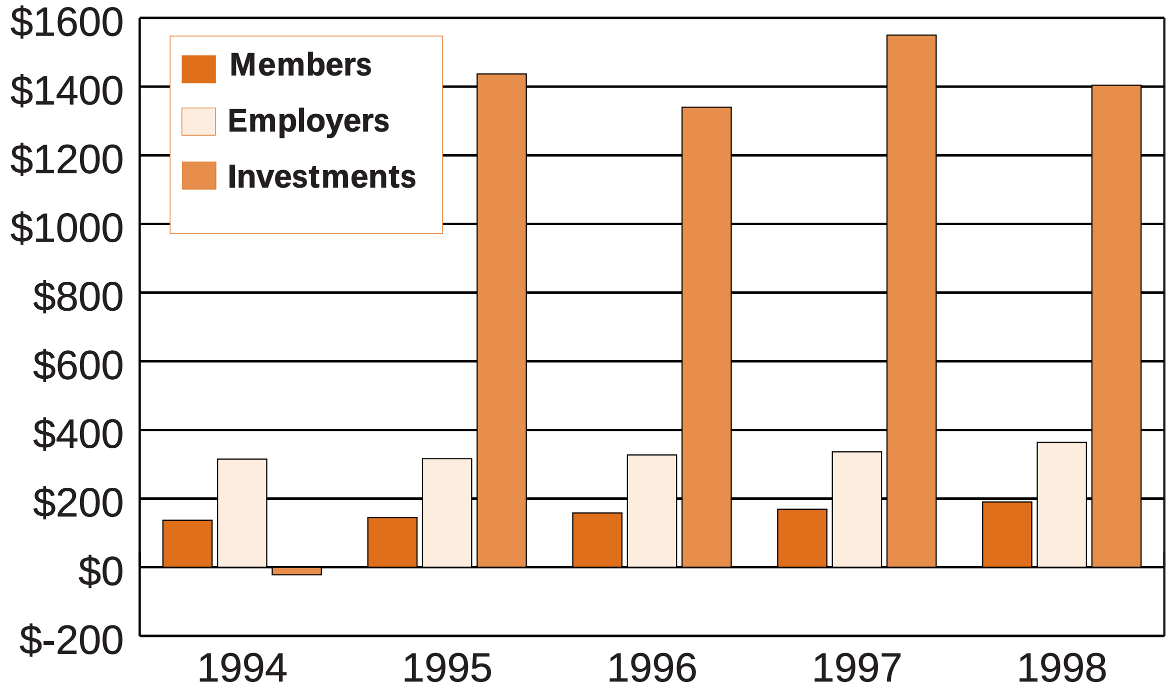
Currently, 42 professional investment management firms handling 63 separate accounts manage the investment portfolio. These firms make investment decisions under the prudent expert rule authorized by state statutes and by investment policy guidelines adopted by the Board of Trustees. The Board employs two investment consultants to monitor and evaluate the investment management firms' performance, to aid in the selection of investment management firms and to assist in the development of investment policy. One consultant advises on real estate investments. The second advises on other asset allocations. Plan management's uppermost goal is to optimize the long-term total return of the Plan's investments through a policy of diversification within a parameter of prudent risk as measured on the total portfolio.

The investment section contains a summary of IMRF's investment performance, the Investment Consultant's report, and a summary of the investment objectives and policies.

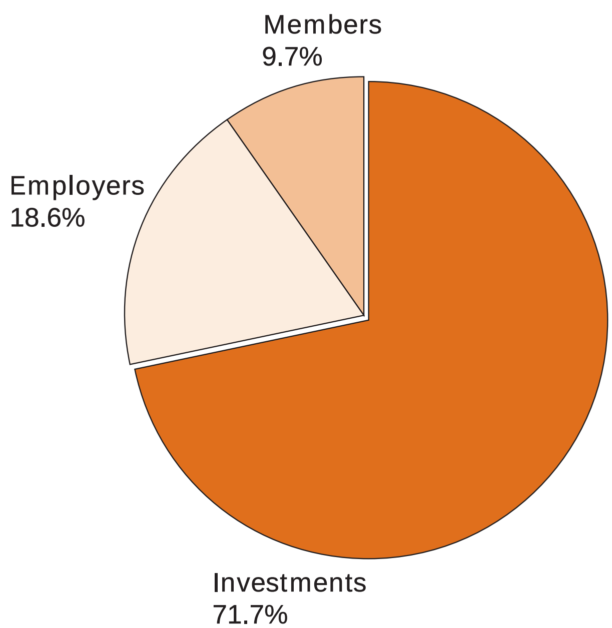
The following page provides a bar graph illustrating the Fund's revenues by source for the past five years as well as two pie charts indicating the Fund's revenues by source and by application for 1998.

Revenues by Source

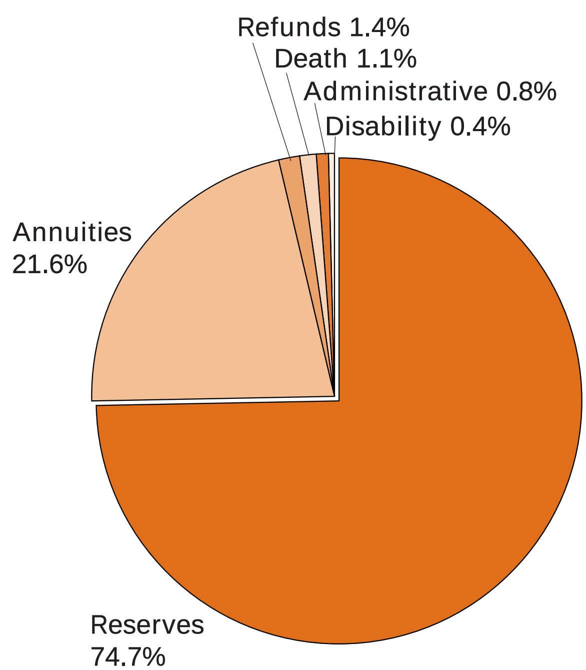
in millions



1998 Revenues by Source



1998 Revenues by Application



Introduction

Current and Future Developments

a. Board of Trustees

John Lotus Novak, DuPage County Treasurer, was elected as an Executive Trustee. His term expires December 2003.

b. Qualified Illinois Domestic Relations Orders

The General Assembly passed legislation allowing pension benefits to be divided between divorced spouses. Previously, anti-alienation requirements prohibited IMRF pension benefits from being divided as part of a divorce property settlement. This legislation takes effect July 1, 1999.

c. Annuitization of Surviving Spouse Contribution Refunds

Another law enacted in 1998 allows IMRF members, who do not have an eligible surviving spouse at retirement, to convert their surviving spouse contribution refund into a lifetime annuity. Eligible members will be notified of their options at retirement.

d. Deferred Payroll Deduction Program

New legislation passed in 1998 allows IMRF members to purchase service credit using a tax-deferred payroll deduction. This program can be used to reinstate refunds or purchase service credit available under the Pension Code. Members are informed about the program when they receive the cost estimate for their service. IRS regulations require that the member sign an irrevocable agreement committing to the payroll deductions in order to receive the tax deferral.

e. Military Service Credit

Legislation passed in 1997 allowed members who served in the U.S. armed forces to purchase up to 24 months of military service credit. This program is optional for each employer. Members must pay member contributions, a portion of the employer cost, and interest. Over 4,500 members have applied for military service credit since the legislation was enacted.

f. Investment Activities

The Board of Trustees, consultants and IMRF staff review the asset allocation annually. By diversifying investment type (stocks, bonds, real estate, etc.), region (domestic, international, global, etc.) and management style (growth, value, small, medium, or large capitalization, etc.), we try to improve expected long-term returns while maintaining an acceptable level of risk.

Major investment activities for the year include:

- Retained Morgan Stanley Asset Management to manage a global equity portfolio.
- Allocated funds to the Prudential Strategic Value Investor Fund II.
- Allocated funds to the Olympus Real Estate Fund II.
- Retained Lazard Freres Real Estate Investors, LLC. to manage a real estate operating company portfolio.

Major investment activities occurring during the beginning of 1999 included:

- Retained Investment Counselors of Maryland to manage a small capitalization value portfolio.
- Retained Jacobs Levy Equity Management to manage a structured growth equity portfolio.
- Retained Northern Trust Quantitative Advisors to manage an S&P/BARRA Value Index portfolio.
- Sold the Meridian Industrial Park in Aurora, Illinois.
- Sold the Fleetway House office building in London.
- Sold the Friary Court office building in London.
- Sold the Old Square shopping center in Bristol, U.K.

g. Strategic Planning

In the press of day-to-day activity, it is easy to lose track of the big picture and how an organization fits into that picture. IMRF is in the midst of a multi-year project to review how IMRF fits into the picture. The IMRF Board and staff have studied how IMRF compares to other plans across the United States. Our actuaries have developed software that allows us to evaluate the costs and benefits of modifications to the plan. Our next step will be to meet with interested member and employer groups to discuss what their needs and ideas are for the IMRF of the next century.

h. Full funding

Thanks to a strong investment market over the past decade and the application of sound actuarial principles, 45 percent of IMRF employers have attained full funding. This means that their actuarial assets equal or exceed their accrued actuarial liabilities. As with other happy events, full funding brings new challenges. The designers of IMRF in 1939 did not anticipate this situation. The principal challenge is how to maintain 100 percent funding without going significantly higher or lower. Since some IMRF employers are very small and have very volatile liabilities, keeping funding in balance is not simple. To add to the complexity, many IMRF employers operate under tax caps that limit increases to tax levies. During 1998 and 1999, the Board, actuaries, and staff have analyzed the issues and have developed a mechanism for amortizing overfunded amounts over a shorter schedule than unfunded liabilities. The period varies with the size of the employer and the amount of overfunding. Some preliminary changes were implemented for the 1999 rates. The changes will be fully implemented with the 2000 rates.

i. Year 2000

IMRF has been preparing for the year 2000 and its potential problems for computer systems for many years. When we rewrote our wage reporting and benefit processing computer systems earlier this decade, we made sure the new systems could handle dates after 1999. We have been systematically replacing computer equipment that cannot handle these dates. In December 1998 we tested our systems and discovered a few minor problems, which have been remedied. A more complete discussion of our preparations can be found in the Required Supplementary Information.

j. IMRF.org

IMRF's web page, IMRF.org, has been on-line since the middle of 1997. Among the services available to users of the web page is the ability to download forms and publications. In 1999, a simple pension estimator was added. This allows members to do a rough estimate of future pension benefits on-line. One exciting service that is scheduled for June of 1999 is employer access to some IMRF records via the Internet. To start, employers with appropriate security will be able to check their employer rates, their resolutions filed with IMRF, and the receipt of their payroll reports. More employer access will be developed in the future.

Internal Control

In developing and evaluating IMRF's accounting system, we consider the adequacy of internal accounting controls. We design these controls to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records.

IMRF employs the services of an outside certified public accountant to function as internal auditor, aided by a full-time assistant on staff. We use a detailed internal audit program that encompasses examination of internal controls as well as the Fund's financial transactions and records.

The internal auditor reports directly to the Executive Director and the Board of Trustees. The Board of Trustees, consisting totally of outside members, functions as the audit committee. Annually the Internal Auditor presents his report to the Audit Committee covering the results of internal audit procedures performed. The Internal Auditor also meets with the committee on an as-needed basis.

Introduction

Independent Audit

The Illinois Pension Code requires an annual audit of the financial statements of the Plan by independent certified public accountants selected by the Board of Trustees and approved by the State Auditor General. We satisfied this requirement and the independent accountant's unqualified report on IMRF's 1998 Financial Statements is included in this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Illinois Municipal Retirement Fund for its comprehensive annual financial report for the fiscal year ended December 31, 1997. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. IMRF has received a Certificate of Achievement for the last eighteen consecutive years (fiscal years 1980-1997). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Reports to Membership

IMRF issued a variety of reports covering 1998 activity. We mail employer statements every month. We mailed member statements in April. We will send a summary of the annual report to members and annuitants in the summer issues of *Fundamentals.* We will mail this report to Authorized Agents in June.

Acknowledgements

The production of this report reflects the combined effort of the IMRF staff under the leadership of the Board of Trustees and the Executive Director, Robert L. Cusma. The Accounting Department under the management of Patricia Hambrick compiled the report. We want this report to provide complete and reliable information for making management decisions, for determining compliance with legal provisions and for determining responsible stewardship for the assets contributed by the members and their employers.

We send this report to the Authorized Agents for all participating units of government. They form the link between IMRF and its membership. Their cooperation, for which we are ever thankful, contributes significantly to the success of IMRF. We hope they will find this report both informative and helpful.

Respectfully submitted,

Deanna L. Lockwood

Deanna L. Lockwood, CPA
Chief Financial Officer

Financial

Time is the only capital that any human being has,
and the one thing that he can't afford to lose.

– Thomas Alva Edison

McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

RSM International

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Illinois Municipal Retirement Fund

We have audited the accompanying statements of plan net assets of the Illinois Municipal Retirement Fund (Fund) as of December 31, 1998 and 1997, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Illinois Municipal Retirement Fund as of December 31, 1998 and 1997, and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of funding progress and schedule of employer contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The schedules of administrative expenses, payments to consultants, and investment expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Year 2000 Issues supplementary information on Page 34 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Illinois Municipal Retirement Fund is or will become Year 2000 compliant, that the Illinois Municipal Retirement Fund Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Illinois Municipal Retirement Fund does business are or will become Year 2000 compliant.

The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

McGladrey & Pullen, LLP

Chicago, Illinois
May 10, 1999

Exhibit A
Statements of Plan Net Assets

	December 31	
	1998	**1997**
Assets		
Cash and cash equivalents	$3,036,204	$7,558,511
Receivables and prepaid expenses		
Contributions	48,217,891	42,316,760
Investment income	60,055,347	56,673,292
Receivables from brokers for unsettled trades	52,563,773	17,484,983
Prepaid expenses	24,390,369	21,135,287
Total receivables and prepaid expenses	185,227,380	137,610,322
Investments, at fair value		
Fixed income	3,684,360,006	3,252,863,082
Stocks	8,070,277,275	6,949,714,017
Short term investments	396,258,394	596,739,341
Real estate	592,077,808	564,679,573
Alternative investments	232,777,645	179,989,248
Total investments	12,975,751,128	11,543,985,261
Invested securities lending cash collateral	1,340,474,672	1,161,060,626
Fixed assets		
Equipment, at cost	7,041,888	6,845,877
Accumulated depreciation	(5,515,750)	(5,214,192)
Fixed assets, net	1,526,138	1,631,685
Total assets	14,506,015,522	12,851,846,405
Liabilities		
Accrued expenses and benefits payable	19,515,212	19,867,033
Securities lending cash collateral	1,340,474,672	1,161,060,626
Payables to brokers for unsettled trades	60,457,020	60,880,284
Total liabilities	1,420,446,904	1,241,807,943
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 32)	$13,085,568,618	$11,610,038,462

The accompanying notes are an integral part of the financial statements.

Exhibit B
Statements of Changes in Plan Net Assets

	Years Ended December 31	
	1998	1997
Additions		
Contributions		
Members for retirement coverage	$190,259,095	$168,501,004
Employers for benefit plan coverage	364,196,668	336,249,487
Annuitants for supplemental coverage	118	271
Total contributions	554,455,881	504,750,762
Investment Income		
Interest on fixed income investments	161,728,642	143,935,796
Dividends	72,132,306	58,822,706
Income on short-term securities	42,830,419	104,241,641
Stock and bond fund income	106,170,392	329,120,803
Real estate income, net	49,300,541	50,532,757
Alternative investment income (loss)	(1,075,751)	292,514
Securities lending income	76,909,946	66,281,735
Net appreciation (depreciation) in fair value of investments	1,020,091,237	892,755,304
Gross investment income	1,528,087,732	1,645,983,256
Less investment expense	(40,422,191)	(33,161,647)
Less securities lending expense	(71,513,192)	(62,412,500)
Net investment income	1,416,152,349	1,550,409,109
Other	66,938	1,232
Total additions	1,970,675,168	2,055,161,103
Deductions		
Annuities	423,723,556	383,640,813
Disability benefits	8,223,429	8,363,985
Death benefits	19,549,781	18,412,231
Refunds	27,121,071	26,088,854
Administrative expenses	16,527,175	14,700,542
Total deductions	495,145,012	451,206,425
Net increase	1,475,530,156	1,603,954,678
Net assets held in trust for pension benefits		
Beginning of year	11,610,038,462	10,006,083,784
End of year	$13,085,568,618	$11,610,038,462

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements
December 31, 1998

A. Plan Description

The Illinois Municipal Retirement Fund (IMRF) is the administrator of an agent multiple employer public employee retirement system (PERS). The state legislature established IMRF to provide employees of local governments and school districts a sound and efficient retirement system. Members, employers, and annuitants elect eight trustees who govern IMRF. State law authorizes the Board to make investments, pay benefits, set employer contribution rates, hire staff and consultants, and perform all necessary functions to carry out the provisions of the Illinois Pension Code. Benefit and contribution provisions are established by state law and may be amended only by the Illinois State Legislature.

IMRF is separate and apart from the Illinois State government and is not included in the state's financial statements. However, the Illinois Pension Code designates the State Treasurer ex-officio treasurer of IMRF and requires the Auditor General to approve appointment of the independent public accountants.

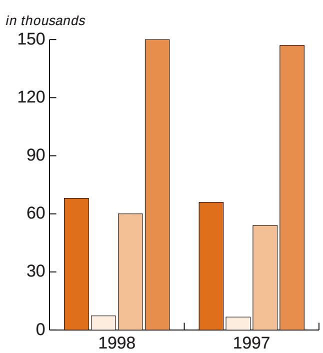
1. Employers	**1998**	**1997**
Participating employers	2,744	2,706

The Illinois Pension Code specifies the units of government required to participate in IMRF and the units that may elect to join. Participation by the following units of government is mandatory.

- All counties except Cook,
- All school districts except Chicago, and
- All cities, villages and incorporated towns with a population over 5,000, other than Chicago, which do not provide Social Security coverage for their employees before they reach a population of 5,000.

Other units of government with general taxing powers such as townships and special districts may elect to join. Participating instrumentalities, which include units of government without general taxing powers and not-for-profit organizations, associations, or cooperatives authorized by state statute, may participate. They must meet the financial stability requirements. Units that elect to join the system may not under any circumstances terminate their participating employer status.

2. Members



	1998	**1997**
Retirees and beneficiaries currently receiving benefits	67,756	65,683
Terminated members entitled to benefits but not yet receiving them	7,321	6,705
Terminated members — non-vested	60,236	54,407
Current members:		
Nonvested	86,975	85,340
Vested	63,453	61,319
Total current members	150,428	146,659
Grand Total	285,741	273,454

Employers must enroll employees in IMRF if the employees' positions meet the qualifications for IMRF membership. There are some exceptions. City hospital employees and elected officials have the option to participate. IMRF does not cover individuals in certificated teaching positions covered by the Illinois Teachers' Retirement System. Also IMRF does not generally cover individuals performing police or fire protection duties for employers with local police and fire pension funds. Certain police chiefs may choose to participate as Sheriffs' Law Enforcement Personnel (SLEP) members.

3. *Funding*

The member contribution rates, 4.5 percent for regular members, 6.5 percent for SLEP members, and 7.5 percent for the Elected County Officials Plan (ECO), are set by statute. The statutes require each participating employer to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. Employer contributions for disability benefits, death benefits, and the supplemental retirement benefits are pooled. See the Required Supplementary Information and the Actuarial Section for data on the funding status. Costs of administering the plan are financed by investment income.

4. *Benefit Provisions*

Benefits are established by statute and may only be changed by the General Assembly. The benefit provisions in effect on the member's date of termination determine a member's benefit. The following is a summary of the IMRF benefit provisions as of December 31, 1998, and 1997. A more extensive description of the plan can be found in the Actuarial Section. The ECO plan was created by statute in 1997.

Refunds

Members who terminate their IMRF participation may withdraw their contributions and forfeit future retirement benefits.

Retirement

	PLAN		
	Regular	**SLEP**	**ECO**
Vesting	8 years	20 years	8 years
Minimum age for unreduced benefit	35+ years of service: 55 otherwise 60	50	Sheriffs with 20 years of SLEP service: 50, otherwise 55
Final rate of earnings	Highest consecutive 48 months in the last 10 years	Highest consecutive 48 months in the last 10 years	Annual salary on last day of ECO service
Survivor benefits	Annuity for eligible spouse	Annuity for eligible spouse	Annuities for eligible spouse and unmarried children under 18
Post retirement increase	3% of original amount	3% of original amount	3% of original amount
Early retirement	At age 55, discount based on age and service	None	None

IMRF employers may offer an early retirement incentive (ERI) for active members who have 20 or more years of service and are age 50 or older. The program is optional with employers and may not be offered until the liability for any previous ERI is paid.

Supplemental Retirement Benefit

Retirees and surviving spouses who have been receiving benefits for at least one year receive a supplemental retirement benefit in July. The total supplemental benefit in each year is equal to 0.62 percent of the participating payroll for the previous year.

Death Benefits

The eligible spouse of a deceased retired member receives a one-time death benefit of $3,000 plus a monthly pension equal to one-half (66-2/3 percent for ECO retirees) of the member's pension. The beneficiaries of a participating member who had at least one year of service receive a lump sum death benefit equal to one year's earnings plus the member's contributions with interest. Death benefits paid upon the death of an inactive member vary depending on the member's age and service.

Disability

Members who have at least one year of service and meet the disability medical requirements will receive a benefit of up to 50 percent of the average monthly earnings in the 12 months preceding disability. Disabled ECO members receive a disability benefit equal to the benefit they would receive upon retirement. IMRF reduces the benefit by Social Security or Workers' Compensation awards. Members paid disability continue to receive pension service credit and death benefit protection.

B. Summary of Significant Accounting Policies

1. Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

(1) Appointment of a voting majority of the component unit's board and the component unit provides a financial benefit to or imposes a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

Based upon the required criteria, IMRF has no component units. IMRF is not a component unit of any other entity.

2. Basis of Accounting and Reclassifications

IMRF prepares its financial statements using the accrual basis of accounting. It recognizes member and employer contributions as revenues in the month member earnings are paid. Benefits and refunds are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made. In some instances, amounts for 1997 have been reclassified to agree with 1998 financial statement presentation.

3. Method Used to Value Investments

IMRF reports securities at fair value. Where appropriate, the fair value includes estimated disposition costs.

Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of December 31. Market value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager as of December 31. Fair values for directly owned real estate investments are determined by appraisals.

C. Cash

	1998	1997
Carrying amounts at December 31:		
Cash	$3,036,204	$7,558,511
Bank balances at December 31:		
Custodial credit risk category 1	$4,297,082	$4,803,158
Custodial credit risk category 3	1,783,349	4,869,366
	$6,080,431	$9,672,524

All non-investment related bank balances at year-end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. The Illinois State Treasurer is ex-officio Treasurer of the IMRF. These balances are classified as custodial credit risk category 1 as defined by GASB Statement 3. Cash held in the investment account is neither insured nor collateralized. These balances are classified as custodial credit risk category 3 as defined by GASB Statement 3.

D. Investments

1. Investment Policies

The Illinois Pension Code prescribes the "prudent expert rule" as IMRF's investment authority, effective August 25, 1982. This rule requires IMRF to make investments with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an entity of like character with like aims. Within the "prudent expert" framework, the Board of Trustees adopts investment guidelines for IMRF investment managers. The Investment Section contains a summary of these guidelines.

2. Investment Summary

IMRF's investments in securities are categorized below to give an indication of the custodial credit risk level. GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements, defines "securities" and standard categories of custodial credit risk.

A security, for purposes of classification below, is a transferable financial instrument that evidences ownership or creditorship. "Securities" do not include investments made with another party, real estate or direct investments in mortgages or other loans. Investments in open-end mutual funds are also not considered securities for purposes of custodial credit risk classification. Such investments are shown below as "not categorized."

Securities are divided among three categories indicating the type of custodial credit risk.

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

The following tables present a summary of the Fund's investments and related category of custodial credit risk at December 31, 1997 and 1998.

Investments, at fair value as of December 31, 1997

	Custodial Credit Risk			
	Category 1	Category 3	Not Categorized	Total Carrying Value
Fixed Income Securities				
U.S. government & agency	$759,471,226	$0	42,036,087	$801,507,313
U.S. corporate	816,243,715	0	4,531,583	820,775,298
U.S. asset backed	81,551,969	0	0	81,551,969
U.S. fixed income funds	891,707,487	0	0	891,707,487
Foreign fixed income securities	527,511,742	0	3,655,768	531,167,510
Foreign fixed income funds	112,697,747	0	13,455,758	126,153,505
Total fixed income	3,189,183,886	0	63,679,196	3,252,863,082
Equity Securities				
U.S. equities	3,209,947,944	699,087	524,502	3,211,171,533
Foreign equities	1,376,327,806	4,834,654	23,057,670	1,404,220,130
U.S. stock funds	1,527,938,152	0	142,074,890	1,670,013,042
Foreign stock funds	380,487,868	0	283,821,444	664,309,312
Total equity securities	6,494,701,770	5,533,741	449,478,506	6,949,714,017
Short Term				
Short term securities	100,347,762	0	0	100,347,762
Foreign currency forward contracts	0	0	12,738,352	12,738,352
Pooled short term investment funds	0	0	483,653,227	483,653,227
Total short term	100,347,762	0	496,391,579	596,739,341
Real Estate	0	0	564,679,573	564,679,573
Alternative	1,768,234	0	178,221,014	179,989,248
	$9,786,001,652	$5,533,741	$1,752,449,868	$11,543,985,261

Investments, at fair value as of December 31, 1998

	Custodial Credit Risk			
	Category 1	Category 3	Not Categorized	Total Carrying Value
Fixed Income Securities				
U.S. government & agency	$908,383,189	$0	$418,718	$908,801,907
U.S. corporate	911,110,485	2,344	4,351,851	915,464,680
U.S. asset backed	240,107,008	0	0	240,107,008
U.S. fixed income funds	298,428,207	0	697,668,917	996,097,124
Foreign fixed income securities	579,082,148	0	916,163	579,998,311
Foreign fixed income funds	43,890,976	0	0	43,890,976
Total fixed income	2,981,002,013	2,344	703,355,649	3,684,360,006
Equity Securities				
U.S. equities	4,000,914,588	11,581,022	7,878,547	4,020,374,157
Foreign equities	1,810,704,435	840,786	16,066,721	1,827,611,942
U.S. stock funds	609,652,366	0	896,817,855	1,506,470,221
Foreign stock funds	715,324,073	0	496,882	715,820,955
Total equity securities	7,136,595,462	12,421,808	921,260,005	8,070,277,275
Short Term				
Short-term securities	33,778,260	0	0	33,778,260
Foreign currency forward contracts	0	0	(4,582,089)	(4,582,089)
Pooled short-term investment funds	0	0	367,062,223	367,062,223
Total short-term	33,778,260	4,484,730	362,480,134	396,258,394
Real Estate			592,077,808	592,077,808
Alternative			232,777,645	232,777,645
Total	$10,151,375,735	$12,424,152	$2,811,951,241	$12,975,751,128

Short-term securities include commercial paper or notes having a maturity of less than 90 days. Pooled short-term investment funds are commingled funds managed by The Northern Trust. Under the terms of the investment agreement for these funds, The Northern Trust may invest in a variety of short-term investment securities. Alternative investments include commingled funds that invest in private equity, timberland, and agricultural land.

There are no individual investments held by IMRF that represented five percent or more of the Fund’s net assets at year end.

3. Securities Lending Program

The IMRF securities lending program is authorized by the IMRF Board of Trustees. IMRF lends securities (both equity and fixed income) to securities firms on a temporary basis through its agent, The Northern Trust. There are no restrictions on the amount of securities that may be lent. IMRF receives fees for all loans and retains the right to all interest and dividend payments while the securities are on loan. All security loan agreements are collateralized by cash, U.S. government securities, or irrevocable letters of credit having market values equal to or exceeding 102 percent of the value of the loaned securities plus any accrued income (105 percent for non-U.S. securities). Whenever the market value of the securities loaned changes, the borrower must adjust the collateral accordingly. IMRF or the borrower has the right to close the loan at any time. The average term of overall loans is 34 days. When the loan closes, the borrower returns the securities loaned to IMRF, and IMRF returns the associated collateral to the borrower. IMRF cannot pledge or sell the non-cash collateral unless the borrower fails to return the securities borrowed.

The Northern Trust pools all collateral received from securities lending transactions and invests any cash collateral. IMRF holds an undivided share of the collateral provided by the borrowers of its securities. The cash collateral is shown on IMRF's financial statements. Cash collateral is invested in a short-term investment pool, which had an average weighted maturity of 28 days as of this statement date. Cash collateral may also be invested separately in "term loans," in which case the investments match the term loan. These loans can be terminated on demand by either lender or borrower.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. There were no significant violations of legal or contractual provisions, and no borrower or lending agent default losses to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. IMRF had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of the securities lent.

Securities lent are included in the Plan's assets on the financial statements.

Loans outstanding as of:	**December 31, 1998**	**December 31, 1997**
Market value of securities loaned	$1,425,769,420	$1,273,697,904
Market value of collateral received	$1,462,990,062	$1,318,713,379

Securities Lending Expenses	**December 31, 1998**	**December 31, 1997**
Rebates & commissions paid	$70,163,997	$61,246,238
Management fees	1,349,195	1,166,262
Total	$71,513,192	$62,412,500

4. Derivatives

IMRF's investment managers may invest in derivative securities as permitted by their guidelines. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. IMRF acquires all of the derivative securities through a clearinghouse that guarantees delivery and accepts the risk of default. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. The Board of Trustees and senior management approve these limits, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. IMRF does not purchase derivatives with borrowed funds.

During the year, IMRF's derivative investments included foreign currency forward contracts, options, and futures. Foreign currency forward contracts are used to hedge against the currency risk in IMRF's foreign stock and fixed income security portfolios. The remaining derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

Forward contracts are an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed upon price. As the market value of the forward contract varies from the original contract price, IMRF records an unrealized gain or loss. The market value of forward currency contracts outstanding at December 31, 1998 and 1997 are as follows:

Market Value as of	**December 31, 1998**	**December 31, 1997**
Forward currency purchases	$984,205,629	$702,812,586
Forward currency sales	988,787,718	690,074,234
Unrealized gain (loss)	$ (4,582,089)	$ 12,738,352

Financial futures are similar to forward contracts, except futures contracts are standardized and traded on an organized exchange. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to the clearinghouse. Financial futures represent an off-balance sheet obligation as there are no balance sheet assets or liabilities associated with those contracts. The contractual amounts of fixed income futures outstanding at December 31, 1998 and 1997 are as follows

Contractual Amount as of	**December 31, 1998**	**December 31, 1997**
Fixed income futures sold	—	—
Fixed income futures purchased	$68,600,000	$12,400,000

Contractual amounts, which represent the market value of the underlying assets the derivative contracts control, are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk.

Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, IMRF receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. No financial options were held at year-end in 1998 or 1997.

5. Future Investment Commitments

At December 31, 1998, and 1997, IMRF had future commitments for additional contributions to real estate and alternative investment managers totaling $120,100,000 and $154,700,000 respectively.

E. Reserves

IMRF maintains several reserves as required by the Illinois Pension Code and Board policy.

1. Member contribution reserves

	1998	**1997**
Balances at December 31	$2,086,679,470	$1,933,512,014

The Illinois Pension Code requires that a separate contribution reserve be maintained for each member. The member's contributions and interest at the prescribed rate of 7.5% increase the reserve. If the member takes a separation refund, the contributions are refunded to the member and the interest is returned to the Earnings and Experience Variation Reserve. If the member dies, the contributions and interest are paid to the member's beneficiaries. If the member retires, the contributions and interest are transferred to the Annuity Reserve. If the retiree does not have a spouse eligible to receive a surviving spouse benefit upon the member's death, the member's surviving spouse contributions and interest are refunded to the retiree. If the retiree does not have enough SLEP service to retire with a SLEP pension, the member's SLEP contributions and interest are refunded to the retiree. This reserve is fully funded.

2. Annuity reserve

	1998	**1997**
Balances at December 31	$4,485,651,306	$3,995,946,514

The Illinois Pension Code requires that a pooled reserve be maintained for all retirement, surviving spouse, beneficiary, and total and permanent disability annuities granted. When a member retires, the present value of the expected benefit, including any survivor benefit, is transferred to this reserve from the Member Contribution Reserves and the Employer Retirement Contribution Reserves. When a member is granted a total and permanent disability annuity, the present value of the expected benefit is transferred from the Disability Benefit Reserve. Interest at the prescribed rate of 7.5 percent is credited to the reserve annually. Annuity and permanent disability payments are deducted from the reserve.

Every year the actuary calculates the present value of all annuities. Money is transferred between the Earnings and Experience Variation Reserve and the Annuity Reserve to insure that the balance in the Annuity Reserve equals the present value of annuities. This reserve is fully funded.

3. Employer retirement reserves

IMRF maintains reserves designated for payment of the employer portion of future retirement benefits for active and inactive members. These reserves are not fully funded. These reserves do not equal the present value of expected retirement benefits. The additional amount needed as calculated by the actuary was $ 224,383,665 in 1998 and $ 534,853,033 in 1997.

Balances at December 31	**1997**	**1996**
Retirement contribution reserves	$5,643,274,675	$4,733,760,307
Earnings and experience reserve	847,451,177	926,748,214
Employer retirement reserves	$6,490,725,852	$5,660,508,521

Retirement contribution reserves

The Illinois Pension Code requires that a separate retirement contribution reserve be maintained for each employer. Employer retirement contributions, interest at the prescribed rate of 7.5 percent, and residual investment income increase these reserves. When an employee retires, the employer cost of the pension is transferred from the employer retirement reserve to the annuitant reserve. The employer cost equals the present value of the retirement less member contributions and interest.

Earnings and experience reserve

This reserve is increased by investment income, interest accrued on member contributions that is not paid out in a benefit or refund, and mortality gains on the annuity reserve. This reserve is decreased by interest credited to member, annuity, and employer reserves at the prescribed rate, currently 7.5 percent, and mortality losses on the annuity reserve. In years when investment income exceeds the interest requirement and mortality losses, the balance may be distributed to employer reserves as prescribed by the pension code and Board policy.

4. Supplemental retirement benefit reserve

	1998	**1997**
Balances at December 31	$1,626,327	$1,297,456

Employers are required to contribute 0.62 percent of payroll to fund a supplemental retirement benefit for retired members and recipients of surviving spouse benefits. Each July, 0.62 percent of the preceding year's active payroll is distributed to eligible annuitants as a “13th check.” To be eligible, the effective date of retirement must precede the date of the 13th check by a year or more. Employer contributions increase this reserve and supplemental retirement payments reduce this reserve. This reserve is fully funded.

5. Pooled death benefit contribution reserve

	1998	**1997**
Balances at December 31	$8,913,822	$9,319,871

This reserve is increased by employer death benefit contributions. When a beneficiary annuity is paid, the present value of the benefit is transferred from this reserve to the annuity reserve. Lump sum death benefits paid upon the death of a participating member are paid from this reserve. This reserve is fully funded.

6. Pooled disability benefit contribution reserve

	1998	1997
Balances at December 31	$11,971,839	$9,454,086

This reserve is increased by employer disability contributions. Payments of temporary disability benefits decrease the reserve. When a total and permanent disability benefit is granted the estimated present value is transferred from this reserve to the annuity reserve. This reserve is fully funded.

F. Other Notes

1. Prepaid Expenses

Balances as of December 31	1998	1997
Prepaid administrative expenses	$540,523	$348,159
January 1 benefits charged to bank account in December	23,849,846	20,787,128
	$24,390,369	$21,135,287

2. Deferred Compensation

IMRF offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all IMRF employees, permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. ICMA Retirement Corporation and Nationwide Retirement Solutions, Inc. administer the plans. Amounts deferred are held in trust by the third party administrators and are therefore not shown on IMRF's financial statements.

3. Fixed Assets

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight line method over the estimated useful life of the related asset. The estimated useful lives are:
1) furniture: ten years, 2) equipment: five to eight years, and 3) automobiles: two years.

Year ended December 31	1998	1997
Equipment, furniture and automobiles		
Beginning balance	$6,845,877	$6,723,529
Additions	594,122	191,849
Deletions	(398,111)	(69,501)
Ending balance	$7,041,888	$6,845,877
Accumulated depreciation		
Beginning balance	$5,214,192	$4,666,050
Additions	698,705	615,285
Deletions	(397,147)	(67,143)
Ending balance	5,515,750	5,214,192
Fixed assets, net	$1,526,138	$1,631,685

4. Lease Agreements

IMRF leases its facilities at the Drake Oak Brook Plaza, which it owns, under an agreement with the building's management. The agreement covers the period May 1, 1993, through December 31, 2005. The base rent was abated until December 31, 1995. The Fund is amortizing the abated rent over the period covered by the agreement. Total rental expense for 1998 and 1997 was $1,457,419 and $1,594,558 respectively.

5. Accrued Sick and Vacation Leave

IMRF employees with more than five years of service upon termination are paid any accrued unused sick leave up to 90 days. All employees are paid for accrued unused vacation leave upon termination. No employee may accrue more than 30 days of vacation leave. IMRF's financial statements include an accrual for estimated sick and vacation leave payable at year-end.

Balances as of December 31	**1998**	**1997**
Accrued sick and vacation	$1,173,611	$1,057,599

6. Risk Management

IMRF carries commercial, business, and automobile liability insurance coverage provided by private insurance carriers. These policies limit the risk of loss from torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. There have been no material insurance claims filed or paid during the last three years. The Fund is also exposed to investment risk. This risk is limited by diversification of the portfolio, establishment and monitoring of investment policies and guidelines, and monitoring of investment performance. In addition, investment consultants and fiduciary counsel monitor the Fund's activities and advise the Board of Trustees.

7. Contingencies

IMRF is a defendant in a number of lawsuits which, in management's opinion, will not have a material effect on the financial statements.

G. Ten-Year Historical Trend Information

Ten-year historical trend information designed to provide information about IMRF's progress made in accumulating sufficient assets to pay benefits when due is presented as required supplementary information following the footnotes.

The years teach much what the days never know.

—Ralph Waldo Emerson

Required Supplementary Information

Schedule of Funding Progress

Last ten years

	Aggregate Actuarial Liabilities (AAL)			Unfunded Actuarial Liabilities (UAL)		
Actuarial Valuation Date December 31	Total AAL Entry Age (a)	Actuarial Assets (b)	Actuarial Assets as a % of AA (b/a)	Total UAL (a-b)	Member Payroll (c)	UAL as a % of Member Payroll (a-b)/c
1989	$5,429,420,300	$3,589,732,873	66.1%	$1,839,687,427	$2,192,070,342	83.9%
1990	6,232,223,672	4,468,795,967	71.7%	1,763,427,705	2,293,192,916	76.9%
1991*#	6,406,965,450	5,034,577,441	78.6%	1,372,388,009	2,484,644,553	55.2%
1992	6,954,483,358	5,615,583,858	80.8%	1,338,899,500	2,643,707,677	50.6%
1993*	7,509,766,239	6,396,329,900	85.2%	1,113,436,339	2,774,088,607	40.1%
1994	8,126,642,830	7,078,861,925	87.1%	1,047,780,905	2,930,307,763	35.8%
1995	8,823,697,487	8,034,030,783	91.1%	789,666,704	3,100,271,694	25.5%
1996*	9,778,592,519	9,076,261,663	92.8%	702,330,856	3,280,416,531	21.4%
1997	10,807,969,067	10,273,116,034	95.1%	534,853,033	3,470,593,355	15.4%
1998	11,860,879,198	11,636,495,534	98.1%	224,383,665	3,704,109,084	6.1%

** After assumption change   #After benefit change*

This data, except for annual covered payroll, was provided by the actuary.

Schedule of Employer Contributions

Year ended December 31	Normal Contributions	Amortization of Unfunded Actuarial Liability	Death & Disability Benefit Contributions	Supplemental Retirement Benefit Contributions	Total Contributions	Percentage Contributed
1989	$152,889,070	$34,076,102	$16,440,528	0	$203,405,700	100%
1990	166,963,506	75,336,286	12,663,407	0	254,963,199	100%
1991	173,303,872	101,262,443	13,645,497	0	288,211,812	100%
1992	219,904,681	83,344,475	13,202,942	0	316,452,098	100%
1993	196,839,908	72,159,465	12,466,617	$17,200,800	298,666,790	100%
1994	216,555,637	68,143,024	11,836,442	18,173,987	314,709,090	100%
1995	226,659,095	58,909,305	10,931,257	19,229,943	315,729,600	100%
1996	239,924,968	54,192,636	13,086,132	20,346,617	327,550,353	100%
1997	254,168,099	46,697,036	13,868,304	21,516,048	336,249,487	100%
1998	274,024,269	50,551,829	16,661,873	22,958,697	364,196,668	100%

Notes to Required Supplementary Information

Valuation date	December 31, 1998
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period	Taxing bodies: closed, 32 years Non-taxing bodies: closed, 2 years
Asset valuation method	Five year smoothed market related
Actuarial assumptions:	
Investment rate of return	7.5 percent
Projected salary increases	4.65 to 8.25 percent
Assumed inflation rate	4.0 percent
Group size growth rate	0.0 percent
Payroll growth rate	4.0 percent
Post-retirement increase	3.0 percent – simple
Mortality table	1983 Group Annuity Mortality Table for males and 1983 Individual Annuity Mortality Table for females, both multiplied by 95 percent. The active tables were further modified to reflect IMRF experience.

Required Supplementary Information

Year 2000 Preparedness

IMRF's operations and the accomplishment of its critical mission beyond December 31, 1999, are contingent upon the continued and uninterrupted operations of its computer systems and any equipment that is dependent on microchip technology. In order to have all mission critical systems "year 2000 compliant," IMRF's efforts to test or replace software, systems, and other equipment began during the second quarter of 1998.

Internal staff inventoried all equipment and all operating systems. All equipment was evaluated for year 2000 capability. Equipment that did not meet the requirement was budgeted for replacement in the 1999 capital budget. Systems were identified and categorized as in-house or vendor products, vendors were identified, and a time line for obtaining compliant vendor upgrades and testing was established.

During third quarter 1998 letters were sent to all outside service and software providers. Through year end vendor response was positive without a specific instance wherein the vendor said they were not and would not be year 2000 compliant.

During fourth quarter 1998 IMRF continued to solicit verifications from vendors and outside service providers with particular emphasis on banking and investment providers. IMRF also completed the first comprehensive test of its primary business application, operating system software, local area network, Office 97, and imaging systems. The initial test was a success and confirmed that the primary business application, operating system software, and local area network are year 2000 compliant. Subsequent to the installation of a later release of software, the Fund's Imaging system will also be compliant. A second comprehensive test of these systems is scheduled for third quarter 1999.

Separate year 2000 testing of remaining stand alone PC-based software will be conducted during first and second quarter 1999 as compliant equipment and software versions replace non-compliant equipment and software.

Professional standards require that IMRF disclose any significant amount of resources committed or contracted to address year 2000 issues for computer systems, and other electronic equipment. Additionally, included in the Fund's general description of the year 2000 issue, the Fund is required to disclose the stages of work in process or completed to address year 2000 issues. The following four stages have been identified for addressing the year 2000 issue: awareness stage, assessment stage, remediation stage, and validation or testing stage.

Based on the information provided above, management has concluded that for internal uses software and hardware work in process has been completed through the remediation stage leaving 1999 for validation and testing procedures.

IMRF's commitment to and effort toward achieving year 2000 readiness will continue. Costs to date and commitments associated with these efforts have not been significant. While management is confident that the program developed by IMRF, and the combined efforts of IMRF staff and outside service providers will allow IMRF to operate and accomplish its critical mission beyond December 31, 1999, IMRF does not guarantee that all systems and equipment will be year 2000 compliant.

Schedule of Administrative Expenses

The following schedule summarizes the cost of administering the Plan for the years ended December 31, 1998 and 1997.

	1998	1997
Administrative Expenses		
Personal services	$9,911,224	$8,932,475
Supplies	592,450	419,408
Professional services	910,231	736,759
Occupancy and utilities	1,773,619	1,729,468
Postage and delivery	737,073	800,264
Equipment service and rent	747,360	816,469
Miscellaneous	1,156,513	650,414
Depreciation	698,705	615,285
Total Administrative Expenses	$16,527,175	$14,700,542

Schedule of Payments to Consultants

	1998 Fee Paid	1997 Fee Paid
Nature of Service		
External Auditor	$54,000	$53,000
Internal Auditor	32,208	31,800
Medical Consultant	77,100	41,552
Legal Services	85,020	18,543
Actuary	197,449	206,413
Management Consultants:		
Benefit Information System	289,935	233,191
Imaging System	68,641	43,846
Legislative	42,500	45,036
Strategic planning	63,378	63,378
Total	$910,231	$736,759

Schedule of Investment Expenses

	1998	1997
Investment manager fees	$39,623,074	$31,895,321
Master Trustee fees	737,448	1,166,857
Securities lending fees	71,513,192	62,412,500
Legal fees	0	3,627
Miscellaneous	61,669	95,842
Total	$111,935,383	$95,574,147

A schedule of investment related fees can be found in the Investment Section.

Investments

In short, the way to wealth, if you desire it,
depends chiefly on two words, industry and frugality;
that is, waste neither time nor money,
but make the best use of both.

– Benjamin Franklin

MERCER

May 14, 1999

The Board of Trustees
The Executive Director
The Illinois Municipal Retirement Fund
2211 York Road
Oak Brook, IL 60523

Dear Trustees:

We have completed our evaluation of the investment results for the Illinois Municipal Retirement Fund for the fiscal year ended December 31, 1998. We have developed our conclusions considering the following market conditions:

- The domestic equity market continued to perform well above expectations based upon the results of market benchmarks which were driven by the very largest companies.
- The domestic bond market also provided investment returns considered better than average in historical terms, although lower than the stock market.
- The international equity markets finished the year with a 20.3% return (unhedged), showing strong improvement over prior periods.
- Real estate was measurably stronger with an 18.2% return for the NCREIF Index during the year.

The Fund had a market value of $13.1 billion on December 31, 1998, an increase of $1.5 billion from December 31, 1997. This increase was primarily due to investment income, and included benefit payments of $478.6 million. The total return of the Fund for the one year period ended December 31, 1998 was 12.6%. For the trailing three year period, the Fund increased $4.8 billion, paid benefits of $1.3 billion and had an annualized return of 14.8%. For the trailing five-year period, the Fund increased $6.8 billion, paid benefits of $2.0 billion, and had an annualized return of 12.8%. Over ten years, the Fund increased $9.4 billion, paid benefits of $3.2 billion, and had an annualized return of 11.9%. In each case, the return of the Fund was well ahead of the actuarial assumed interest rate of 7.5% and inflation, as measured by Consumer Price Index. Actual investment returns in excess of the actuarial assumed interest rate result in greater benefit security and a higher funded status.

The Fund continued to be committed to a diversified approach. The Fund's allocation to various asset classes at December 31, 1998 was 42.6% U.S. equity; 31.4% fixed income (including a 3.0% cash equivalents position); 19.6% international equity; 4.6% real estate; and 1.8% alternative investments.

MERCER

The Illinois Municipal Retirement Fund
May 14, 1999
Page Two

The domestic equity portfolio benchmark is the Standard & Poor's 500 Stock Index (S&P 500). The Fund's domestic equity portfolio returned 21.3% for 1998 compared to the S&P 500 return of 28.8%. Similar comparisons were true of the prior three , five- and ten-year periods. Contributors to the shortfall included the Fund's position in smaller stocks and individual investment manager weakness. Actions have since been taken to moderate these issues going forward.

The fixed income portfolio, while modestly underperforming the Lehman Brothers Aggregate Bond Index for 1998, 7.5% compared to the Index at 8.7%, has historically provided returns higher than the Index.

Most of the international equity portfolio kept pace with the EAFE Index (50% hedged) benchmark with the exception of the small stock and emerging markets portfolios. In total, the international portion of the Fund underperformed the benchmark for 1998. However, excluding those two international sub categories, the international portfolio provided higher returns than the hedged benchmark index.

As verified by The Northern Trust, all performance results were in compliance with AIMR standards.

The Illinois Municipal Retirement Fund is diversified by asset class and by investment strategy or style. The recent strength of the domestic equity market tends to overshadow the need for diversification in funds with longer time horizons. Diversification also provides a measure of risk control in the management and investment of large asset pools. We support the current focus on the structure of investment within each asset class, and the continued review of the investment managers.

Sincerely,

WILLIAM M. MERCER INVESTMENT CONSULTING, INC.

Kristine L. Ford

Kristine L. Ford, CFA
(312) 902 7707

KLF: otj

May 5, 1998

Board of Trustees and Executive Director
Illinois Municipal Retirement Fund
2211 South York Road
Oak Brook, IL 60521-2374

To the Board of Trustees and the Executive Director

The Northern Trust Company as Master Trustee has provided detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Fund for the period January 1, 1998, through December 31, 1998. Also, a statement of assets together with their fair market value was provided, showing the properties held as of December 31, 1998. The Northern Trust Company certifies that the statements contained therein are fairly presented and are true and accurate.

In addition to the custody of the assets, The Northern Trust Company provided and will continue to provide the following services as Master Trustee:

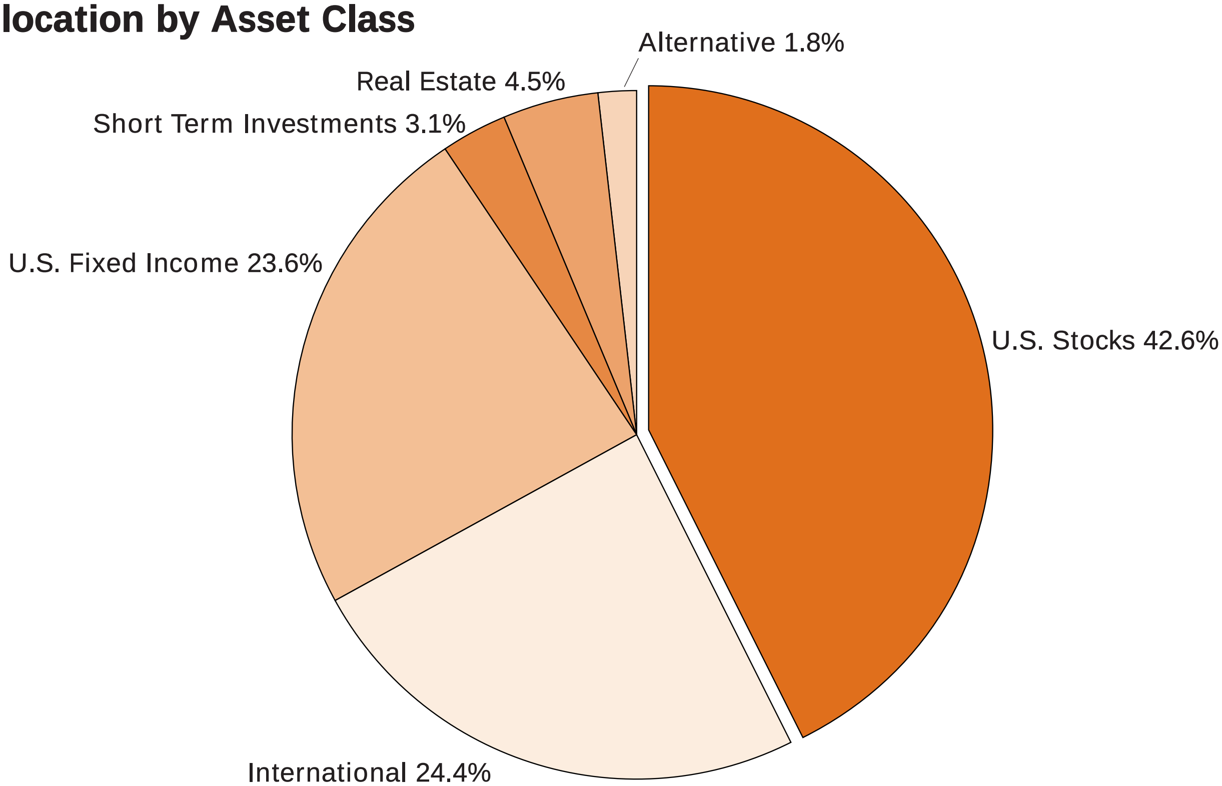
1. Receive and hold all amounts paid to the Trust Fund by the Board of Trustees.
2. Accept and deliver securities in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons.
5. Securities Lending.
6. Invest cash balances held from time to time in the individual investment management accounts in short term, cash equivalent securities.
7. Exercise rights of ownership in accordance with pre-described jurisdiction of stock subscriptions and conversion rights.
8. Hold securities in the name of the Master Trust or nominee form.
9. Employ agents with the consent of the Board of Trustees.
10. Provide disbursement and security fail float income.
11. Investment Performance Measurement.
12. Lockbox and Checking Account.
13. On line Trust and Banking reporting.

THE NORTHERN TRUST COMPANY

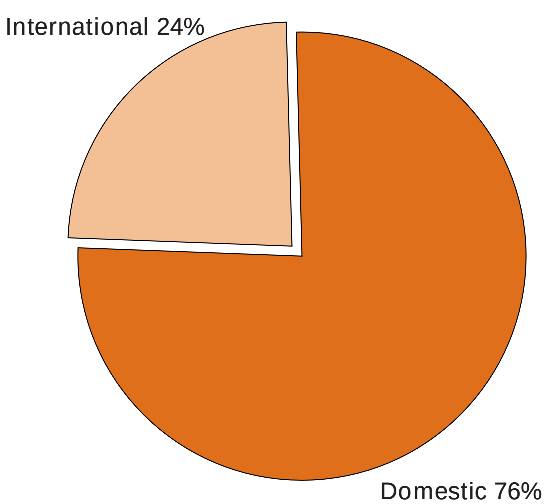
By: Richard L. Deeter
Richard L. Deeter
Vice President

Investment Portfolio as of December 31, 1998

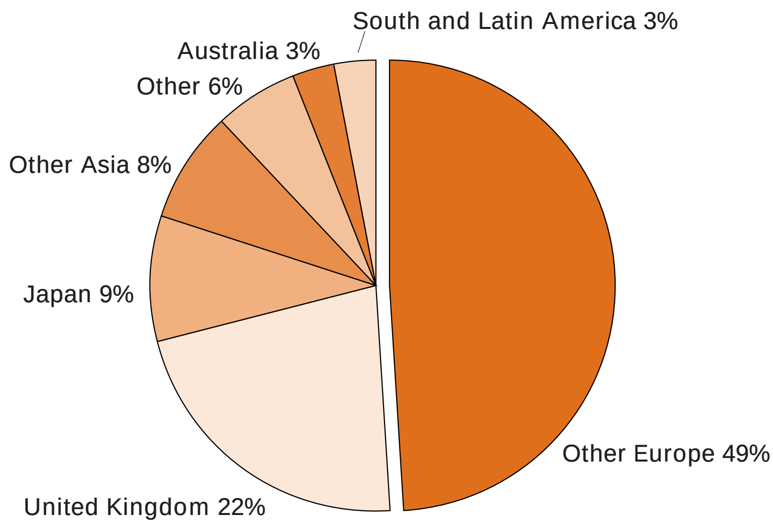
Allocation by Asset Class



Total Investments by Region



International Investments by Region



Investments

Master Trustee

The Northern Trust Company
Richard L. Deeter, Vice President
Chicago, Illinois

Performance Evaluation

The Northern Trust Company
Jennifer L. Parkinson, Second Vice President
Chicago, Illinois

William M. Mercer Investment Consulting, Inc.
Kristine L. Ford, Principal
Chicago, Illinois

Investment Consultant

William M. Mercer Investment Consulting, Inc.
Kristine L. Ford, Principal
Chicago, Illinois

Real Estate Consultant

Institutional Property Consultants, Inc.
Barbara R. Cambon, President
Bruce A. Eidelson, Senior Vice President
San Diego, California

Investment Managers

Abacus Financial Group, Inc.
Chicago, Illinois

Abbott Capital Management, L.L.C.
New York, New York

Bank of Ireland Asset Management (U.S.) Ltd.
Greenwich, Connecticut

Boston Partners Asset Management, L.P.
Boston, Massachusetts

Brandes Investment Partners, L.P.
San Diego, California

Brinson Partners, Inc.
Chicago, Illinois

Campbell, Cowperthwait Investment Counsel
New York, New York

Capital Guardian Trust Company
Los Angeles, California

CB Richard Ellis Investors, LLC
Los Angeles, California

CRA Real Estate Securities
Radnor, Pennsylvania

Cozad/Westchester Agricultural
Asset Management
Champaign, Illinois

Dimensional Fund Advisors
Santa Monica, California

Fidelity Management Trust Company
Boston, Massachusetts

First National Bank of Chicago
Chicago, Illinois

Forest Investment Associates
Atlanta, Georgia

Frontier Capital Management Co.
Boston, Massachusetts

Holland Capital Management
Chicago, Illinois

Institutional Property Consultants/
Grosvenor Estate Holdings
San Diego, California
London, England

Investment Counselors of Maryland
Baltimore, Maryland

Jacobs Levy Equity Management, Inc.
Roseland, New Jersey

J.P. Morgan Investment Management, Inc.
New York, New York

Julius Baer Investment Management, Inc.
New York, New York

LaSalle Advisors, Ltd.
Chicago, Illinois

Lazard Freres Real Estate Investors, LLC
New York, New York

Lend Lease Real Estate Investments, Inc.
Atlanta, Georgia

Lincoln Capital Management Co.
Chicago, Illinois

Loomis, Sayles & Company, L.P.
Boston, Massachusetts

Morgan Stanley Dean Witter Asset
Management Ltd.
New York, New York

Nicholas-Applegate Capital Management
Houston, Texas

Northern Trust Quantitative Advisors, Inc.
Chicago, Illinois

Olympus Real Estate Corporation
Dallas, Texas

Oxford Partners
Westport, Connecticut

Payden & Rygel
Los Angeles, California

Prudential Investments
Parsippany, New Jersey

Pyrford International PLC
London, England

The RREEF Funds
Chicago, Illinois

Schroder Capital Management International
London, England

Schroder Ventures
London, England

Security Capital Markets Group, Inc.
Santa Fe, New Mexico

Sentinel Real Estate Corporation
New York, New York

The CII Liquidating Partnership, L.PO.
Denver, Colorado

Wall Street Associates
La Jolla, California

Investments

Investment Objectives and Policies

The Board of Trustees, operating within the "prudent person" framework, has adopted the following investment guidelines for IMRF investment managers. The guidelines presented here are intended to be summarizations. Specific guidelines are in effect for the individual investment managers.

A. Investment Objectives

To assure an adequate accumulation of assets in the Fund at the least cost to the taxpayers of the state and to provide some protection against the erosion of principal by inflation, the investment objectives over full economic cycles are:

1. Achieve and maintain assets in the Illinois Municipal Retirement Fund (IMRF) in excess of the present value of accrued benefits.

2. Achieve for the total Fund a total rate of return in excess of inflation as measured by the GDP price deflator.

3. Achieve in equity securities (common stock, convertible preferred stock, and convertible bonds) a total return that exceeds the total return of the Standard & Poor's 500 Composite Stock Index. In addition, the Board expects to earn a minimum of 6 percent in excess of inflation over a moving five-year period.

4. Achieve in fixed income securities a total return that exceeds the Lehman Government/Corporate Bond Index. In addition, the Board expects to earn a minimum of 3 percent in excess of inflation over a moving five-year period.

5. Achieve in equity real estate investments a rate of return of 5 percent over inflation during a moving five-year period.

6. Achieve in alternative investments a 15 percent nominal return.

7. Achieve in short-term securities, managed internally, relative performance better than U.S. Treasury Bills (30 days).

Total return shall include both income and realized and unrealized gains and losses, and is computed on market value.

The Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, investment manager style, and geographical location.

B. Proxy Voting Guidelines

The Board shall retain the final authority and responsibility to vote proxies. Generally, proxies shall be voted for management nominees and proposals in all cases unless otherwise recommended by the Investment Manager. In cases of takeover, anti-takeover, merger or acquisition resolutions or significant corporate developments, the IMRF staff will consult with the Investment Manager(s) prior to execution of the proxy ballot.

C. U.S. Equity Investment Guidelines

1. The equity portfolio as a whole shall be constructed on four fundamental principles: diversification, quality, growth, and value.

2. A commitment to any one industry shall generally be limited to a maximum of 20% of an equity manager's portfolio market value at the time of purchase, and any holding of any one issuer at the time of purchase shall generally be limited to a maximum of 5 percent of the equity manager's portfolio market value.

3. The equity securities must be listed on the principal U.S. exchanges or traded over the counter. ADRs (either listed or traded over the counter) of foreign companies are permissible.

4. Volatility of the non-commingled equity portfolio should not exceed 125% of the volatility of the market as defined by Standard & Poor's 500 Composite Stock Index and measured by the portfolio evaluation advisors unless otherwise agreed to by the Board.

5. The use of convertible debt instruments shall be considered part of the equity portfolio.

D. International Equity Investment Guidelines

1. The international equity portfolio as a whole shall be constructed on four fundamental principles: diversification, quality, growth, and value.

2. Managers may invest in any equity securities that are not traded on U.S. exchanges.

3. Any holding of any one issuer at the time of purchase shall generally be limited to a maximum of 5 percent of the international equity manager's portfolio market value.

4. Managers may engage in various transactions to hedge currency.

E. Global Equity Investment Guidelines

1. The global equity portfolio as a whole shall be constructed on four fundamental principles: diversification, quality, growth, and value.

2. Managers may invest in any equity securities that are traded on U.S. or international exchanges.

3. Equity holdings within a global portfolio are subject to the following limits:
   - An 8 percent purchase limit per security at market
   - A 20 percent maximum investment per industry at market
   - A 20 percent maximum investment per country in the applicable index at market
   - A 20 percent maximum investment in emerging market securities at market

4. Managers may engage in various transactions to hedge currency.

F. Emerging Market Equity Investment Guidelines

1. The guidelines for the Asia Ex-Japan portfolio are as follows:
   - The portfolio shall consist primarily of equities, but may include convertibles and debt securities of the Asian markets
   - There are no prescribed limits on geographic allocation
   - The manager shall select investments which have a reasonable degree of marketability
   - Any holding of any one issuer at the time of purchase shall be limited to 10 percent of the manager's portfolio market value
   - The manager may not purchase more than 10 percent of the total outstanding shares of any one issue
   - Currency hedging is permitted up to 50 percent of total assets

2. The guidelines for the Emerging Markets Growth Fund portfolio are as follows:
   - The portfolio shall be diversified both geographically and by industry sector
   - Markets will be selected based on market liquidity, availability of information, and official regulation, including fiscal and foreign exchange repatriation rules
   - The manager may invest up to 35 percent of its assets in a single country
   - Any holding of any one issuer at the time of purchase shall be limited to 5 percent of the manager's portfolio market value
   - The manager may engage in various transactions to hedge currency

G. U.S. Fixed Income Investment Guidelines

Investment may be made in:

1 Bonds, notes or other obligations of indebtedness issued or guaranteed by the U.S. government, its agencies or instrumentalities.

2. Debt obligations of any U.S. corporation within the following limits:
   - A maximum of 15 percent of a manager's portfolio assets at market value in obligations of any one issuer
   - No more than 20 percent of a manager's portfolio assets at market value may be invested in securities rated below “BBB” or “Baa” at the time of purchase
   - The use of debt instruments rated lower than ‘BBB” or “Baa”or non-rated instruments does not require prior Board approval for investment managers in the high-yield discipline

3 Bonds or other obligations guaranteed by the Government of Canada, or by any province of Canada, provided they are rated “A” or better and are payable in U.S. funds. They shall be limited to 5 percent of the manager's assets at market value on each such issue.

4. Securities backed by mortgage obligations on real property.

5. Private placements authorized by the Board on an individual basis.

6. Bonds or other obligations of foreign countries and corporations payable in U.S. and non-U.S. funds as authorized by the Board for specific managers.

7. U.S. exchange traded financial futures, U.S. exchange traded options on financial futures, and over the counter options on U.S. government securities subject to individual manager guidelines. The use of leverage is not allowed.

H. Global Fixed Income Investment Guidelines

1. U.S. and non-U.S. dollar denominated fixed income securities are permissible investments.

2. Debt obligations of any corporation are permissible within the following limits:
   - A maximum of 5 percent of the manager's assets at market value in obligations of any one issuer
   - U.S. and non-U.S. dollar denominated government and government agency obligations may be purchased without limitation
   - The manager shall not invest in securities rated lower than "BBB" by Standard & Poor's "Baa" by Moody's, or other such equivalent ratings issued by other recognized rating agencies
   - No more than 15 percent of the manager's assets at market value shall be invested in obligations rated "BBB", "Baa", or such equivalent ratings

3. The manager may engage in various transactions to hedge currency.

4. Exchange traded financial futures, exchange traded options on financial futures, and over the counter options are permissible investments. The use of leverage is not allowed.

I. Equity Real Estate Investment Guidelines

Real estate is an authorized investment of the Fund provided that such investment at the time of commitment would not cause the market value of such investments to exceed 5 percent of the market value of the total Fund.

J. Alternative Investment Guidelines

The Alternative Investment portfolio will consist of venture capital, buyout, and special situation investments. Investments will be made for long-term returns, generally through the use of limited partnership vehicles and separate account vehicles. Investments will be diversified in a manner that will broaden the portfolio exposure to a wide range of opportunities and provide a means of controlling the inherent risks of new and different investment areas.

K. Short-Term Investment Guidelines

Permissible short-term investments are U.S. Treasury Bills and Notes, high grade commercial paper, repurchase agreements, banker's acceptances, and certificates of deposit. Commercial paper investments shall be made in instruments rated "A-2" or "P-2" or better as defined by a recognized rating service. Comparable ratings are required for banker's acceptances and certificates of deposit. No more than $20 million of current market value shall be invested in the securities of any one issuer, with the exception of the U.S. government and its agencies.

Investments

Returns by Asset Class

Periods ending December 31st

	1994	1995	1996	1997	1998	Annualized 3 yrs.	Annualized 5 yrs.	Annualized 10 yrs.
Total Time Weighted Returns								
IMRF	-0.40	20.68	15.87	16.19	12.63	14.80	12.76	11.90
CPI (Inflation)	2.67	2.54	3.32	1.70	1.61	2.20	2.36	3.12
Equities—U.S.								
IMRF	-0.61	32.26	22.30	28.47	21.27	23.98	20.18	17.44
S&P 500	1.29	37.48	23.07	33.23	28.75	28.28	24.07	19.20
Wilshire 4500	-2.67	33.43	17.18	25.69	8.63	16.96	15.75	15.13
Wilshire 5000	-0.07	36.45	21.21	31.29	23.43	25.23	21.78	18.11
Equities—International								
IMRF	0.25	6.40	16.34	4.24	13.16	11.57	9.44	8.85
EAFE	8.06	11.55	6.36	2.06	20.33	9.31	9.50	5.85
EAFE 50% Hedged	2.40	10.64	9.06	7.83	16.17	10.96	9.13	n/a
Equities—Global								
IMRF	n/a	n/a	n/a	n/a	15.11	n/a	n/a	n/a
MSCI World	5.58	21.31	13.99	16.22	24.79	18.25	16.19	11.21
Equities—Emerging Markets*								
IMRF	n/a	n/a	n/a	-10.31	-22.01	-7.01	-4.94	n/a
MSCI Emerging Markets Free	-7.32	-5.21	6.03	-11.59	-25.34	-11.21	-9.27	10.95
Fixed Income—U.S.								
IMRF	-2.58	18.09	5.77	10.18	7.10	6.70	6.70	8.93
Lehman Government/Corporate	-3.51	19.24	2.91	9.75	9.47	7.33	7.30	9.34
Lehman Aggregate	-2.92	18.48	3.61	9.68	8.67	7.29	7.27	9.26
Merrill Lynch 1-3 Year Treasury	0.57	11.00	4.98	6.66	7.00	6.21	5.99	7.34
Merrill Lynch High Yield	-1.17	19.91	11.06	12.83	3.66	9.11	9.01	11.08
Fixed Income—Global								
IMRF	-0.43	21.75	9.42	0.21	15.68	8.38	9.06	10.09
Salomon World Govt Ex-U.S.	5.98	19.55	4.10	-4.26	17.79	5.49	8.26	8.79
Salomon World Govt.	2.33	19.04	3.63	0.24	15.29	6.20	7.85	8.97
Real Estate								
IMRF	3.38	5.02	15.51	22.68	-0.38	10.01	7.62	-0.05
NCREIF Property	4.63	8.75	10.36	12.28	18.18	13.56	10.75	5.18
Alternative Investments								
IMRF	11.78	21.69	44.90	39.26	19.58	34.13	26.94	16.42
Cash & Cash Equivalents								
IMRF	4.51	6.16	5.80	5.87	5.81	5.83	5.63	6.02
U.S. Treasury Bills	4.53	5.74	5.30	5.37	5.02	5.23	5.19	5.53

**Prior to 1997, Emerging Market Equity returns were included in International Equity returns.*

Performance has been audited and calculated by The Northern Trust Company in accordance with AIMR's performance presentation standards.

Investment Portfolio Summary

in millions of dollars

	As of 12/31/98		As of 12/31/97	
	Market Value	Percent of Total Market Value	Market Value	Percent of Total Market Value
Fixed Income				
U.S. Government	$908.8	7.0%	$801.5	6.9%
Corporate	1,155.6	8.9%	902.4	7.8%
Fixed Income Funds	996.1	7.7%	891.7	7.7%
Foreign	623.9	4.8%	657.3	5.7%
	3,684.4	28.4%	3,252.9	28.1%
Stocks				
U.S. Common & Preferred	4,020.4	31.0%	3,211.2	27.8%
U.S. Stock Fund	1,506.5	11.6%	1,670.0	14.5%
Foreign Common & Preferred	1,827.6	14.1%	1,404.2	12.2%
Foreign Stock Funds	715.8	5.5%	664.3	5.7%
	8,070.3	62.2%	6,949.7	60.2%
Short-Term Investments	396.2	3.0%	596.7	5.2%
Real Estate				
Commingled Funds	311.6	2.4%	281.3	2.4%
Directly Owned	280.5	2.2%	283.4	2.5%
	592.1	4.6%	564.7	4.9%
Alternative Investments				
Commingled Funds	166.0	1.3%	137.3	1.2%
Timberland	66.8	0.5%	42.7	0.4%
	232.8	1.8%	180.0	1.6%
Total Portfolio	$12,975.8	100.0%	$11,544.0	100.0%

A complete listing of investments is available upon request.

Investments

Asset Allocation

Last Five Years

	Market Value as a Percent of Portfolio				
	1994	**1995**	**1996**	**1997**	**1998**
Fixed Income					
U.S. Government	9.0%	7.6%	9.2%	6.9%	7.0%
Corporate	5.3%	5.5%	6.3%	7.8%	8.9%
Index Fund	9.0%	8.1%	6.7%	7.7%	7.7%
Foreign	7.2%	8.0%	5.6%	5.7%	4.8%
	30.5%	29.2%	27.8%	28.1%	28.4%
Stocks					
U.S. Common & Preferred	20.1%	25.4%	24.1%	27.8%	31.0%
U.S. Stock Funds	14.9%	16.3%	16.9%	14.5%	11.6%
Foreign Common & Preferred	13.6%	12.6%	13.3%	12.2%	14.1%
Foreign Stock Funds	5.8%	5.1%	6.4%	5.7%	5.5%
	54.4%	59.4%	60.7%	60.2%	62.2%
Short-Term Investments	7.5%	4.8%	5.3%	5.2%	3.0%
Real Estate					
Commingled Funds	3.5%	2.3%	1.9%	2.4%	2.4%
Directly Owned	2.2%	2.7%	2.8%	2.5%	2.2%
	5.7%	5.0%	4.7%	4.9%	4.6%
Venture Capital:					
Commingled Funds	1.5%	1.2%	1.2%	1.2%	1.3%
Timberland	0.4%	0.4%	0.3%	0.4%	0.5%
	1.9%	1.6%	1.5%	1.6%	1.8%
Total Portfolio	100.0%	100.0%	100.0%	100.0%	100%

A complete listing of investments is available upon request.

Ten Largest Fixed Income Investment Holdings

Excludes Commingled Funds

Description	Market Value	Percent of Total Invested Market
U.S. Treasury Bonds 6.625% due 7/31/01	$110,858,298	0.8%
U.S. Treasury Bonds 5.250% due 11/15/28	90,591,638	0.7%
U.S. Treasury Notes 5.750% due 8/15/03	64,203,867	0.5%
U.S. Treasury Notes 7.250% due 5/15/04	57,547,056	0.4%
Germany (Fed Rep) 4.500% due 2/22/02	53,507,325	0.4%
US Treasury Notes 5.375% due 7/31/00	47,130,023	0.4%
Germany (Fed Rep) 6.500% due 7/4/27	36,228,809	0.3%
US Treasury Notes 7.000% due 7/15/06	32,518,130	0.2%
FNMA 6.875% due 6/7/02	31,364,618	0.2%
Greece (Rep of) 9.200% due 3/21/02	26,446,920	0.2%
Total	$550,396,684	4.1%

Ten Largest Equity Investment Holdings

Excludes Commingled Funds

Description	Market Value	Percent of Total Invested Market
America On-Line	$174,841,388	1.3%
Cisco Systems Inc.	117,117,773	0.9%
Microsoft Corp.	106,837,916	0.8%
Dell Computer Corp.	103,750,600	0.8%
Pfizer Inc.	80,156,250	0.6%
Intel Corp.	73,212,344	0.6%
EMC Corp.	66,346,750	0.5%
Home Depot Inc.	49,206,988	0.4%
Federal National Mortgage Association	48,788,200	0.4%
Medtronic Inc.	47,491,556	0.4%
Total	$867,749,765	6.7%

A complete listing of securities is available upon request.

Investments

Schedule of 1998 Domestic Brokerage Commissions

In order of commissions received

Broker Name	Shares	Commissions	Per Share
Citation Group*	4,949,713	$286,457	$0.06
Morgan Stanley	6,537,347	273,028	0.04
Lynch Jones and Ryan*	4,407,950	261,859	0.06
Goldman Sachs	6,649,740	236,009	0.04
Smith Barney	3,685,089	151,062	0.04
Donaldson Lufkin and Jenrette Secs	4,000,265	149,517	0.04
Paine Webber	3,167,097	149,122	0.05
Capital Institutional Services*	2,603,605	145,486	0.06
Lehman Brothers*	2,717,840	122,640	0.05
Bear Stearns Secs	3,388,890	122,256	0.04
Merrill Lynch Pierce Fenner	3,622,483	119,454	0.03
JP Morgan Securities	2,201,295	109,522	0.05
Bernstein, Sanford C. and Co.	1,798,046	100,763	0.06
First Boston Corp.	2,756,166	97,627	0.04
Lewco Secs	1,650,500	92,155	0.06
Instinet	2,368,350	73,105	0.03
Prudential Secs	2,178,500	72,751	0.03
Ormes Capital Markets Inc.	1,123,862	67,432	0.06
Alex, Brown and Sons	2,328,150	66,194	0.03
Oppenheimer and Company	1,754,500	65,484	0.04
Cowen and Co.	1,234,300	63,598	0.05
Factset Data Systems	1,010,925	60,183	0.06
Deutsche Morgan Grenfell	1,266,500	53,355	0.04
Jefferies and Company	1,557,575	45,466	0.03
Williams Capital Group	782,900	43,590	0.06
Investment Technology Group	2,071,200	42,694	0.02
Keefe Bruyette and Woods	750,675	36,866	0.05
Spear Leeds and Kellogg	615,680	35,637	0.06
ABN Amro Secs	943,378	35,041	0.04
Baird, Robert W and Co.	926,600	34,338	0.04
Montgomery Secs	1,898,500	33,026	0.02
Standard and Poors Secs	553,900	30,473	0.06
Thomson Institutional Services	492,200	29,532	0.06
Bridge Trading Co.	515,200	28,970	0.06
Robinson Humphrey	544,800	28,645	0.05
Furman Selz Mager Dietz and Birney	792,200	25,079	0.03
ESI Secs Co.	486,500	23,841	0.05
Ernst and Co.	649,900	23,155	0.04
Blair, William	626,950	21,995	0.04
Howard, Weil and Labouisse	390,111	20,782	0.05
Other Brokers	20,819,024	633,156	0.03
	102,818,406	$4,111,345	$0.04

**Directed commission broker*

Schedule of 1998 International Brokerage Commissions

In order of commissions received

Broker Name	Shares	Commissions	Per Share
Morgan Stanley	13,323,737	$339,127	$0.03
Hong Kong Shanghai Bank	21,023,289	306,814	0.01
Lehman Brothers*	12,045,811	218,304	0.02
Merrill Lynch	11,082,319	198,924	0.02
SBC Warburg	9,841,836	177,235	0.02
Goldman Sachs	8,146,888	172,375	0.02
Tiedemann*	2,872,900	125,112	0.04
BT Alex Brown	4,594,315	122,126	0.03
ABN AMRO	7,001,837	121,981	0.02
CSFB Securities	4,469,830	121,680	0.03
Deutsche Morgan Grenfell	3,686,641	90,698	0.02
Credit Lyonnais	7,976,001	86,537	0.01
Kleinwort Benson	4,461,293	80,346	0.02
JB Were and Son	5,203,450	78,020	0.01
Indosuez WI Carr	5,596,550	70,653	0.01
Nomura International	5,469,514	48,879	0.01
JP Morgan	1,866,593	44,790	0.02
Jardine Fleming	4,559,213	44,346	0.01
Instinet	4,377,075	43,625	0.01
Ing Baring	2,856,568	42,833	0.01
Salomon Brothers	2,687,350	40,933	0.02
Kay Hain	2,483,000	37,390	0.02
James Capel	1,232,220	35,895	0.03
Nikko Securities	1,919,060	33,331	0.02
UBS Securities	1,394,867	31,952	0.02
Robert Fleming	2,538,747	30,575	0.01
Hoare Govett	1,643,472	30,063	0.02
Bankers Trust	410,340	28,861	0.07
Societe Generale	2,376,947	26,977	0.01
Morgan Grenfell	276,805	25,026	0.09
Natwest	659,145	23,811	0.04
Hoenig	4,743,000	21,184	0.00
BHF Securities	299,880	19,913	0.07
Cazenove	2,751,500	19,794	0.01
First Pacific Stockbrokers	1,301,400	19,229	0.01
Schroder Securities	1,117,365	16,935	0.02
Pershing Securities	981,006	15,693	0.02
AB Asesores	75,400	15,344	0.20
Deutsche Bank	2,074,950	14,783	0.01
Enskilda	49,300	12,893	0.26
Other Brokers	14,236,825	263,703	0.02
	185,708,239	$3,298,690	$0.02

**Directed commission broker*

Investments

Schedule of Investment Fees

	1998 Fees	1998 Assets under management at year end (in thousands)	1998 Basis Points	1997 Fees	1997 Assets under management at year end (in thousands)	1997 Basis Points
Investment manager fees						
Fixed income managers	$3,407,249	$2,710,393	13	$3,573,761	$2,608,085	14
Stock managers	15,236,412	5,539,503	28	12,936,284	4,995,776	26
International managers	12,818,160	3,991,520	32	10,477,398	3,232,852	32
Real Estate managers	5,938,834	598,112	99	3,317,629	577,238	57
Alternative investment managers	2,222,419	247,268	90	1,590,249	196,690	81
	$39,623,074	$13,086,796		$31,895,321	$11,610,641	
Other investment fees						
Master trustee fees	$737,448			$1,166,857		
Legal fees				3,627		
Total other investment fees	737,448			1,170,484		
Total investment fees	40,360,522			33,065,805		
Non-fee investment expenses	61,669			95,842		
Total direct investment expenses	$40,422,191			$33,161,647		
Securities lending fees	$71,513,192			$62,412,500		

Fees paid with directed commissions

IMRF pays for some consulting services with directed commissions or "soft dollars."
These are a form of payment for services through brokerage commissions generated through trades with special directed brokerages.

	1998	1997
Investment consulting fees	$329,800	$340,090
Master trustee fees	100,000	101,425
	$429,800	$441,515

Actuarial

I'm very pleased with each advancing year.
It stems back to when I was forty.
I was a bit upset about reaching the milestone,
but an older friend consoled me.
"Don't complain about growing old—
many, many people do not have that privilege."

– Earl Warren

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
[illegible]

May 10, 1999

Board of Trustees
Illinois Municipal Retirement Fund
2211 York Road, Suite 500
Oak Brook, Illinois 60521 2374

Dear Board Members:

The basic financial objective of the Illinois Municipal Retirement Fund (IMRF) is to establish and receive contributions which:

- when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and
- when combined with present assets and future investment return will be sufficient to meet the financial obligations of IMRF employers to present and future retirees and beneficiaries.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e. the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 1998.

The plan administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year to year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. The Plan's external auditor also audits the actuarial data annually.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report.

Schedule of Funding Progress

Solvency Test

Actuarial Balance Sheet

Analysis of Unfunded Liability

Gain and Loss Analysis

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed five year period.

Board of Trustees
Page 2

May 10, 1999

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The December 31, 1998 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1993-95 period. The next experience study will cover the period from January 1, 1996 to December 31, 1998.

Combined experience was favorable during 1998, producing a decrease in contribution rates for many employers. Investment return was a significant source of actuarial gain.

Based upon the results of the December 31, 1998 valuations, we are pleased to report to the Board that the Illinois Municipal Retirement System is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY

Norman L. Jones

Norman L. Jones, F.S.A., M.A.A.A.

Brian B. Murphy

Brian B. Murphy, F.S.A., M.A.A.A.

BBM:cg

GABRIEL, ROEDER, SMITH & COMPANY

Illinois Municipal Retirement Fund
Brief Summary Of Actuarial Assumptions
(Adopted as of December 31, 1996, except as noted below)

Investment Return	7.5% per annum, compounded annually, net of expenses (effective December 31, 1991), including an inflation component of 4.0% and a real return component of 3.5%.
Payroll Growth	4.00% per annum, compounded annually. Membership is assumed to remain constant.
Retirement Age	Rates varying by age and sex. See table below for sample values.
Mortality for Actives and Annuitants	1983 Group Annuity Mortality Table for males and 1983 Individual Annuity Mortality Table for females, both multiplied by 95%. 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.
Mortality for Disabled Cases	1965 Railroad Retirement Board Disability Mortality Table.
Disability & Separation	Graduated rates by age and service. See table below for sample values.
Salary Increases	Graduated rates by age and service. See table below.
Asset Valuation Method	Market Related Value that reflects five year averaging of investment gains and losses.
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

Age	Active Mortality Male	Active Mortality Female	Disability Male	Disability Female	Pay Increase Next Year (6 + yrs. of service)
20	0.05%	0.02%	0.03%	0.08%	%
30	0.07	0.03	0.09	0.10	5.8
40	0.11	0.05	0.20	0.10	5.1
50	0.31	0.14	0.42	0.23	4.9
60	0.78	0.31	- -	- -	4.4
65	1.20	0.50	- -	- -	- -

Age	Separation Regular (8 + Yrs. Serv.) Male	Separation Regular (8 + Yrs. Serv.) Female	Separation SLEP (5+ Yrs.)	Retirement Reduced Male	Retirement Reduced Female	Retirement Unreduced Male	Retirement Unreduced Female	Retirement SLEP
30	3.80%	6.50%	4.80%	- -%	- -%	- -%	- -%	- -%
40	3.20	4.80	2.70					
50	2.60	3.70	2.00	- -	- -	- -	- -	13.00
55	- -	- -	- -	5.00	6.00	35.00	15.00	13.00
60	- -	- -	- -	- -	- -	9.00	13.00	18.00
65	- -	- -	- -	- -	- -	39.00	30.00	40.00
70	- -	- -	- -	- -	- -	20.00	22.00	100.00

ECO retirement rates were 10 percentage points higher than the above schedule indicates

GABRIEL, ROEDER, SMITH & COMPANY

05/10/99

Solvency test

Last ten years

Calendar Year	Aggregate Actuarial Liabilities For (1) Active Member Contributions	(2) Annuitants	(3) Active Members (Employer Financed Portion)	Actuarial Assets	Portion of Actuarial Liabilities covered by Assets (1)	(2)	(3)
1989	$ 887,685,005	$1,861,782,117	$2,679,953,178	$3,589,732,873	100.0%	100.0%	31.4%
1990	986,213,859	2,111,742,303	3,134,267,510	4,468,795,967	100.0%	100.0%	43.7%
1991	1,095,888,522	2,217,253,547	3,093,823,381	5,034,577,441	100.0%	100.0%	55.6%
1992	1,218,238,446	2,421,564,751	3,314,680,161	5,615,583,858	100.0%	100.0%	59.6%
1993	1,350,831,396	2,660,823,087	3,498,111,756	6,396,329,900	100.0%	100.0%	68.2%
1994	1,496,014,554	2,907,982,455	3,722,645,821	7,078,861,925	100.0%	100.0%	71.9%
1995	1,642,362,193	3,171,162,151	4,010,173,143	8,034,030,783	100.0%	100.0%	80.3%
1996	1,782,293,677	3,588,320,481	4,407,978,361	9,076,261,663	100.0%	100.0%	84.1%
1997	1,933,512,014	3,995,946,514	4,878,510,539	10,273,116,034	100.0%	100.0%	89.0%
1998	2,086,679,470	4,485,651,306	5,288,548,422	11,636,495,534	100.0%	100.0%	95.8%

Total obligation and actuarial value of assets calculated by the actuary.

Table I
Participating Member Statistics

Last ten years

Calendar Year	Total Salaries	Percent Increase in Total Salaries	Average Annual Salary	Percent Increase in Average Salary	Number of Participating Members	Average Attained Age	Average Years of Service
1989	$2,192,070,342	10.5%	$18,045	3.9%	118,103	43.1	7.2
1990	2,293,192,916	4.6%	19,000	5.3%	120,648	43.3	7.3
1991	2,484,644,553	8.3%	19,846	4.5%	124,953	43.4	7.4
1992	2,643,707,677	6.4%	20,546	3.5%	125,943	43.8	7.6
1993	2,774,088,607	4.9%	21,856	6.4%	130,063	44.3	8.1
1994	2,930,307,763	5.6%	21,710	-0.7%	126,708	43.9	7.7
1995	3,100,271,694	5.8%	22,661	4.4%	133,733	43.8	8.2
1996	3,280,416,531	5.8%	22,104	-2.5%	142,046	44.0	8.3
1997	3,470,593,355	5.8%	23,911	8.5%	146,659	44.1	8.2
1998	3,704,109,084	6.7%	24,871	3.7%	150,428	44.3	8.2

Table II
Changes in the number of recurring benefit payments

Last ten years

	Additions		Deletions		End of Year	
Calendar Year	Annuity	Disability	Annuity	Disability	Annuity	Disability
1989	3,260	1,883	1,130	1,823	47,598	1,407
1990	3,698	2,024	1,966	2,022	49,330	1,409
1991	2,899	2,022	1,165	2,061	51,064	1,370
1992	3,067	2,033	1,235	1,993	52,896	1,410
1993	3,381	1,978	1,349	1,881	54,928	1,507
1994	3,931	2,067	1,501	1,343	57,358	2,231
1995	4,020	2,014	1,321	1,590	60,057	2,655
1996	3,866	1,886	2,403	2,813	61,520	1,728
1997	4,971	1,885	2,436	1,986	64,055	1,627
1998	4,895	1,799	2,678	1,942	66,272	1,484

Table III
Number of initial benefit payments

Last ten years

Calendar Year	Annuity	Disability	Death	Refund	Total
1989	3,260	1,883	1,732	11,642	18,517
1990	3,698	2,024	1,878	11,917	19,517
1991	2,899	2,022	1,836	11,692	18,449
1992	3,059	2,033	2,097	12,006	19,195
1993	3,289	1,978	1,954	9,491	16,712
1994	3,365	2,785	1,822	10,910	18,882
1995	4,039	2,183	1,002	11,348	18,198
1996	4,689	2,221	889	11,550	18,989
1997	4,962	2,169	915	13,841	21,887
1998	4,025	1,953	2,367	13,373	21,718

Table IV
Average employer contribution rates
Last five years

Calendar Year	Normal Cost	Prior Service Cost	Disability and Death	Supplemental Retirement Benefit	Total
Regular Members					
1996	7.22%	1.74%	0.40%	0.62%	9.98%
1997	7.27%	1.32%	0.40%	0.62%	9.61%
1998	7.21%	1.36%	0.45%	0.62%	9.64%
1999	7.23%	0.99%	0.35%	0.62%	9.19%
2000*	7.17%	0.02%	0.35%	0.62%	8.16%
Sheriff's Law Enforcement Personnel Members (SLEP)					
1996	9.51%	1.44%	0.40%	0.62%	11.97%
1997	9.32%	1.09%	0.40%	0.62%	11.43%
1998	10.22%	2.65%	0.45%	0.62%	13.94%
1999	10.62%	2.43%	0.35%	0.62%	14.02%
2000*	10.42%	2.89%	0.35%	0.62%	14.28%
Elected County Official Members (ECO)					
1999	21.48%	13.56%	0.35%	0.62%	36.01%
2000*	23.39%	17.03%	0.34%	0.62%	41.38%

The optional Elected County Officials Plan began in 1997. The 1999 rates, which are based on 1997 data, are the first experience based rates.
** The method of computing average rates was changed for 2000 from a population weighted method to a pay weighted method.*

Table V
Participating member contribution rates
Last ten years

Calendar	Regular IMRF			Sheriff's Law Enforcement Personnel				Elected County Officials			
Year	Normal	Survivor	Total	Normal	Survivor	SLEP	Total	Normal	Survivor	ECO	Total
1989	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1990	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1991	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1992	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1993	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1994	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1995	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1996	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%				
1997**	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%	3.75%	0.75%	3.00%	7.50%
1998	3.75%	0.75%	4.50%	3.75%	0.75%	2.00%	6.50%	3.75%	0.75%	3.00%	7.50%

***The Elected County Officials plan began in 1997.*

Actuarial Balance Sheet

	Amount at December 31 1998	1997
Sources of Funds		
Actuarial value of assets	$11,636,495,534	$10,273,116,034
Actuarial present value of future contributions		
Member	1,637,048,238	1,537,871,901
Employer normal costs	2,622,317,919	2,479,772,785
Unfunded actuarial accrued liability	224,383,664	534,853,033
Total sources	16,120,245,355	14,825,613,753
Uses of Funds		
Retired members and beneficiaries	4,485,651,306	3,995,946,514
Inactive members	918,795,583	822,878,031
Active members	10,692,245,571	9,985,347,307
Death and disability benefits	23,552,895	21,441,901
	$16,120,245,355	$14,825,613,753

Analysis of Unfunded Liability

	1998	1997
Unfunded liability beginning of year	$534,853,033	$702,330,856
Assumed payments during year	(30,821,514)	(32,600,780)
Assumed interest (7.5 percent)	38,972,111	51,467,029
Expected unfunded liability	543,003,630	721,197,105
Change due to assumption changes	-	-
Change due to investment performance	(515,700,260)	(212,829,259)
Change due to other sources	197,080,294	26,485,187
Unfunded liability end of year	$224,383,664	$534,853,033

Derivation of Experience Gain (Loss)

Type of Risk Area	1998	1997
Risks Related to Assumptions *in millions*		
Economic Risk Areas		
Investment Return	$515.7	$454.9
Pay Increases	(69.9)	(19.9)
Demographic Risk Areas		
Service Retirements	37.8	21.1
Early Retirements	(8.7)	(4.5)
Vested Deferred Retirements	37.8	37.9
Death and Survivor Benefits	7.7	5.7
Disability Benefits	5.7	9.2
Terminated with Refund	(10.5)	46.0
Risks Not Related to Assumptions	(197.0)	(364.1)
Total Gain (or Loss) During Year	$318.6	$186.3

Regular actuarial valuations give information about the composite change in unfunded actuarial accrued liabilities—whether or not the liabilities are increasing or decreasing and by how much. The objective of a gain and loss analysis is to determine the portion of the change in actuarial condition (unfunded actuarial accrued liabilities) attributable to each risk area. The fact that actual experience differs from assumed experience is to be expected—the future cannot be predicted with 100 percent precision. The economic risk areas (investment return and pay increases) are volatile.

Risks not directly related to assumptions include granted additional service credit, data adjustments, timing of financial transactions, etc.

It is assumed that gains and losses will be in balance over a period of years, but sizable year-to-year fluctuations are common.

Summary of Benefits

This is a brief plan description of IMRF benefits. Additional conditions and restrictions may apply. A complete description is found in Article 7 of the Illinois Pension Code

General

IMRF serves more than 2,700 employers including cities, villages, counties, school districts, townships and various special districts, such as parks, forest preserves and sanitary districts. Each employer builds up an account to provide future benefits for its own employees.

Employees of these employers are required to participate if they work in an IMRF qualified position. An IMRF qualified position is one that will equal or exceed the employer's annual hourly standard; the standard is either 600 or 1,000 hours a year.

IMRF has three benefit plans. The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs and deputy sheriffs. Forest preserve districts may adopt the SLEP plan for their law enforcement personnel. Counties may adopt the Elected County Official (ECO) plan for their elected officials. After a county has adopted the ECO plan, participation is optional for the elected officials of that county.

Both the employee and the employer contribute toward the retirement benefits. Members contribute a percentage of their salary. The percentage depends on the plan in which the member participates. Regular members contribute 4-1/2 percent. SLEP members contribute 6-1/2 percent. ECO plan members contribute 7-1/2 percent. Employer contributions are actuarially calculated for each employer. Employers pay most of of the member's and survivor's pension cost and all of the cost for death and disability benefits.

Vesting

Members are vested for pension benefits when they have at least eight years of service credit. SLEP members are vested for a SLEP pension when they have at least 20 years of SLEP service credit. SLEP members with more than 8 years of service but less than 20 years of SLEP service will receive a Regular pension.

Refunds

Non-vested members who stop working in an IMRF qualified position can receive a lump sum refund of their IMRF contributions. Vested members can receive a lump sum refund of their IMRF contributions if they are not retirement age or they may leave the contributions with IMRF until they reach retirement age.

Members that retire without an eligible spouse (married to the member at least one year before the member terminates IMRF participation), will receive a refund of their surviving spouse contributions with interest.

If upon a member's death, all of the member contributions were not paid as a refund or pension, the beneficiary will receive the remainder of the IMRF contributions, with interest.

Wrinkles should merely indicate where smiles have been.

– Mark Twain,

Pudd'nhead Wilson's New Calendar

Summary of Benefits (continued)

Pension Calculations

A Regular IMRF pension is:

- ◆ 1-2/3 percent of the final rate of earnings for each of the first fifteen years of service credit, plus
- ◆ 2 percent for each year of service credit in excess of fifteen years.

The maximum pension at retirement cannot exceed 75 percent of the final rate of earnings.

A SLEP pension is:

- ◆ 2-1/2 percent of the final rate of earnings for each of the first twenty years of service, plus
- ◆ 2 percent for each year of service between twenty and thirty years of service, plus
- ◆ 1 percent of the final rate of earnings for each year of service credit in excess of thirty years.

The maximum pension at retirement cannot exceed 75 percent of the final rate of earnings.

An ECO pension is:

- ◆ 4 percent of the final salary for each of the first eight years of service, plus
- ◆ 4 percent for each year of service between eight and twelve years of service, plus
- ◆ 5 percent for years of service credit over twelve.

The maximum pension at retirement cannot exceed 80 percent of the final rate of earnings

An IMRF pension is paid for life and is increased by 3 percent of the original amount on January 1 of each year after the member retires. The increase for the first year is pro-rated for the number of months the member was on retirement.

Final rate of earnings, for Regular and SLEP members, are the highest total earnings during any forty-eight consecutive months within the last ten years of IMRF service divided by forty eight. The final salary for ECO members is the annual salary of the ECO member on the day he or she retires.

Normal retirement for an unreduced pension is age 60. Members may retire as early as age 55 with a reduced pension. The reduction is the lesser of:

- ◆ one-fourth percent for each month the member is under age 60, or
- ◆ one-fourth percent for each month of service less than 35 years.

Service Credit

Service credit is the total time under IMRF, stated in years and fractions. Service is credited monthly while the member is working, receiving IMRF disability benefits or on IMRF's Benefit Protection Leave.

Members may qualify for a maximum of one year of additional service credit for unused, unpaid sick leave accumulated with the last employer. This additional service credit applies only for members leaving employment for retirement. The service credit is earned at the rate of one month for every twenty days of unused, unpaid sick leave or fraction thereof.

IMRF is under the Reciprocal Act, as are all other Illinois public pension systems, except local police and fire pension funds. Under the Reciprocal Act, service credit, of at least one year, may be considered together at the date of retirement or death for the purpose of determining eligibility for and amount of benefits.

Supplemental Retirement Benefits

Each July IMRF provides a supplemental benefit payment to IMRF retirees and surviving spouses that have received IMRF pension payments for the preceding 12 months. The supplemental benefit payment amount will vary, depending on the dollar amount to be distributed and the number of persons eligible.

Summary of Benefits (continued)

Disability Benefits

Regular and SLEP members are eligible for disability benefits if they:

- have at least 12 consecutive months of service credit since being enrolled in IMRF,
- have at least nine months of service credit in the 12 months immediately prior to becoming disabled,
- are unable to perform the duties of any position which might reasonably be assigned by the IMRF employer because of any illness, injury or other physical or mental condition, and
- are not receiving any earnings for any employer.

The monthly disability benefit payment is equal to 50 percent of the average monthly earnings based on the 12 months prior to the month the member became disabled.

ECO members are eligible for ECO disability benefits if they:

- have at least twelve consecutive months of service credit since being enrolled in IMRF,
- are in an elected county office at the time the disability occurred,
- are making ECO contributions at the time the disability occurred,
- are unable to reasonably perform the duties of office,
- have resigned their office, and
- have two licensed physicians approved by IMRF certify that the ECO member is permanently disabled.

The monthly disability benefit is equal to the greater of:

- fifty percent of his or her annualized salary payable on the last day of ECO participation divided by twelve
- or, the retirement benefit earned to date up to a maximum of 66-2/3 percent.

Disability benefits under all plans are offset by Social Security or worker's compensation benefits. If disabled members receive Social Security disability and/or worker's compensation benefits, IMRF pays the difference between those benefits and 50 percent of the member's average monthly earnings. However, IMRF pays a minimum monthly benefit of $10. Members on disability earn pension service credit as if they were working.

Death Benefits

Beneficiary(ies) of active members that have more than one year of service or whose death is job related are entitled to lump sum IMRF death benefits. If the member was not vested or vested without an eligible spouse, the death benefit is a lump sum equal to one year's earnings plus a refund of the member contributions with interest. Eligible spouses of deceased vested active members may choose the lump sum or a monthly surviving spouse pension.

Beneficiary(ies) of an inactive member receive a lump sum payment of the member's contributions, plus interest. If the beneficiary is an eligible spouse, they may choose between the lump sum payment, or a death benefit of $3,000 plus a monthly surviving spouse pension.

Beneficiary(ies) of a retired member receive a $3,000 death benefit. Eligible spouses also receive a surviving spouse pension.

Summary of Benefits (continued)

Surviving Spouse Pension

For Regular and SLEP members, a surviving spouse's monthly pension is one-half of the member's pension. However, if the spouse is more than five years younger than the member, the pension is actuarially reduced.

For ECO members, a surviving spouse's monthly pension is 66-2/3 percent of the member's pension. This pension is payable once the surviving spouse becomes 50 years old. If the spouse is caring for the member's minor, unmarried children, the spouse will receive (age 50 requirement does not apply):

- a monthly pension equal to thirty percent of the ECO member's salary at time of death plus
- ten percent of the ECO member's salary at time of death for each minor, unmarried child.
  The maximum total monthly benefit payable to spouse and children cannot exceed fifty percent of the ECO member's salary at time of death.
  or
- a monthly pension equal to 66-2/3 percent of the pension the member had earned.

Surviving spouse pensions under all plans are increased each January 1 by 3 percent of the original amount. The first year may be prorated unless the effective date of the benefit is January 1.

Changes in Plan Provisions

Early Retirement Incentive

The optional Early Retirement Incentive program is now available to cities, villages and incorporated towns. In addition, employers may offer a subsequent ERI program at any time after the liability for the previous ERI program is paid.

Military Leave

IMRF members who served in the U.S. military prior to or between periods of IMRF service, may purchase up to 24 months of pension service credit. The member must pay member contributions, a portion of the employer cost, and interest.

Elected County Officials

A new plan for elected county officials was established in 1997. A summary of the plan's provisions is included in the Summary of Benefits.

Statistical

We don't receive wisdom;
we must discover it for ourselves after a journey
that no one can take for us or spare us.

– Marcel Proust

Statistical

TABLE VI
Revenues by source (Unaudited)

Last ten years

Calendar Year	Investment Earnings Net of Direct Investment Expense*	Employer Contributions Dollars	Employer Contributions Percent of Annual Covered Payroll	Member Contributions	Other	Total
1989	$351,617,836	$203,405,700	9.28%	$98,530,748	$30,140	$653,584,424
1990	225,847,255	254,963,199	11.12%	107,356,163	104,730	588,271,347
1991	341,436,905	288,211,812	11.60%	116,512,288	52,370	746,213,375
1992	533,054,735	316,452,098	11.97%	123,251,394	56,340	972,814,567
1993	529,125,672	298,666,790	10.77%	129,790,252	62,476	957,645,190
1994	(21,846,226)	314,709,090	10.73%	137,038,998	896	429,902,758
1995	1,437,085,113	315,729,600	10.18%	145,302,603	1,646	1,898,118,962
1996	1,339,939,094	327,550,353	9.99%	158,107,450	—	1,825,596,897
1997	1,550,409,109	336,249,487	9.69%	168,501,275	1,232	2,055,161,103
1998	1,416,152,349	364,196,668	9.83%	190,259,213	66,938	1,970,675,168

**Note: For years including and subsequent to 1994, Net Investment Income includes realized and unrealized appreciation or depreciation of investments. Preceding years include only realized gains and losses.*

Table VII
Expenses by type (Unaudited)

Last ten years

Calendar Year	Benefits	Refunds	Administrative Expense	Other Expenses	Total
1989	$185,773,391	$18,960,830	$7,806,700	$30,472	$212,571,393
1990	204,611,164	18,333,470	8,803,008	45,110	231,792,752
1991	222,945,051	18,233,310	10,336,985	107,434	251,622,780
1992	243,431,034	18,337,609	12,796,146	24,522	274,589,311
1993	282,562,116	17,979,394	16,685,821	72,342	317,299,673
1994	304,702,303	17,957,846	15,897,039	—	338,557,188
1995	332,685,282	22,261,910	14,756,916	—	369,704,108
1996	368,737,972	23,520,078	14,135,868	—	406,393,918
1997	410,417,029	26,088,854	14,700,542	—	451,206,425
1998	451,496,766	27,121,071	16,527,175	—	495,145,012

Table VIII
Benefit expense by type

Last ten years

Calendar Year	DEATH: Supplemental	DEATH: Refund	DEATH: Burial	DEATH: Residual	DISABILITY: Permanent	DISABILITY: Temporary
1989	$5,278,995	$3,257,815	$4,287,152	$143,717	$1,905,906	$4,275,737
1990	6,065,129	3,446,996	4,428,360	237,499	2,113,394	4,613,439
1991	6,674,977	3,586,516	4,413,706	171,348	2,351,722	4,654,292
1992	6,623,552	3,603,942	5,170,634	177,030	2,677,124	5,058,837
1993	6,579,926	4,296,758	5,045,965	172,088	2,744,544	5,465,798
1994	6,450,051	3,488,386	4,870,740	209,649	2,845,529	5,374,472
1995	6,915,904	4,009,076	4,603,677	204,249	2,792,032	5,827,116
1996	6,537,240	5,669,342	4,986,510	311,381	3,296,993	5,808,860
1997	7,083,244	5,376,069	5,458,990	493,928	3,089,085	5,274,900
1998	7,534,697	5,912,822	5,585,751	516,511	3,093,157	5,130,272

Calendar Year	ANNUITIES: Retirement	ANNUITIES: Surviving Spouse	ANNUITIES: Beneficiary	ANNUITIES: Supplemental	REFUNDS: Separation	REFUNDS: Other	Total
1989	$156,138,922	$10,135,025	$350,122		$18,801,808	$159,022	$204,734,221
1990	171,914,170	11,436,633	355,544		18,160,198	62,272	222,833,634
1991	187,891,475	12,816,774	384,241		18,154,227	79,083	241,178,361
1992	205,294,881	14,428,285	396,749		18,016,467	321,142	261,768,643
1993	225,233,604	16,208,834	429,084	$16,385,515	17,442,746	536,648	300,541,510
1994	245,173,134	17,802,311	470,642	18,017,389	17,797,355	160,491	322,660,149
1995	268,714,165	20,123,119	513,544	18,982,400	21,872,917	388,993	354,947,192
1996	298,852,567	22,359,163	553,216	20,362,701	23,342,975	177,103	392,258,050
1997	336,784,723	24,815,833	615,880	21,424,377	25,760,143	328,711	436,505,883
1998	374,124,085	26,334,571	635,074	22,629,826	26,589,126	531,945	478,617,837

Table IX
Average benefit payment amounts

Last ten years

	Single Sum Payments		Recurring Payments		
Calendar Year	Separation Refunds	Lump Sum Death Benefit	Annual Disability (1)	Annual Retirement (2)	Trend Total
1989	$1,635	$15,391	$9,034	$6,144	$32,204
1990	1,499	16,312	9,051	6,487	33,349
1991	1,497	17,659	9,260	6,967	35,383
1992	1,501	18,452	10,019	7,351	37,323
1993	1,680	18,677	10,085	7,547	37,989
1994	1,906	19,380	8,663	6,817	36,766
1995	1,990	21,518	10,861	8,616	42,985
1996	1,974	22,002	11,188	10,232	45,396
1997	1,859	21,779	11,764	10,643	46,045
1998	1,966	32,627	12,059	10,415	57,067

(1) Prior to Social Security and workers' compensation offsets.
(2) Prior to level option reduction.

Average Annual Benefit Payment Amounts

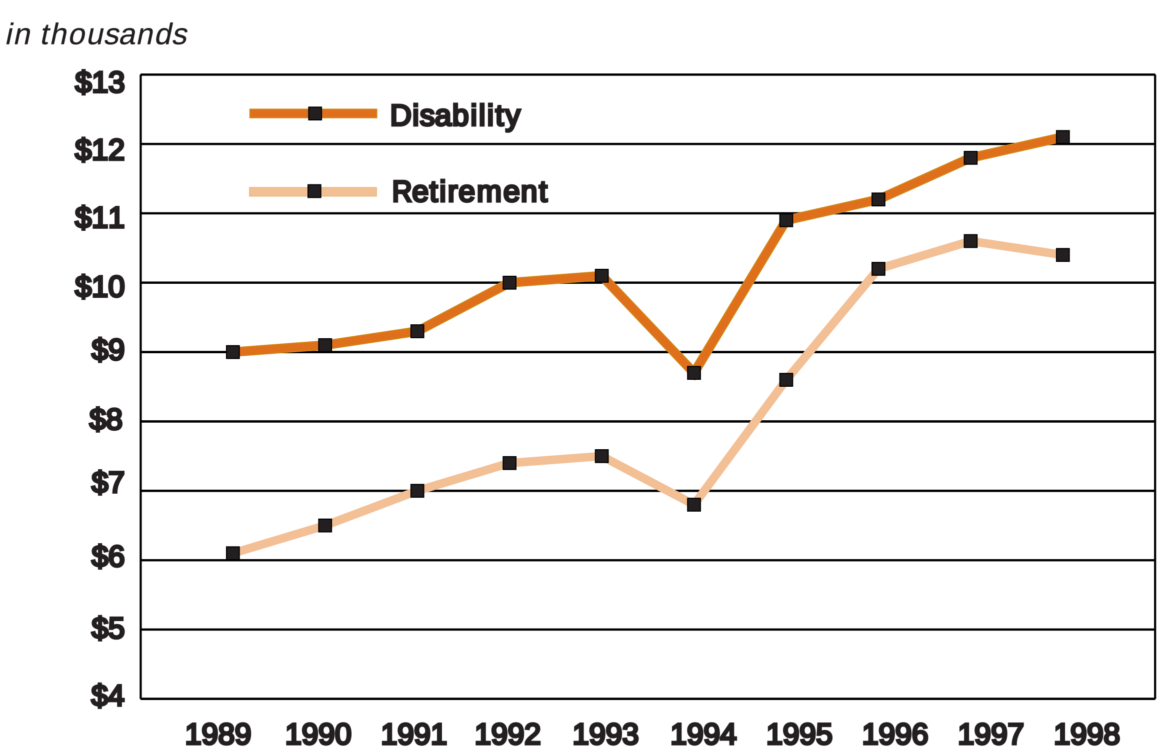


Table X
Number of actively participating employers

Last ten years

Calendar Year End	Cities	Villages	Counties	School Districts	Other	Total
1989	228	276	101	970	896	2,471
1990	233	286	101	953	933	2,506
1991	234	296	101	948	970	2,549
1992	235	308	101	943	1,018	2,605
1993	238	312	101	923	1,036	2,610
1994	240	321	101	910	1,051	2,623
1995	242	329	101	902	1,066	2,640
1996	244	341	101	902	1,091	2,679
1997	245	347	101	898	1,115	2,706
1998	247	356	101	894	1,146	2,744

Table XI
Number of actively participating members

Last ten years

Calendar Year End	Male Participants	Female Participants	Total
1989	48,247	69,856	118,103
1990	49,121	71,527	120,648
1991	50,442	74,511	124,953
1992	50,804	75,139	125,943
1993	52,769	77,294	130,063
1994	50,257	76,451	126,708
1995	52,778	80,995	133,773
1996	55,255	86,791	142,046
1997	56,424	90,235	146,659
1998	57,181	93,247	150,428

Table XII
Participating members' length of service

Last ten years

Calendar Year	Total Active Members	Under 1 Year	1 to 4 Years	5 to 9 Years	10 to 14 Years	15 Years and Over
1989	118,103	18,712	39,748	24,559	18,866	16,218
1990	120,648	17,150	41,785	24,995	19,632	17,086
1991	124,953	16,301	44,413	25,887	20,319	18,033
1992	125,943	14,284	45,174	27,715	19,095	19,675
1993	130,063	18,089	42,972	29,898	17,813	21,291
1994	126,708	14,386	39,653	32,060	18,182	22,427
1995	133,733	16,014	40,065	34,162	18,846	24,646
1996	142,046	18,464	42,166	33,826	19,497	28,093
1997	146,659	20,761	44,506	32,651	20,759	27,982
1998	150,428	21,503	46,464	32,060	22,291	28,110

Table XIII
Distribution of current annuitants by pension amount

	Retirement Number of		Survivor Number of		All Annuities Number of	
Monthly Pension Amount	Males	Females	Males	Females	Males	Females
Under $100	1,208	6,179	741	2,462	1,949	8,641
$100 to under $250	2,722	9,837	643	3,467	3,365	13,304
$250 to under $500	5,118	9,148	252	1,867	5,370	11,015
$500 to under $750	3,283	4,652	58	584	3,341	5,236
$750 to under $1,000	2,164	2,593	8	199	2,172	2,792
$1,000 to under $2,000	3,830	2,939	1	152	3,831	3,091
$2,000 to under $3,000	1,242	340		10	1,242	350
$3,000 to under $4,000	400	38			400	38
$4,000 and over	126	9			126	9
Total	20,093	35,735	1,703	8,741	21,796	44,476

Analysis of Initial Retirement Benefits

	Years of Credited Service							
	8-9	10-14	15-19	20-24	25-29	30-34	35-39	Total
Regular Plan								
1996								
Avg. Monthly Annuity	$224	$231	$557	$819	$1,043	$1,474	$2,055	$765
Avg. Monthly FRE	$1,588	$1,676	$1,944	$2,128	$2,124	$2,534	$2,912	$2,013
Number of Retirees	404	706	686	474	643	335	174	3,422
1997								
Avg. Monthly Annuity	$221	$336	$544	$817	$1,175	$1,514	$2,096	$769
Avg. Monthly FRE	$1,577	$1,714	$1,874	$2,151	$2,413	$2,593	$2,986	$2,055
Number of Retirees	462	749	746	526	689	307	160	3,639
1998								
Avg. Monthly Annuity	$236	$365	$601	$833	$1,309	$1,677	$2,637	$894
Avg. Monthly FRE	$1,667	$1,860	$2,074	$2,182	$2,695	$2,898	$3,767	$2,286
Number of Retirees	444	696	638	523	535	324	231	3,391
Sheriff's Law Enforcement Personnel Plan (SLEP)								
1996								
Avg. Monthly Annuity				$1,668	$2,439	$2,631		$2,144
Avg. Monthly FRE				$3,187	$3,837	$3,879		$3,576
Number of Retirees				20	24	5		49
1997								
Avg. Monthly Annuity				$1,719	$2,509	$3,036	$5,235	$2,582
Avg. Monthly FRE				$3,210	$4,083	$4,407	$6,981	$4,070
Number of Retirees				22	29	29	3	83
1998								
Avg. Monthly Annuity				$1,615	$2,212	$2,905	$4,219	$2,230
Avg. Monthly FRE				$3,192	$3,803	$4,444	$5,625	$3,795
Number of Retirees				30	22	22	2	76
Elected County Official Plan (ECO)								
Plan began in 1997								
1997								
Avg. Monthly Annuity					$2,348		$2,600	$2,474
Avg. Monthly FRE					$2,935		$3,250	$3,093
Number of Retirees					1		1	2
1998								
Avg. Monthly Annuity	$677	$1,181	$2,011	$2,506	$2,422			$1,595
Avg. Monthly FRE	$1,230	$2,745	$2,317	$2,715	$3,028			$2,415
Number of Retirees	3	8	6	3	1			21

FRE = Final Rate of Earnings used to calculate retirement benefit

Note: This schedule excludes members retiring with money purchase benefits, reciprocal benefits or multiple plans.

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Michael Smith
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Donnis Robinson
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Denise Brown
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Mark Cook
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Joe Priory
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Jane Young
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Programmer Analyst
Julie Miller
Programmer Analyst
Jacqueline Montgomery
Programmer Analyst
Joe Principe
Programmer Analyst
Todd Korrell
Programmer Analyst
Keyla Vivas
Sr. Programmer Analyst
Pam Arndt
Programmer
Peter DePetro
Programmer Analyst
Tom O'Donnell
Programmer
Sherwin Tseng
Programmer
Nicolle Murphy
Programmer
George Xiao
Programmer
Andrew Youngdahl
System Programmer
Ellen Simsohn
LAN Administrator
Jeff Heiden
PC/LAN Support Staff
John Boyle
Sr. PC/LAN Support Staff
Collette Beran
Telecom Support Specialist
Stephen Lundquist
Systems Programmer
Ron Daliege
Data Base Analyst
Annie Cole
Computer Rm. Supervisor
Kenneth Teague
Senior Operator
James Terrell
Senior Operator

Office Services

Denise Streit
Office Services Manager
Dave Buchanan
Copier Operator
Susan Joachimi
Purchasing/Maintenance Coordinator
Herbert Trotter
Mail Services Supervisor
Connie Fox
Records Supervisor
Charles Jackson
Senior Mail Center Clerk
Eric Mapp
Senior Mail Center Clerk
Derrick Eiland
Senior Mail Center Clerk
Darrell Thomas
Senior Mail Center Clerk
Neil Eubanks
Programmer
Senior Mail Center Clerk
Emily Dominguez
Senior File Clerk
Tammy Schultz
Senior File Clerk
Alicia Barnett
Data Entry Operator
Mary Bavetta
Data Entry Operator
Arcola Dozier
Data Entry Operator
Carol Jones
Data Entry Operator
April Cook
Data Entry Operator
Linda Castellano
Data Entry Operator
Donna Cesario
Imaging Clerk
Angela Morrison
Imaging Clerk
Betty Perez-Manares
Imaging Clerk
Anita Robinson
Imaging Clerk
Dawn Savage
Imaging Clerk
Thea Tomczyk
Enrollment Auditor
Maria Higgins
Enrollment Auditor
Marissa Malab
Enrollment Auditor
Sheila Adams Evans
Console Attendant/Receptionist

The more sand has escaped from the hourglass of our life,
the clearer we should see through it.

– Jean Paul Satre