

Illinois Municipal Retirement Fund 2001 Popular Annual Financial Report to Members

Published June 2002



IMRF presents the 2001 Popular Annual Report as our first financial report written specifically with IMRF members in mind. The Popular Report incorporates details

from the 2001 Comprehensive Annual Financial Report and, in the process, explains how a defined benefit (DB) plan, like IMRF, works.

The Popular Annual Financial Report looks at IMRF's 2001 investment

and overall financial performance for the year. We also outline who the members of IMRF are—by age and gender—and include an overview of 2001 events.

IMRF mission, vision, and values

Throughout this issue you will see references to the IMRF mission, vision, and values. We encourage you to look over these concepts.

Separately, each may be viewed as a quality or principle that guides IMRF staff in their day-to-day responsibilities to IMRF members and employers.

Together, the IMRF mission, vision, and values are designed to meet one goal—to assure you that IMRF will operate and

administer its programs responsibly, enabling you to prepare for your future. At IMRF, we make decisions and conduct business knowing that *your future* means *your retirement*.

Safeguarding your future

Because you trust IMRF to safeguard and wisely invest your contributions and to have funds available to pay your future benefits, we believe you should know as much as possible about the health of IMRF.

Take a few minutes to review this report. After all, it has been created with you in mind. If you have questions or comments, we want to hear from you. Call an IMRF Member Service Representative at 1-800-ASK-IMRF (1-800-275-4673) or send your comments by email to webmaster@imrf.org. ♦

IMRF Mission Statement

It is the mission of this Fund to efficiently and impartially develop, implement, and administer programs that provide income to members and their beneficiaries on behalf of participating employers in a prudent manner.

Values IMRF employees are expected to apply to their day to day activities:

Honesty - Be truthful in what we think, say, and do.

Accuracy - Recognize that what we do affects the lives of others.

Empathy - Be aware of and sensitive to the feelings of others.

Accountability - Answer for our conduct and obligations.

Courage - Confront new ideas and be willing to change.

IMRF Values



Refer to IMRF's 2001 Comprehensive Annual Financial Report for detailed listings of IMRF's—
 Investment consultants.....pages 39-40
 Investment objectives, guidelines ..pages 41-43
 Returns by asset class.....page 44
 Investment portfolio summarypage 45

2001 Investment Summary

IMRF's investments are a major contributor to the assets used to pay current and future benefits to our members. In 2001, the investment portfolio realized a negative return, which can be attributed to the unprecedented events of 2001. Prior to September 11, the economy showed signs of recession, and investment markets were volatile. After September 11, the investment markets continued downward despite the aggressive interest rate cuts by the Federal Reserve.

Although IMRF realized a negative investment return in 2001, benefits continued to be protected. This is due to an investment philosophy which is focused on long-term investment growth and diversification. This philosophy is described as the "prudent man

rule." The prudent man rule is mandated by Illinois statute and establishes the main component of IMRF investment policy guidelines. The logic is simple. IMRF invests its money in a variety of investments using a variety of investment styles.

Better results with less overall risk

By doing so, IMRF avoids the risk of large losses, because no single investment or investment style performs well in all market environments. History shows that it is impossible to "time" the markets and to pick the areas that are going to perform best at any particular time. History also shows that diversification provides better long-term results with less overall risk.

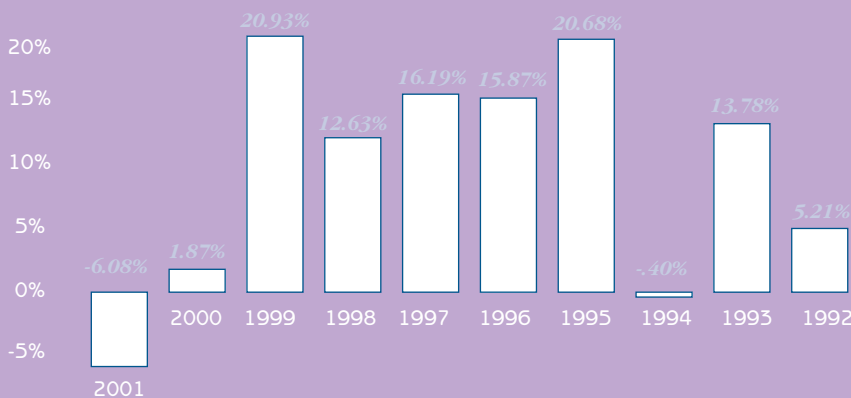
Investment consultant monitors and evaluates

IMRF's Board of Trustees and staff work with more than 40 professional investment management firms in handling 52 separate accounts. The Board also employs an investment consultant 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 an investment policy. Even IMRF's use of multiple

investment managers is based on the prudent man rule. History supports this wisdom by showing that the use of multiple managers decreases risk while increasing long-term results.

The Investment Section of IMRF's 2001 Comprehensive Annual Financial Report provides detailed investment information. ♦

Investment Rates of Return - past 10 years



Investment Portfolio Summary as of December 31 (in millions)

Type	2001		2000	
	Market Value	% of Total Market Value	Market Value	% of Total Market Value
Fixed Income	\$5,068.0	33.2%	\$4,778.7	29.7%
Stocks	8,455.3	55.5%	9,832.4	61.1%
Real Estate	584.1	3.8%	595.5	3.8%
Alternative	490.1	3.2%	375.9	2.3%
Short Term	651.5	4.3%	500.6	3.1%
Total	\$15,249.0	100.0%	\$16,083.1	100.0%

Providing Income Protection to 325,000 lives

When you think of IMRF, you probably think of your retirement benefit. After all, the money withheld by your employer for payment to IMRF goes toward your retirement benefit and will eventually pay approximately 20 percent of your total benefit. Your employer's contributions, coupled with IMRF investment income, constitute the remaining 80 percent of your retirement benefit to be paid over your lifetime.

As you look toward the day you retire, you will need accurate figures about what you can expect. If you are within five years of retirement, request a pension estimate from IMRF by calling 1-800-ASK-IMRF. If retirement is further away, project your retirement benefit using IMRF's pension calculator on IMRF *Online* (www.imrf.org).

Another IMRF retirement planning resource is a "Planning for the Future" workshop, presented by your IMRF Field Service Representative. These workshops provide important information about your IMRF benefits as well as Social Security retirement benefits. Workshops are offered across Illinois. Schedules are listed in each issue of *Fundamentals*, IMRF's member newsletter, and are also posted on IMRF *Online*.

Your other IMRF benefits may include death and disability benefits. The cost of both these benefits is paid entirely by your employer. Below is a brief summary of your retirement benefits. For detailed information, refer to IMRF's Member Benefit Booklet which is available at www.imrf.org or by calling 1-800-ASK-IMRF (1-800-275-4673). ♦

Fast Fact

In 1997, the average monthly retirement benefit was \$480.

In 2001, the average monthly retirement benefit was \$604.

Retirement Eligibility

Upon retiring from an IMRF position and being vested with IMRF, you are eligible for a monthly pension for the rest of your life. Vesting refers to the number of years of service credit you need to qualify for an IMRF pension. You qualify for an IMRF pension at age 60 (normal retirement age) if you have at least eight years of service credit.

Normal retirement for an unreduced pension is:

- age 60 with 8 or more years of service or age 55 with 35 or more years of service, or
- age 50 with 20 or more years of service for members with SLEP* service, or
- age 55 with 8 or more years of service for members with ECO** service.

* SLEP is the Sheriff's Law Enforcement Personnel Plan

** ECO is the Elected County Official Plan

Regular members may retire as early as age 55 with a reduced pension.

Retirement Benefits

An IMRF pension is increased by three 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 retired. Refer to each plan's Benefit Booklet for the pension formula used to calculate a retirement benefit.

Each July, IMRF provides a supplemental benefit payment (known as the "13th check") to IMRF retirees and surviving spouses who 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.

Assets

When it comes to accountability, IMRF is ultimately accountable to you, the member; your employer; and Illinois taxpayers. You can look with a sense of security to IMRF's net asset base since these assets are irrevocably committed to the payment of your pension when you retire.

The table below shows how current financial transactions have impacted the net asset base. The changes in additions between 2001 and 2000 is primarily due to a \$1,294 million decrease in investment income that can be attributed to the difficult financial markets in 2001. IMRF's total investment return in 2001 was -6.08% versus 1.87% in 2000. The increase in deductions is primarily due to increased benefit payments caused by an increase in the number of benefit recipients from 71,300 to 72,832.

The following information comes from the financial section of IMRF's 2001 Comprehensive Annual Financial Report. The financial section contains the auditors' report, management's discussion and analysis, financial statements, and other supplemental information. ♦

Accountability

Answerable; responsible; able to answer for one's conduct and obligations.

IMRF's overall funding ratio compares the amount of benefits promised to the assets available to pay those benefits. IMRF's actuary has determined that the present net asset base, expected future contributions, and investment earnings are sufficient to provide for full payment of future benefits.

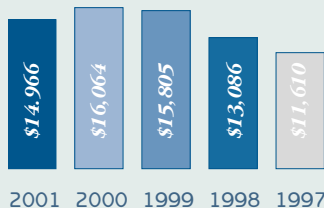
The "Actuarial Funding Status" chart below shows funding for IMRF as a whole. Under the Illinois Pension Code, each employer funds the pensions for its own employees. Funding ratios for individual employers and individual plans vary widely.

The Actuarial Section of the 2001 Comprehensive Annual Financial Report contains the actuary's letter and other actuarial information.

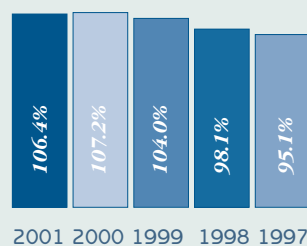
Changes in IMRF Net Assets (in millions)

	2001	2000
Additions		
Member contributions	\$ 216	\$ 200
Employer contribution	313	356
Net investment (loss) income	(1,011)	283
Total Additions	<u>(482)</u>	<u>839</u>
Deductions		
Benefits	571	533
Refunds	27	30
Administrative Expenses	18	17
Total Deductions	<u>616</u>	<u>580</u>
Net (decrease) increase	<u>\$ (1,098)</u>	<u>\$ 259</u>

Net Assets for Past 5 years (in millions)



Actuarial Funding Status for Past 5 Years



Net Assets Held in Trust for Pension Benefits

Beginning of year	\$16,064	\$15,805
End of year	\$14,966	\$16,064

Fast Fact

In 2001, it cost \$18 million to operate the Illinois Municipal Retirement Fund. This breaks down to \$57 per member.

Striving for efficiency

The Board and IMRF staff are committed to providing timely and personalized member services while striving to be an efficient organization.

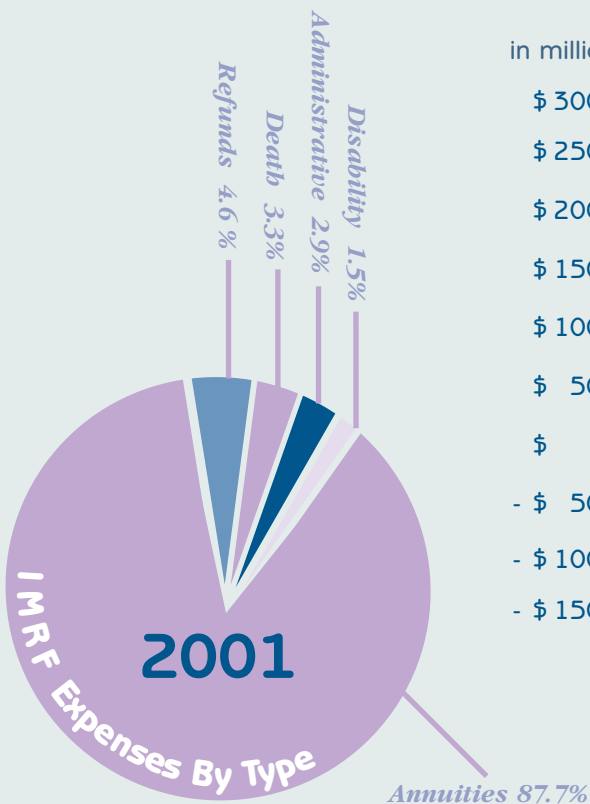
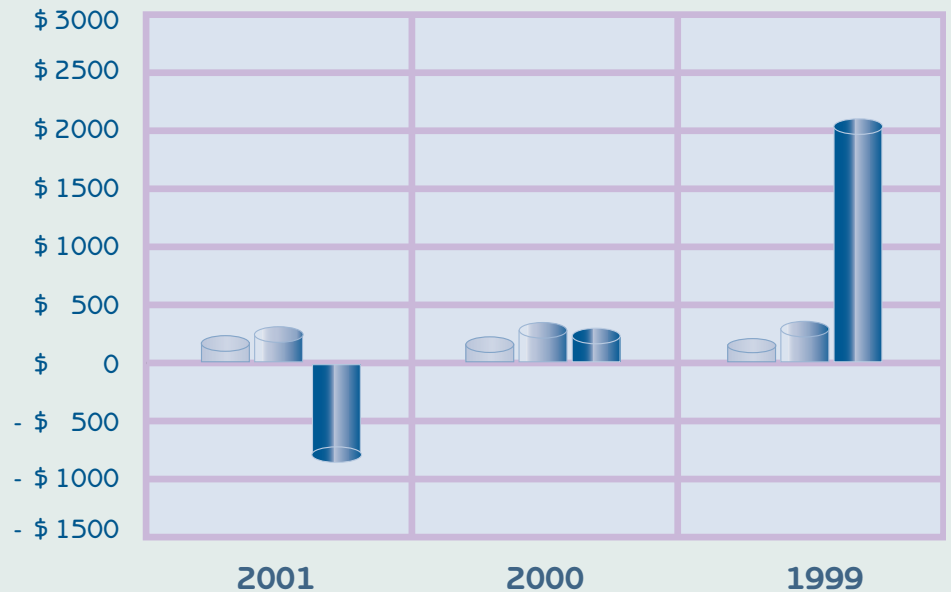
IMRF participated in a benchmarking study for the first time in 2001. This study evaluates IMRF's cost structure and our service delivery systems and then compares our results to other large public pension systems throughout the country. We completed a comprehensive survey that covered 15 administrative activities that are key to IMRF's mission.

Our responses were analyzed by Cost Effectiveness Measurement, Inc., and a report was presented to IMRF management. The results of the study indicate that IMRF is providing a high level of service in a complex environment at lower than expected costs. More analysis will be done in the coming year to determine how we can best use this information to further improve service to our members. ♦

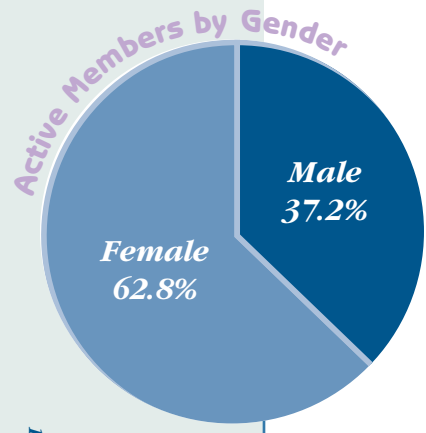
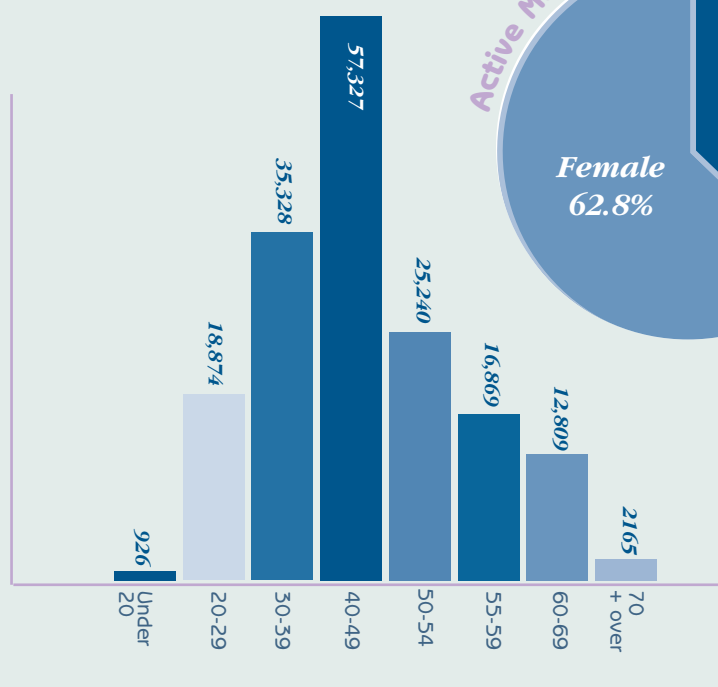
IMRF Revenues by Source



in millions



Active Members by Age

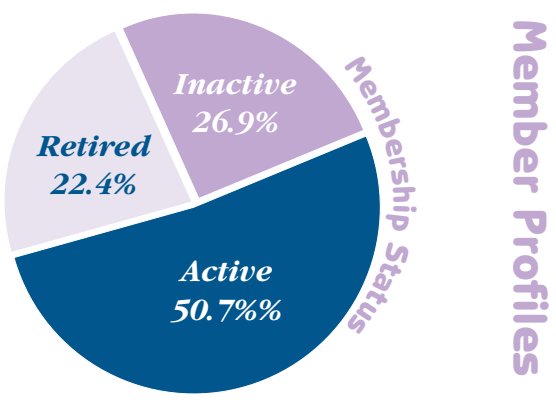


IMRF members facts and figures

An actuary uses specific membership demographics to determine how much money IMRF requires to pay all its pension obligations. For detailed actuarial information, refer to the Actuarial Section of IMRF's 2001 Comprehensive Annual Financial Report.

Actuarial specifics include:

- How many IMRF members are male or female?
- What is the average age of an IMRF member?
- What is the average salary?
- What is the average future salary expected to be?
- How many years of service does an average member have now?
- How many years of service will the average member have at retirement?



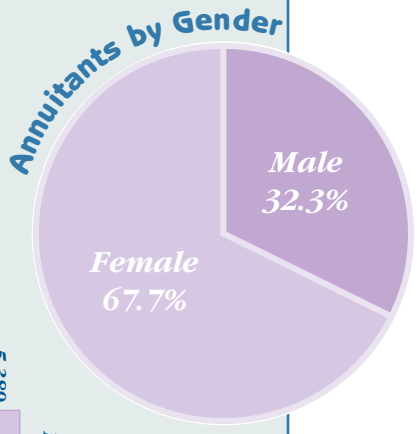
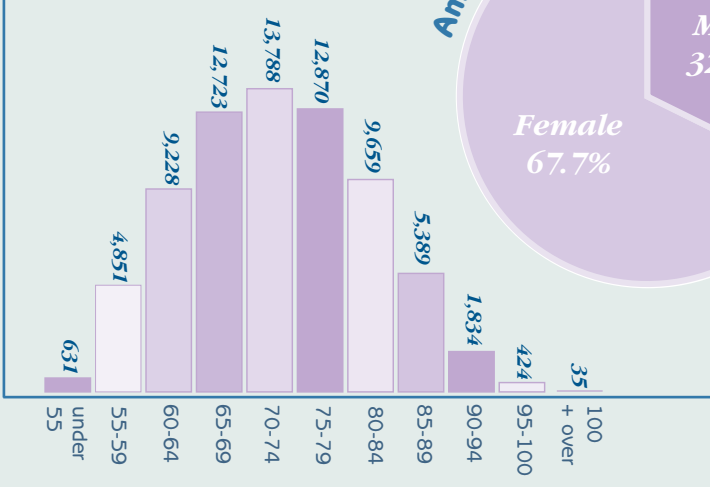
Member Profiles

Where the money for your benefits comes from
Both the employee (member) and the employer contribute toward retirement benefits. Members contribute a percentage of their salary as established by the Illinois Pension Code.

The percentage depends on the plan in which the member participates. Regular members contribute 4.5 percent. SLEP members contribute 6.5 percent. ECO members contribute 7.5 percent.

Employer contributions are actuarially calculated annually for each individual employer. Employers pay most of the cost for member and survivor pensions and all of the cost for death and disability benefits. ♦

Annuitants by Age



Empathy

Walk in the shoes of the person on the other end of the telephone, letter, or application. Be aware of the feelings of others.

Looking back at 2001

Regional Office

IMRF opened its first Regional Counseling Center in Springfield, Illinois in November of 2001. The goal of this office is to provide easier access to IMRF members and employers and to provide better service for our membership.

IMRF.org

Our web site was completely redesigned this past year. We have made it much easier for our members, annuitants, and employers to find the information they need. New functions have also been added for our employers. Now, monthly wage data can be sent via the secured employer area of our site. Last year, employers used this secure area to submit more than 9,000 forms. Work has begun on developing a secure area for members, allowing you to view personal information or to develop

retirement estimates using your most current earnings and service data.

Legislative changes

The General Assembly passed legislation in 2001 which was signed into law by the Governor and changed several provisions of the Pension Code. The changes are:

- Qualifying elected officials may purchase more than 50 months of qualifying retroactive service if the governing body passed an enabling resolution by December 31, 2001.
- For members who become disabled after December 31, 2001, the pre-existing condition investigation for members with less than five years of service is eliminated for temporary disability benefits.
- References to “age 65” for

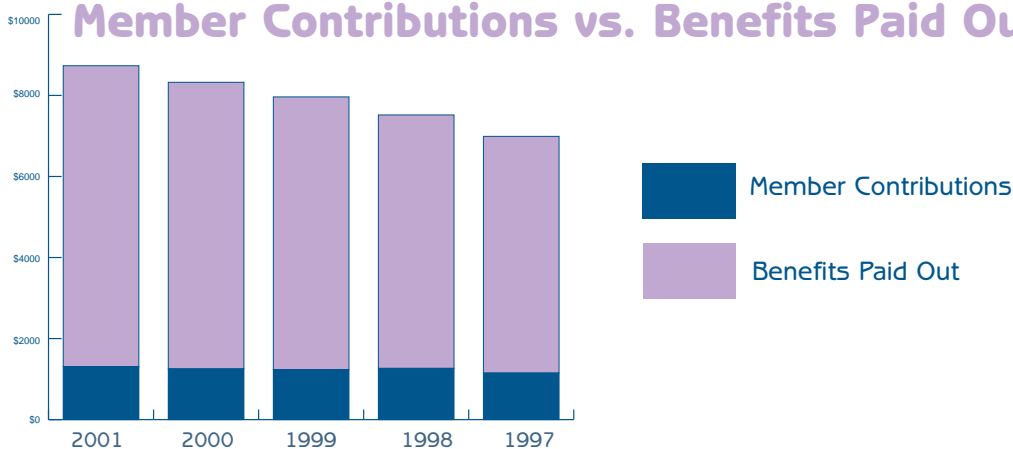
Social Security benefits have been changed to “age for a full Social Security old-age insurance benefit.”

- Members over age 55 entitled to a pension benefit of more than \$30 per month may receive a refund if it is rolled over into another defined benefit retirement plan for the purpose of purchasing service credit.
- References to 40-year amortization of unfunded liabilities have been changed to periods allowed under generally accepted accounting principles.

Fast Fact

In 2001, for the Regular IMRF Plan, your employer paid an average 6.64% to IMRF plus 7.65% to Social Security, totaling 14.29% of your pay.

Member Contributions vs. Benefits Paid Out



Courage

Mental or moral strength to venture, persevere and withstand difficulty; willingness to perform self-assessment, to confront new ideas, and to change.

IMRF's Vision:

To be the best provider of retirement services for public employees in the state of Illinois.

2002

Board of Trustees



First row from left: R. Steven Sonnemaker: Executive Trustee, Peoria County. Sharon U. Thompson: Annuitant Trustee, (formerly) Lee County. Max F. Bochmann: Employee Trustee, Naperville CUSD #203, 2002 Vice President.

Second row from left: W. Thomas Ross: Executive Trustee, Winnebago County, 2002 Secretary. John Lotus Novak: Executive Trustee, DuPage County, 2002 President. Martha H. Rademacher: Executive Trustee, Park District Risk Management Agency. Marvin R. Shoop, Jr.: Employee Trustee, City of Peoria. Julie A. Newell: Employee Trustee, Cairo S.D. #1.

2001 marked the Illinois Municipal Retirement Fund's sixtieth year of operation. 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.

IMRF now serves 2,826 different employers, 164,845 participating members and 72,832 benefit recipients.

Copies of both the *2001 Popular Annual Financial Report to Members* and the *2001*

Comprehensive Annual Financial Report are available on our website at www.imrf.org. To request a print copy of either report, call 1-800-ASK-IMRF (1-800-275-4673).

We welcome your comments and suggestions for the *2001 Popular Annual Financial Report to Members*, as well as other aspects of our communications program. Please direct your comments to the Communications Department at our mailing address or by email to webmaster@imrf.org.

Illinois Municipal Retirement Fund

Oak Brook
2211 York Road
Suite 500
Oak Brook, IL 60523-2337

Springfield
3000 Professional Drive
Suite 101
Springfield, IL 62703

Member Service Representatives 1-800-ASK-IMRF

www.imrf.org

