

# 2002

## Illinois Municipal Retirement Fund

# Popular Annual Financial Report to Members

Published June 2003



The Popular Annual Financial Report looks at IMRF's 2002 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 2002 events.

Continued investment declines over the past two years have raised concerns among IMRF members. They worry if “the money will be there” when they retire. Rest assured: your IMRF pension is safe.

### Defined Benefit security

When it comes to retirement plans, two basic types exist—defined benefit (DB) plans and defined contribution (DC) plans.

In a DB plan like IMRF, your contributions and your employer's contributions are invested to provide a defined retirement benefit based upon a specific formula using your final rate of earnings, total service credit, and age at retirement. All three factors determine the amount payable to you. In a DB plan, you are guaranteed payment of this amount for as long as you live.

### Defined Contribution risk

The other type of retirement plan is a DC plan, such as a 401(k), 457, or 403(b) plan. DC plans do not promise a specific benefit amount, and if you participate in a DC plan, you assume responsibility—and risk—for all of your investments.

Under these plans, the amount of money available during retirement varies—depending upon how well (or how poorly) your investments perform. With many DC accounts, you select the number of payments to receive upon retirement. If too small a number is selected, you could actually outlive your

monthly payments. If you participate in a DC plan, you've probably seen the value of your account decrease over the past two years.

### Designed to meet the challenge

Defined benefit plans—like IMRF—are designed to meet the challenges of difficult markets.

**First**, outside actuaries use various financial and demographic assumptions to calculate how much your employer needs to set aside each year to accumulate sufficient assets to pay for your future retirement.

**Second**, IMRF follows an investment philosophy of diversification. Simply said: don't put all your eggs in one basket. We invest in a variety of investments and, within each investment type, use a variety of investment styles. History has shown that diversification provides better long-term results with less overall risk.

**Third**, an individual investor may look at a 10, 15, or 20-year timeline. As an institutional investor, IMRF is investing for the lifetimes of our 300,000+ members. We view our investment return over a much longer timeline.

### Your future is secure

The past several years have proven difficult for all investors, both individual and institutional. However, you can look at IMRF's net assets of \$13.5 billion and know that these assets are irrevocably committed to the payment of your future IMRF pension.

For more detailed information, you can request a copy of IMRF's 2002 Comprehensive Annual Financial Report by calling 1-800-ASK-IMRF (1-800-275-4673) or by visiting the IMRF website, [www.imrf.org](http://www.imrf.org).

# 2002 Assets

As a defined benefit pension system, IMRF accumulates assets to provide benefits to members today and in the future.

## Additions to plan net assets

IMRF accumulates money needed to fund benefits through member and employer contributions as well as returns on invested funds.

Member and employer contributions for 2002 totaled \$529 million, which was the same amount as in 2001. For the first time in its history, IMRF incurred investment losses for two consecutive years. The \$1,325 million investment loss in 2002 represents a \$314 million increase from 2001.

### • Member contributions

The increase in member contributions is due to an increase in total member earnings from \$4,505 million in 2001 to \$4,796 million in 2002.

### • Employer contributions

The decrease in employer contributions resulted from several factors. Although member earnings increased overall by 6.4 percent—which caused employer contributions to increase—that increase was more than offset by lower average employer rates.

### • Net investment loss

In 2002, IMRF experienced a loss in the value of our investments of \$1,625 million, more than \$280 million greater than the \$1,345 million depreciation recorded in 2001.

Although IMRF earned interest, dividends and equity fund income of \$338 million, that amount was \$32 million less than what was earned in 2001. Net security lending income was \$4.6 million, a decrease of \$2.6 million from 2001. Direct investment expenses decreased to \$42.5 million in 2002 from \$42.9 million the previous year.

The total rate of return for the portfolio in 2002 was -8.72 percent compared to -6.08 percent in 2001.

## Deductions to plan assets

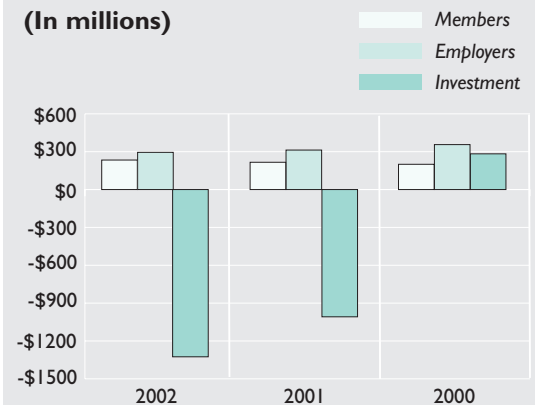
Expenses IMRF paid included benefit payments, refunds, and administrative expenses. Expenses for 2002 totaled \$669 million, an increase of \$53 million over 2001.

The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of retirees, increasing to 74,668 in 2002 from 72,832 in 2001 as well as an increase in the amount of the average benefit.

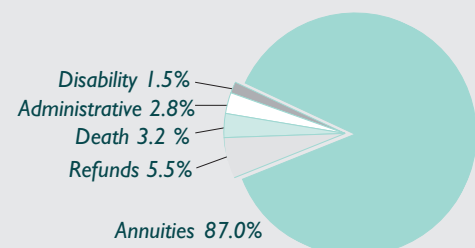
## Condensed Statements of Changes in Plan Net Assets (In millions)

	2002	2001	\$ Change	% Change
<b>Additions</b>				
Member contributions	\$234	\$216	\$18	8%
Employer contributions	295	313	(18)	(6)
Net investment loss	<u>(1,325)</u>	<u>(1,011)</u>	<u>(314)</u>	(31)
Total additions (loss)	<u>(796)</u>	<u>(482)</u>	<u>(314)</u>	(65)
<b>Deductions</b>				
Benefits	613	571	42	7
Refunds	37	27	10	37
Administrative expenses	<u>19</u>	<u>18</u>	<u>1</u>	6
Total deductions	<u>669</u>	<u>616</u>	<u>53</u>	9
Net decrease	(1,465)	(1,098)	(367)	(33)
<b>Net Assets Held in Trust for Pension Benefits</b>				
Beginning of year	<u>14,966</u>	<u>16,064</u>	<u>(1,098)</u>	(7)
End of year	<u>\$13,501</u>	<u>\$14,966</u>	<u>\$(1,465)</u>	(10)%

## IMRF Revenues by Source (In millions)



## IMRF 2002 Expenses by Type



# Checking IMRF's Financial Pulse

While the Statement of Changes in Plan Net Assets measures the value of IMRF's net assets, another important factor needs to be considered to determine IMRF's financial health. That factor is IMRF's funded status—the difference between its actuarial liability and the value of its net assets.

## Checking the pulse

You can think of IMRF's actuarial liability as the dollar value of "benefit promises" to our members.

If you are vested, you have a promise from IMRF that we will pay you a certain amount at a certain age (your pension). The more service you earn and the larger your salary, the greater the dollar value of the promise.

If you are retired, you have a promise from IMRF that we will pay you a certain amount every month for the rest of your life. If your spouse is eligible for a surviving spouse pension, he or she also has a promise from IMRF. IMRF benefit promises also include refunds and death benefits.

When you add up all of the "benefit promises" IMRF has with all of our members—including members who left IMRF but still have contributions on deposit—you have the value of IMRF's actuarial liability.

In 2002, IMRF collected member and employer contributions of \$529 million; spent \$669 million for benefit payments, refunds and administrative costs;

our investments. These net results brought IMRF's net asset base down to \$13.5 billion. By law, those net assets are permanently committed to the payment of all of our benefit promises, including current retirees' pensions and your future IMRF pension.

## Valuing IMRF assets

When looking at the value of IMRF assets, you can look at them in one of two ways.

The first method is the simplest and most familiar: the market value. What is the value of all IMRF's assets and liabilities today? Or for the purposes of this Popular Annual Report, what was the value on December 31, 2002?

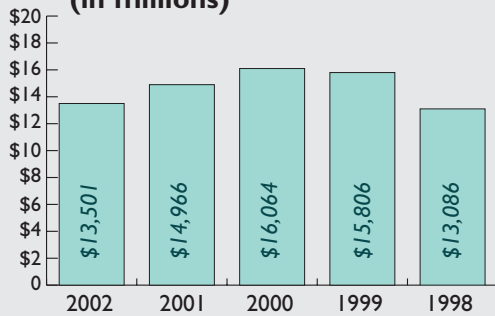
The other method is less familiar—and not as simple. That method is called the "actuarial value" of assets. IMRF's outside actuaries determine the actuarial value of IMRF's assets by using a "five-year smoothing" technique.

With five-year smoothing, investment gains (or losses) are spread over five years; they are not "recognized" each year. The smoothing prevents employer contribution rates from changing drastically year-to-year because of short-term fluctuations in the investment markets.

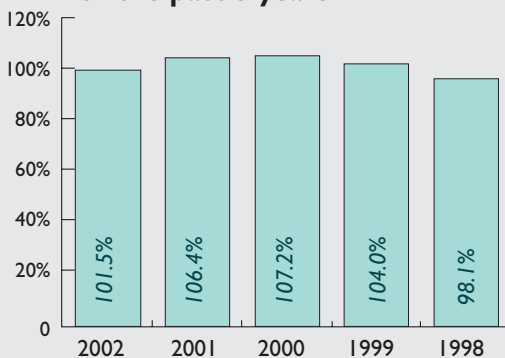
## A healthy system

A healthy pension fund—like IMRF—ensures that the "actuarial value" of its assets (the assets needed to pay benefit promises) closely matches its "actuarial liability" (benefit promises themselves).

**Net Assets for the past 5 years  
(in millions)**



**Actuarial Funding Status  
for the past 5 years**



## Actuarial Value, Market Value, & Actuarial Liability

As of December 31, 2002

Actuarial value of plan net assets .....	\$16.8 billion
Market value of plan net assets .....	\$13.5 billion
Actuarial liability (benefit promises) .....	\$16.6 billion

On an actuarial basis, the net assets held fund 101.5 percent of the actuarial liability. This is a decrease from the funding ratio of 106.4 percent for 2001. On a market value basis, the net assets held fund 81.5 percent of the actuarial liability, a decrease from the 97.7 percent for 2001.

# 2002 Investment Summary

Read the complete  
2002 Investment Report  
by requesting a  
Comprehensive Annual  
Financial Report at  
1-800-ASK-IMRF  
or by visiting  
www.imrf.org

Investment earnings are a major contributor to IMRF. Years 2002 and 2001 were unusual because IMRF suffered its first two consecutive years of investment losses.

The total rate of return for IMRF's portfolio in 2002 was -8.72 percent compared to -6.08 percent in 2001. As of December 31, 2002, IMRF's investments totaled \$13.9 billion, down from \$15.2 billion at the end of 2001.

## Long-term results

When looking at IMRF's investment returns, it is important to remember that as a pension fund, the long-term timeline of IMRF's investment program is designed to weather the ups and downs of the market. If you look at longer-term investment returns for IMRF, the results improve:

Three years (2002 through 2000) .....-4.4% per year  
Five years (2002 through 1998).....3.5% per year  
Ten years (2002 through 1993) .....8.1% per year

IMRF's income ("additions" to net assets, see table on page 2) comes from three sources: member contributions, employer contributions, and investment income. In

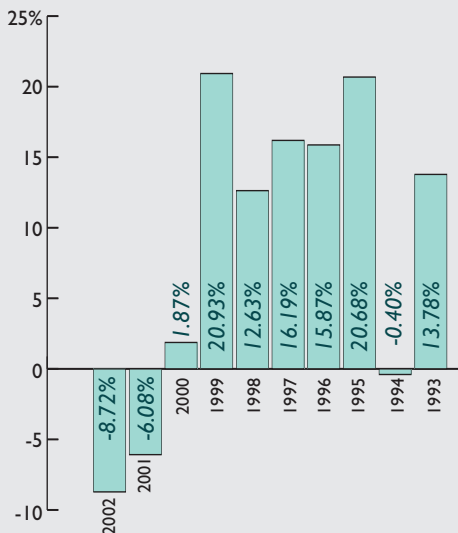
the five years prior to 2002 and 2001, investment income represented the following percentage of additions to plan net assets:

## Investment Portfolio Summary as of December 31 (in millions)

Type	2002		2001	
	Market Value	% of Total Market Value	Market Value	% of Total Market Value
Fixed Income	\$5,307.8	38.3%	\$5,068.0	33.2%
Stocks	7,033.6	50.7%	8,455.3	55.5%
Real Estate	586.7	4.2%	584.1	3.8%
Alternative	470.4	3.4%	490.1	3.2%
Short Term	478.4	3.4%	651.5	4.3%
Total	<u>\$13,876.9</u>	<u>100.0%</u>	<u>\$15,249.0</u>	<u>100.0%</u>

Year	Percentage of Plan Additions
2000.....	33.7%
1999.....	82.5%
1998.....	71.9%
1997.....	75.4%
1996.....	73.4%

## Investment Rates of Return Past 10 years



For the four months ended April 30, 2003, the overall return on IMRF's investments has been approximately 3 percent, 9 percent on an annualized basis. As of April 30, 2003, IMRF's total investments were approximately \$14.4 billion, an increase of \$500 million since December 31, 2002.

## Professional management

Currently 39 professional investment management firms, handling 50 separate accounts, manage IMRF's investment portfolio. These firms make investment decisions under the "prudent man" rule authorized by the Illinois Pension Code and by IMRF investment policy guidelines.

The IMRF Board of Trustees employs an investment consultant who monitors and evaluates the investment management firms' performance, aids in the selection of investment management firms, and assists in the development of investment policy. A second consultant provides a real estate investment performance report.

The IMRF Board, its consultant and IMRF staff review IMRF's asset allocation annually. Through diversification of investment type (stocks, bonds, real estate, etc.), region (domestic, international, global, etc.) and management style (growth, value, small, medium, or large capitalization, etc.), we enhance our goal of improving expected long-term returns while maintaining an acceptable level of risk.

# The IMRF Plan

## Actuary

A statistician who computes insurance risks and premiums. IMRF's outside actuaries calculate employer rates based upon various demographic and financial data.

## Agent multiple-employer

The State Employees' Retirement System of Illinois is an example of a single-employer system. It administers a benefit plan for one employer—the State of Illinois. IMRF administers benefit plans for more than 2,850 employers.

## Annualized

When the rate of return is converted from a period of less than one year to an annual (yearly) basis. For example, an investment which returns 0.75% a month returns 9% on an annualized basis.

## Annuity

A series of fixed payment amounts paid at regular intervals over a specified period of time. An annuity is essentially a level stream of cash flow for a fixed period of time.

## Asset allocation

IMRF allocates its investments among a number of major asset classes, such as domestic and international stocks, bonds, real estate, and alternative investments. IMRF also diversifies its investments within asset classes.

## Capitalization

A measure of a company's size. It is calculated by multiplying the number of shares times the current market price. This term is often referred to as "market cap."

## Equity fund

A commingled fund (a fund with assets from several accounts that are blended together) that invests in a broad, well diversified group of stocks. An equity fund typically will not invest in any bonds. The invested funds will either be in cash or stock.

## Prudent man/prudent person rule

An investment philosophy whereby an investment is purchased only if the same investment would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

IMRF administers what is known as an "agent multiple-employer" public employee retirement system. The Illinois State Legislature established IMRF in 1939 to provide employees of local governments and school districts a sound and efficient retirement system.

## IMRF is NOT part of state government

You may have read about Governor Rod Blagojevich's plan to issue \$10 billion in pension bonds to help balance the Illinois state budget. This proposal does not, in any way, affect IMRF. IMRF is not a state pension fund and is not funded by any state dollars.

IMRF is entirely funded by member contributions, investment returns, and contributions from IMRF employers. These employers include cities, villages, counties, school districts, townships and various special districts, such as parks, forest preserves and sanitary districts. IMRF employers are not state agencies.

## Participation

Although more than 167,000 public employees across Illinois participate in IMRF, IMRF is a local program. Your employer builds up an account to provide future benefits for its own employees. As of December 31, 2002, 2,853 local units of government participated in IMRF, an increase of 27 employers over 2001.

IMRF employers must enroll an employee in IMRF if the employee's position meets the qualifications for IMRF membership. However, some exceptions exist for city hospital employees and elected officials.

## Funding

IMRF 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 determined by Illinois statute.

Illinois statutes also require each IMRF employer to contribute the amount needed, in addition to contributions from members, to finance the retirement coverage of its own employees.

Employer contributions for disability benefits, death benefits, and the "13th check" are pooled. IMRF administrative costs are financed by investment income.

# How closely do you match the “average” member?

An outside actuary uses specific membership demographics to determine how much money IMRF requires to pay its pension obligations. For detailed actuarial information, refer to the Actuarial Section of IMRF’s 2002 Comprehensive Annual Financial Report.

## Are you an “average” member?

How closely do you match the “average member”? Of our 167,776 active members, here is the picture of the “average” IMRF member as of December 31, 2002:

- Female
- Slightly older than 45
- Participates in the Regular IMRF plan
- Most likely works for a school district
- Earns approximately \$28,600 a year
- Received a 4.0% salary increase in 2002
- Has 8.5 years of service credit

## Are you an “average” retiree?

If you are one of the 3,101 members who retired in 2002 under IMRF’s Regular plan, you are most likely:

- Female
- Had a final rate of earnings of approximately \$2,558 a month
- Retired with approximately 20 years of service credit
- Receiving a pension of approximately \$965 a month

## Where the money for your benefits comes from

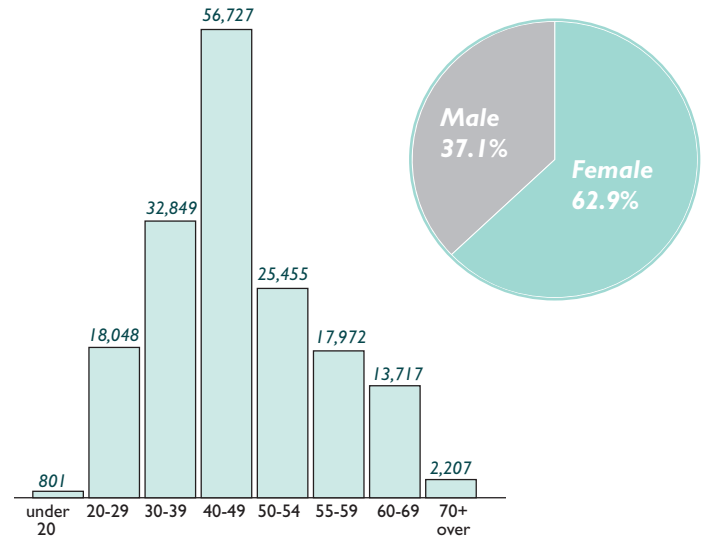
Both you and your employer contribute toward your future retirement benefits. You contribute a percentage of your salary as established by the Illinois Pension Code.

The percentage depends on which IMRF plan you participate in: Regular members contribute 4.5 percent, SLEP members contribute 6.5 percent, and ECO members contribute 7.5 percent.

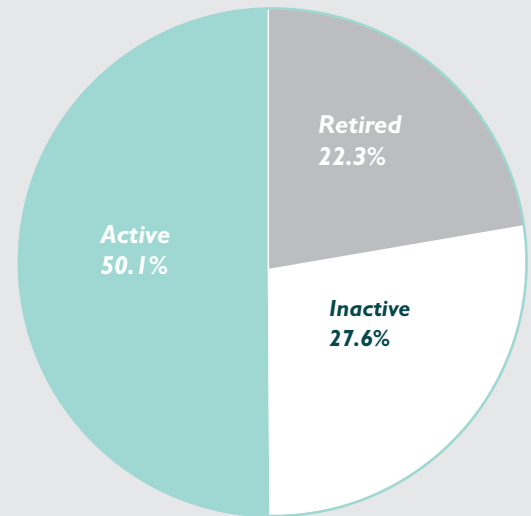
IMRF employers each have a unique contribution rate based upon their own situation—their members’ salaries, ages, years of service credit, etc. Employers pay most of the cost for member and survivor pensions and all of the cost for death and disability benefits.

Employers in total will contribute more to IMRF in 2003 than they did in 2002. The increased contributions are due to generally higher employer contribution rates caused by investment losses during the 2000-2002 period and an anticipated 6.4 percent increase in total payroll reported to IMRF.

## Active Members Age and Gender



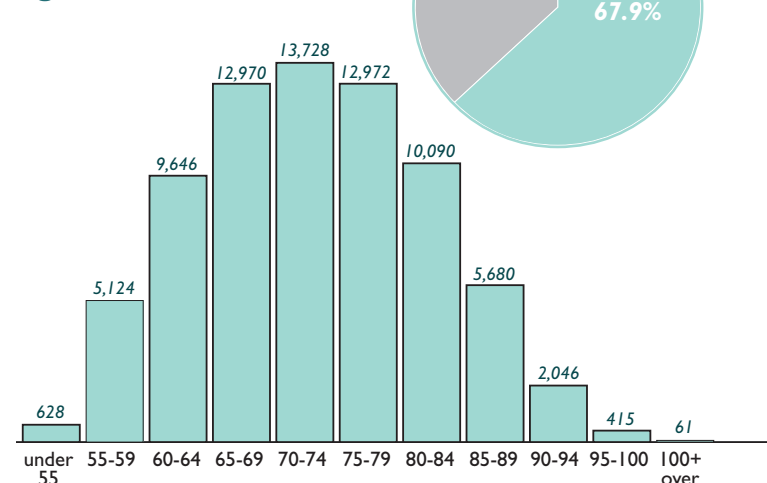
## Member Participation



## Retired Members

(Retired members, surviving spouses, and beneficiary annuitants)

### Age and Gender



# Looking Back at 2002

## Board of Trustees

R. Steven Sonnemaker, County Auditor of Peoria County, was re-elected as an executive trustee. His five-year term began January 1, 2003.

Rita J. Miotti, Contract Management Services Coordinator for the Village of Matteson, was appointed on January 24, 2003, as an employee trustee to fill a vacancy created when former Trustee Julie A. Newell left the Board. Ms. Miotti's term ends on December 31, 2003.

## Mainframe Computer System Development

Changes were implemented in the disability processing system to eliminate the pre-existing conditions provisions for temporary disability benefits eligibility.

A separate enhancement to the disability system automated more than 98% of initially calculated claims as well as those claims recalculated when new data is received.

The development of a comprehensive purchase of service system reached the system testing phase.

The member enrollment and

member data maintenance system development project is in the coding phase.

Significant progress was made on our project to enhance the death claim processing system.

## Investment Activities

In 2002, at the direction of the Board of Trustees, the IMRF staff, assisted by its investment consultant and IMRF's outside actuaries, performed an Asset Liability Study. The purpose of the study was to harmonize various investment policies with contribution and benefit policies to achieve IMRF's mission.

The main recommendation arising from this study was to decrease the asset allocation to equities by 5 percent and to increase the allocation to fixed income by 5 percent.

## IMRF Website, [www.imrf.org](http://www.imrf.org)

Significant progress was made in 2002 towards developing a secure area on our website for members to view personal information and to develop benefit estimates using their most current earnings and service data. This interactive website went live

on April 1, 2003.

Our employers continue to increase their use of the secured employer area of our website.

Other website improvements in 2002 included improved wage reporting and workshop registration.

## Benefit Administration and Member Services Benchmarking Analysis

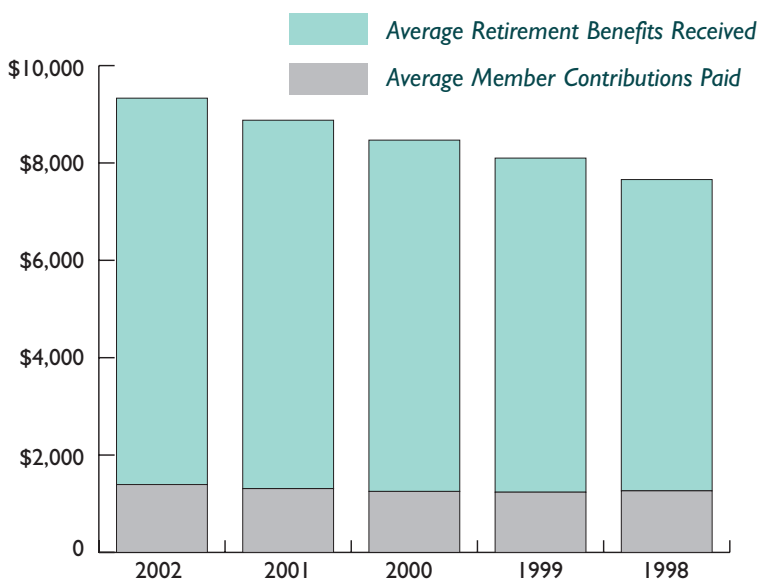
IMRF received high marks for our customer service activities in a report that Cost Effectiveness Measurement, Inc. presented to the Trustees and IMRF management. Management and staff are working on some procedural changes in response to the survey results.

## Electronic Funds Transfer

Beginning July 1, 2002, IMRF began accepting employer payments via interactive voice response technology or live operators at no cost to them. As of year end, IMRF had 542 employers who had registered to use this technology. During 2003, the system will be expanded to provide for payments via the Internet.

*please turn to page 8*

## Member Contributions Paid vs. Retirement Benefits Received



When you apply for your IMRF pension, we calculate the total cost of your pension. We then subtract the member contributions you paid from the cost of your pension. Whatever cost remains is deducted from your former IMRF employer's account. Typically, the employer pays approximately 80% of the cost for an IMRF pension. Employers pay for all of the costs for disability benefits, death benefits, and the "13th check."

To better illustrate the value of an IMRF pension, the chart at left compares what an average member paid in contributions to what an average retiree received in retirement benefits.

# 2003 Board of Trustees



Max F. Bochmann  
Employee Trustee  
Naperville CUSD  
#203  
2003 President  
2002 Vice President



W. Thomas Ross  
Executive Trustee  
Winnebago County  
2003 Vice President  
2002 Secretary



Martha H. Rademacher  
Executive Trustee  
Park District Risk  
Management Agency  
2003 Secretary



Rita J. Miotti  
Employee Trustee  
Village of Matteson



John Lotus Novak  
Executive Trustee  
DuPage County  
2002 President



Marvin R. Shoop Jr.  
Employee Trustee,  
City of Peoria



R. Steven Sonnemaker  
Executive Trustee  
Peoria County



Sharon U. Thompson  
Annuitant Trustee  
(formerly) Lee County

# Looking Back at 2002

*continued from Page 7*

## Springfield Regional Counseling Center

Year 2002 was the first full year of operations for IMRF's Springfield office. The three-person office handled 396 individual counseling sessions, 32,828 telephone calls and generated 3,447 pension estimates. Average hold times for the 1-800-ASK-IMRF telephone line decreased significantly. Other workshops, presentations and legislative meetings were held in the office.

## Business Continuity Planning

IMRF has a Disaster Recovery Plan in place that would allow staff to quickly reestablish our computer and telecommunications systems at a backup location if our main office was unavailable due to some disaster event. We are working to expand that Plan into a comprehensive Business Continuity Management program that would help us restore order as quickly as possible in the event of a disruption of our operations.

# 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 (1-800-275-4673)**

*www.imrf.org*

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1-800-ASK-IMRF or by visiting [www.imrf.org](http://www.imrf.org)