# Illinois Municipal Retirement Fund

# Comprehensive Annual Financial Report

# 2002

For the fiscal year ending December 31, 2002

Illinois Municipal
Retirement Fund

# 2002 Comprehensive Annual Financial Report

For the year ended
December 31, 2002


**Prepared by:**
The Finance Department
of the Illinois Municipal
Retirement Fund

2211 York Road
Suite 500
Oak Brook, IL 60523-2337
Louis W. Kosiba
Executive Director


## 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"*

2002

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## 2003 Board of Trustees

**Max F. Bochmann**
*Employee Trustee*
Naperville CUSD #203

January 1, 2000 - December 31, 2004

2003 President
2002 Vice President

**W. Thomas Ross**
*Executive Trustee*
Winnebago County

January 1, 2001 - December 31, 2005

2003 Vice President
2002 Secretary

**Martha H. Rademacher**
*Executive Trustee*
Park District Risk Management Agency

January 1, 2002 - December 31, 2006

2003 Secretary

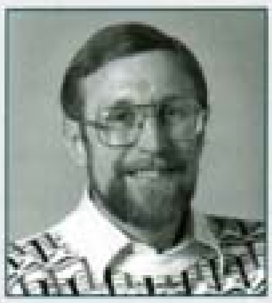
**Rita J. Miotti**
*Employee Trustee*
Village of Matteson

January 24, 2003 - December 31, 2003

**John Lotus Novak**
*Executive Trustee*
DuPage County

January 1, 1999 - December 31, 2003

2002 President



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

January 1, 2001 - December 31, 2005

**R. Steven Sonnemaker**
*Executive Trustee*
Peoria County

January 1, 2003 - December 31, 2007

**Sharon U. Thompson**
*Annuitant Trustee*
(formerly) Lee County

January 1, 2001 - December 31, 2005

**Thank you**
for your dedicated service to the members and employers of IMRF.

Julie A. Newell
*Employee Trustee*
Cairo SD #1
2001-2002

## BOARD OF TRUSTEES

## CONSULTANTS

- Investment Consultants
- Investment Managers
- Master Trustee
- Medical Consultants
- Actuary
- Certified Public Accountants

## STAFF

**Human Resources**
Linda Bieniek

**Executive Director**
Louis W. Kosiba

**Internal Audit**
Douglas Samz, C.P.A.

- **Chief Financial Officer** — Richard DeCleene
  - **Finance** — Phyllis Walker, Operations Manager
- **Director Operations & Planning** — Daniel Duquette
  - **Information Services** — Arnold Rohlwing, Manager
  - **Benefits** — Tom Raitt, Manager
  - **Office Services** — Denise Streit, Manager
- **General Counsel** — Kathleen O'Brien
  - **Associate General Counsel** — Michael Weinstein
  - **Field Services** — Terry O'Connor, Manager
  - **Legislative Liaison** — Bonnie Shadid
  - **Communications** — Linda Horrell, Manager
- **Director Investments** — Walt Koziol
  - **Investments** — Edward Sambol, Manager

### Consultants — *(Investment Consultants are listed on page 39)*

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

*Auditors*
Deloitte & Touche LLP
Patrick Hagan
Alice Wunderlich

*Commercial Bank*
Northern Trust
Richard Deeter, Vice President
Chicago, Illinois

*Independent Fiduciary Counsel*
D'Ancona & Pflaum
Larry Moss
Larry Gallagher
Chicago, Illinois

*Medical Consultants*
Marianjoy Medical Group
Wheaton, Illinois
Leonard Kessler, M.D.
Highland Park, Illinois

# 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, 2001

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.

President

Executive Director

# Illinois Municipal Retirement Fund

Suite 500 2211 York Road Oak Brook IL 60523-2337

*Service Representatives 1-800-ASK-IMRF (1-800-275-4673)*

www.imrf.org



May 5, 2003

Board of Trustees
Illinois Municipal Retirement Fund
Oak Brook, Illinois 60523-2337

This is the December 31, 2002, comprehensive annual financial report of the Illinois Municipal Retirement Fund (IMRF). This 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 management's discussion and analysis, the financial statements, notes and supplemental information. 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, investment, actuarial and statistical information contained in this report.

The Illinois State Legislature established IMRF in 1939. We began operations in 1941 in order to provide retirement, death, and disability benefits to employees of local units of government in Illinois. IMRF now serves 2,853 different employers, 167,776 participating members and 74,668 benefit recipients.

## Summary of Financial Information

The following table summarizes additions and deductions to the plan's net assets for 2002 and 2001.

| | 2002 (millions) | 2001 (millions) | Dollar Change | Percent Change |
|---|---|---|---|---|
| Additions | $(796) | $(482) | $(314) | (65)% |
| Deductions | 669 | 616 | 53 | 9% |
| Net Change | $(1,465) | $(1,098) | $(367) | (33)% |

The significant change in Additions between 2002 and 2001 is primarily due to a $314.5 million decrease in investment income that is attributable to the difficult financial markets in 2002. IMRF's total return in 2002 was –8.72 percent versus -6.08 percent in 2001. The increase in Deductions is primarily due to increased benefit payments caused by an increase in the number of benefit recipients from 72,832 to 74,668. The Financial Section contains the auditors' report, management's discussion and analysis, the financial statements and other supplemental information.

## Funding

IMRF's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the December 31, 2002, valuation, the actuarial value of assets was $16.8 billion. The aggregate actuarial liability for all IMRF employers was $16.6 billion. The assets held currently fund 101.5 percent of this liability. This is a decrease from the funding ratio of 106.4 percent for 2001. 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 and individual plans vary widely.

IMRF members can look with a sense of security to the net asset base since these assets 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 Fund. While 2002 and 2001 were unusual years in that IMRF suffered its first ever back-to-back years of investment losses, in the previous five years—1996 through 2000—investment income represented the following percentage of additions to plan net assets:

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

The Investment Section of this report contains a summary of the portfolio.

Currently, 39 professional investment management firms, handling 50 separate accounts, manage the investment portfolio. These firms make investment decisions under the prudent man rule authorized by Article 1 of the Illinois Pension Code and by investment policy guidelines adopted by the Board of Trustees. The Board 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 investment policy. A second consultant provides a real estate investment performance report. Our uppermost goal is to optimize the long-term total return of the Fund'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.

## Current and Future Developments

### a. 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. An election to fill the remainder of Ms. Newell's term will be held in the fall of 2003.

### b. Systems Development

Changes were implemented in the disability processing system to eliminate the pre-existing conditions provisions for temporary disability benefits eligibility, based on a legislative change effective January 1, 2002. A separate enhancement to the disability system automated over 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. This system will automate the processes required to handle 13 different service types. 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.

### c. Investment Activities

In 2002, at the direction of the Board of Trustees, the IMRF staff, assisted by its investment consultant and the Fund's actuaries, performed an Asset Liability Study. The purpose of the modeling 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.

The Board of Trustees, its consultant and IMRF staff review the asset allocation annually. By diversifying investment type (stocks, fixed income, 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.

Other major investment activities for the year and through April 30, 2003, included:

- Retained Alliance Capital Management L.P. to manage a large capitalization growth domestic equity portfolio.
- Retained LSV Asset Management to manage a large capitalization value domestic equity portfolio.
- Retained William Blair & Company to manage a large capitalization international equity portfolio.
- Eliminated the Schroder Capital Management International large capitalization international equity portfolio.
- Eliminated the Oak Associates, Ltd. large capitalization growth domestic equity portfolio.
- Eliminated the Wellington Management Company, LLP fixed income portfolio.
- Changed the policy level benchmark return for alternative investments from 15% to 13%.

**d. IMRF.org**

Significant progress was made in 2002 towards developing a secure area on our web site for members to view personal information and develop benefit estimates using their most current earnings and service data. Through the secured member access area, members are able to request a formal pension estimate and submit member information changes. This interactive web site went live on April 1, 2003. Our employers continue to increase their utilization of the secured employer area of our web site. Other website improvements in 2002 included improved wage reporting and workshop registration.

**e. Benefit Administration and Member Services Benchmarking Analysis**

IMRF received high marks for our customer service activities in a report that Cost Effectiveness Measurement, Inc. (CEM) presented to the Trustees and Fund management. Fifteen administrative activities key to IMRF's mission were analyzed. Despite our high ratings, an analysis of the survey results did identify some areas where we could further improve our service levels. Management and staff are working on some procedural changes in response to the survey results. 2002 was the second year that IMRF participated in the CEM analysis. IMRF plans to participate annually in this study in the future.

**f. 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. For the year, IMRF received $49.5 million in employer payments through this technology. During 2003, the system will be expanded to provide for payments via the Internet.

**g. Popular Annual Financial Report (PAFR)**

IMRF published its first PAFR in 2002. It was designed to meet the needs of interested parties who may be uncomfortable using traditional financial reports. The purpose of the popular annual report is to supplement traditional financial reports in order to make the information they contain more readily accessible to a broader audience. The PAFR was made available on our website. Our initial PAFR received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA).

**h. Springfield Regional Counseling Center**

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 from 1:44 minutes in 2001 (when the Springfield office was not in full operations) to 0:57 minutes in 2002. Other workshops, presentations and legislative meetings were held in the office.

**i. 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 were 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. We have completed a business impact assessment study, a review of potential risks, and a determination of the minimum resources and strategies required to provide cost-effective availability and recoverability solutions.

## 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 the Internal Audit Director. He is 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 audit function reports directly to the Executive Director and the Board of Trustees. The Board of Trustees has established an Audit Committee, consisting entirely of Board members. Annually, the Internal Audit Director presents his report to the Audit Committee covering the results of internal audit procedures performed. The Internal Audit Director may also meet with the committee on an as-needed basis. Again this year the Internal Audit Director reported that IMRF's system of internal controls appears adequate and is being adhered to in the areas tested.

## 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 accountants' unqualified report on IMRF's 2002 Financial Statements is included in this report. The independent accountants meet twice a year with the Audit Committee—once to report on the planned scope of their audit and a second time to report on its results.

## Certificate of Achievement for Excellence in Financial Reporting

The 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, 2001. 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 22 consecutive years (fiscal years 1980-2001). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will be submitting it to the GFOA.

### Reports to Membership

IMRF issued a variety of reports covering 2001 and 2002 activity. We mail employer statements every month. We mailed member statements in March. We will send a summary of the annual report to members and annuitants in the summer issues of *Fundamentals.* We will mail this report, as well as our Popular Annual Financial Report, to Authorized Agents in June. Both this CAFR and the PAFR will be available on our website—IMRF.ORG.

### 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, Louis W. Kosiba. The Finance Department, under the direction of Richard DeCleene and Phyllis Walker, compiled the report. We believe this report provides 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.

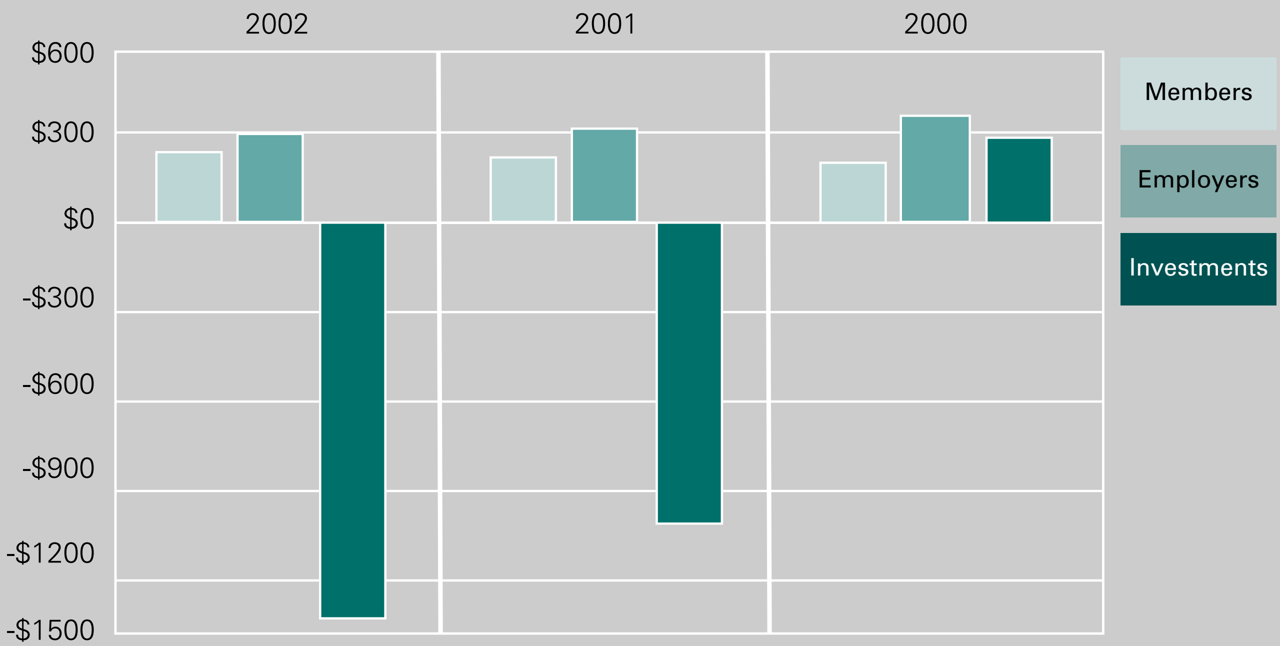
We send this report to the Authorized Agents for all participating units of government. They form the link between IMRF and its membership. Their cooperation, for which we are ever thankful, contributes significantly to the success of IMRF. We hope they will find this report both informative and helpful.

Respectfully submitted,

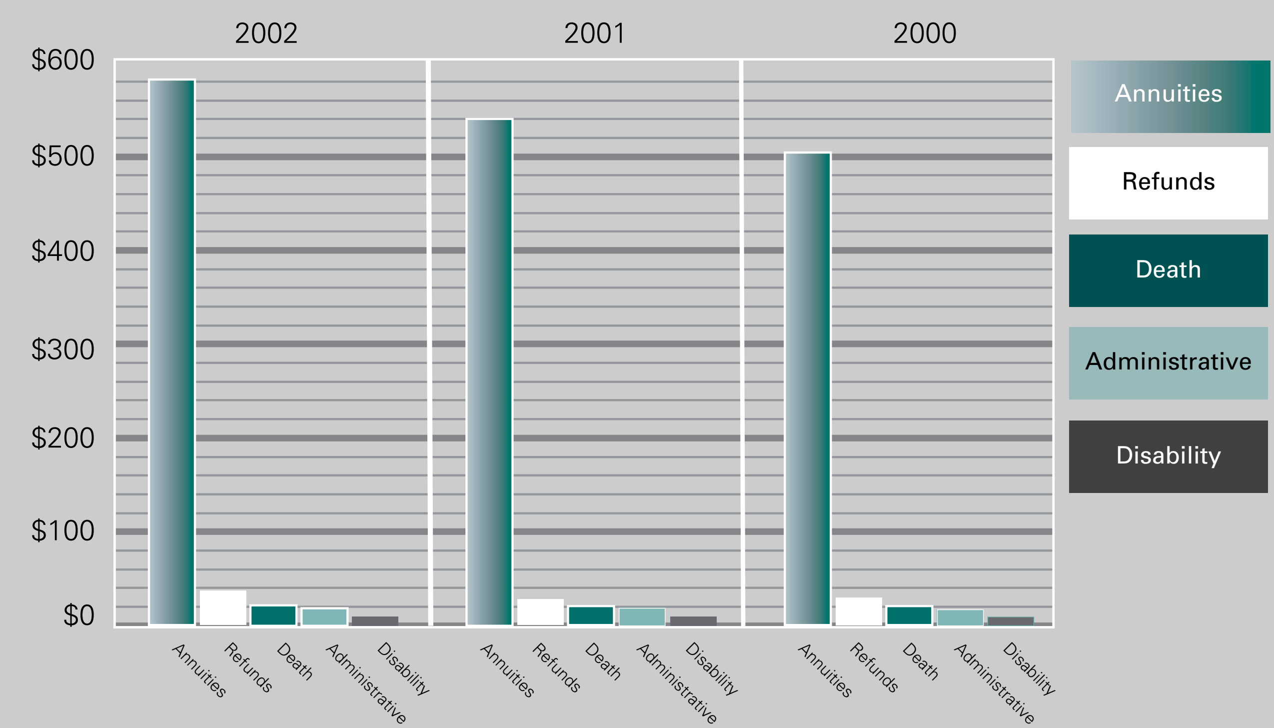
Louis W. Kosiba
Executive Director

Richard J. DeCleene
Chief Financial Officer

## Revenues by Source (in millions)




## Expenses by Type (in millions)



# Financial



IMRF

2002

Deloitte & Touche LLP
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Chicago, Illinois 60601-6779

Tel (312) 946-3000
Fax (312) 946-2600
www.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' 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 (the "Fund") as of December 31, 2002 and 2001, and the related statements 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial status of the Fund as of December 31, 2002 and 2001, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Required Supplementary Information listed under the Financial caption in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The Supplementary Information listed under the Financial caption in the Table of Contents is the responsibility of the Fund's management and is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

May 5, 2003

Deloitte
Touche
Tohmatsu

## Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of the Illinois Municipal Retirement Fund's (IMRF) financial performance provides an introduction to the financial statements of IMRF for the year ended December 31, 2002. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the transmittal letter (pages 7–11), the financial statements, required supplementary information and supplementary information.

### Required Financial Statements

IMRF, an agent multiple-employer public employee retirement system, prepares its financial statements on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Statement of Plan Net Assets includes all of IMRF's assets and liabilities and provides information about the nature and amount of investments available to satisfy the pension benefits of the plan. All additions to and deductions from the net assets held in trust for pension benefits are accounted for in the Statement of Changes in Plan Net Assets. This statement measures IMRF's success over the past year in increasing the net assets available for pension benefits.

### Financial Analysis of IMRF

While the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets measure the value of plan net assets and the changes to them, another important factor needs to be considered in order to determine the financial health of IMRF. That additional factor is the plan's funded status. In 2002, deductions to net assets of $669 million and losses on investments of $1,325 million exceeded contributions of $529 million by $1,465 million. This net decrease brought the Plan's net asset base to $13,501 million. For actuarial calculations, IMRF's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the December 31, 2002, valuation, the actuarial value of assets was $16.8 billion. The aggregate actuarial liability for all IMRF employers was $16.6 billion. On an actuarial basis, the assets held currently fund 101.5 percent of this liability. This is a decrease from the funding ratio of 106.4 percent for 2001. If the market value of assets is used (i.e., no actuarial smoothing), the funding ratio drops from 97.7 percent as of December 31, 2001, to 81.5 percent as of December 31, 2002.

### Plan Net Assets

To begin the financial analysis, a summary of IMRF's Plan Net Assets is presented below.

**Condensed Statements of Plan Net Assets**
**(In millions)**

| | 2002 | 2001 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Cash and cash equivalents | $ 4 | $ 1 | $ 3 | 300% |
| Receivables and prepaids | 255 | 211 | 44 | 21 |
| Investments | 13,877 | 15,249 | (1,372) | (9) |
| Invested securities lending cash collateral | 1,478 | 1,519 | (41) | (3) |
| Fixed assets, net | 1 | 1 | — | — |
| Total assets | 15,615 | 16,981 | (1,366) | (8) |
| Liabilities | 2,114 | 2,015 | 99 | 5 |
| Total plan net assets | $13,501 | $ 14,966 | $(1,465) | (10)% |

As the above table shows, plan net assets decreased by $1,465 million (10%) in 2002. This decrease reflects the significant investment losses in 2002 due to the continuation of the difficult financial markets. The following table presents the investment allocation as of year-end 2002 and 2001 as compared to IMRF's target allocation for 2002.

| | 2002 | 2001 | Target |
|---|---|---|---|
| Fixed Income | 38.3% | 33.2% | 36.0% |
| Stocks | 50.7 | 55.5 | 56.0 |
| Real Estate | 4.2 | 3.8 | 2.0 |
| Alternative | 3.4 | 3.2 | 5.0 |
| Short-Term | 3.4 | 4.3 | 1.0 |

The change from 2001 to 2002 in the weightings between fixed income and stocks is primarily due to the poor equity returns in 2002 which reduced the absolute value of IMRF's stock holdings, thus lowering the percentage allocation to that sector while increasing the weighting to fixed income sector which experienced a positive return in 2002. In 2002 IMRF changed its target asset allocation by increasing the weighting to fixed income by 5 percent with an offsetting reduction to stocks.

The increase in receivables and prepaids is largely due to the increase in the receivable from brokers for unsettled trades at year-end. The increase in liabilities is due primarily to an increase in payables to brokers for unsettled trades at year-end which more than offset a reduction in securities lending cash collateral held at year-end.

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

| | 2002 | 2001 | Dollar Change | Percent Change |
|---|---|---|---|---|
| **Additions** | | | | |
| Member contributions | $ 234 | $ 216 | $ 18 | 8% |
| Employer contributions | 295 | 313 | (18) | (6) |
| Net investment loss | (1,325) | (1,011) | (314) | (31) |
| Total additions | (796) | (482) | (314) | (65) |
| **Deductions** | | | | |
| Benefits | 613 | 571 | 42 | 7 |
| Refunds | 37 | 27 | 10 | 37 |
| Administrative expenses | 19 | 18 | 1 | 6 |
| Total deductions | 669 | 616 | 53 | 9 |
| Net decrease in plan net assets | $(1,465) | $(1,098) | $ (367) | (33)% |

## Additions

Additions needed to fund benefits are accumulated through contributions and returns on invested funds. 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 the prior year.

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

The decrease in employer contributions is the net effect of several factors. Member earnings increased overall by 6.4 percent. This increase in member earnings caused employer contributions to increase. These factors were more than offset by lower average Regular, SLEP and ECO rates. The average Regular Plan employer rate decreased to 5.87 percent from 6.64 percent. The average SLEP Plan employer rate decreased to 14.13 percent from 14.86 percent. The average ECO Plan employer contribution rate decreased to 38.46 percent from 42.58 percent.

In 2002, IMRF suffered net depreciation in the value of investments of $1,625 million, a $280 million increase from the $1,345 million of depreciation recorded in 2001. Interest, dividends and equity fund income totaled $338 million, a decrease of $32 million from 2001. Securities lending income net of related expenses was $4.6 million for 2002, a decrease of $2.6 million from 2001. Direct investment expenses decreased from $42.9 million in 2001 to $42.5 million in 2002.

The total rate of return for the portfolio in 2002 was –8.72 percent compared to –6.08 percent in 2001. IMRF's U.S. stock portfolio returned –21.1 percent compared to –20.9 percent for the Wilshire 5000 Index. The fixed income portfolio returned 8.8 percent compared to 10.3 percent for the Lehman Aggregate Index. Our international stock portfolio returned –16.7 percent compared to -14.7 percent for the MSCI ACWI ex-US Index. The real estate portfolio returned 6.6 percent compared to 4.8 percent for the NCREIF Classic Property Index. The alternative investment portfolio returned –8.8 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 | -4.4% per year |
| Five years | 3.5% per year |
| Ten years | 8.1% per year |

### Deductions

The expenses paid by IMRF include 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 annuitants to 74,668 in 2002 from 72,832 in 2001 as well as an increase in the amount of the average benefit. The increase in refunds in 2002 is primarily due to a $9.5 million refund in conjunction with a partial plan termination for a dissolving employer.

### Economic Factors Impacting 2003

IMRF anticipates that employer contributions will be greater in 2003 than in 2002 due to an anticipated 6.4 percent increase in covered payroll and higher average employer rates for the Regular and ECO plans due to investment return shortfalls for the 2000-2002 period. The average Regular Plan rate for employers—which accounts for the vast majority of covered payroll—will increase from 5.87 percent to 6.22 percent, an increase of 6.0 percent.

The Fund’s estimated investment return for the four months ended April 30, 2003, has been approximately 3 percent, 9 percent on an annualized basis. IMRF’s total investments as of April 30, 2003, are approximately $14.4 billion, an increase of $500 million since year-end.

## Statements of Plan Net Assets

| Assets | December 31 2002 | December 31 2001 |
|---|---|---|
| **Cash and cash equivalents** | $3,599,502 | $1,059,782 |
| **Receivables and prepaid expenses** | | |
| Contributions | 32,628,606 | 37,574,614 |
| Investment income | 58,005,373 | 56,704,333 |
| Receivables from brokers for unsettled trades | 129,403,433 | 88,012,091 |
| Prepaid expenses | 35,330,886 | 29,201,609 |
| **Total receivables and prepaid expenses** | 255,368,298 | 211,492,647 |
| **Investments, at fair value** | | |
| Fixed income | 5,307,793,363 | 5,068,028,542 |
| Stocks | 7,033,614,526 | 8,455,233,885 |
| Short term investments | 478,457,624 | 651,517,210 |
| Real estate | 586,670,094 | 584,127,704 |
| Alternative investments | 470,359,926 | 490,067,999 |
| **Total investments** | 13,876,895,533 | 15,248,975,340 |
| **Invested securities lending cash collateral** | 1,477,618,175 | 1,518,610,334 |
| **Fixed assets** | | |
| Equipment, at cost | 4,497,511 | 5,002,227 |
| Accumulated depreciation | (3,495,056) | (4,470,586) |
| **Total fixed assets** | 1,002,455 | 531,641 |
| **Total assets** | 15,614,483,963 | 16,980,669,744 |
| **Liabilities** | | |
| Accrued expenses and benefits payable | 20,567,325 | 20,651,030 |
| Securities lending cash collateral | 1,477,618,175 | 1,518,610,334 |
| Payables to brokers for unsettled trades | 615,583,243 | 475,218,449 |
| **Total liabilities** | 2,113,768,743 | 2,014,479,813 |
| **Net assets held in trust for pension benefits** | $13,500,715,220 | $14,966,189,931 |

(A schedule of funding progress is presented on page 31.)

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

## Statements of Changes in Plan Net Assets

| **Additions** | December 31 | |
|---|---|---|
| | **2002** | **2001** |
| **Contributions** | | |
| Members for retirement coverage | $233,935,559 | $216,150,677 |
| Employers for benefit plan coverage | 294,935,422 | 313,007,639 |
| **Total contributions** | 528,870,981 | 529,158,316 |
| **Investment Income** | | |
| From investing activities | | |
| Interest | 203,829,496 | 235,646,068 |
| Dividends | 84,789,522 | 93,334,656 |
| Equity fund income, net | 49,090,457 | 40,541,706 |
| Net depreciation in fair value of investments | (1,625,182,016) | (1,344,686,744) |
| Investment activity loss | (1,287,472,541) | (975,164,314) |
| Less: Direct investment expense | (42,485,812) | (42,870,596) |
| Net investment activity loss | (1,329,958,353) | (1,018,034,910) |
| From security lending activity | | |
| Securities lending income | 27,457,137 | 65,870,547 |
| Securities lending management fees | (1,147,063) | (1,789,860) |
| Securities lending borrower rebates | (21,726,563) | (56,921,275) |
| Net security lending activity income | 4,583,511 | 7,159,412 |
| **Total investment loss** | (1,325,374,842) | (1,010,875,498) |
| **Other** | 5,200 | 4,050 |
| **Total additions** | (796,498,661) | (481,713,132) |
| **Deductions** | | |
| Annuities | 582,275,635 | 540,523,326 |
| Disability benefits | 9,841,107 | 9,564,771 |
| Death benefits | 21,489,735 | 20,460,447 |
| Refunds | 36,641,773 | 27,507,628 |
| Administrative expenses | 18,727,800 | 18,470,776 |
| **Total deductions** | 668,976,050 | 616,526,948 |
| **Net decrease** | (1,465,474,711) | (1,098,240,080) |
| **Net assets held in trust for pension benefits** | | |
| **Beginning of year** | 14,966,189,931 | 16,064,430,011 |
| **End of year** | $13,500,715,220 | $14,966,189,931 |

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

## Notes to Financial Statements
**December 31, 2002**

### A. Plan Description

The Illinois Municipal Retirement Fund (IMRF or the "Fund") is the administrator of an agent multiple-employer public employee retirement system. The Illinois 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 administered in accordance with Illinois statutes. The statutes do not provide for termination of the plan under any circumstances.

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 independent public accountants.

| 1. **Employers** | **2002** | **2001** |
|---|---|---|
| Participating employers | 2,853 | 2,826 |

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 or equivalent 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 financial stability requirements. Units that elect to join the system may not under any circumstances terminate their participating employer status as long as they are in existence.

| 2. **Members** | **2002** | **2001** |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 74,668 | 72,832 |
| Terminated members entitled to benefits but not yet receiving them | 9,398 | 9,122 |
| Terminated members—non-vested | 82,954 | 78,559 |
| Current members: | | |
| Nonvested | 99,173 | 98,292 |
| Vested | 68,603 | 66,553 |
| Total current members | 167,776 | 164,845 |
| **Grand Total** | 334,796 | 325,358 |

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, 2002, and 2001. A more extensive description of the plan can be found in the Actuarial Section. The ECO plan was created by statute in 1997 and was revised in 2000.

**Refunds**

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

**Retirement**

| Plan | Regular | SLEP | Original ECO | Revised ECO |
|---|---|---|---|---|
| **Vesting** | 8 years | 20 years | 8 years | 8 years in each elected position |
| **Maximum age for unreduced benefit** | 35+ years of service: 55, otherwise 60 | 50 | Sheriffs with 20 years of SLEP service: 50, otherwise 55 | 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 the last day of ECO participation | Highest consecutive 48 months in the last 10 years for each elected position |
| **Survivor benefits** | Annuity for eligible spouse | Annuity for eligible spouse | Annuity for eligible spouse and unmarried children under 18 | Annuity for eligible spouse and unmarried children under 18 |
| **Post-retirement increase** | 3% of original amount | 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 | 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**

An 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 that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
(2) Fiscal dependency on the primary government.

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

### 2. Basis of Accounting

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.

### 3. Use of Estimates

The preparation of IMRF's financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that effect the reported amounts and plan net assets at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in IMRF plan net assets during the reporting period and, when applicable, disclosures of the contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### 4. Income Taxes

IMRF is exempt from federal and state income taxes and has received a favorable determination from the Internal Revenue Service under Code section 401(a).

**5. 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. Alternative investments, which include private equity and absolute return funds, are valued based on amounts established by fund managers which are subject to annual audit. Fair values for directly owned real estate investments are determined by appraisals.

**6. Broker Commission Credits**

IMRF has directed commission arrangements with several brokers. Under these arrangements, certain expenses related to the operation of IMRF, and exclusively for the benefit of IMRF, are paid using a percentage of commissions earned on investment transactions. At December 31, 2002, IMRF has accumulated $2,161,396 for future expenditures, and these credits are included in plan net assets.

## C. Cash

| Carrying amounts at December 31: | 2002 | 2001 |
|---|---|---|
| Cash | $3,599,502 | $1,059,782 |

| Bank balances at December 31: | | |
|---|---|---|
| Custodial credit risk category 1 | $6,745,233 | $2,302,792 |
| Custodial credit risk category 3 | 865,761 | 497,523 |
| | $7,610,994 | $2,800,315 |

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 IMRF. These balances are classified as custodial credit risk category 1 as defined by GASB Statement No. 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 No. 3.

## D. Investments

**1. Investment Policies**

The Illinois Pension Code prescribes the "prudent man 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 man" 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." Some pending purchases of stocks and fixed income securities are shown as "not categorized" because the securities purchased have not been delivered and cannot be registered.

In addition, investments held by broker-dealers under the collateralized securities lending program are categorized based upon the nature of the collateral. If the collateral received is cash, then the investments lent are "not categorized" since the cash is reflected on the Statement of Plan Net Assets. If the collateral received is securities and letters of credit, then the investments lent are categorized according to the characteristics of the collateral received. In the following tables, investments for which cash collateral has been received are listed 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 Fund or its agent in the Fund's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Fund's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Fund's name.

The following table presents a summary of the Fund's investments and related category of custodial credit risk at December 31, 2002, and 2001.

## Custodial Credit Risk

| | 2002 | 2001 |
|---|---|---|
| **Category 1** | | |
| U.S. government & agency | $868,174,100 | $855,847,739 |
| U.S. corporate | 1,203,411,190 | 1,317,969,830 |
| Foreign fixed income securities | 230,786,885 | 184,297,766 |
| U.S. equities | 3,601,999,373 | 4,282,968,649 |
| Foreign equities | 910,637,821 | 1,124,005,641 |
| Commercial paper | 0 | 2,400,526 |
| Options | 144,888 | 1,599,088 |
| | 6,815,154,257 | 7,769,089,239 |
| **Category 3** | | |
| U.S. government & agency | 1,117,817 | 1,327,740 |
| U.S. corporate | 6,311,682 | 6,097,070 |
| U.S. equities | 62,599 | 1,481,618 |
| Foreign equities | 2,340,142 | 0 |
| Investments in foreign currency | 0 | 39,853 |
| | 9,832,240 | 8,946,281 |
| **Not Categorized** | | |
| Investments held by broker-dealers under securities loans | | |
| U.S. government & agency | 765,114,300 | 713,427,739 |
| U.S. corporate | 286,088,176 | 211,371,184 |
| Foreign fixed income securities | 55,202,699 | 67,311,658 |
| U.S. equities | 467,296,572 | 447,712,781 |
| Foreign equities | 121,854,676 | 212,216,388 |
| U.S. government & agency | 563,097,083 | 395,467,885 |
| U.S. corporate | 3,668,268 | 3,489,460 |
| Foreign fixed income securities | 56,615 | 197,502 |
| U.S. equities | 1,380,135 | 0 |
| Foreign equities | 257,929 | 5,533,660 |
| U.S. fixed income funds | 1,324,764,549 | 1,311,222,969 |
| U.S. stock funds | 1,329,497,360 | 1,685,062,866 |
| Foreign stock funds | 598,287,918 | 696,252,282 |
| Foreign currency forward contracts | (833,062) | 4,555,377 |
| Pooled short-term investment funds | 479,629,424 | 642,922,366 |
| Real Estate | 586,670,094 | 584,127,704 |
| Private Equity | 238,885,343 | 261,942,199 |
| Absolute Return Funds | 231,474,583 | 228,125,800 |
| Futures Margin | 1,073,800 | 0 |
| Swaps | (1,557,426) | 0 |
| | 7,051,909,036 | 7,470,939,820 |
| **Total Investments at fair value** | $13,876,895,533 | $15,248,975,340 |

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 Northern Trust. Under the terms of the investment agreement for these funds, Northern Trust may invest in a variety of short-term investment securities. Alternative investments include commingled funds that invest in private equity and absolute return funds.

There are no individual investments held by IMRF that represented five percent or more of the Fund's net assets at year-end. As of December 31, 2002, IMRF had $1,326,754,681 invested in the NTGI Collective Monthly Aggregate Bond Index Fund and $922,067,823 invested in the NTGI Collective Monthly MarketCap Equity Structured Fund.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

**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, 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 securities are loaned versus collateral that may include cash, U.S. government securities, and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102 percent of the market value of the securities plus any accrued interest (105 percent for non-U.S. securities). As 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 was 89 days as of December 31, 2002, and 107 days as of December 31, 2001. 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.

Northern Trust pools all collateral received from securities lending transactions and invests any cash collateral. IMRF holds a prorated 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 36 days as of December 31, 2002, and 40 days as of December 31, 2001. Cash collateral may also be invested separately in "term loans," in which case the investments match the term of the 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. During 2002 and 2001, there were no 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 Statements of Plan Net Assets.

| Loans outstanding as of | December 31, 2002 | December 31, 2001 |
|---|---|---|
| Market value of securities loaned | $1,699,175,456 | $1,655,110,660 |
| Market value of collateral received | $1,738,241,409 | $1,710,572,686 |

### 4. Derivatives

IMRF's investment managers may enter into derivative transactions as permitted by their guidelines with IMRF. A derivative financial instrument is an investment whose payoff depends upon the value of an underlying such as bond and stock prices, a market index, or commodity prices. Derivative financial instruments 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's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. 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. Senior investment management approves 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, financial futures, options, and swaps. 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 financial instruments are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

Foreign currency forward contracts are agreements to buy or sell a specific amount of a specific currency at a specified delivery or maturity date for an agreed upon price. As the market value of the underlying currency varies from the original contract price, IMRF records an unrealized gain or loss. The market value of forward currency contracts outstanding at December 31, 2002, and 2001 are as follows:

| Market Value as of | December 31, 2002 | December 31, 2001 |
|---|---|---|
| Forward currency purchases | $35,296,793 | $222,997,211 |
| Forward currency sales | 36,129,855 | 218,441,834 |
| Unrealized gain/(loss) | $ (833,062) | $ 4,555,377 |

Financial futures are similar to forward contracts, except futures contracts are standardized and traded on organized exchanges. As the market value of the underlying hedging assets vary 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 future contracts outstanding at December 31, 2002, and 2001 are as follows:

| Contractual Amount as of | December 31, 2002 | December 31, 2001 |
|---|---|---|
| Fixed income futures sold | $268,171,719 | $55,835,734 |
| Fixed income futures purchased | $126,088,174 | $29,286,609 |
| Equity futures purchased | $ 10,902,100 | $13,429,600 |

Contractual amounts, which represent the market value of the underlying assets of the derivative contracts, are often used to express the volume of these positions, such amounts do not reflect the extent to which positions may offset one another or the potential risk, which is generally a lesser amount.

Financial options are agreements that give 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 assets underlying the option. Gains and losses on options are determined based on market values and are recorded in the Statement of Changes in Plan Net Assets. The market value of financial options outstanding at year-end is as follows:

| Market Value as of | December 31, 2002 | December 31, 2001 |
|---|---|---|
| Financial options | $144,888 | $1,599,088 |

Interest rate swaps are agreements between two or more parties to exchange sets of cash flows over a period of time. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. In addition to interest rate swaps, one of IMRF's investment managers utilizes credit default swaps which, in addition to the exchange of interest payment streams as in a common interest rate swap, add liquidity to individual credits and protect specific positions. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Plan Net Assets. The market value of swaps outstanding at year-end is as follows:

| Market Value as of | December 31, 2002 | December 31, 2001 |
|---|---|---|
| Swaps | $(1,557,426) | $ — |

### 5. Future Investment Commitments

At December 31, 2002, and 2001, IMRF had future commitments for additional contributions to real estate and alternative investment managers totaling $244,570,836 and $186,496,515 respectively.

## E. Reserves

IMRF maintains several reserves as required by the Illinois Pension Code and Board policy. All reserves are fully funded with the exception of some individual employer retirement reserves. These reserves do not equal the present value of expected retirement benefits for all employers. In 2002 and 2001, the retirement reserves, for all employers combined, exceeded the present value of expected retirement benefits by $240,288,202 and $986,504,690, respectively.

### 1. Member Contribution Reserve

| | 2002 | 2001 |
|---|---|---|
| Balance at December 31 | $2,950,041,671 | $2,708,833,984 |

### 2. Annuity Reserve

| | 2002 | 2001 |
|---|---|---|
| Balance at December 31 | $6,050,505,970 | $5,613,708,283 |

### 3. Employer Reserves

| | 2002 | 2001 |
|---|---|---|
| Balance at December 31 | | |
| Retirement contribution reserve | $4,413,463,322 | $6,546,388,564 |
| Earnings and experience reserve | 67,588,278 | 76,667,079 |
| Supplemental retirement benefit | 2,001,340 | 2,132,793 |
| Pooled death benefit reserve | 9,762,521 | 8,910,596 |
| Pooled disability benefit reserve | 7,352,118 | 9,548,632 |
| Employer reserves | $4,500,167,579 | $6,643,647,664 |

## F. Other Notes

### 1. Prepaid Expenses

| Balance at December 31 | 2002 | 2001 |
|---|---|---|
| Prepaid administrative expenses | $ 219,993 | $ 523,138 |
| January 1 benefits charged to bank account in December | 35,110,893 | 28,678,471 |
| | $ 35,330,886 | $ 29,201,609 |

### 2. 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: three years. Beginning in 2001, IMRF increased its capitalization threshold from $500 to $5,000.

| Year ended December 31 | 2002 | 2001 |
|---|---|---|
| Equipment, furniture and automobiles | | |
| Beginning balance | $ 5,002,227 | $ 6,535,898 |
| Additions | 780,589 | 293,233 |
| Deletions | (1,285,305) | (1,826,904) |
| Ending balance | 4,497,511 | 5,002,227 |
| Accumulated depreciation | | |
| Beginning balance | 4,470,586 | 5,575,276 |
| Additions | 309,775 | 311,331 |
| Deletions | (1,285,305) | (1,416,021) |
| Ending balance | 3,495,056 | 4,470,586 |
| Fixed assets, net | $ 1,002,455 | $ 531,641 |

### 3. Compensated Absences

Annual vacation leave is earned by all permanent employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At December 31, 2002, a liability existed for accumulated annual leave calculated at the employee's December 31, 2002, pay rate in the amount of $419,270. Employees who have been continuously employed by IMRF for at least five years prior to the date of their retirement, resignation or death will receive payment for their accumulated sick leave balance with such payment not to exceed the sum of ninety days of the employee's annual compensation. For employees who have not been employed for five continuous years, an accrued liability is calculated assuming the likelihood that they will meet the five-year threshold in the future. At December 31, 2002, a liability existed for accumulated and accrued sick leave, calculated at the employee's December 31, 2002, pay rate in the amount of $1,378,820. The total leave liability of $1,798,090 is reflected on the Statement of Plan Net Assets in accrued expenses and benefits payable.

### 4. Lease Agreements

The Fund leases its headquarters 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 2002 and 2001 was $1,046,319 and $1,046,847, respectively.

The Fund also leases office space in Springfield for its Regional Counseling Center under an agreement that expires on October 31, 2006. Total rental expense for 2002 and 2001 was $28,270 and $5,346, respectively

The minimum commitments for the remainder of these leases are as follows:

| | |
|---|---|
| 2003 | $1,451,972 |
| 2004 | $1,495,142 |
| 2005 | $1,539,556 |
| 2006 | $25,420 |

### 5. 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.

### 6. Contingencies

IMRF is a defendant in a number of lawsuits that, 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.

## Required Supplementary Information

### Schedule of Funding Progress
Last ten years

| Actuarial Valuation Date December 31 | Aggregate Actuarial Liabilities (AAL): Total AAL Entry Age (a) | Actuarial Assets (b) | Actuarial Assets as a % of AAL (b/a) | Unfunded Actuarial Liabilities (UAL): Total UAL (a-b) | Member Payroll (c) | UAL as a % of Member Payroll (a-b)/c |
|---|---|---|---|---|---|---|
| 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% | 224,383,664 | 3,704,109,084 | 6.1% |
| 1999* | 13,005,023,293 | 13,520,192,111 | 104.0% | (515,168,818) | 3,933,065,061 | -13.1% |
| 2000 | 14,153,055,774 | 15,169,369,263 | 107.2% | (1,016,313,489) | 4,199,395,411 | -24.2% |
| 2001 | 15,318,517,575 | 16,305,022,254 | 106.4% | (986,504,679) | 4,505,162,658 | -21.9% |
| 2002* | 16,559,907,302 | 16,800,195,504 | 101.5% | (240,288,202) | 4,795,734,292 | -5.0% |

* After assumption change
This data, except for annual covered payroll, was provided by the actuary.

### Schedule of Employer Contributions
Last ten years

| Year Ended December 31 | Normal Contributions | Amortization of Unfunded Actuarial Liability | Death & Disability Benefit Contributions | Supplemental Retirement Benefit Contributions | Total Contributions | Percentage Contributed |
|---|---|---|---|---|---|---|
| 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% |
| 1999 | 293,310,795 | 47,851,978 | 13,647,855 | 24,384,264 | 379,194,892 | 100% |
| 2000 | 289,815,409 | 25,817,059 | 14,498,307 | 26,022,673 | 356,153,448 | 100% |
| 2001 | 244,301,259 | 24,361,513 | 16,427,003 | 27,917,864 | 313,007,639 | 100% |
| 2002 | 232,765,220 | 14,951,535 | 17,488,736 | 29,729,931 | 294,935,422 | 100% |

See notes to required supplementary information on following page.

## Notes to Required Supplementary Information

| | |
|---|---|
| Valuation date | December 31, 2002 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent of payroll |
| Remaining amortization period | Taxing bodies: closed, 28 years<br>Overfunded taxing bodies: varies by funding status<br>Non-taxing bodies: generally 5 years |
| Asset valuation method | Five year smoothed market related with a 25% corridor decreasing to 20% by 2006 |
| Actuarial assumptions: | |
| Investment rate of return | 7.5 percent |
| Projected salary increases | 4.65 to 8.25 percent |
| Assumed wage inflation rate | 4.0 percent |
| Group size growth rate | 0.0 percent |
| Assumed 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. |

## Supplementary Information

### Schedule of Administrative Expenses

| | 2002 | 2001 |
|---|---|---|
| Personal services | $12,066,399 | $11,723,000 |
| Supplies | 487,344 | 564,475 |
| Professional services | 1,057,013 | 1,017,202 |
| Occupancy and utilities | 1,842,213 | 1,837,967 |
| Postage and delivery | 917,666 | 842,107 |
| Equipment service and rental | 1,023,354 | 1,007,494 |
| Expendable equipment | 195,266 | 0 |
| Miscellaneous | 828,769 | 1,167,200 |
| Depreciation | 309,776 | 311,331 |
| **Total** | $18,727,800 | $18,470,776 |

### Schedule of Payments to Consultants

| | 2002 | 2001 |
|---|---|---|
| External auditor | $66,000 | $57,470 |
| Internal auditor | 36,912 | 33,208 |
| Medical consultant | 77,933 | 84,300 |
| Legal services | 6,745 | 39,746 |
| Tax consultant | 14,479 | 0 |
| Actuary | 283,526 | 319,983 |
| Management consultants: | | |
| Benefit information system | 506,773 | 348,195 |
| Imaging system | 39,381 | 58,510 |
| Internet | 3,900 | 75,790 |
| Telecommunications | 21,364 | 0 |
| **Total** | $1,057,013 | $1,017,202 |

### Schedule of Investment Expenses

| | 2002 | 2001 |
|---|---|---|
| Investment manager fees | $41,825,977 | $42,267,988 |
| Master trustee fees | 533,020 | 549,772 |
| Investment consultants | 102,005 | 3,000 |
| Miscellaneous | 24,810 | 49,836 |
| **Total** | $42,485,812 | $42,870,596 |

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

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# Investments



IMRF

2002

MERCER

Investment Consulting

10 South Wacker Drive, Suite 1700
Chicago, IL 60606-7500
312 902 7529 Fax 312 902 7626

May 2, 2003

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

Dear Trustees and Executive Director:

Mercer Investment Consulting is pleased to present the following investment summary for the Illinois Municipal Retirement Fund for the fiscal year ending December 31, 2002.

At year end 2002, the Illinois Municipal Retirement Fund (the Fund) had net assets totaling $13.5 billion, a $1.5 billion decrease from year end 2001. This decline resulted from benefit payments totaling $650.2 million, which more than offset $528.9 million in contributions, coupled with negative investment performance. Over the five year period, the Fund's 3.5% return and contributions were sufficient to meet benefit payments totaling $2.8 billion.

Slow economic growth continued during 2002, as business spending remained weak. Consumers continued to support the economy until the fourth quarter, when economic growth slowed sharply as consumers reduced spending amid worries over jobs, the turbulent stock market, and the possibility of war with Iraq. The U.S. stock market declined for the third consecutive year in 2002 and posted the worst annual performance since 1974. Domestic and international equities suffered from a confluence of negative factors during 2002, including sluggish economic growth, the threat of war, concerns regarding the validity of corporate accounting, and weak corporate earnings. Equity market turmoil benefited fixed income securities during the year, as a strong flight to quality drove bond prices higher.

- The Wilshire 5000 Index, the broadest measure of U.S. stock market performance, fell 20.9% in 2002. Within the domestic market, value stocks significantly outperformed their growth counterparts for the third year in a row, while small capitalization stocks narrowly outpaced large capitalization stocks.

- Domestic bonds posted strong returns during 2002, as reflected by the Lehman Brothers Aggregate Index return of 10.3%.

- The international equity market, as measured by the MSCI ACWI ex US (All Country World ex US) Index, declined 14.7% in 2002. Emerging market countries outperformed their developed counterparts during the year, declining 6.0%.

MMC Marsh & McLennan Companies

MERCER
Investment Consulting

Page 2
May 2, 2003

- Real estate continued to serve as a buffer amidst volatile equity markets, returning 4.8% in 2002, as measured by the NCREIF Index.

The Fund fell 8.7% during 2002, trailing its Index benchmark but outperforming the Russell/Mellon Public Funds Peer Group median. The Fund's 2002 performance versus the Index benchmark was hampered by lagging international equity and fixed income results. Over longer time periods, the Fund modestly trailed the Index benchmark but ranked in the top half of the Russell/Mellon Public Fund Peer Group.

The domestic equity portfolio declined 21.1% during 2002, approximating the –20.9% Wilshire 5000 Index return. The overweighted small cap equity portfolio added value during the year as did performance in this sector. These results were mitigated by a weaker large cap equity segment. Over longer time periods, the domestic equity portfolio surpassed the Wilshire 5000 Index.

The international equity portfolio underperformed the MSCI ACWI ex-US Index benchmark during 2002, due primarily to the global equity allocation, which offset the small cap equity and emerging market allocations. Over longer time periods, the Fund's international equity managers exceeded the Index.

The fixed income portfolio gained 8.8% during 2002, continuing to serve as an anchor to the portfolio, but trailing the Lehman Brothers Aggregate Index. The performance shortfall versus the Index was driven by the investment managers' corporate bond allocations, as corporate bonds suffered from investors' preference for higher quality Treasury securities. This effect began reversing in the fourth quarter and has continued through the beginning of 2003, as corporate securities outperformed. The portfolio underperformed the Index over longer time periods.

All performance results are calculated in accordance with AIMR standards.

The Fund completed an asset and liability modeling study in 2002. As a result of the study, fixed income was increased by 5%, while domestic and international equity were reduced by a combined 5%. This adjustment is expected to better complement the Fund's liability structure and objectives. Mercer continues to support the Fund's investment strategy and objectives, as well as the level of investment manager due diligence activities.

Sincerely,

**MERCER INVESTMENT CONSULTING**

Stephanie G. Braming

Stephanie Grieser Braming, CFA
Principal

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60675
(312) 630-6000

**Northern Trust**

March 11, 2003

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, 2002, through December 31, 2002. Also, a statement of assets together with their fair market value was provided, showing the properties held as of December 31, 2002. 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. Lockbox and Checking Accounts.
12. On-line Trust and Banking reporting.

THE NORTHERN TRUST COMPANY

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

## INVESTMENT CONSULTANTS

### Master Trustee

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

### Performance Evaluation

**Mercer Investment Consulting**
Stephanie L. Braming, Senior Consultant
Chicago, Illinois

### Investment Consultant

**Mercer Investment Consulting**
Stephanie L. Braming, Senior Consultant
Chicago, Illinois

### Real Estate Performance Evaluation

**Russell Real Estate Advisors**
Bruce A. Eidelson, Director of Advisory Services
San Diego, California

### Investment Managers

**Abbott Capital Management, LLC**
New York, New York

**Adams Street Partners, LLC**
Chicago, Illinois

**Alliance Capital Management L.P.**
Chicago, Illinois

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

**BlackRock Financial Management, Inc.**
New York, New York

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

**Capital Guardian Trust Company**
Los Angeles, California

**CB Richard Ellis Investors, LLC**
Los Angeles, California

**Cozad/Westchester Agricultural Asset Management**
Champaign, Illinois

**Dimensional Fund Advisors**
Santa Monica, California

**Fidelity Management Trust Company**
Boston, Massachusetts

**Forest Investment Associates**
Atlanta, Georgia

**Frontier Capital Management Co.**
Boston, Massachusetts

**Grosvenor Capital Management, L.P.**
Chicago, Illinois

**Harris Associates, L.P.**
Chicago, Illinois

**Harris Investment Management, Inc.**
Chicago, Illinois

**Holland Capital Management**
Chicago, Illinois

**Investment Counselors of Maryland, LLC**
Baltimore, Maryland

**Iridian Asset Management LLC**
Westport, Connecticut

**Jacobs Levy Equity Management, Inc.**
Florham Park, New Jersey

**Lazard Frères Real Estate Investors, LLC**
New York, New York

**Lend Lease Real Estate Investments, Inc.**
Atlanta, Georgia

**LSV Asset Management**
Chicago, Illinois

**MacKay Shields, LLC**
New York, New York

**MDL Capital Management, Inc.**
Pittsburgh, Pennsylvania

**Mesirow Advanced Strategies, Inc.**
Chicago, Illinois

**NewBridge Partners, LLC**
New York, New York

**Northern Trust Investments, Inc.**
Chicago, Illinois

**Olympus Real Estate Corporation**
Dallas, Texas

**Pantheon Ventures, Inc.**
San Francisco, California

**Payden & Rygel**
Los Angeles, California

**Permira Advisors, Ltd.**
London, England

**Prudential Investment Management**
Parsippany, New Jersey

**Schroder Capital Management International**
London, England

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

**Sentinel Real Estate Corporation**
New York, New York

**Wall Street Associates**
La Jolla, California

**Western Asset Management Company**
Pasadena, California

**William Blair & Company**
Chicago, Illinois

## INVESTMENT POLICIES

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

### A. Investment Objectives

1. To diversify the investment portfolio so as to optimize investment returns.

2. To set investment and actuarial policies to assure the adequate accumulation of assets and to achieve a reasonable funded status.

3. To achieve rates of return greater than the current actuarial assumption of 8 percent and to exceed inflation.

4. To achieve rates of return consistent with expectations for each asset class used, without significantly changing the expected risk profile of the asset class or the investment portfolio.

5. To achieve in U.S. equities a total return that exceeds the total return of the Wilshire 5000 Composite Index. In addition, the Board expects to earn a minimum of 6 percent in excess of inflation over a moving five-year period.

6. To achieve in international equities a total return that exceeds the total return of the MSCI ACWI-Ex U.S. Index. In addition, the Board expects to earn a minimum of 6 percent in excess of inflation over a moving five-year period.

7. To achieve in fixed income securities a total return that exceeds the Lehman Aggregate Bond Index over a moving five-year period. In addition, the Board expects to earn a minimum of 3 percent in excess of inflation over a moving five-year period.

8. To achieve in equity real estate investments a 5 percent real rate of return over a moving five-year period.

9. To achieve in alternative investments a 13 percent nominal return.

10. To achieve in internally managed short-term securities relative performance better than 30 day U.S. Treasury Bills.

### 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 prior to the 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 percent of an equity manager's portfolio market value at the time of purchase. Any holding of any one issuer, at the time of purchase, shall generally be limited to a maximum of 8 percent of the equity manager's portfolio market value.

3. 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 percent 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. International equity managers may invest in equity securities that are not traded on U.S. exchanges. Global equity managers may invest in equity securities that are traded on U.S. or international exchanges.

3. Holdings of any one issuer, at the time of purchase, shall generally be limited to a maximum of 5 percent of the portfolio's market value.

4. Global equity portfolio holdings are considered to be part of the international equity portfolio. Holdings of any one issuer, at the time of purchase, shall generally be limited to a maximum of 8 percent of the portfolio market value. Additionally, country holdings (excluding Japan and the U.S.) and emerging market holdings will generally be limited to 20 percent of the portfolio's market value at the time of purchase.

5. Emerging market portfolios are also considered to be part of the international equity portfolio. The emerging market 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 emerging market manager may generally invest up to 35 percent of its assets in a single country. Holdings of any one issuer, at the time of purchase, shall generally be limited to 5 percent of the portfolio's market value.

6. International and global equity managers may engage in various transactions to hedge currency.

### E. Fixed Income Investment Guidelines

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

2. Debt obligations of any single U.S. corporation are generally subject to a maximum holding of 15 percent of the market value of a manager's portfolio. Generally, no more than 20 percent of a manager's 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 using high-yield disciplines.

3. Managers may invest in mortgage backed securities.

4. Private placements are authorized by the Board on an individual manager basis.

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

6. The use of exchange traded financial futures, exchange traded options on financial futures, and over the counter options is subject to individual manager guidelines. Leverage is not allowed.

## F. Equity Real Estate Investment Guidelines

Real estate is an authorized investment of the Fund. The current long-term target for this asset class is 2 percent of total portfolio.

## G. Alternative Investment Guidelines

The Alternative Investment portfolio will consist of venture capital, buyout, special situation, and absolute return investments. The 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.

## H. 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.

## Returns by Asset Class

Periods ending December 31

| | 1998 | 1999 | 2000 | 2001 | 2002 | Annualized 3 Yrs | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|---|---|
| **Total Fund** | | | | | | | | |
| **Time-Weighted Returns** | | | | | | | | |
| IMRF | 12.63% | 20.93% | 1.87% | -6.08% | -8.72% | -4.42% | 3.53% | 8.08% |
| CPI (Inflation) | 1.61% | 2.67% | 3.40% | 1.55% | 2.39% | 2.44% | 2.32% | 2.46% |
| **Equities - U.S.** | | | | | | | | |
| IMRF | 21.27% | 29.61% | -3.50% | -11.56% | -21.09% | -12.33% | 1.15% | 9.40% |
| Russell 2000 | -2.55% | 21.26% | -3.03% | 2.49% | -20.48% | -7.55% | -1.36% | 7.16% |
| S&P 500 | 28.75% | 21.05% | -9.10% | -11.88% | -22.10% | -14.55% | -0.58% | 9.34% |
| Wilshire 5000 | 23.43% | 23.56% | -10.68% | -10.96% | -20.86% | -14.37% | -0.86% | 8.75% |
| **Equities - International** | | | | | | | | |
| IMRF | 7.73% | 41.43% | -3.18% | -15.33% | -16.71% | -11.95% | 0.79% | 6.23% |
| MSCI ACWI Ex-U.S. | 14.47% | 30.92% | -15.09% | -19.50% | -14.68% | -16.45% | -2.66% | 4.17% |
| EAFE | 20.33% | 27.30% | -13.96% | -21.21% | -15.66% | -17.00% | -2.62% | 4.30% |
| EAFE 50% Hedged | 16.17% | 31.01% | -9.47% | -19.14% | -22.41% | -17.27% | -2.94% | 4.00% |
| **Fixed Income** | | | | | | | | |
| IMRF | 7.53% | 0.45% | 7.26% | 6.77% | 8.81% | 7.61% | 6.12% | 7.39% |
| Lehman Aggregate | 8.67% | -0.83% | 11.63% | 8.42% | 10.27% | 10.10% | 7.54% | 7.51% |
| Lehman Government/Credit | 9.47% | -2.15% | 11.84% | 8.51% | 11.02% | 10.44% | 7.61% | 7.61% |
| Merrill Lynch High Yield | 3.66% | 1.57% | -3.79% | 6.20% | -1.14% | 0.34% | 1.24% | 6.35% |
| **Real Estate** | | | | | | | | |
| IMRF | -0.38% | 2.76% | 12.96% | 12.99% | 6.61% | 10.93% | 6.91% | 5.03% |
| NCREIF Classic Property | 18.42% | 12.76% | 12.79% | 7.28% | 4.78% | 8.23% | 10.75% | 9.50% |
| **Alternative Investments** | | | | | | | | |
| IMRF | 19.58% | 32.60% | 54.37% | -25.90% | -8.75% | 1.44% | 10.60% | 17.65% |
| **Cash & Cash Equivalents** | | | | | | | | |
| IMRF | 5.81% | 7.77% | 9.87% | 8.33% | 4.38% | 7.50% | 7.50% | 6.35% |
| U.S. Treasury Bills | 5.02% | 4.96% | 6.21% | 3.42% | 1.78% | 4.11% | 4.45% | 4.67% |

Performance has been audited and calculated by Mercer Investment Consulting in accordance with AIMR's performance presentation standards.

**Schedule I**
## Investment Portfolio Summary

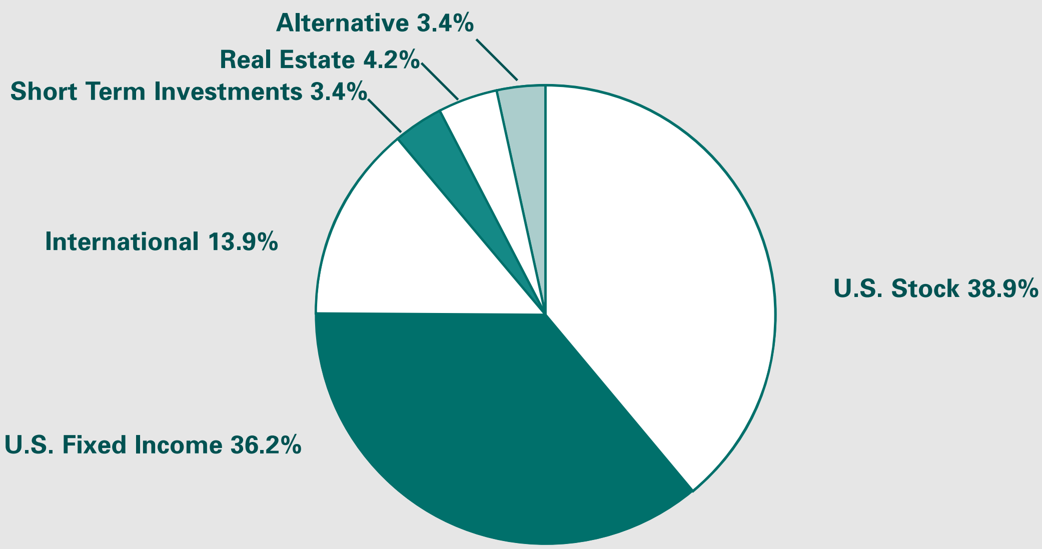
In Millions of Dollars

| | As of 12/31/2002 | | As of 12/31/2001 | |
|---|---|---|---|---|
| | Fair Value | Percent of Total Fair Value | Fair Value | Percent of Total Fair Value |
| **Fixed Income:** | | | | |
| Government | $2,197.5 | 15.8% | $1,966.1 | 12.9% |
| Corporate | 1,499.5 | 10.8% | 1,538.9 | 10.1% |
| Index Funds | 1,324.8 | 9.6% | 1,311.2 | 8.6% |
| Foreign | 286.0 | 2.1% | 251.8 | 1.6% |
| | 5,307.8 | 38.3% | 5,068.0 | 33.2% |
| **Stocks:** | | | | |
| U.S. Common & Preferred | 4,070.7 | 29.3% | 4,732.2 | 31.0% |
| U.S. Stock Funds | 1,329.5 | 9.6% | 1,685.1 | 11.1% |
| Foreign Common & Preferred | 1,035.1 | 7.5% | 1,341.8 | 8.8% |
| Foreign Stock Funds | 598.3 | 4.3% | 696.2 | 4.6% |
| | 7,033.6 | 50.7% | 8,455.3 | 55.5% |
| **Real Estate:** | | | | |
| Commingled Funds | 279.7 | 2.0% | 280.9 | 1.8% |
| Directly Owned | 182.2 | 1.3% | 185.4 | 1.2% |
| Timber and Agricultural | 124.8 | 0.9% | 117.8 | 0.8% |
| | 586.7 | 4.2% | 584.1 | 3.8% |
| **Alternative Investments:** | | | | |
| Commingled Funds | 470.4 | 3.4% | 490.1 | 3.2% |
| **Short-Term Investments** | 478.4 | 3.4% | 651.5 | 4.3% |
| **Total Portfolio** | $13,876.9 | 100.0% | $15,249.0 | 100.0% |

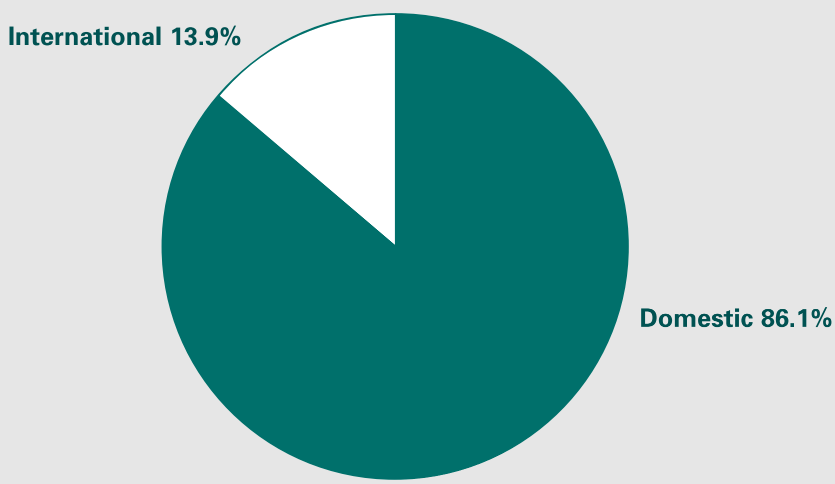
A complete listing of investments is available upon request.

# Investment Portfolio as of December 31, 2002

## Allocation by Asset Class




## Total Investments by Region



## Schedule II
## Asset Allocation

Last Five Years

| | Fair Value as a Percent of Portfolio | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| **Fixed Income:** | | | | | |
| U.S. Government | 7.0% | 6.1% | 8.0% | 12.9% | 15.8% |
| Corporate | 8.9% | 7.7% | 8.0% | 10.1% | 10.8% |
| Index Fund | 7.7% | 9.0% | 9.3% | 8.6% | 9.6% |
| Foreign | 4.8% | 4.7% | 4.4% | 1.6% | 2.1% |
| | 28.4% | 27.5% | 29.7% | 33.2% | 38.3% |
| **Stocks:** | | | | | |
| U.S. Common & Preferred | 31.0% | 32.1% | 32.3% | 31.0% | 29.3% |
| U.S. Stock Funds | 11.6% | 14.8% | 12.6% | 11.1% | 9.6% |
| Foreign Common & Preferred | 14.1% | 11.3% | 11.0% | 8.8% | 7.5% |
| Foreign Stock Funds | 5.5% | 5.6% | 5.2% | 4.6% | 4.3% |
| | 62.2% | 63.8% | 61.1% | 55.5% | 50.7% |
| **Real Estate:** | | | | | |
| Commingled Funds | 2.4% | 1.8% | 1.8% | 1.8% | 2.0% |
| Directly Owned | 2.2% | 1.3% | 1.3% | 1.2% | 1.3% |
| Timber and Agricultural | 0.5% | 0.6% | 0.7% | 0.8% | 0.9% |
| | 5.1% | 3.7% | 3.8% | 3.8% | 4.2% |
| **Alternative Investments:** | | | | | |
| Commingled Funds | 1.3% | 1.5% | 2.3% | 3.2% | 3.4% |
| **Short-Term Investments** | 3.0% | 3.5% | 3.1% | 4.3% | 3.4% |
| **Total Portfolio** | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

### Ten Largest Fixed Income Investment Holdings
Excludes Commingled Funds

| | Market Value | Percent of Total Invested Market |
|---|---|---|
| FNMA 6.50% Due 1/1/2033 | $143,626,367 | 1.03% |
| FNMA 6.00% Due 1/1/2033 | 74,330,172 | 0.53% |
| U.S. Treasury Notes 4.00% Due 11/15/2012 | 71,979,512 | 0.52% |
| U.S. Treasury Bonds 8.00% Due 11/15/2021 | 63,875,012 | 0.46% |
| FNMA 7.00% Due 1/1/2028 | 53,111,010 | 0.38% |
| GNMA 6.50% Due 1/1/2033 | 50,476,338 | 0.36% |
| GNMA 6.00% Due 1/1/2033 | 42,912,788 | 0.31% |
| U.S. Treasury Bonds 8.50% Due 2/15/2020 | 42,797,373 | 0.31% |
| U.S. Treasury Bonds 8.125% Due 8/15/2019 | 42,278,185 | 0.30% |
| U.S. Treasury Notes 3.50% Due 11/15/2006 | 41,635,406 | 0.30% |
| | $627,022,163 | 4.51% |

### Ten Largest Equity Investment Holdings
Excludes Commingled Funds

| | Market Value | Percent of Total Invested Market |
|---|---|---|
| Citigroup | $96,822,329 | 0.70% |
| Pfizer | 92,662,256 | 0.67% |
| Microsoft | 85,179,628 | 0.61% |
| American International Group | 73,773,791 | 0.53% |
| Exxon Mobil | 72,593,091 | 0.52% |
| General Electric | 66,437,758 | 0.48% |
| Wal-Mart Stores | 61,922,735 | 0.45% |
| Johnson & Johnson | 50,323,531 | 0.36% |
| Bank of America | 48,370,282 | 0.35% |
| FHLMC | 48,037,175 | 0.35% |
| | $696,122,576 | 5.00% |

## Schedule of 2002 Domestic Brokerage Commissions

In order of commissions received

| Broker Name | Shares | Commissions | Per Share |
|---|---|---|---|
| Lehman Brothers* | 9,415,056 | $484,152 | $0.05 |
| Merrill Lynch Pierce Fenner and Smith | 15,817,631 | 474,335 | 0.03 |
| Citation Group* | 5,715,240 | 296,969 | 0.05 |
| Goldman Sachs | 6,909,654 | 238,717 | 0.03 |
| Investment Technology Group | 19,656,160 | 235,986 | 0.01 |
| Smith Barney | 4,685,796 | 191,589 | 0.04 |
| Credit Suisse First Boston Corp. | 4,724,781 | 172,155 | 0.04 |
| Bear Stearns Securities | 3,180,316 | 158,023 | 0.05 |
| Bernstein, Sanford C. and Co. | 2,647,191 | 145,041 | 0.05 |
| Morgan Stanley | 2,690,650 | 136,096 | 0.05 |
| Cantor Fitzgerald and Co. | 4,654,533 | 134,503 | 0.03 |
| Prudential Securities | 2,820,672 | 132,776 | 0.05 |
| Jefferies and Co. | 2,238,250 | 113,058 | 0.05 |
| J.P. Morgan Securities | 2,294,225 | 110,516 | 0.05 |
| Lynch, Jones and Ryan* | 1,912,017 | 88,922 | 0.05 |
| Bridge Trading Company | 1,766,017 | 86,803 | 0.05 |
| UBS Warburg Dillon Read | 1,811,700 | 84,656 | 0.05 |
| Banc America Securities | 1,713,200 | 83,788 | 0.05 |
| BNY Securities | 1,840,829 | 81,214 | 0.04 |
| Gardner Rich and Co. | 1,200,550 | 59,047 | 0.05 |
| Capital Institutional Services* | 931,900 | 50,706 | 0.05 |
| Correspondent Services Corp. | 910,674 | 48,445 | 0.05 |
| Instinet | 2,030,200 | 47,310 | 0.02 |
| Jones and Associates | 827,100 | 47,175 | 0.06 |
| Oppenheimer and Co. | 896,350 | 46,947 | 0.05 |
| Knight Securities | 1,053,500 | 45,263 | 0.04 |
| B Trade Services | 2,178,112 | 43,789 | 0.02 |
| Legg Mason Wood Walker | 829,100 | 43,463 | 0.05 |
| Standard and Poors Securities | 810,300 | 41,166 | 0.05 |
| Fidelity Capital Markets | 954,200 | 40,696 | 0.04 |
| Other Brokers | 24,601,623 | 1,032,447 | 0.04 |
| **Total** | 133,717,527 | $4,995,753 | $0.04 |

*Directed commission broker

## Schedule of 2002 International Brokerage Commissions

In order of commissions received

| Broker Name | Shares | Commissions | Per Share |
|---|---|---|---|
| Morgan Stanley | 34,600,897 | $399,282 | $0.01 |
| Goldman Sachs | 15,611,718 | 225,181 | 0.01 |
| Credit Suisse First Boston | 9,926,744 | 176,583 | 0.02 |
| UBS | 34,118,155 | 166,660 | 0.00 |
| Merrill Lynch | 9,982,795 | 139,832 | 0.01 |
| Sanford Bernstein | 3,419,670 | 111,799 | 0.03 |
| J.P. Morgan Securities | 5,291,357 | 101,407 | 0.02 |
| Morgan Grenfell and Co. | 3,037,998 | 98,110 | 0.03 |
| Credit Lyonnais | 11,831,182 | 97,680 | 0.01 |
| Salomon Brothers | 5,407,072 | 95,195 | 0.02 |
| Lehman Brothers* | 3,494,570 | 89,616 | 0.03 |
| HSBC Securities | 3,685,451 | 83,472 | 0.02 |
| Dresdner Kleinwort Wasserstein | 4,573,640 | 83,060 | 0.02 |
| Citibank | 3,959,589 | 66,082 | 0.02 |
| SBC Warburg Dillon Reed and Co. | 2,067,310 | 65,877 | 0.03 |
| Deutsche Bank | 2,720,322 | 63,727 | 0.02 |
| Broadcoart Capital | 1,269,600 | 63,480 | 0.05 |
| UBS Warburg | 7,677,587 | 60,302 | 0.01 |
| Exane Inc. | 624,000 | 59,673 | 0.10 |
| Prudential Bache | 3,176,300 | 58,640 | 0.02 |
| Merrill Lynch Pierce Fenner Smith | 4,306,948 | 51,628 | 0.01 |
| Dresdner Securities | 1,231,725 | 49,269 | 0.04 |
| Bear Stearns | 2,630,028 | 45,601 | 0.02 |
| ABN AMRO | 2,320,664 | 42,709 | 0.02 |
| Salomon Smith Barney | 1,260,934 | 40,842 | 0.03 |
| Instinet | 2,029,531 | 40,578 | 0.02 |
| Kleinwort Benson | 1,997,214 | 38,299 | 0.02 |
| Banque Paribas | 1,890,740 | 36,862 | 0.02 |
| Griffiths McBurney Partners | 1,034,994 | 31,702 | 0.03 |
| Nomura Securities | 1,027,400 | 29,056 | 0.03 |
| Fox Pitt Kelton | 733,600 | 28,750 | 0.04 |
| Other Brokers | 20,559,524 | 353,860 | 0.02 |
| **Total** | 207,499,259 | $3,094,814 | $0.01 |

*Directed commission broker

Commissions in U.S. dollar terms

## Schedule of Investment Fees

| | 2002 Fees | 2002 Assets under management at year end (in thousands)* | 2002 Basis points | 2001 Fees | 2001 Assets under management at year end (in thousands)* | 2001 Basis points |
|---|---|---|---|---|---|---|
| **Investment manager fees** | | | | | | |
| Fixed income managers | $5,255,874 | $4,938,447 | 11 | $5,483,592 | $4,910,118 | 11 |
| Stock managers | 15,542,986 | 5,229,393 | 30 | 17,684,258 | 6,214,040 | 28 |
| International managers | 10,935,503 | 2,244,345 | 49 | 11,314,271 | 2,752,293 | 41 |
| Real estate managers | 5,564,747 | 593,304 | 94 | 5,393,291 | 587,151 | 92 |
| Alternative Investment managers | 4,526,867 | 478,349 | 95 | 2,392,576 | 500,359 | 48 |
| | $41,825,977 | $13,483,838 | | $42,267,988 | $14,963,961 | |
| **Other investment fees** | | | | | | |
| Master trustee fees | 533,020 | | | 549,772 | | |
| Total investment fees | 42,358,997 | | | 42,817,760 | | |
| Non-fee investment expenses | 126,815 | | | 52,836 | | |
| Total direct investment expenses | $42,485,812 | | | $42,870,596 | | |
| **Securities lending fees** | | | | | | |
| Rebated earnings | $21,726,563 | | | $56,921,275 | | |
| Bank fees and commissions | 1,147,063 | | | 1,789,860 | | |
| | $22,873,626 | | | $58,711,135 | | |

### 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.

| | 2002 | 2001 |
|---|---|---|
| Investment consulting fees | $520,000 | $455,000 |

**Assets under management include accrued investment income and unsettled trades.*

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# Actuarial



IMRF

2002

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

May 5, 2003

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 returns will be sufficient to meet the financial obligations of IMRF employers to present and future retirees and beneficiaries.

Actuarial valuations are performed annually to assess the plan's progress toward meeting its financial objective. 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, 2002.

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 5, 2003

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. The Board adopts these assumptions 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, 2002 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1999-2001 period. The next experience study will cover the period from January 1, 2002 to December 31, 2004.

Experience was unfavorable in 2002. Investment return for IMRF (as well as for most other pension funds across the country) was disappointing and resulted in a loss of $1.4 Billion. Since the actuary assumed the fund would earn $1.2 Billion, the actuary computed an actuarial loss of $2.6 Billion. $611 Million of that actuarial loss was recognized this year with the remainder scheduled to be phased in over the next 4 years in accordance with the asset valuation method. Although this is the second consecutive negative investment year for IMRF and the third year in a row in which the earnings assumption was not met, it is important to view the results within the context of the spectacular gains that were achieved throughout most of the 1980's and 1990's.

Based upon the results of the December 31, 2002 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. However, until investment markets turn around and stabilize, upward pressure on contribution rates is a likely result.

Respectfully submitted,

**GABRIEL, ROEDER, SMITH & COMPANY**

Norman L. Jones

Brian B. Murphy

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

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

BBM:lr

**Gabriel, Roeder, Smith & Company**

## Illinois Municipal Retirement Fund
## Brief Summary Of Actuarial Assumptions used in 2002 Valuations
## (Adopted as of December 31, 2001, except as noted below)

| | |
|---|---|
| Investment Return | 7.5% per annum, compounded annually, net of expenses (effective December 31, 1991), including a wage 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 Rates | 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 | Graduated rates by age. |
| 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 | | | | |
|---|---|---|---|---|---|
| | Active Mortality | | Disability | | Pay Increase Next Year |
| Age | Male | Female | Male | Female | (6+ Yrs. Of Service) |
| 20 | 0.02% | 0.01% | 0.02% | 0.01% | 8.0% |
| 30 | 0.03% | 0.02% | 0.02% | 0.02% | 5.9% |
| 40 | 0.06% | 0.04% | 0.09% | 0.05% | 5.0% |
| 50 | 0.20% | 0.09% | 0.21% | 0.12% | 4.7% |
| 60 | 0.46% | 0.22% | 0.42% | 0.32% | 4.4% |
| 65 | 0.78% | 0.37% | 0.45% | 0.38% | 4.4% |

| | Separation | | | Retirement | | | | |
|---|---|---|---|---|---|---|---|---|
| | Regular (8+ Yrs. Serv.) | | SLEP | Reduced Early | | Normal Unreduced | | |
| Age | Male | Female | (5+ Yrs.) | Male | Female | Male | Female | SLEP |
| 30 | 5.5% | 6.5% | 3.0% | - % | - % | - % | - % | - % |
| 35 | 4.4% | 5.8% | 2.4% | - | - | - | - | - |
| 40 | 3.4% | 4.8% | 1.7% | - | - | - | - | - |
| 45 | 2.8% | 4.3% | 1.5% | - | - | - | - | - |
| 50 | 2.5% | 3.7% | 1.5% | - | - | - | - | - |
| 55 | - | - | - | 6.0% | 7.0% | 35.0% | 35.0% | 25.0% |
| 60 | - | - | - | - | - | 10.0% | 10.0% | 10.0% |
| 65 | - | - | - | - | - | 40.0% | 30.0% | 25.0% |
| 70 | - | - | - | - | - | 20.0% | 18.0% | 100.0% |

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

## 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) |
|---|---|---|---|---|---|---|---|
| 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% |
| 1999 | 2,258,628,401 | 4,915,467,275 | 5,830,927,617 | 13,520,192,111 | 100.0% | 100.0% | 108.8% |
| 2000 | 2,473,646,891 | 5,284,275,174 | 6,395,133,709 | 15,169,369,271 | 100.0% | 100.0% | 115.9% |
| 2001 | 2,708,833,984 | 5,613,708,283 | 6,995,975,308 | 16,305,022,254 | 100.0% | 100.0% | 114.1% |
| 2002 | 2,950,041,671 | 6,050,882,416 | 7,558,983,215 | 16,800,195,504 | 100.0% | 100.0% | 103.2% |

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 |
|---|---|---|---|---|---|---|---|
| 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% | 23,991 | 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 |
| 1999 | 3,933,065,061 | 6.2% | 25,678 | 3.2% | 155,517 | 44.4 | 8.6 |
| 2000 | 4,199,395,411 | 6.8% | 26,514 | 3.3% | 159,810 | 44.6 | 8.2 |
| 2001 | 4,505,162,658 | 7.3% | 27,477 | 3.6% | 164,845 | 44.9 | 8.3 |
| 2002 | 4,795,734,292 | 6.4% | 28,582 | 4.0% | 167,776 | 45.3 | 8.5 |

**Table II**

## Schedule of Adds and Removals from Rolls

Last seven years

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

| Calendar Year | Beginning of Year Balance | Number Added to Rolls | Number Removed from Rolls | End of Year Balance | Annual Pension Benefit Amount | Average Annual Benefit | % Increase in Average Benefit |
|---|---|---|---|---|---|---|---|
| 1996 | 59,212 | 4,702 | 2,399 | 61,515 | $330,182,571 | $5,368 | 7.9% |
| 1997 | 61,515 | 4,971 | 2,430 | 64,056 | 369,267,651 | 5,765 | 7.4% |
| 1998 | 64,056 | 4,894 | 2,678 | 66,272 | 411,763,751 | 6,213 | 7.8% |
| 1999 | 66,272 | 4,854 | 2,795 | 68,331 | 451,411,565 | 6,606 | 6.3% |
| 2000 | 68,331 | 4,406 | 2,875 | 69,862 | 483,042,410 | 6,914 | 4.7% |
| 2001 | 69,862 | 4,576 | 3,006 | 71,432 | 518,117,918 | 7,253 | 4.9% |
| 2002 | 71,432 | 4,896 | 2,968 | 73,360 | 561,184,188 | 7,650 | 5.5% |

Schedule of Disabilitants Added to and Removed from Rolls

| Calendar Year | Beginning of Year Balance | Number Added to Rolls | Number Removed from Rolls | End of Year Balance | Annual Pension Benefit Amount | Average Annual Benefit | % Increase in Average Benefit |
|---|---|---|---|---|---|---|---|
| 1996 | 1,751 | 1,885 | 1,910 | 1,726 | $9,477,974 | $5,491 | 3.8% |
| 1997 | 1,726 | 1,885 | 1,984 | 1,627 | 9,107,613 | 5,598 | 1.9% |
| 1998 | 1,627 | 1,799 | 1,942 | 1,484 | 8,636,865 | 5,820 | 4.0% |
| 1999 | 1,484 | 1,805 | 1,905 | 1,384 | 8,140,900 | 5,882 | 1.1% |
| 2000 | 1,384 | 1,810 | 1,777 | 1,417 | 9,067,056 | 6,399 | 8.8% |
| 2001 | 1,417 | 1,989 | 2,006 | 1,400 | 9,629,607 | 6,878 | 7.5% |
| 2002 | 1,400 | 2,261 | 2,353 | 1,308 | 9,735,768 | 7,443 | 8.2% |

**Table III**

## Number of Initial Benefit Payments

Last ten years

| Calendar Year | Annuity | Disability | Death | Refund | Total |
|---|---|---|---|---|---|
| 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 | 18,572 |
| 1996 | 4,689 | 2,221 | 889 | 11,550 | 19,349 |
| 1997 | 4,962 | 2,169 | 915 | 13,841 | 21,887 |
| 1998 | 4,025 | 1,953 | 2,367 | 13,373 | 21,718 |
| 1999 | 3,892 | 2,004 | 2,517 | 13,542 | 21,955 |
| 2000 | 3,527 | 2,044 | 2,374 | 13,997 | 21,942 |
| 2001 | 3,647 | 1,989 | 2,646 | 13,162 | 21,444 |
| 2002 | 3,963 | 2,261 | 2,695 | 12,603 | 21,522 |

**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** | | | | | |
| 2000 | 7.17% | 0.02% | 0.35% | 0.62% | 8.16% |
| 2001* | 7.41% | -1.75% | 0.36% | 0.62% | 6.64% |
| 2002 | 7.62% | -2.73% | 0.36% | 0.62% | 5.87% |
| 2003 | 7.66% | -2.40% | 0.34% | 0.62% | 6.22% |
| 2004* | 7.60% | -0.78% | 0.38% | 0.62% | 7.82% |
| **Sheriff's Law Enforcement Personnel Members (SLEP)** | | | | | |
| 2000 | 10.42% | 2.89% | 0.35% | 0.62% | 14.28% |
| 2001* | 12.02% | 1.85% | 0.37% | 0.62% | 14.86% |
| 2002 | 11.94% | 1.20% | 0.37% | 0.62% | 14.13% |
| 2003 | 11.96% | 1.12% | 0.34% | 0.62% | 14.04% |
| 2004* | 12.47% | 2.82% | 0.38% | 0.62% | 16.29% |
| **Elected County Official Members (ECO)** | | | | | |
| 2000 | 23.39% | 17.03% | 0.34% | 0.62% | 41.38% |
| 2001* | 23.85% | 17.75% | 0.36% | 0.62% | 42.58% |
| 2002 | 18.05% | 19.43% | 0.36% | 0.62% | 38.46% |
| 2003 | 17.95% | 21.47% | 0.33% | 0.62% | 40.37% |
| 2004* | 18.18% | 25.73% | 0.37% | 0.62% | 44.90% |

* Assumptions changed due to experience study.

**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 |
| 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% |
| 1999 | 3.75% | 0.75% | 4.50% | 3.75% | 0.75% | 2.00% | 6.50% | 3.75% | 0.75% | 3.00% | 7.50% |
| 2000 | 3.75% | 0.75% | 4.50% | 3.75% | 0.75% | 2.00% | 6.50% | 3.75% | 0.75% | 3.00% | 7.50% |
| 2001 | 3.75% | 0.75% | 4.50% | 3.75% | 0.75% | 2.00% | 6.50% | 3.75% | 0.75% | 3.00% | 7.50% |
| 2002 | 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

| | December 31 | |
|---|---|---|
| | 2002 | 2001 |
| **Sources of Funds** | | |
| Actuarial value of assets | $16,800,195,504 | $16,305,022,254 |
| Actuarial present value of future contributions | | |
| Member | 1,990,049,940 | 1,908,166,583 |
| Employer Normal Costs | 3,396,377,634 | 3,272,271,328 |
| Overfunded Actuarial Accrued Liability | (240,288,202) | (986,504,690) |
| | 21,946,334,876 | $20,498,955,475 |
| **Uses of Funds** | | |
| Retired members and beneficiaries | 6,050,882,416 | $5,613,708,283 |
| Inactive members | 1,498,474,094 | 1,370,519,570 |
| Active members | 14,379,853,338 | 13,496,268,394 |
| Death and disability benefits | 17,125,028 | 18,459,228 |
| | $21,946,334,876 | $20,498,955,475 |

## Analysis of Overfunded Liability

| | December 31 | |
|---|---|---|
| | 2002 | 2001 |
| **Overfunded liability beginning of year** | ($986,504,690) | ($1,016,313,489) |
| Assumed payments during year | 127,063,125 | 140,207,051 |
| Assumed interest (7.5 percent) | (69,280,407) | (71,029,128) |
| Expected overfunded liability | (928,721,972) | (947,135,566) |
| Change due to assumption changes | 30,592,102 | 0 |
| Change due to investment performance | 611,753,696 | (69,378,457) |
| Change due to other sources | 46,087,972 | 30,009,333 |
| **Overfunded liability end of year** | ($240,288,202) | ($986,504,690) |

## Derivation of Experience Gain (Loss)

| Type of Risk Area | 2002 | 2001 |
|---|---|---|
| | (in millions) | |
| **Risks Related to Assumptions** | | |
| **Economic Risk Areas** | | |
| Investment Return | ($611.8) | $69.4 |
| Pay Increases | 19.5 | (29.5) |
| **Demographic Risk Areas** | | |
| Service Retirements | (9.9) | (4.9) |
| Early Retirements | (2.0) | (1.0) |
| Vested Deferred Retirements | (31.0) | (20.3) |
| Death and Survivor Benefits | 4.3 | 2.9 |
| Disability Benefits | 6.9 | 10.0 |
| Terminated with Refund | 2.3 | 11.4 |
| **Risks Not Related to Assumptions** | (66.7) | 1.4 |
| **Total Gain (Loss) During Year** | ($688.4) | $39.4 |

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 (particularly investment return and pay increases) are volatile. 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 2,853 employers including cities, villages, counties, school districts, townships and various special districts, such as parks, forest preserves and sanitary districts. Each employer contributes to individual accounts to provide future retirement 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 is expected to 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, deputy sheriffs and selected police chiefs. 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. A county may opt out of the ECO plan. All remaining employees belong to the Regular plan.

Both the employee (member) and the employer contribute toward retirement benefits. Members contribute a percentage of their salary as established by the 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 employer. Employers pay most of the cost for member and survivor pensions 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 qualifying 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 eight years of service but less than 20 years of SLEP service will receive a Regular pension. Revised ECO members (those who join the ECO plan after January 25, 2000) are vested with 8 or more years of ECO service credit in the same elected county position. Revised ECO members with 8 years of service but less than 8 years in the same elected county office will receive a Regular pension.

### Refunds

Non-vested members who stop working for an IMRF employer can receive a lump sum refund of their IMRF member contributions. Vested members can receive a lump sum refund of their IMRF member contributions if they stop working for an IMRF employer prior to age 55. Vested members age 55 or older may receive separation refunds if the member rolls over the refund into another defined benefit retirement plan for the purpose of purchasing service credit.

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

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 plus interest.

### Pension Calculations

**A Regular IMRF pension is:**

- 1-2/3 percent of the final rate of earnings for each of the first 15 years of service credit, plus
- 2 percent for each year of service credit in excess of 15 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 20 years of service, plus
- 2 percent for each year of service between 20 and 30 years of service, plus
- 1 percent of the final rate of earnings for each year of service credit in excess of 30 years.

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

**An ECO pension is:**

- 3 percent of the final rate of earnings for each of the first eight years of service, plus
- 4 percent for each year of service between eight and 12 years of service, plus
- 5 percent for years of service credit over 12.

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 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.

The final rate of earnings, for Regular and SLEP members, are the highest total earnings during any 48 consecutive months within the last 10 years of IMRF service divided by 48. The final rate of earnings for ECO members is the annual salary of the ECO member on the day he or she retires. For new ECO members who join the plan after January 25, 2000, the final rate of earnings is a four-year average calculated for each office held.

## Retirement Eligibility

Normal retirement for an unreduced pension is:

- age 60 with eight or more years of service or 35 or more years of service at age 55,
- age 50 with 20 or more years of SLEP service for members with SLEP service,
- age 55 with eight or more years of service for members with ECO service, or
- age 55 with eight or more years of service in the same elected county office for members with Revised ECO service.

Regular 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. For revised ECO members, the ECO benefit formula is limited to service in an elected office.

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 20 days of unused, unpaid sick leave or fraction thereof.

IMRF is a participating plan under the Reciprocal Act, as are all other Illinois public pension systems, except local police and fire pension plans. 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.

## Early Retirement Incentive

IMRF employers may offer an early retirement incentive (ERI) program to their employees who are over 50 years of age and who have at least 20 years of service credit. Eligible members may purchase up to five years of service credit and age. Employers must pay off the additional ERI liability within 10 years. Subsequent ERI programs may be offered by an employer after the liability for the previous ERI program is paid.

## 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.

## Disability Benefits

Regular and SLEP members are eligible for a maximum of 30 months of temporary 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 from any IMRF employer.

Regular and SLEP members are eligible for total and permanent disability benefits until they become eligible for full Social Security Old Age benefits if they:

- have exhausted their temporary disability benefits,
- have a medical condition which did not pre-exist their IMRF participation or they have five years of IMRF participation without being on temporary disability, and
- are unable to work in any gainful activity 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 12 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 their offices,
- have resigned their offices, and
- have two licensed physicians approved by IMRF certify that the ECO member is permanently disabled.

The monthly ECO disability benefit is equal to the greater of:

- 50 percent of the annualized salary payable on the last day of ECO participation divided by 12 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

Beneficiaries of active members who have more than one year of service or whose deaths are 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 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.

Beneficiaries of inactive members receive a lump sum payment of the members' contributions, plus interest. If the beneficiary is an eligible spouse, the spouse may choose between the lump sum payment or a death benefit of $3,000 plus a monthly surviving spouse pension. Beneficiaries of retired members receive a $3,000 death benefit. Eligible spouses also receive a surviving spouse pension.

### 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 30 percent of the ECO member's salary at time of death plus
- 10 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 50 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 three percent of the original amount. The increase for the first year is prorated for the number of months the surviving spouse received a pension.

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# Statistical



IMRF

2002

**Table VI**
**Revenues by Source**
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 |
|---|---|---|---|---|---|---|
| 1993 | $529,125,672 | $298,666,790 | 10.77% | $129,790,252 | $62,476 | $957,645,190 |
| 1994 | (21,846,226) | 314,709,090 | 10.74% | 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 | 0 | 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 | 9.84% | 190,259,213 | 66,938 | 1,970,675,168 |
| 1999 | 2,689,086,076 | 379,194,892 | 9.64% | 192,356,900 | 6,957 | 3,260,644,825 |
| 2000 | 283,134,582 | 356,153,448 | 8.48% | 200,209,408 | 739 | 839,498,177 |
| 2001 | (1,010,875,498) | 313,007,639 | 6.95% | 216,150,677 | 4,050 | (481,713,132) |
| 2002 | (1,325,374,842) | 294,935,422 | 6.15% | 233,935,559 | 5,200 | (796,498,661) |

* For years including and subsequent to 1994, Net Investment Income includes realized and unrealized appreciation or depreciation of investments. The preceding year includes only realized gains and losses.

**Table VII**
**Expenses by Type**
Last ten years

| Calendar Year | Benefits | Refunds | Administrative Expenses | Other Expenses | Total |
|---|---|---|---|---|---|
| 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 |
| 1999 | 496,363,836 | 28,126,601 | 16,190,583 | — | 540,681,020 |
| 2000 | 533,683,244 | 29,791,950 | 17,125,395 | — | 580,600,589 |
| 2001 | 570,548,544 | 27,507,628 | 18,470,776 | — | 616,526,948 |
| 2002 | 613,606,477 | 36,641,773 | 18,727,800 | — | 668,976,050 |

**Table VIII**

**Benefit Expense by Type**

Last ten years

| Calendar Year | DEATH Supplemental | DEATH Refund | DEATH Burial | DEATH Residual | DISABILITY Permanent | DISABILITY Temporary |
|---|---|---|---|---|---|---|
| 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 |
| 1999 | 7,107,276 | 5,440,949 | 6,234,757 | 155,382 | 3,150,728 | 5,286,122 |
| 2000 | 8,211,433 | 5,864,391 | 5,947,348 | 405,080 | 3,081,562 | 6,022,246 |
| 2001 | 7,146,093 | 6,341,938 | 6,314,132 | 658,284 | 3,140,589 | 6,424,182 |
| 2002 | 8,609,843 | 5,836,970 | 6,539,959 | 502,963 | 3,255,522 | 6,585,585 |

| Calendar Year | ANNUITIES Retirement | ANNUITIES Surviving Spouse | ANNUITIES Beneficiary | ANNUITIES Supplemental | REFUNDS Separation | REFUNDS Other | Total |
|---|---|---|---|---|---|---|---|
| 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 | 392,258,051 |
| 1997 | 336,784,723 | 24,815,833 | 615,880 | 21,424,377 | 25,760,143 | 328,711 | 436,505,883 |
| 1998 | 374,124,084 | 26,334,572 | 635,074 | 22,629,826 | 26,589,126 | 531,945 | 478,617,837 |
| 1999 | 414,515,394 | 29,272,679 | 697,985 | 24,502,564 | 27,998,118 | 128,483 | 524,490,437 |
| 2000 | 445,581,289 | 32,129,182 | 749,696 | 25,691,017 | 29,423,748 | 368,202 | 563,475,194 |
| 2001 | 477,490,779 | 34,622,766 | 785,027 | 27,624,754 | 27,039,539 | 468,089 | 598,056,172 |
| 2002 | 513,656,258 | 37,907,435 | 850,558 | 29,861,384 | 26,031,474 | 10,610,299 | 650,248,250 |

**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) |
| 1993 | $1,680 | $18,677 | $10,085 | $7,547 |
| 1994 | 1,906 | 19,380 | 8,663 | 6,817 |
| 1995 | 1,990 | 21,518 | 10,861 | 8,616 |
| 1996 | 1,974 | 22,002 | 11,188 | 10,232 |
| 1997 | 1,859 | 21,779 | 11,764 | 10,643 |
| 1998 | 1,966 | 32,627 | 12,059 | 10,415 |
| 1999 | 2,027 | 30,645 | 12,355 | 10,102 |
| 2000 | 2,095 | 31,999 | 13,144 | 9,314 |
| 2001 | 2,048 | 27,888 | 13,807 | 11,023 |
| 2002 | 2,044 | 28,668 | 14,302 | 12,217 |

(1) Prior to Social Security and workers' compensation offsets.
(2) Prior to optional benefit reduction.

## Average Benefit Payment Amounts

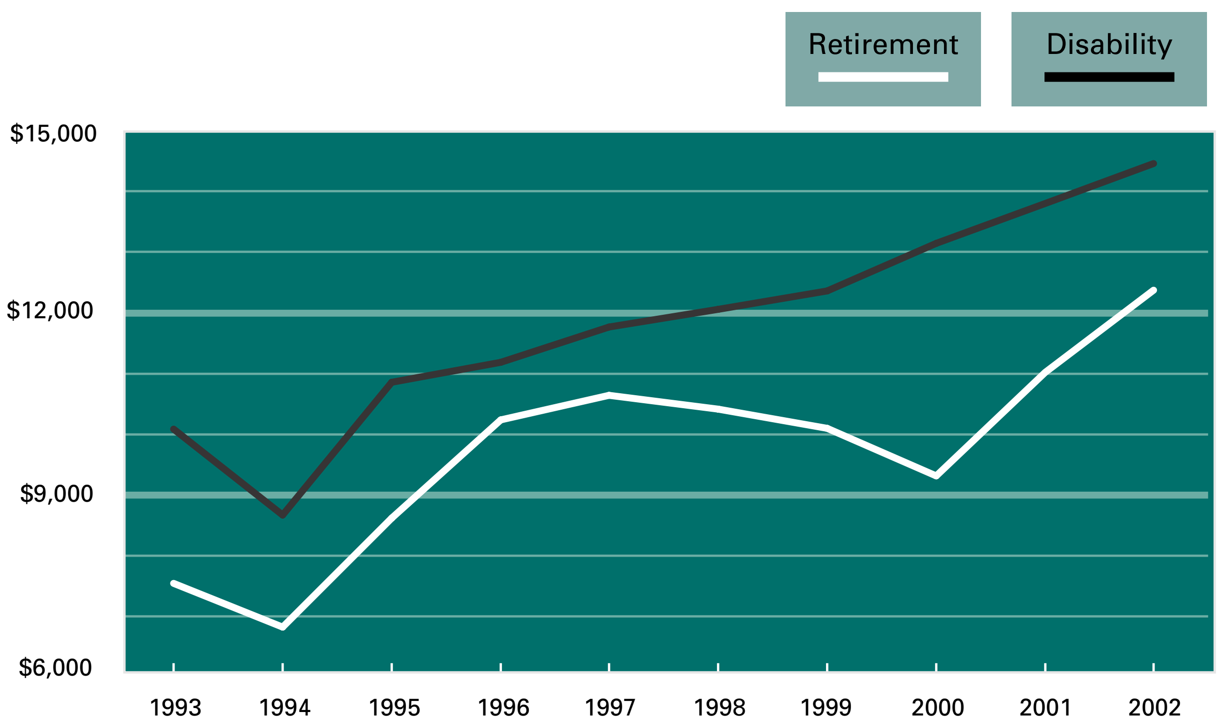

**Table X**
**Number of Actively Participating Employers**
Last ten years

| Calendar Year End | Cities | Villages | Counties | School Districts | Townships | Other | Total |
|---|---|---|---|---|---|---|---|
| 1993 | 238 | 312 | 101 | 923 | 359 | 677 | 2,610 |
| 1994 | 240 | 321 | 101 | 910 | 368 | 683 | 2,623 |
| 1995 | 242 | 329 | 101 | 902 | 376 | 690 | 2,640 |
| 1996 | 244 | 341 | 101 | 902 | 387 | 704 | 2,679 |
| 1997 | 245 | 347 | 101 | 898 | 402 | 713 | 2,706 |
| 1998 | 247 | 356 | 101 | 894 | 417 | 729 | 2,744 |
| 1999 | 247 | 363 | 101 | 893 | 425 | 739 | 2,768 |
| 2000 | 249 | 364 | 101 | 891 | 432 | 754 | 2,791 |
| 2001 | 251 | 373 | 101 | 890 | 444 | 767 | 2,826 |
| 2002 | 252 | 377 | 101 | 890 | 451 | 782 | 2,853 |

**Table XI**
**Number of Actively Participating Members**
Last ten years

| Calendar Year End | Male Participants | Female Participants | Total |
|---|---|---|---|
| 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 |
| 1999 | 58,419 | 97,098 | 155,517 |
| 2000 | 59,728 | 100,082 | 159,810 |
| 2001 | 61,245 | 103,600 | 164,845 |
| 2002 | 62,216 | 105,560 | 167,776 |

**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 |
|---|---|---|---|---|---|---|
| 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 | 133,773 | 16,014 | 40,105 | 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 |
| 1999 | 155,517 | 22,831 | 48,532 | 31,371 | 23,602 | 29,181 |
| 2000 | 159,810 | 22,461 | 51,404 | 31,011 | 24,202 | 30,732 |
| 2001 | 164,845 | 22,286 | 54,316 | 31,917 | 24,034 | 32,292 |
| 2002 | 167,776 | 18,566 | 57,397 | 34,649 | 23,481 | 33,683 |

**Table XIII**
**Distribution of Current Annuitants by Pension Amount**

| | Retirement | | Survivor | | All Annuities | |
|---|---|---|---|---|---|---|
| | Number of | | Number of | | Number of | |
| Monthly Pension Amount | Males | Females | Males | Females | Males | Females |
| Under $100 | 1,035 | 5,352 | 747 | 1,772 | 1,782 | 7,124 |
| $100 to under $250 | 2,266 | 9,981 | 818 | 3,438 | 3,084 | 13,419 |
| $250 to under $500 | 4,555 | 10,410 | 424 | 2,352 | 4,979 | 12,762 |
| $500 to under $750 | 3,355 | 5,849 | 124 | 886 | 3,479 | 6,735 |
| $750 to under $1,000 | 2,354 | 3,397 | 30 | 360 | 2,384 | 3,757 |
| $1,000 to under $2,000 | 4,723 | 4,749 | 11 | 316 | 4,734 | 5,065 |
| $2,000 to under $3,000 | 1,904 | 728 | 0 | 29 | 1,904 | 757 |
| $3,000 to under $4,000 | 791 | 143 | 0 | 1 | 791 | 144 |
| $4,000 and over | 421 | 38 | 0 | 1 | 421 | 39 |
| **Total** | 21,404 | 40,647 | 2,154 | 9,155 | 23,558 | 49,802 |

*Note: Counts do not include disabilitants.*

**Table XIV**
**Analysis of Initial Retirement Benefits**

| | | Years of Credited Service | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 8-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35+ | Total |
| **Regular Plan** | | | | | | | | | |
| 2000 | Avg Monthly Annuity | $250 | $400 | $656 | $911 | $1,270 | $1,764 | $2,499 | $808 |
| | Avg Monthly FRE | $1,766 | $2,005 | $2,277 | $2,392 | $2,664 | $3,065 | $3,595 | $2,315 |
| | Number of Retirees | 383 | 705 | 558 | 574 | 375 | 205 | 94 | 2,894 |
| 2001 | Avg Monthly Annuity | $254 | $385 | $635 | $903 | $1,352 | $2,007 | $2,616 | $845 |
| | Avg Monthly FRE | $1,821 | $1,942 | $2,233 | $2,388 | $2,822 | $3,476 | $3,757 | $2,363 |
| | Number of Retirees | 389 | 742 | 575 | 563 | 356 | 213 | 131 | 2,969 |
| 2002 | Avg Monthly Annuity | $265 | $397 | $693 | $951 | $1,449 | $2,010 | $2,756 | $965 |
| | Avg Monthly FRE | $1,896 | $2,005 | $2,450 | $2,504 | $3,017 | $3,490 | $3,981 | $2,558 |
| | Number of Retirees | 387 | 667 | 594 | 520 | 483 | 298 | 152 | 3,101 |
| **Sheriffs' Law Enforcement Personnel Plan (SLEP)** | | | | | | | | | |
| 2000 | Avg Monthly Annuity | | | | $1,698 | $2,717 | $3,303 | $3,581 | $2,379 |
| | Avg Monthly FRE | | | | $3,360 | $4,306 | $4,668 | $8,287 | $4,053 |
| | Number of Retirees | | | | 16 | 15 | 5 | 1 | 37 |
| 2001 | Avg Monthly Annuity | | | | $1,774 | $3,394 | $3,891 | $849 | $2,843 |
| | Avg Monthly FRE | | | | $3,566 | $5,588 | $5,624 | $1,132 | $4,691 |
| | Number of Retirees | | | | 27 | 16 | 21 | 1 | 65 |
| 2002 | Avg Monthly Annuity | | | | $2,079 | $2,933 | $3,976 | $3,532 | $3,131 |
| | Avg Monthly FRE | | | | $3,947 | $4,778 | $5,669 | $4,710 | $4,917 |
| | Number of Retirees | | | | 13 | 27 | 22 | 1 | 63 |
| **Elected County Official Plan (ECO)** | | | | | | | | | |
| 2000 | Avg Monthly Annuity | | $1,086 | $3,707 | $1,664 | | | | $2,201 |
| | Avg Monthly FRE | | $2,964 | $5,600 | $2,080 | | | | $3,474 |
| | Number of Retirees | | 3 | 4 | 5 | | | | 12 |
| 2001 | Avg Monthly Annuity | | $292 | $452 | $1,345 | $1,824 | | | $864 |
| | Avg Monthly FRE | | $1,202 | $1,282 | $1,808 | $2,280 | | | $1,560 |
| | Number of Retirees | | 3 | 4 | 3 | 2 | | | 12 |
| 2002 | Avg Monthly Annuity | $619 | $441 | $1,892 | $2,849 | | | | $1,462 |
| | Avg Monthly FRE | $2,330 | $1,126 | $2,907 | $3,562 | | | | $2,389 |
| | Number of Retirees | 4 | 10 | 9 | 7 | | | | 30 |

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.

## Table XV
### Annuitants By Age

| Ages | Retirees Male | Retirees Female | Retirees Total | Surviving Spouses Male | Surviving Spouses Female | Surviving Spouses Total | Beneficiaries Male | Beneficiaries Female | Beneficiaries Total |
|---|---|---|---|---|---|---|---|---|---|
| Under 55 | 333 | 94 | 427 | 4 | 101 | 105 | 24 | 72 | 96 |
| 55 to59 | 1,697 | 3,174 | 4,871 | 15 | 203 | 218 | 6 | 29 | 35 |
| 60 to 64 | 2,909 | 6,285 | 9,194 | 57 | 365 | 422 | 6 | 24 | 30 |
| 65 to 69 | 4,116 | 7,943 | 12,059 | 159 | 713 | 872 | 10 | 29 | 39 |
| 70 to 74 | 4,272 | 7,804 | 12,076 | 339 | 1,284 | 1,623 | 4 | 25 | 29 |
| 75 to 79 | 3,809 | 6,775 | 10,584 | 529 | 1,822 | 2,351 | 4 | 33 | 37 |
| 80 to 84 | 2,598 | 4,861 | 7,459 | 520 | 2,079 | 2,599 | 5 | 27 | 32 |
| 85 to 89 | 1,263 | 2,573 | 3,836 | 329 | 1,496 | 1,825 | 2 | 17 | 19 |
| 90 to 94 | 345 | 926 | 1,271 | 125 | 644 | 769 | 1 | 5 | 6 |
| 95 to 100 | 57 | 188 | 245 | 14 | 156 | 170 | 0 | 0 | 0 |
| 100 and over | 5 | 24 | 29 | 1 | 28 | 29 | 0 | 3 | 3 |
| Total | 21,404 | 40,647 | 62,051 | 2,092 | 8,891 | 10,983 | 62 | 264 | 326 |

## Table XVI
### Active Members By Age

| Ages | All Plans Male | All Plans Female | All Plans Total | Sheriff's Law Enforcement Personnel Male | Sheriff's Law Enforcement Personnel Female | Sheriff's Law Enforcement Personnel Total | Elected County Officials Male | Elected County Officials Female | Elected County Officials Total |
|---|---|---|---|---|---|---|---|---|---|
| Under 20 | 332 | 469 | 801 | 1 | 0 | 1 | 0 | 0 | 0 |
| 20 to 29 | 7,627 | 10,421 | 18,048 | 529 | 106 | 635 | 5 | 0 | 5 |
| 30 to 39 | 13,159 | 19,690 | 32,849 | 1,303 | 188 | 1,491 | 40 | 16 | 56 |
| 40 to 49 | 19,263 | 37,464 | 56,727 | 1,106 | 172 | 1,278 | 140 | 69 | 209 |
| 50 to 54 | 8,824 | 16,631 | 25,455 | 375 | 63 | 438 | 90 | 41 | 131 |
| 55 to 59 | 6,198 | 11,774 | 17,972 | 173 | 22 | 195 | 61 | 30 | 91 |
| 60 to 69 | 5,644 | 8,073 | 13,717 | 82 | 14 | 96 | 77 | 34 | 111 |
| 70 and Over | 1,169 | 1,038 | 2,207 | 4 | 2 | 6 | 37 | 10 | 47 |
| Total | 62,216 | 105,560 | 167,776 | 3,573 | 567 | 4,140 | 450 | 200 | 650 |

# Illinois Municipal Retirement Fund

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