

# Popular Annual Financial Report

For  
Members

Published  
June 2004



*I never think of the future. It comes soon enough.*

—Albert Einstein

At IMRF, we are always thinking about the future—especially our members' futures. This *2003 Popular Annual Financial Report to Members* illustrates our goal of protecting our members' futures by ensuring the money will be available to pay IMRF pensions today and in the future.

IMRF obtains its funds from three sources: earnings on our investments, contributions from members, and contributions from employers.

Investment earnings vary from year to year, depending on how the markets performed. In 2003, IMRF earned 22.6 percent on our investments versus -8.7 percent in 2002. (Read more about our investments on page 2.)

Member contributions—unlike employer contributions—are set by state statute. The Illinois Pension Code specifically states the percentage that is withheld from your salary.

Employer contributions are determined by outside actuaries. The actuaries calculate a separate contribution rate for each employer based upon its funded status.

Your employer's contribution rate is set to cover both past liabilities (the cost of existing service its employees had when it joined IMRF) and developing liabilities (the cost of each new month of service credit its members earn). You can think of your employer's liabilities as a promise to pay you a benefit in the future.

An employer's past liabilities are spread over a period of years so that they are eventually paid off. Liabilities created with

each new month of service are covered 100% by employer and member contributions. This funding approach is set forth in the Illinois Pension Code and can be called a 100% funding goal. A 100% funding goal provides the lowest long-term cost for taxpayers. In addition, IMRF supports a 100% funding goal because...

- It is the pension industry standard
- Current taxpayers pay for current services
- Future taxpayers are not burdened with higher taxes
- Local units of government go out of existence and may go bankrupt
- If employers withhold contributions, investments will need to be sold
- Local governments have avoided the State's pension funding crisis

IMRF believes a 100% funding goal offers the lowest long-term cost approach to ensuring funds will be available to pay your future pension.

You can learn more about why IMRF supports 100% funding by visiting the IMRF Website at [www.imrf.org](http://www.imrf.org). You can also call IMRF at 1-800-ASK-IMRF (1-800-275-4673) and ask for copy of "The 100% Funding Goal." Member Service Representatives are available Monday through Friday, from 7:30 A.M. to 5:30 P.M.



## 2003 Assets

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

### Additions to plan net assets

IMRF accumulates money needed to fund benefits through member and employer contributions as well as returns on invested funds. Member and employer contributions for 2003 totaled \$577 million, which was 9 percent more than 2002.

Investment returns for 2003 rebounded from losses in the previous year. The \$2,996 million investment gain in 2003 represents a \$4,321 million turn around from the \$1,325 million loss in 2002. IMRF's total investment portfolio, reflecting the strong financial markets, returned 22.6 percent in 2003 compared to an 8.7 percent loss in 2002.

- **Member contributions**

The increase in member contributions is due to an increase in total member earnings to \$4,945 million from \$4,796 million in 2002.

- **Employer contributions**

The increase in employer contributions is the net effect of several factors. Member earnings increased overall by 3.1 percent. This increase in member earnings caused employer contributions to increase.

In addition, the average Regular Plan and ECO Plan employer rates increased to 6.22 percent from 5.87 percent and to 40.37 percent from 38.46 percent, respectively. These increases were partially offset by a decrease in the average SLEP Plan employer rate to 14.04 percent from 14.13 percent.

- **Net investment gain**

In 2003, IMRF achieved net appreciation in the value of investments of \$2,714 million, a \$4,339 million increase from the \$1,625 million of depreciation recorded in 2002.

Interest, dividends and equity fund income totaled \$322 million, a decrease of \$16 million from 2002. Securities lending income net of related expenses was \$4.2 million for 2003, a slight decrease from 2002. Direct investment expenses increased to \$44.1 million in 2003 from \$42.5 million in 2002.

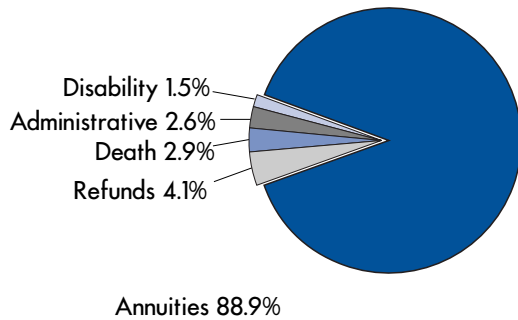
### Deductions to plan assets

The expenses paid by IMRF include benefit payments, refunds and administrative expenses.

Expenses for 2003 totaled \$717 million, an increase of \$48 million over 2002. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 77,115 in 2003 from 74,668 in 2002 as well as an increase in the amount of the average benefit.

The decrease in refunds in 2003 is primarily due to a \$9.5 million refund in 2002 in conjunction with a partial plan termination for a dissolving employer.

## IMRF 2003 Expenses by Type



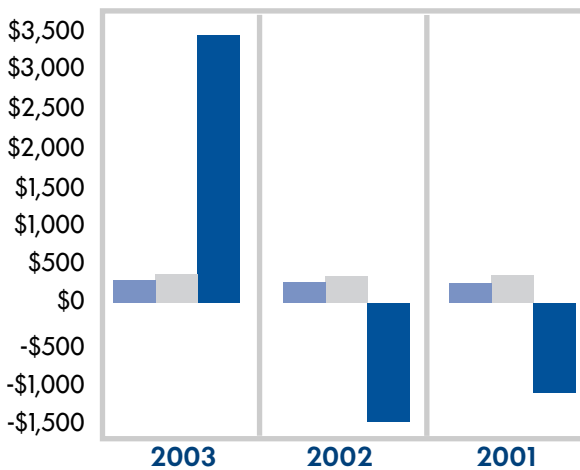
## IMRF 2003 Revenues by Source

(in millions)

Members

Employers

Investments

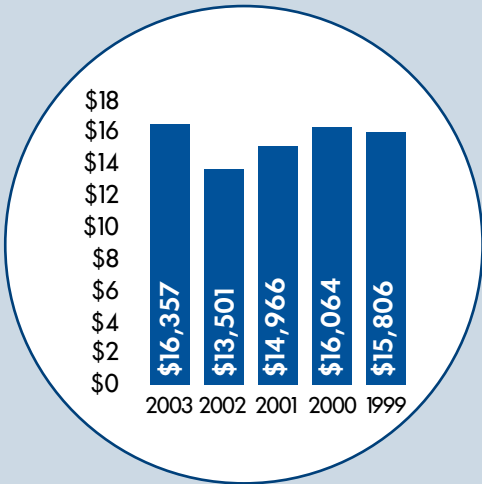


## Condensed Statements of Changes in Plan Net Assets

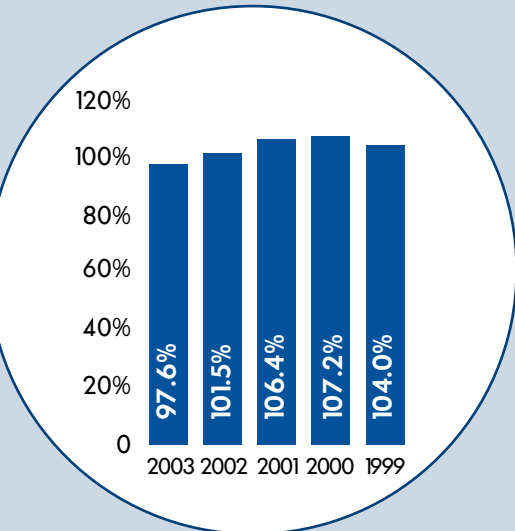
(in millions)

	2003	2002	Dollar Change	Percent Change
<b>Additions</b>				
Member contributions	\$256	\$234	\$22	9 %
Employer contributions	321	295	26	9
Net investment gain (loss)	<u>2,996</u>	<u>(1,325)</u>	<u>4,321</u>	326
Total additions	<u>3,573</u>	<u>(796)</u>	<u>4,369</u>	549
<b>Deductions</b>				
Benefits	669	613	56	9
Refunds	29	37	(8)	(22)
Administrative expenses	<u>19</u>	<u>19</u>	-	-
Total deductions	<u>717</u>	<u>669</u>	<u>48</u>	7
Net increase (decrease) in plan net assets	2,856	(1,465)	4,321	295%
<b>Net Assets Held in Trust for Pension Benefits</b>				
Beginning of year	<u>13,501</u>	<u>14,966</u>	<u>(1,465)</u>	(10)%
End of year	<u>\$16,357</u>	<u>\$13,501</u>	<u>\$2,856</u>	21 %

**Net Assets for the Past 5 Years**  
(in millions)



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



# Checking IMRF's Financial Pulse

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

## Checking the pulse

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

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

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

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

In 2003, IMRF collected member and employer contributions of \$577 million; spent \$717 million for benefit payments, refunds and administrative costs; and earned investment income of \$2,996 million. These net results brought IMRF's net asset base to \$16,357 million. By law, those net assets are permanently committed to the payment of all of our benefit promises, including current retirees' pensions and your future IMRF pension.

## Valuing IMRF assets

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

The first method is the simplest and most familiar: the market value. What is the value of all IMRF's assets and liabilities today? Or for the purposes of this Popular Annual Report, what was the value on December 31, 2003?

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

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

## Actuarial Value, Market Value, & Actuarial Liability

As of December 31, 2003

Actuarial value of plan net assets . . . . .	\$17.5 billion
Market value of plan net assets . . . . .	\$16.4 billion
Actuarial liability (benefit promises) . . . . .	\$18.0 billion

On an actuarial basis, the assets held fund 97.6 percent of the actuarial liability. This is a decrease from the funding ratio of 101.5 percent for 2002. On a market value basis, the net assets held fund 91.0 percent as of December 31, 2003, an increase from 81.5 percent as of December 31, 2002.

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

Type	2003		2002	
	Market Value	% of Total Market Value	Market Value	% of Total Market Value
Fixed Income	\$5,538.0	32.9%	\$5,307.8	38.3%
Stocks	9,524.5	56.5%	7,033.6	50.7%
Real Estate	586.5	3.5%	586.7	4.2%
Alternative	520.8	3.1%	470.4	3.4%
Short Term	673.9	4.0%	478.4	3.4%
<b>Total</b>	<b>\$16,843.7</b>	<b>100.0%</b>	<b>\$13,876.9</b>	<b>100.0%</b>

Read the complete 2003 Investment Report by visiting [www.imrf.org](http://www.imrf.org) or by requesting a **Comprehensive Annual Financial Report** from IMRF's Member Service Representatives at 1-800-ASK-IMRF (1-800-275-4673)

## 2003 Investment Summary

Investment earnings are a major contributor to IMRF. While 2002 and 2001 were unusual years in that IMRF suffered its first ever back-to-back years of investment losses, in 2003 IMRF earned \$2,996 million on its investments.

The total rate of return for the portfolio in 2003 was 22.6 percent compared to -8.7 percent in 2002. As of December 31, 2003, IMRF's investments totaled \$16.8 billion, up from \$13.9 billion at the end of 2002.

### Long-term results

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

Three years . . . . . 1.7% per year  
(2001 through 2003)

Five years . . . . . 5.3% per year  
(1999 through 2003)

Ten years. . . . . 9.0% per year  
(1994 through 2003)

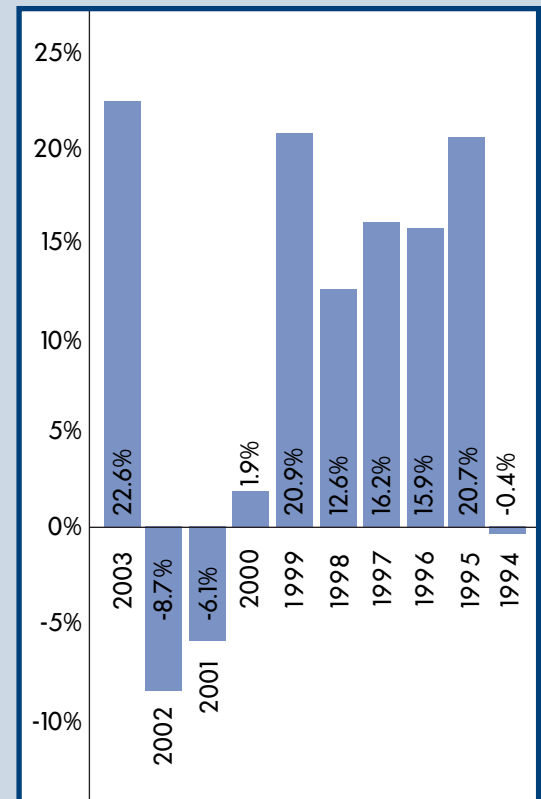
IMRF's income ("additions" to net assets, see table on page 2) comes from three sources: member contributions, employer contributions, and investment income.

In 2003, investment earnings were \$2,996 million and represented 83.9% of plan Additions. In the 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

For the four months ended April 30, 2004, the overall return on IMRF's investments has been approximately 1 percent, 3 percent on an annualized basis. As of April 30, 2004, IMRF's total investments were approximately \$17.3 billion, an increase of \$347 million since December 31, 2003.

### Investment Rates of Return Past 10 years



# The IMRF Plan

Since 1941, IMRF has provided employees of local governments and school districts in Illinois with a sound and efficient system for the payment of retirement, disability, and death benefits.

IMRF is entirely funded by member contributions, investment returns, and contributions from IMRF employers. **IMRF is not a state pension fund and is not funded by any state dollars.**

The retirement plan IMRF offers is a defined benefit plan, which is an example of a traditional pension plan. In a defined benefit plan, the amount of the retirement benefit is based on a member's final salary and his/her years of service credit.

A different type of plan that helps you save for retirement is a defined contribution plan. If you work for a school district or a public hospital, you may be familiar with an Internal Revenue Code Section 403(b) tax-deferred annuity. If you work for some other IMRF employer, you may be familiar with a 457 deferred compensation plan. These plans function like defined contribution plans.

## Participation

Although 167,952 public employees across Illinois participate in IMRF, IMRF is a local program.

Your employer builds up an account to provide future benefits for its own employees. As of December 31, 2003, 2,871 local units of government participated in IMRF. IMRF employers include cities, villages, counties, school districts, townships and various special districts, such as parks, forest preserves and sanitary districts. IMRF employers are not state agencies.

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

## Funding

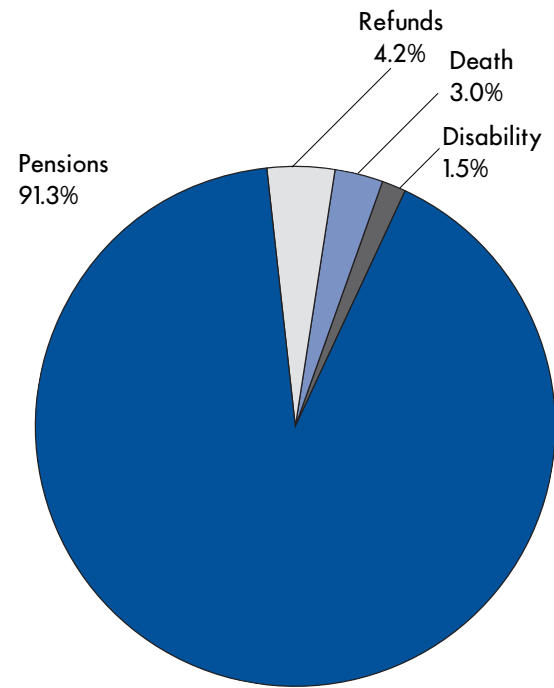
IMRF member contribution rates—4.5 percent for Regular members, 6.5 percent for SLEP members, and 7.5 percent for the Elected County Officials Plan (ECO)—are determined by Illinois statute.

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

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

## Benefits Paid in 2003

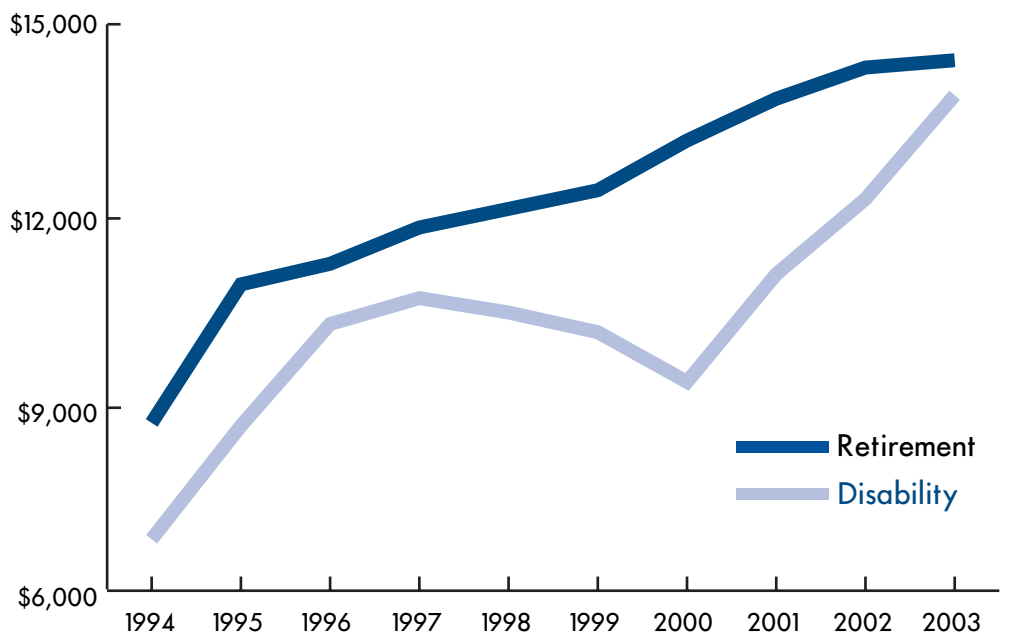
See chart below for dollar amounts



Benefit Type	Total paid in 2003 (in millions)
Disability*	\$10.5
Death	\$21.3
Refunds	\$29.2
Pensions**	\$636.7

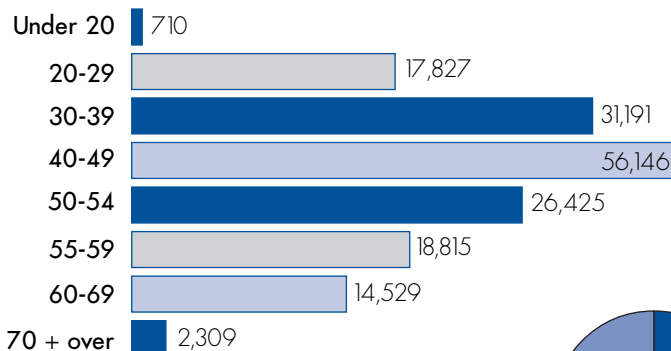
\*Temporary and Total and Permanent  
 \*\*Retirement, Surviving Spouse, Beneficiary, and Supplemental

**Average Benefit Payment Amounts**  
Past 10 years

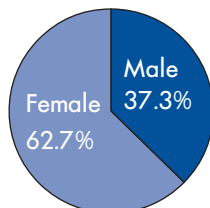


## Active Members

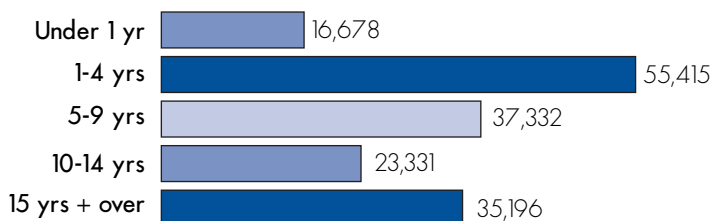
### By Age



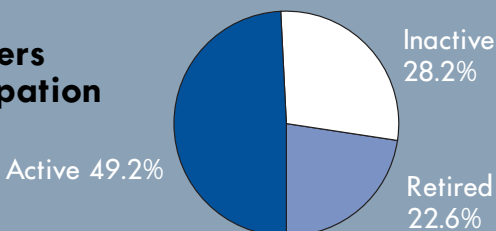
### By Gender



### By Length of Service

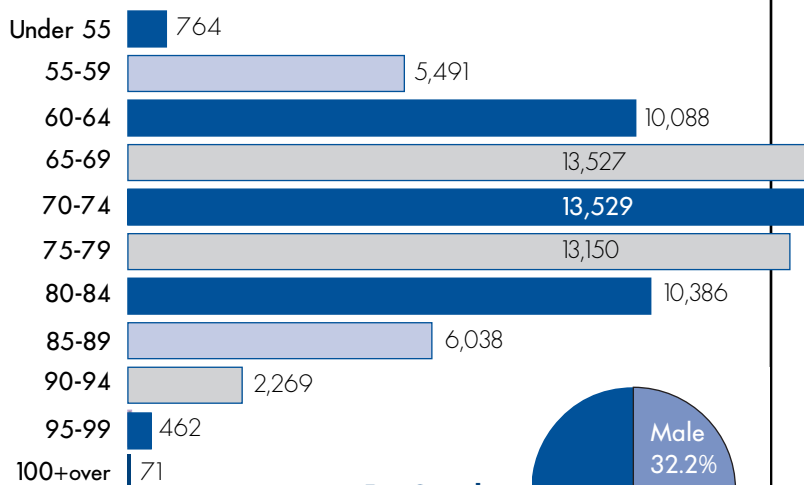


## All Members By Participation

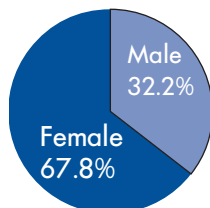


## Retired Members (Retirees, surviving spouses, beneficiaries)

### By Age



### By Gender



## How Closely do You Match the Average Member?

Actuarial assumptions are a formal set of estimates of what will happen to IMRF members. These assumptions include members' genders, ages and salary increases. For detailed actuarial information, refer to the Actuarial Section of IMRF's 2003 Comprehensive Annual Financial Report.

### Are you an "average" member?

How closely do you match the "average member"? Of our 167,952 active members, here is the picture of the "average" IMRF member as of December 31, 2003:

- Female
- Slightly older than 45
- Participates in the Regular IMRF plan
- Most likely works for a school district
- Earns 29,709 a year
- Received a 3.9% salary increase in 2003
- Has 8.8 years of service credit

### Are you an "average" retiree?

If you are one of the 3,364 members who retired in 2003 under IMRF's Regular plan, you are most likely:

- Female
- Had a final rate of earnings of \$2,824 a month
- Retired with approximately 20 years of service credit
- Receiving a pension of approximately \$1,119 a month

## Where the money for your benefits comes from

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

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

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

Employers will contribute more in 2004 than they did in 2003. The increased contributions are due to a projected increase in member payrolls, which is consistent with past historical trends, and to investment return shortfalls for the 2000-2002 period. The average Regular Plan rate for employers—which accounts for the vast majority of member payrolls—will increase from 6.22 percent in 2003 to 7.82 percent in 2004.

## Improving customer service through mainframe computer system development

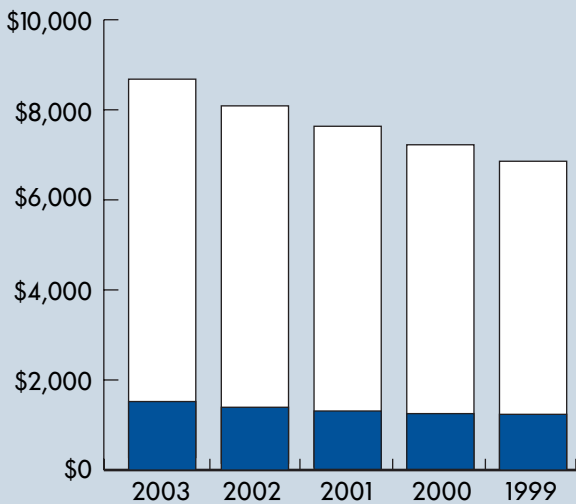
IMRF's system development efforts in 2003 resulted in the completion of four major projects:

- The new Purchase of Service project was completed in late 2003 and put into production on February 9, 2004. This subsystem automates processing for 13 different past service types, such as repayment of refunds and purchasing military service. We expect members who submit a past service application to receive their past service payment schedules more quickly with the implementation of this new computer system.

- The new Death Claim subsystem automates the claims process when IMRF is notified of a member's death. The subsystem will automatically identify the member's beneficiaries, generate correspondence, analyze the member's account, and if required, contact financial institutions regarding pension payments that were electronically deposited into the members' account.
- The Disability Claims subsystem was enhanced to automate two manual processes. In February, the process of recalculating IMRF disability benefits when a Social Security and/or Workers' Compensation claim is approved was automated. The second major enhancement provides the claims examiners with an automated process to track a member's eligibility for Social Security disability benefits. These enhancements continue to improve customer service and enhance staff productivity.

### Member Contributions Paid vs. Retirement Benefits Received

□ Average Retirement Benefits Received  
■ Average Member Contributions Paid



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

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

### Personalized, online pension estimates

IMRF made personalized pension estimating available to our members via the secure Member Access area of our Website, [www.imrf.org](http://www.imrf.org), beginning in March 2003.

Members can use their individual service and earnings history to generate pension estimates. They also have the ability to calculate multiple "what if" scenarios using future service and earnings, purchased service, or conversion of sick days in to service credit.

You can request a secure Member Access account by visiting [www.imrf.org](http://www.imrf.org) and clicking on the "Member Access" button located on the left-hand side of the page.

### IMRF customer satisfaction surveys

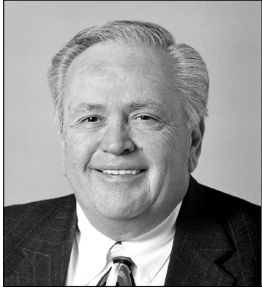
In an effort to improve our service to members and employers, IMRF implemented several new customer satisfaction surveys in April 2003. Survey topics included pension inception, member service telephone calls, disability processing, walk-in counseling, and the wage reporting process.

On a scale of 1 (very poor) to 5 (very good), the average ratings for the five surveys ranged from 4.1 to 4.9. A summary of the survey findings will be reported in the fall editions of IMRF's newsletter *Fundamentals*.

### e-Service goals and strategy

IMRF's e-service goals include access to both member and employer specific data through secure areas on our Website—[www.imrf.org](http://www.imrf.org). Visitors to these areas grew rapidly in 2003. Our e-service strategy for 2004 includes developing a new secure Employer Access area that will offer increased ease of use, additional functions for electronic wage reporting, and the delivery of employer documents via the Web.

*please turn to page 8*



W. Thomas Ross  
Executive Trustee  
Winnebago County  
2004 President  
2003 Vice President



Martha H. Rademacher  
Executive Trustee  
Park District Risk  
Management Agency  
2004 Vice President  
2003 Secretary



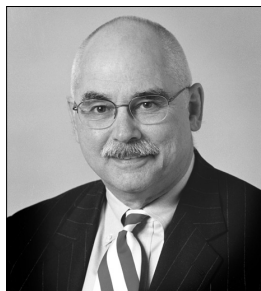
Sharon U. Thompson  
Annuitant Trustee  
(formerly) Lee County  
2004 Secretary



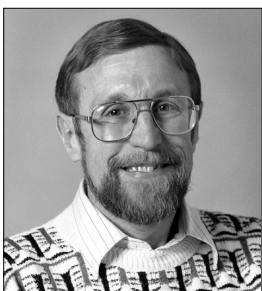
Max F. Boehmann  
Employee Trustee  
Naperville CUSD #203  
2003 President



Rita J. Miotti  
Employee Trustee  
Village of Matteson



John Lotus Novak  
Executive Trustee  
DuPage County



Marvin R. Shoop Jr.  
Employee Trustee  
City of Peoria



R. Steven Sonnemaker  
Executive Trustee  
Peoria County

The new secure Web area for employers will help us achieve our e-service goals of improved customer service, reduced administrative costs, uncompromised privacy and security of information, and business process re-engineering.

The new secure access area for employers should be available in early 2005. Our current secure Employer Access area will be available while the new area is being developed. In order to capture the benefits of our e-service initiatives, we are requesting all IMRF employers to be able to access our Website by January 1, 2005.

### Board of Trustees election results

John Lotus Novak, Treasurer of DuPage County, was re-elected as an executive trustee. His five-year term began January 1, 2004.

Rita J. Miotti, Contract Management Services Coordinator for the Village of Matteson, was elected as an employee trustee to fill the remainder of a term of a former trustee who left the Board in 2002. Ms. Miotti's term ends on December 31, 2005. Ms. Miotti had been appointed to fill the vacancy on January 24, 2003, pending an election in the fall of 2003.

### Electronic Funds Transfer (EFT)

Beginning July 1, 2002, IMRF began accepting employer payments by telephone via interactive voice response technology or live operators at no cost to employers.

In September 2003, the system was expanded to provide for payments via the Internet. As of year end, IMRF had 735 employers enrolled for EFT payments. As of October 1, 2004, IMRF will require all employers to utilize the EFT system.

## Illinois Municipal Retirement Fund

### Oak Brook

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

### Springfield

3000 Professional Drive  
Suite 101  
Springfield, IL 62703

### Member Service Representatives

1-800-ASK-IMRF (1-800-275-4673)  
www.imrf.org

Read the complete  
**2003 Comprehensive  
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