

# Popular Annual Financial Report

for the fiscal year ending December 31, 2004

## For Members



## IMRF: Helping to Build Your Financial Foundation

**A**s you review the stories and charts in our 2004 Popular Annual Financial Report, some of the numbers may be hard to grasp:

- Actuarial assets of \$18.3 billion
- Actuarial liabilities of \$19.4 billion
- Investment income of \$2,010 million
- Contributions of \$716 million

Very few of us deal with *millions*—and certainly not *billions*—of dollars when we work on our personal budgets. Instead, our largest purchase is often our home. And—even with rising home prices—the average cost of a home is far less than a million dollars.

According to the Center for Responsible Lending, buying a home is the primary way a family accumulates wealth. Home ownership also serves as the foundation of many individuals' financial security. However, as a member of IMRF, the foundation of your financial security is strengthened by an additional layer: IMRF benefits.

### Security and stability

That is what this 2004 Popular Annual Financial Report is about: your financial security and IMRF's financial stability. This report highlights and summarizes information that is provided in the 2004 Comprehensive Annual Financial Report.

There is a saying in financial circles, "All boats rise (and fall) with the tide." That was certainly true in 2002 and 2001, when IMRF suffered its first ever back-to-back years of investment losses. However in 2003, IMRF earned 22.6% (the highest in our history) and in 2004, we earned 12.4%.

It's not our goal to simply achieve the highest return; we are providing for the financial futures of more than 300,000 members, some retired now, some who won't retire for 20 years or more. Our uppermost investment goal is to achieve the highest *long-term* total return by diversifying our investments, within an appropriate level of risk.

### Sufficiently funded

IMRF protects your future pension by ensuring that our assets (\$18.3 billion) are sufficient to cover our liabilities (\$19.4 billion). In other words, the value of our investments (assets) is sufficient to pay the benefits promised to our members (liabilities). You can look at the \$18.3 billion in assets as money that is permanently committed to paying your future pension. If you are already retired, you can be assured that your pension is secure.

If we look at the *market* value of our assets, IMRF was 94.3% funded as of December 31, 2004, an increase from 91.0% as of December 31, 2003. The funding ratio of 94.3% however, applies to IMRF *as a whole*. Each unit of government that participates in IMRF has its own funding ratio.

Each employer has its own funding ratio because each employer builds its own account to fund the pensions for its own employees. An employer's funding ratio is determined by comparing its assets (the value of its IMRF account) against its liabilities (the pensions promised to its IMRF members).

This publication is a summary of IMRF's 2004 financial activity.

Read the complete 2004 **Comprehensive Annual Financial Report** by visiting [www.imrf.org](http://www.imrf.org) or requesting it at 1-800-ASK-IMRF.

...continued on page 8

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 2004 totaled \$716 million, which was 24% more than 2003.

While investment returns for 2004 were very strong, they did not match the record returns from 2003. IMRF earned \$2,010 million in 2004, which represents a \$986 million decrease from the \$2,996 million gain in 2003. IMRF's total investment portfolio reflected the continuing strong financial markets; it returned 12.4% in 2004 compared to 22.6% in 2003.

### • Member contributions

The increase in member contributions is due to an increase in total member earnings to \$5,161 million from \$4,945 million in 2003.

### • Employer contributions

The increase in employer contributions is the net effect of several factors. Member

earnings increased overall by 4.4%. This caused employer contributions to increase.

In addition, the average Regular Plan, SLEP Plan, and ECO Plan employer rates increased to 7.82% from 6.22%, to 16.29% from 14.04%, and to 44.90% from 40.37%, respectively. These rate increases are primarily due to the negative investment returns in 2002 and 2001.

### • Net investment gain

In 2004, IMRF achieved net appreciation in the value of investments of \$1,701 million, a \$1,013 million decrease from the \$2,714 million of appreciation recorded in 2003.

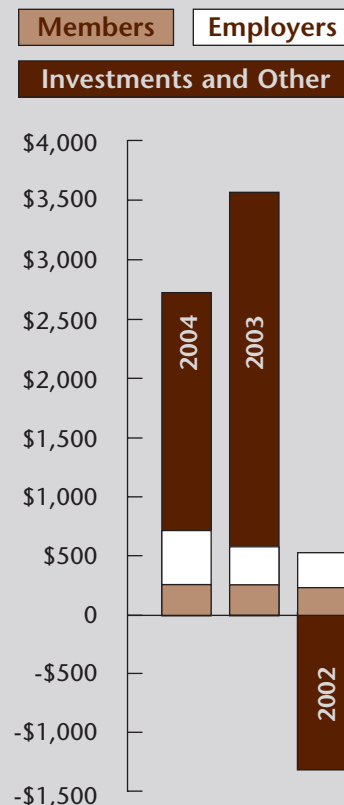
Interest, dividends and equity fund income totaled \$350 million, an increase of \$28 million from 2003. Securities lending income after expenses was \$5.1 million for 2004, a slight increase from 2003. Direct investment expenses increased to \$45.2 million in 2004 from \$44.1 million in 2003.

### • Deductions to plan assets

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

Expenses for 2004 totaled \$784 million, an increase of \$67 million over 2003. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 79,628 in 2004 from 77,115 in 2003, as well as an increase in the amount of the average benefit.

## IMRF 2004 Revenues by Source (in millions)

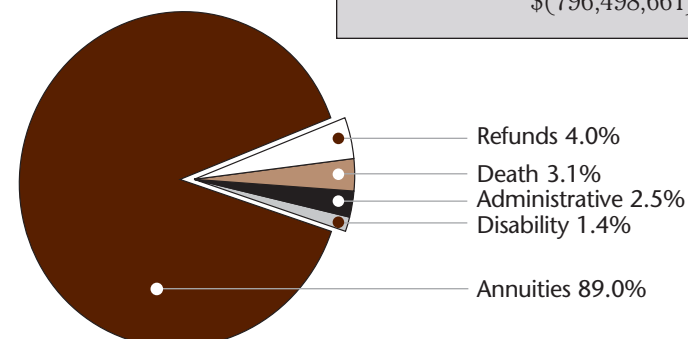


## Condensed Statements of Changes in Plan Net Assets

(In millions)

	2004	2003	Dollar Change	Percent Change
<b>Additions</b>				
Member contributions	\$260	\$256	\$4	2 %
Employer contributions	456	321	135	42
Net investment gain	2,010	2,996	(986)	(33)
<b>Total additions</b>	<b>2,726</b>	<b>3,573</b>	<b>(847)</b>	<b>(24)</b>
<b>Deductions</b>				
Benefits	734	669	65	10
Refunds	31	29	2	7
Administrative expenses	19	19	-	-
<b>Total deductions</b>	<b>784</b>	<b>717</b>	<b>67</b>	<b>9</b>
<b>Net increase in plan net assets</b>	<b>\$1,942</b>	<b>\$2,856</b>	<b>\$(914)</b>	<b>(32)%</b>
<b>Net Assets Held in Trust for Pension Benefits</b>				
Beginning of year	16,357	13,501	2,856	21 %
End of year	18,299	16,357	1,942	12 %

## IMRF 2004 Expenses by Type



2004	
Members	\$259,505,532
Employers	456,198,098
Investments	2,010,710,468
<b>Total</b>	<b>\$2,726,414,098</b>

2003	
Members	\$255,498,279
Employers	321,049,839
Investments	2,996,071,742
<b>Total</b>	<b>\$3,572,619,860</b>

2002	
Members	\$233,935,559
Employers	294,935,422
Investments	(1,325,369,642)
<b>Total</b>	<b>\$(796,498,661)</b>

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.

## Keeping our promises

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 2004, IMRF collected member and employer contributions of \$716 million; spent \$784 million for benefit

payments, refunds and administrative costs; and earned investment income of \$2,010 million. These net results brought IMRF's net asset base to \$18,299 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

IMRF's assets include the contributions we collect from members and employers, and the value of our investments. When looking at the value of IMRF assets, you can look at them in one of two ways:

- **Market value**

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, 2004?

- **Actuarial value**

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.

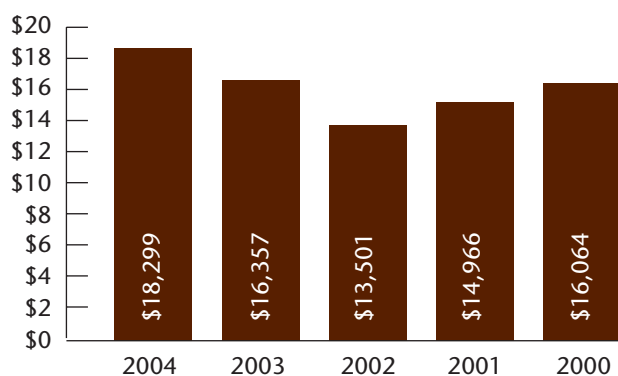
With five-year smoothing, investment gains (or losses) are spread over five years; they are not "recognized" each year. The smoothing prevents employer contribution rates from changing drastically year-to-year because of short-term fluctuations in the financial markets.

IMRF's actuarial funding value and market-based funding value were equal at the end of 2004 because there were no unrecognized investment gains or losses to be reflected in the 2005 through 2008 period.

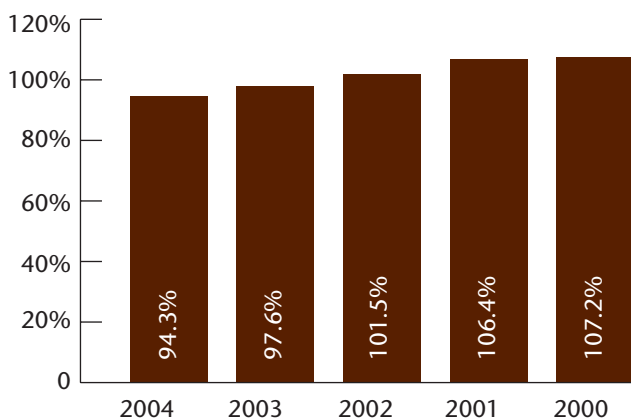
The decline in the Actuarial Funding Status from 2000 to 2004 was due to the use of the five-year smoothing technique, which "smoothed" the impact of the low investment returns from the 2000 to 2002 period.

For more information on IMRF's actuarial value, market value, and actuarial liability, refer to the 2004 Comprehensive Annual Financial Report.

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



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



## Actuarial Value, Market Value, & Actuarial Liability

As of December 31, 2004

Actuarial value of plan net assets . . . . . \$18.3 billion

Market value of plan net assets . . . . . \$18.3 billion

Actuarial liability (benefit promises) . . . . . \$19.4 billion

On an actuarial and market basis, the assets held fund 94.3% of the actuarial liability.

# 2004 Investment Summary

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

Even though IMRF employers and members both contribute to IMRF, the earnings on IMRF's investments are a major contributor to the Fund. In 2004, IMRF earned \$2,010 million on its investments.

The total rate of return for IMRF's portfolio in 2004 was 12.4% compared to 22.6% in 2003. As of December 31, 2004, IMRF's investments totaled \$18.5 billion, up from \$16.8 billion at the end of 2003.

## Long-term results

When looking at IMRF's investment returns, it is important to remember that, as a pension fund, IMRF has a long-term view. 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 . . . . .7.9% per year (2002 through 2004)

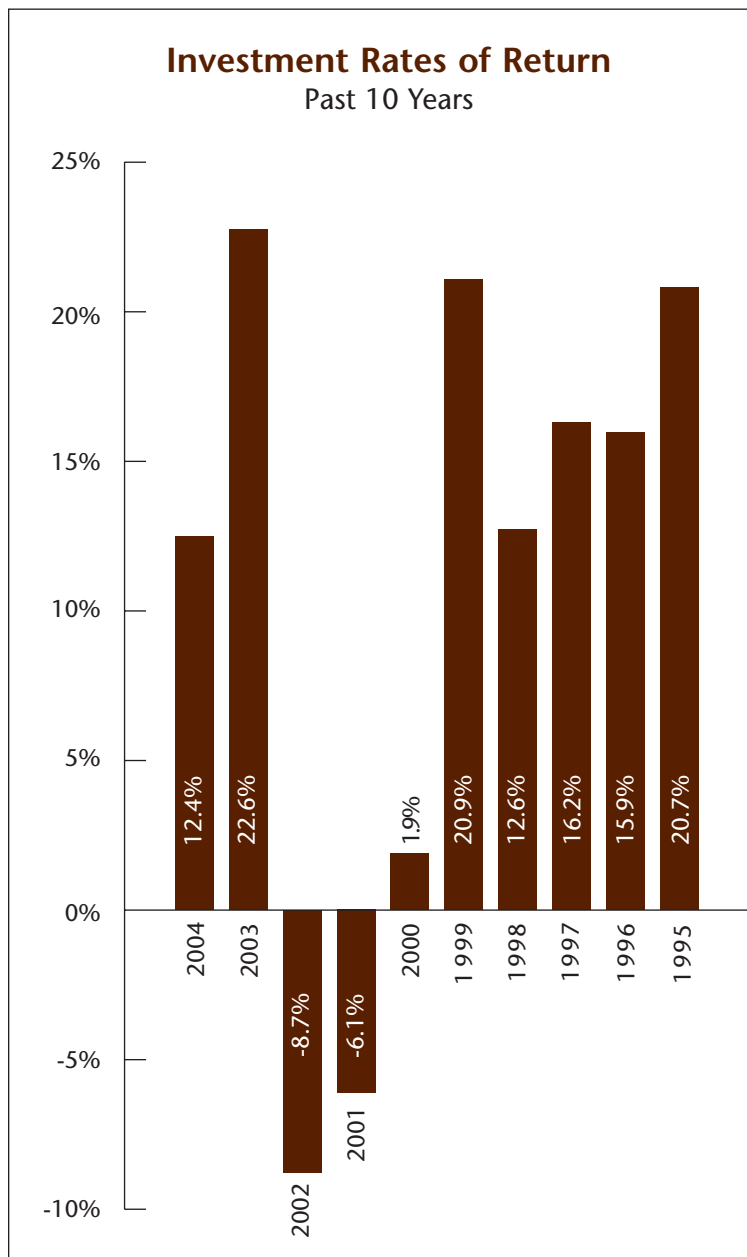
Five years . . . . .3.8% per year (2000 through 2004)

Ten years . . . . .10.3% per year (1995 through 2004)

In 2004, investment earnings were \$2,010 million and represented 73.7% of plan additions. In the five years 2004 through 2000, investment income represented the following percentage of additions to plan net assets:

Year	Percentage of Plan Additions
2004	73.7 %
2003	83.9 %
2002	(166.4)%
2001	(209.9)%
2000	33.7 %

Read the complete  
2004 **Comprehensive**  
Annual Financial Report  
by visiting  
[www.imrf.org](http://www.imrf.org) or  
requesting it at  
1-800-ASK-IMRF.



For the four months ended April 30, 2005, the overall return on IMRF's investments has been approximately a negative 2.3%, (negative 6.9% on an annualized basis). As of April 30, 2005, IMRF's total investments are approximately \$18.4 billion, a decrease of \$130 million since December 31, 2004.

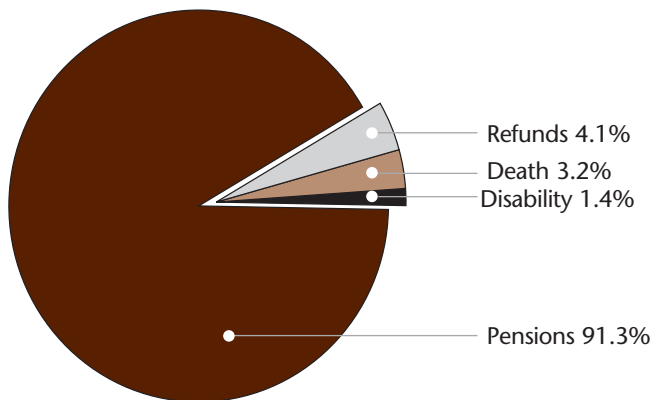
However, as we said, IMRF is investing for the lifetimes of more than 300,000 members and their beneficiaries. Our diversified portfolio is designed to weather the ups—and the downs—of the market.

...continued on page 8

Type	2004		2003	
	Market Value	% of Total Market Value	Market Value	% of Total Market Value
Fixed Income	5,923.9	32.0%	5,538.0	32.9%
Stocks	10,997.6	59.5%	9,524.5	56.5%
Real Estate	639.0	3.4%	586.5	3.5%
Alternative	564.5	3.1%	520.8	3.1%
Short-Term	371.9	2.0%	673.9	4.0%
<b>Total</b>	<b>\$18,496.9</b>	<b>100.0%</b>	<b>\$16,843.7</b>	<b>100.0%</b>

## Benefits Paid in 2004

See chart below for dollar amounts



Benefit Type	Total paid in 2004 (in millions)
Disability*	\$10.8
Death	24.6
Refunds	31.2
Pensions**	697.9
	<u>\$764.5</u>

\*Temporary and Total and Permanent

\*\*Retirement, Surviving Spouse, Beneficiary, and Supplemental

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. In a defined benefit plan, the amount of the retirement benefit is based on a member's final salary and 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.

Two words clarify the fundamental difference between a defined benefit plan and a defined contribution plan: investment risk.

When you contribute to a defined contribution plan, you bear the investment risk. The amount you will receive in retirement is based upon how well you invested your contributions.

However, as a member of IMRF, investment returns do not determine the amount of your pension. Your IMRF defined benefit pension is based upon a formula that includes your salary and years of service credit. Your IMRF pension is also payable for life; you can never outlive your pension.

### Participation

Although 168,536 public employees across Illinois participate in IMRF, IMRF is a local program.

Your employer builds up **its own account** to provide future benefits for its own employees. As of December 31, 2004, 2,883 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

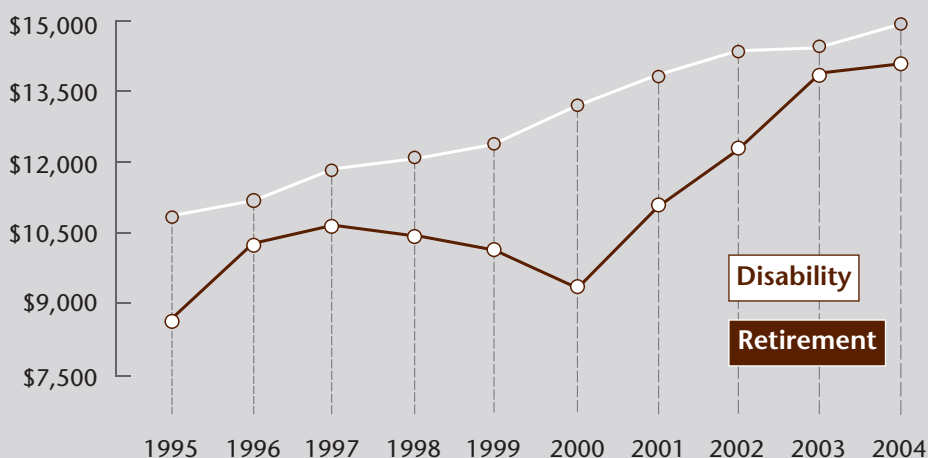
IMRF member contribution rates—4.5% for the Regular Plan, 6.5% for Sheriff's Law Enforcement Personnel Plan (SLEP), and 7.5% for the Elected County Officials Plan (ECO)—are determined by Illinois statute.

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

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

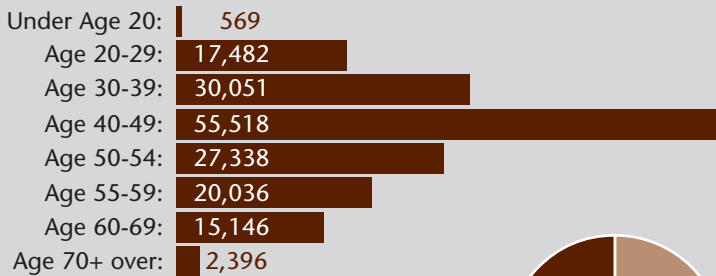
## Average Benefit Payment Amounts

Past 10 years

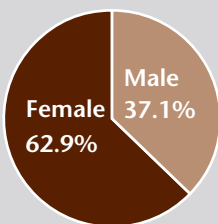


## Active Members

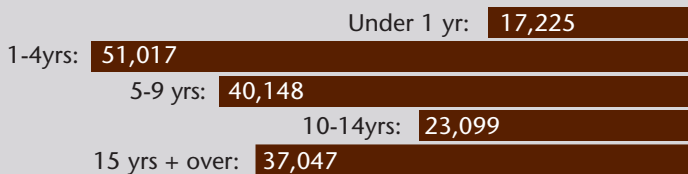
### By Age



### By Gender



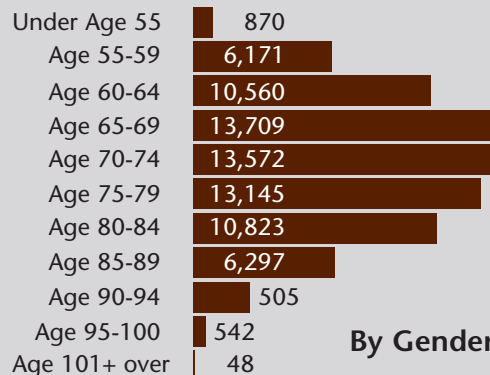
### By Length of Service



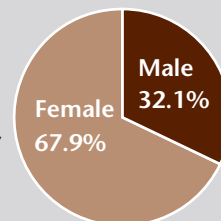
## Retired Members

(Retirees, Surviving Spouses, Beneficiaries)

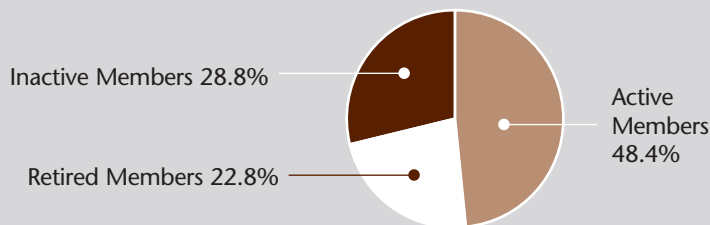
### By Age



### By Gender



## All Members by Participation



## 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 retirement rates, life expectancies, and salary increases. For detailed actuarial information, refer to the Actuarial Section of IMRF's 2004 Comprehensive Annual Financial Report.

### Are you an "average" member?

How closely do you match the "average" member? Of our 168,536 active members, here is the picture of the "average" IMRF member as of December 31, 2004:

- Female
- 46 years old
- Participates in the Regular Plan
- Most likely works for a school district
- Earns \$30,899 a year
- Received a 4.0% salary increase in 2004
- Has 9.0 years of service credit

### Are you an "average" retiree?

If you are one of the 3,449 members who retired in 2004 under IMRF's Regular plan, you are most likely:

- Female
- Had a final rate of earnings of \$2,866 a month
- Retired with approximately 20 years of service credit
- Receiving a pension of approximately \$1,147 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%, SLEP members contribute 6.5%, and ECO members contribute 7.5%.

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 2005 than they did in 2004. 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 7.82% in 2004 to 9.25% in 2005, an increase of 18.3%.

For more information on employer contribution rates, please read the 2004 Comprehensive Annual Financial Report. You can obtain the report by calling 1-800-ASK-IMRF or by downloading a copy from the IMRF website, [www.imrf.org](http://www.imrf.org).

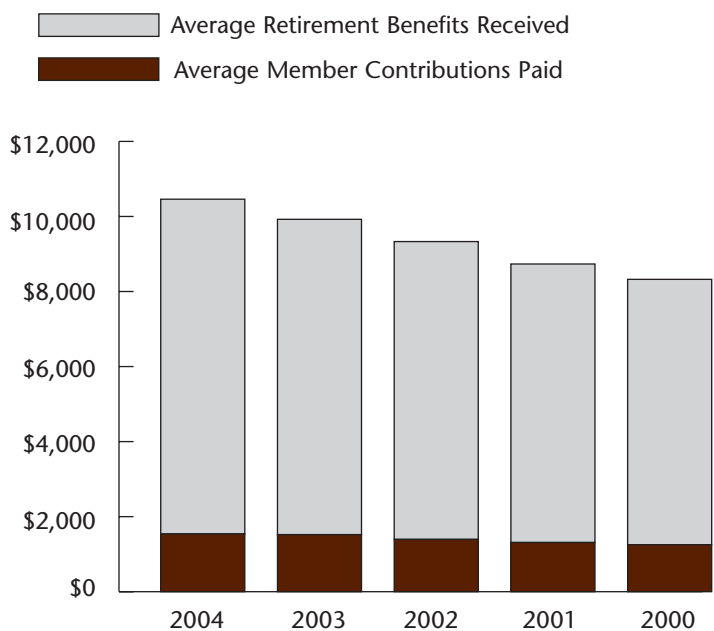
## Certificate of Achievement for Outstanding Achievement in Popular Annual Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Illinois Municipal Retirement Fund for its *Popular Annual Financial Report* for the fiscal year ended December 31, 2003. The Award for Outstanding Achievement in Popular Financial Reporting is a prestigious national award for recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

## Member Contributions Paid vs. Retirement Benefits Received Past 5 Years



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.

The following is a brief list of IMRF's 2004 accomplishments. For the complete list, please refer to the 2004 Comprehensive Annual Financial Report.

### Continued improvements in customer service through computer system development

IMRF's computer system development effort in 2004 focused on a major revamp of the secure Employer Access area of our website. Significant areas of focus include the following:

- Web wage reporting that enables both large and small employers to transmit wage and contribution data over a secure network. This allows IMRF to highlight reporting problems before they are transmitted, to avoid processing corrections after the fact. This new wage reporting functionality became available to all employers on May 15, 2005.
- Document archives that will enable employers to access employer-specific data online as it is needed.

### e-Service Goals and Strategy

IMRF offers access to both member- and employer-specific data through secure areas on our website—[imrf.org](http://imrf.org). The number of members and employers using these continued to grow in 2004. Our e-Service goals include:

- Improving customer service,
- Reducing administrative costs,
- Providing uncompromised privacy and security of information, and
- Instituting business process re-engineering.

In order to capture the benefits of our e-Service initiatives, we will be requesting all IMRF employers to utilize our enhanced website.

### Electronic Funds Transfer (EFT)

As of October 1, 2004, IMRF required all employers to make payments to IMRF via the govONE Electronic Funds Transfer System (EFT). As of December 2004, more than 95% (2,781) of IMRF employers were using the EFT system.

### Honors for IMRF Office Services Department

In November 2004, the IMRF Mail Center staff received the Mail Center of the Year award from the Chicago chapter of the Mail Systems Management Association. IMRF Mail Center staff handles more than 20,000 incoming and 150,000 outgoing pieces of mail each month. This much-deserved award recognizes their outstanding contribution to IMRF.

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 to the above left compares what an average member paid in contributions to what an average retiree received in retirement benefits.

# Illinois Municipal Retirement Fund

## Oak Brook (Main Office)

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

## Springfield

3000 Professional Drive  
Suite 101  
Springfield, IL 62703

## Member Service Representatives

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



**Martha H. Rademacher**  
*Executive Trustee*  
Park District Risk  
Management Agency  
2005 President  
2004 Vice President



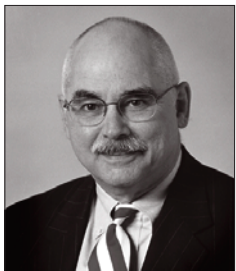
**Sharon U. Thompson**  
*Annuitant Trustee*  
(formerly) Lee County  
2005 Vice President  
2004 Secretary



**Rita J. Miotti**  
*Employee Trustee*  
Village of Matteson  
2005 Secretary



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



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



**W. Thomas Ross**  
*Executive Trustee*  
Winnebago County  
2004 President



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



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

## IMRF: Helping to Build Your Financial Foundation

(continued from page 1)

### More information available

Read more about IMRF's investments and financial stability by requesting a copy of the 2004 Comprehensive Annual Financial Report by calling 1-800-ASK-IMRF (1-800-275-4673) Monday through Friday, 7:30 a.m. to 5:30 p.m. or by downloading a copy of the Report from the IMRF website at [www.imrf.org](http://www.imrf.org).



## 2004 Investment Summary

(continued from page 4)

### Professional Management

Currently 54 professional investment management firms, handling 65 separate accounts, manage IMRF's investment portfolio. These firms make investment decisions under the "prudent man" rule authorized by the Illinois Pension Code and by IMRF investment policy guidelines.

The IMRF Board of Trustees employs an investment consultant who monitors and evaluates the investment management firms' performance, aids in the selection of investment management firms, and assists in the development of investment policy.

IMRF's uppermost goal is to achieve the highest long-term total return on our investments within an acceptable level of risk. We work toward that goal by diversifying our investments.

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

Read the complete 2004 **Comprehensive**  
Annual Financial Report by visiting [www.imrf.org](http://www.imrf.org) or  
requesting it at 1-800-ASK-IMRF.