As a retirement system, IMRF takes very seriously the promise to our members: that the money will be there when you retire. And how do we do that? By working toward a 100% funding goal.

During 2007, IMRF earned 8.5% on its investments and was 100% funded on a market value basis at year end. This marks the second year in a row that IMRF was the only major public pension plan in Illinois to achieve this funding level.

What does 100% funding mean to you?

As a member of IMRF, 100% funding means several things. You can be assured that when you retire, IMRF will have the funds to pay your pension for life. It also means your employer is making its contributions to IMRF when they are due.

Working toward 100% funding also allows IMRF to maximize its investment gains and provide benefits to our members at the lowest possible long-term cost to the taxpayer.

Our success at achieving 100% funding can be attributed partially to our highly diversified investment portfolio. Equally important is the ability of our independent Board of Trustees to set and collect employer contribution rates based on sound actuarial principles.

“Our 100 percent funding goal and disciplined funding method for each of our 2,900 employers is critical to our success,” said IMRF Executive Director Louis Kosiba. “As a result, our members can rest assured that the money for their pensions will be there when they retire.”

Slow and steady

Because IMRF takes very seriously its promise to provide a guaranteed, lifetime benefit to each of its 276,000 current members and beneficiaries, we design our portfolio to achieve the greatest return with an acceptable amount of risk.

IMRF invests its $24 billion portfolio in many different types of investments: equity (stock), fixed income (bonds), real estate, alternative investments and short-term investments.

“We like to say slow and steady wins the race,” Kosiba added. “We are invested in all of the markets all of the time. That offers protection from market ups and downs.”

Not only is IMRF’s portfolio highly diversified by type, it is also diversified by geographic regions and management styles—all designed to maximize IMRF’s ability to earn the best possible returns.
IMRF accumulates money needed to pay benefits through member and employer contributions and returns on our investments.

In 2007, members and employers contributed $898 million, 2% more than 2006. In 2007, IMRF earned $1,799 million on our investments. IMRF’s total investment portfolio earned 8.5% in 2007 (compared to 13.9% for 2006) and reflected the slowing market performance in 2007.

**Member contributions**

Members contributed $297 million in 2007, an increase of 6% from 2006. The increase is due to an increase in member wages; employers reported $5,931 million of member wages in 2007 as compared to $5,631 million in 2006.

**Employer contributions**

Employer contributions decreased in 2007, and the decrease is due to several factors.

Although the wages employers reported increased (increasing employer contributions), the average employer contribution rate for all IMRF plans decreased from 10.71% in 2006 to 10.13% in 2007. (This rate reflects the average employer rate if we combine all IMRF plans. Each employer has its own unique rate for each IMRF plan it offers.)

The decrease in the “combined” average employer contribution rate is the result of IMRF’s improved overall actuarial funded status which offset the increase in member wages reported in 2007.

**Net investment income**

IMRF earned $1.8 billion (8.5%) on our investments, a decrease of $869 million from 2006 but greater than the 7.5% used to calculate employer contributions and our actuarial funding status.

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### Condensed Statements of Changes in Plan Net Assets

(In millions)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Additions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member contributions</td>
<td>$ 297</td>
<td>$ 281</td>
<td>$ 16</td>
<td>6%</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>601</td>
<td>603</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net investment gain</td>
<td>1,799</td>
<td>2,668</td>
<td>(869)</td>
<td>(33)</td>
</tr>
<tr>
<td>Total additions</td>
<td>2,697</td>
<td>3,552</td>
<td>(855)</td>
<td>(24)</td>
</tr>
<tr>
<td><strong>Deductions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>924</td>
<td>857</td>
<td>67</td>
<td>8</td>
</tr>
<tr>
<td>Refunds</td>
<td>36</td>
<td>40</td>
<td>(4)</td>
<td>(10)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>21</td>
<td>20</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Total deductions</td>
<td>981</td>
<td>917</td>
<td>64</td>
<td>7</td>
</tr>
<tr>
<td><strong>Net increase in plan net assets</strong></td>
<td>$1,716</td>
<td>$2,635</td>
<td>$(919)</td>
<td>(35)%</td>
</tr>
</tbody>
</table>

### 2007 Expenses by Type

- Disability 1.2%
- Administrative 2.1%
- Death 2.6%
- Refunds 3.7%
- Annuities 90.4%

### 2007 Revenues by Source

- Investments
- Employers
- Members
- Total: $4,000

---

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### 2007 Revenues by Source

- Investments
- Employers
- Members
- Total: $4,000
IMRF’s financial health continues

IMRF benefit promises include pensions, disability, 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.”

When you compare IMRF’s actuarial liability to our $24.2 billion in assets you come up with our funded ratio—a very important number and one that illustrates a pension system’s financial health.

You can look at the value of IMRF’s assets and liabilities in one of two ways:

**Market value**

The first method is the simplest and most familiar: the market value. What is the value of IMRF’s assets and liabilities today? Or, what was the value on December 31, 2007?

As of December 31, 2007, the market value of IMRF’s net assets was $24.2 billion. IMRF’s actuarial liability (our “benefit promises”) was also $24.2 billion. This meant, that on a market value basis, IMRF was 100% funded—the second year in a row a major public pension fund in Illinois achieved this funding level.

What does 100% funding mean to you? If IMRF went out of business tomorrow—which of course we won’t—we have enough money to pay for all of our benefit promises to our active, inactive and retired members and their beneficiaries. Read more about funding on page 5.

**Actuarial value**

The other method is less familiar—and not as simple. This 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” completely in one year. The smoothing prevents employer contribution rates from changing drastically year to year because of short-term fluctuations in the financial markets.

As of December 31, 2007, IMRF’s actuarial funding was $23.3 billion, less than the market-based funding value. It was less because there are $937 million of unrecognized investments gains which will be recognized in the 2008 through 2011 period in keeping with the five-year smoothing technique.
Determining how IMRF invests its $24.2 billion portfolio is one of the most important decisions the IMRF Board of Trustees makes. Just as you may consider which mutual fund to select based upon its mix of stocks and bonds, a pension fund’s “asset allocation” is key to its investment strategy. Annually, the IMRF Board determines what percentage of our assets will be invested in equities (stocks), fixed income (bonds), real estate, etc.

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.

Largest contributor to the plan
Even though IMRF employers and members both contribute to IMRF, earnings on IMRF’s investments are the major contributor. In 2007, IMRF earned $1.8 billion on our investments, which represents 66.7% of “Plan Additions.”

The total rate of return for IMRF’s portfolio in 2007 was 8.5% compared to 13.9% in 2006. As of December 31, 2007, IMRF’s investments totaled $24.7 billion, up from $23 billion at the end of 2006.

Long-term results
IMRF takes a conservative, long-term approach to investing on your behalf. IMRF designs our investment portfolio to achieve the greatest return with an acceptable amount of risk. Our diversified investment strategy results in steady and responsible returns.

For the four months ended April 30, 2008, the overall return on IMRF’s investments has been approximately -2.4%. As of April 30, 2008, IMRF’s total investments are approximately $23.9 billion, a decrease of $800 million since December 31, 2007.

2007 Investment Summary

Investment Rates of Return
Past 10 Years

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>66.7%</td>
</tr>
<tr>
<td>2006</td>
<td>75.1%</td>
</tr>
<tr>
<td>2005</td>
<td>66.5%</td>
</tr>
<tr>
<td>2004</td>
<td>73.7%</td>
</tr>
<tr>
<td>2003</td>
<td>83.9%</td>
</tr>
</tbody>
</table>

Investment Portfolio Summary as of December 31 (in millions)

|               | 2007      | 2006      |
|               | Market    | % of Total| Market    | % of Total|
| Fixed Income  | $8,615.6  | 34.9%     | $7,713.1  | 33.5%     |
| Stocks        | 13,738.1  | 55.6%     | 13,300.6  | 57.8%     |
| Real Estate   | 624.3     | 2.5%      | 546.0     | 2.4%      |
| Alternative   | 940.8     | 3.8%      | 865.2     | 3.8%      |
| Short-Term    | 788.5     | 3.2%      | 577.9     | 2.5%      |
| Total         | $24,707.3 | 100.0%    | $23,022.8 | 100.0%    |
IMRF Benefits & Funding

IMRF paid more than $831 million in retirement benefits to more than 73,000 retired members in 2007.

However, IMRF is more than just a retirement system. Our mission of protecting our members’ income begins long before retirement.

Protecting you and your loved ones

Few of us imagine a time when we will become injured or sick and must be off work. If that happens to you, you can turn to the IMRF disability benefit.

In 2007, IMRF paid more than $11 million in disability benefits to more than 1,300 members.

Not only are these members receiving monthly disability benefit payments from IMRF, they are also earning IMRF service credit toward a future pension and their IMRF death benefit protection continues.

If we think little about being injured or sick, we probably think even less about our own death. But you can be assured that if your death occurs, your survivors will be protected by the IMRF death benefit.

IMRF paid more than $25 million in death benefits and approximately $55 million in monthly benefit payments in 2007 to over 12,000 members’ surviving spouses and beneficiaries.

Funding

Our investment returns are the largest source of IMRF income. IMRF administrative and direct investment costs are financed by investment income. However, members and employers also contribute to IMRF.

IMRF member contribution rates—4.5% for the Regular plan, 7.5% for the Sheriff’s Law Enforcement Personnel and the Elected County Officials plans—are determined by Illinois statute.

Illinois statutes also require each IMRF employer to contribute the amount needed to finance the pensions of its own employees.

Employer contributions for disability benefits, death benefits, and the “13th payment” are pooled.

Benefits Paid in 2007

in millions

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions*</td>
<td>$887.3</td>
</tr>
<tr>
<td>Refunds</td>
<td>36.2</td>
</tr>
<tr>
<td>Death</td>
<td>25.1</td>
</tr>
<tr>
<td>Disability**</td>
<td>11.6</td>
</tr>
<tr>
<td>Total</td>
<td>$960.2</td>
</tr>
</tbody>
</table>

*Retirement, Surviving Spouse, Beneficiary, and Supplemental (“13th Payment”)

**Includes payments for both Temporary disability benefits and for Total and Permanent disability benefits

Average Annual Benefit Payment Amounts

Past 10 years

<table>
<thead>
<tr>
<th>Year</th>
<th>Disability</th>
<th>Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>[data point]</td>
<td>[data point]</td>
</tr>
<tr>
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</tr>
<tr>
<td>2007</td>
<td>[data point]</td>
<td>[data point]</td>
</tr>
</tbody>
</table>

IMRF’s goal of protecting our members’ income covers every phase of life.
Although investment income provides the greatest source of IMRF income, both you and your employer contribute toward your future retirement benefit. You contribute a percentage of your salary as established by the Illinois Pension Code.

More than 97% of IMRF members participate in the Regular plan and contribute 4.5% of their wages toward an IMRF pension. Less than 3% of members participate in the Sheriff’s Law Enforcement Personnel or Elected County Official plans; these members contribute 7.5% toward a future pension.
Looking back on 2007

New Vision Statement

In connection with updating IMRF’s 2008-2009 Strategic Plan, the IMRF Board adopted a new vision statement: “To provide the highest quality retirement services to our members, their beneficiaries and employers.”

To achieve both our mission and vision, the IMRF Board adopted six inter-related strategic goals:

- Improve IMRF’s effectiveness in addressing legislative issues
- Prepare the IMRF organization for changing demands in customer service
- Advocate preservation of the defined benefit plan
- Continue to promote the IMRF brand
- Maintain and promote the Board’s independence
- Advocate preservation of the 100% funding goal

Continue to improve customer service through computer system development

IMRF’s efforts in 2007 to enhance our computer systems focused on modifying our web-based and mainframe functions:

Web-based functions:
- Extending the successful Employer Access secure website to provide online member enrollment
- Installing backup hardware and Internet connections to ensure the highest levels of reliability and availability for our secure Employer and Member Access websites
- Adding over 1.5 million electronic documents to our document archive to reduce paper mailing and improve security

Mainframe computer system functions:
- Implementing a New Benefit Estimates System and standardizing member data calculations to our mainframe computer systems to improve both speed and accuracy

In 2008, IMRF’s system development efforts will focus on:
- Redesigning the Annual Member Statement to better communicate the value of IMRF benefits
- Implementing a revised Member Access website to expand self-service options
- Implementing new telephone and call center systems to further enhance service to members and employers
- Automating processing of the growing number of Reciprocal Retirement claims to speed approval times

E-Service Goals and Strategy

IMRF offers access to both member and employer specific data through secure areas on our website—imrf.org. Use of these areas continued to grow in 2007.

Our e-Service goals include improving customer service to our members and employers, reducing administrative costs, providing uncompromised privacy and security of information and instituting business process reengineering. continued on page 8
As of December 31, 2007, approximately 95% of our employers (representing 99.7% of our members) reported their members’ wages and contributions via our on-line Web Wage Reporting system.

A number of enhancements to our e-Service offerings are planned for wide rollout in 2008 including online enrollment of new members.

**Defined Benefit Administration Benchmarking Analysis**

CEM Benchmarking Inc. conducts an annual Benchmarking Study for public pension systems. IMRF has participated in this benchmarking program since 2001.

This program provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF received the highest service level score of the 63 participating retirement systems. Though IMRF receives high marks for our excellent customer service, the real value of the study is identifying areas for further improvement.

**Board of Trustees**

Ruth E. Faklis, Library Director for Prairie Trails Public Library District, was elected as an executive trustee. Her five-year term began January 1, 2008.