IMRF’s vision statement represents what we want for our customers. We aren’t satisfied with providing above average retirement services. Instead IMRF’s vision statement compels us to provide the best—world-class—retirement services to our members, their beneficiaries, and our employers. Everyone at IMRF—the Board of Trustees, senior leaders, and other IMRF team members—are singularly focused on the continued achievement of this vision.

**IMRF investments**

During 2013, IMRF investments provided outstanding returns.

IMRF’s diversified portfolio returned 20% during 2013, even after paying investment management fees. The 20% return yielded $5.6 billion in investment gains.

The total portfolio grew to a record-high of more than $33 billion at the close of our fiscal year on December 31, 2013.

In 1982, IMRF gained the legal authority to invest broadly in the market. Since then, the IMRF portfolio has earned a total annualized return of 10.38%.

**IMRF funding status**

IMRF’s stellar 2013 investment return boosted IMRF’s funding status significantly.

IMRF ended its fiscal year 96.7% funded on a market basis. Our funding status shows that IMRF has largely recovered from the severe losses of the recession. In the long-term, IMRF is committed to regaining the 100% funding status it held prior to the economic downturn.

**IMRF benefits**

During 2013, IMRF paid more than $1.5 billion in pension benefits to more than 107,000 retired members and survivors.

In addition to pension payments, IMRF also paid $29 million in death benefits and $11 million in disability benefits.

A public pension benchmarking program rated IMRF near the top 10% in customer service and near the median in cost as compared to 40 other retirement systems.

During 2014, IMRF submitted an award application to Illinois Performance Excellence (ILPEx) to further validate our ongoing achievement of our vision of providing the highest quality retirement services.
IMRF accumulates money needed to pay benefits from three sources: member contributions, employer contributions, and from returns on our investments.

For the year, IMRF’s fiduciary net position increased $5.287 billion to $33.284 billion. The increase was primarily driven by $5.583 billion in net investment gains during 2013.

In 2013, payment of annuities (pensions) accounted for 93.4% of IMRF expenses.

Member contributions
Members contributed $339 million in 2013, an increase of 2% from 2012. The increase in member contributions is due to a 2.3% increase in member wages that employers reported to IMRF.

Contribution rates are 4.5% of earnings for Regular members and 7.5% for Sheriff’s Law Enforcement Personnel (SLEP) members and Elected County Official (ECO) members.

Employer contributions
Employers contributed $931 million in 2013, an increase of 5% from 2012. The increase in employer contributions was driven primarily by the increase in the average employer contribution rate from 13.60% in 2012 to 14.10% in 2013. For rate-setting purposes, there is a two-year lag between the date that data is used to compute employer contribution rates and the effective date for those rates.

Investment gains
The IMRF investment portfolio returned 20% during 2013. That translated to investment gains of $5.583 billion.

The strong return represents a $2.189 billion change from the $3.394 billion gain in 2012, an increase of 64%.

IMRF’s 2013 total investment portfolio return reflected the strengthening of the housing recovery and rising consumer and business spending in the United States. This was aided by global growth in manufacturing activity.

Condensed Statements of Changes in Fiduciary Net Position
(In millions)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Dollar 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>$339</td>
<td>$331</td>
<td>$8</td>
<td>2%</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>931</td>
<td>883</td>
<td>48</td>
<td>5%</td>
</tr>
<tr>
<td>Net investment gain</td>
<td>5,583</td>
<td>3,394</td>
<td>2,189</td>
<td>64%</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>6,853</td>
<td>4,608</td>
<td>2,245</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Deductions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>1,503</td>
<td>1,390</td>
<td>113</td>
<td>8%</td>
</tr>
<tr>
<td>Refunds</td>
<td>37</td>
<td>34</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>26</td>
<td>25</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>1,566</td>
<td>1,449</td>
<td>117</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Increase in net position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>restricted for pensions</td>
<td>$5,287</td>
<td>$3,159</td>
<td>$2,128</td>
<td>67%</td>
</tr>
<tr>
<td><strong>Net position restricted for pensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>27,997</td>
<td>24,837</td>
<td>3,160</td>
<td>13%</td>
</tr>
<tr>
<td>End of year</td>
<td>$33,284</td>
<td>$27,996</td>
<td>$5,288</td>
<td>19%</td>
</tr>
</tbody>
</table>
Building for your future

Funding status is another important indicator of IMRF’s financial health.

Funding status reflects the percentage of IMRF’s benefit promises (pensions, disability, refunds, and death benefits) that IMRF has assets on hand to pay.

IMRF believes in full funding because it is cost-effective for taxpayers. You can look at funding status in one of two ways: market funding status and actuarial funding status.

**Market funding status**

The first method is the simplest and most familiar: the market funding status. What percent of IMRF’s benefit promises did IMRF have assets on hand to pay on December 31, 2013?

As of December 31, 2013, IMRF assets totaled $33.3 billion. As of December 31, 2013, those assets could fund 96.7% of IMRF benefit promises.

This 96.7% market funding status is a very healthy figure by industry standards. It demonstrates that IMRF has largely recovered from the severe losses associated with the recession. In the long-term, IMRF is committed to regaining the 100% funding status it held prior to the economic downturn.

**Actuarial funding status**

The other method is less familiar—and not as simple. The actuarial funding status. 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, 2013, IMRF’s actuarial funding status was 87.6%; an increase from the 84.3% in 2012.

**Sense of security**

You can look with a sense of security to IMRF’s net asset base of $33.3 billion. These assets are irrevocably committed to the payment of our current retirees’ pensions and future pensions of IMRF members. It doesn’t matter whether you are a current IMRF retiree or working for an IMRF employer: IMRF will be there for you when you need us.

IMRF is 96.7% funded on a market basis as of December 31, 2013. IMRF’s goal is to regain the 100% funding status it had prior to the recession. Full funding is cost-effective for taxpayers because more money is available to accrue investment returns.
2013 was a historic year for IMRF investments. IMRF earned 20% on its investments during 2013, driven largely by gains from U.S. stocks. IMRF has recorded double-digit returns four out of the last five years.

**Major contributor**

Even though IMRF employers and members both contribute to IMRF, earnings on IMRF’s investments are the major contributor.

In 2013, IMRF earned $5.583 billion—this amount represents 81.5% of Plan Additions for the year.

As of December 31, 2013, IMRF’s investments totaled $33.2 billion, up from $28.1 billion at the end of 2012.

**Professional management**

Currently, 88 professional investment management firms, handling 119 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.

IMRF’s portfolio is broadly diversified and includes U.S. stock, international stock, bonds, real estate, private equity, hedge funds, and cash holdings.

**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.

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>..................81.5%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>..................73.7%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>..................(9.0)%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>..................73.1%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>..................81.8%</td>
<td></td>
</tr>
</tbody>
</table>

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**Investment Portfolio Summary as of December 31**

(in millions)

<table>
<thead>
<tr>
<th>Value</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
<td>Fair % of Total</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>$8,642.6</td>
<td>26.0%</td>
</tr>
<tr>
<td>Stocks</td>
<td>21,473.6</td>
<td>64.6%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1,081.9</td>
<td>3.3%</td>
</tr>
<tr>
<td>Alternative</td>
<td>1,260.2</td>
<td>3.7%</td>
</tr>
<tr>
<td>Short-Term</td>
<td>789.7</td>
<td>2.4%</td>
</tr>
<tr>
<td>Total</td>
<td>$33,248.0</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
IMRF paid more than $1.4 billion in payments during 2013, to more than 107,000 retired members and survivors.

That figure was up from about $1.3 billion during 2012 and $1.2 billion during 2011.

However, IMRF does more than just pay pensions.

Our mission of protecting our members’ income begins long before retirement.

Protecting you and your loved ones

Few of us ever 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 2013, IMRF paid more than $11 million in disability benefits.

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 seldom thing about getting injured or falling ill, 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 $29 million in death benefits during 2013.

A modest, sustainable benefit

Some IMRF retirees, often former doctors and attorneys, do receive larger pensions. But they are the exception, not the norm.

The typical IMRF retiree is receving a modest pension earned following decades of public service.

Regular IMRF pensions are 1.66% of a retiree’s final rate of earnings for each of the first 15 years of service credit, plus 2% for each year of service credit in excess of 15 years.

The maximum pension at retirement is 75% of the final rate of earnings, earned after 40 full years of public service.

During 2013, out of IMRF’s 107,732 retirees, 69,377—64%— received an annual benefit of less than $12,000 per year.

Almost 7,000 retirees received a benefit of less than $1,200 annually.

According to a study by the National Institute on Retirement, a defined benefit plan—like IMRF— provides the same retirement income at nearly half the cost—46% less than an individual 401(k).
A secure pension for municipal workers helps them remain financially independent when they retire, and helps minimize the likelihood that they will become financially dependent on government programs or on family members.
Looking back on 2013

The IMRF Strategic Plan

The Strategic Plan is IMRF’s roadmap to achieving its vision of providing the highest quality retirement services to our members, their beneficiaries, and our employers in a cost-effective manner.

During 2013, we completed the action plans that supported our 2011-2013 Strategic Plan. We also completed our triennial strategic planning process, which resulted in the development of our 2014-2016 Strategic Plan.

Progress toward meeting our Strategic Objectives will be measured using these five Key Result Areas: Financial Health and Sustainability; Investment Returns; Customer Service and Operational Excellence; Workforce Engagement; and the Modernization Program.

Defined benefit administration benchmarking

CEM Benchmarking Inc. conducts an annual Defined Benefit Administration 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’s overall service level score was again near the top 10%, while our costs were below the median, as compared to our peer group of 40 retirement systems in the United States and Canada.

Board of Trustees

Sue Stanish, Director of Finance for Naperville Park District, was elected as an Executive Trustee. Her five-year term began January 1, 2014.

William Stafford, Business Manager for Evanston High School District 202, was appointed by the Board as an Executive Trustee to fill a vacated one-year term on the Board.

Performance excellence

During 2013, IMRF continued to align its processes with the Baldrige Criteria for Performance Excellence.

During 2012, IMRF received a Silver Award from Illinois Performance Excellence (ILPEX) in recognition of the progress we have made implementing the Baldrige Criteria. In 2009, IMRF received a Bronze Award.

IMRF submitted a new award application to ILPEX during 2014 to further validate our progress toward excellence.

IMRF will receive a comprehensive feedback report from ILPEX that provides guidance on how to leverage strengths and pursue opportunities for improvement.

Systems development

During 2013, IMRF made progress on a major project to modernize the systems it uses to administer the pension plan.

IMRF initiated the implementation phase of the project, including the development of comprehensive project plans, confirmation of detailed requirements, and the beginning of solution construction. IMRF also made progress during 2013 on preparing its core technology infrastructure to support the new hardware and software.

continued on page 8
Looking back...

Legislative activity

On August 9, 2013, Public Act 98-0218 became law. It allows preretirement withdrawals of Voluntary Additional Contributions only to the extent permitted by the IRS; changed the section requiring IMRF to amortize its unfunded liabilities according to GAAP; no longer requires the Township Supervisor to be the Authorized Agent; and removes the requirement that the IMRF Board meet monthly.

On August 16, 2013, Public Act 98-0389 became law. It changed the return-to-work rules for retirees to require re-enrollment at the employers hourly standard of actual hours worked, instead of when the position is “normally expected” to require the hourly standard.

On August 16, 2013, Public Act 98-0433 became law. It created an exception to the current RFP requirements for investment services to no longer require the competitive bid process for contracts for follow-on funds with the same fund sponsor through closed-end funds.

On August 16, 2013, Public Act 98-0439 became law. It requires police chiefs to pay the actuarially calculated cost of the transfer to SLEP from a downstate police fund.

Effective June 1, 2014, but delayed pending judicial review, Public Act 98-0599/Senate Bill 1, for members who first begin participating on or after the effective date:

- No longer allows sick or vacation payouts to be included in pensionable wages.
- No longer allows unused, unpaid sick leave to be used to increase service credit.
- Prohibits participation in IMRF for future employees of certain employers.

IMRF’s Popular Annual Financial Report summarizes some of the information available in our Comprehensive Annual Financial Report. The Comprehensive Report offers detailed information regarding IMRF’s investment performance and funding as well as detailed demographic information for IMRF members and employers. You can read the 2013 Comprehensive Annual Financial Report at www.imrf.org or request one at 1-800-ASK-IMRF (275-4673) between 7:30 a.m. to 5:30 p.m., Monday through Friday.

Illinois Municipal Retirement Fund

Popular Annual Financial Report for Members

For the years ended December 31, 2013 and December 31, 2012
Published July 2014