



2016 POPULAR ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2016, AND DECEMBER 31, 2015



• LOCALLY FUNDED, FINANCIALLY SOUND •

BOARD OF TRUSTEES



SUE STANISH

2017 Board President
Executive Trustee
Naperville Park District
Jan. 1, 2014-Dec. 31, 2018



NATALIE COPPER

2017 Board Vice President
Employee Trustee
Evanston School District 65
Jan. 1, 2015-Dec. 31, 2019



DAVID MILLER

2017 Board Secretary
Executive Trustee
North Shore Water
Reclamation District
Jan. 1, 2017-Dec. 31, 2021



TOM KUEHNE

Executive Trustee
Village of Arlington Heights
Jan. 1, 2013-Dec. 31, 2017



GWEN HENRY

Executive Trustee
DuPage County Treasurer
Jan. 1, 2016-Dec. 31, 2020



ALEX WALLACE, JR

Employee Trustee
Oswego Community Unit
School District 308
Jan. 1, 2017-Dec. 31, 2020



SHARON U. THOMPSON

Annuitant Trustee
Lee County (formerly)
Jan. 1, 2016-Dec. 31, 2020



TRUDY WILLIAMS

Employee Trustee
Fulton County State's Attorney's Office
Jan. 1, 2016-Dec. 31, 2020

\$36.5 Billion

FIDUCIARY NET POSITION

88.3% Funded

ON A MARKET BASIS

As of December 31, 2016

EXECUTIVE SUMMARY

IMRF's 2016 Popular Annual Financial Report (PAFR) provides insight into the organization's financial condition. Derived from IMRF's 2016 Comprehensive Annual Financial Report (CAFR), the PAFR is written for IMRF stakeholders without a background in finance.

FIDUCIARY NET POSITION AND FUNDING STATUS

IMRF's fiduciary net position—total assets minus liabilities—was \$36.5 billion as of December 31, 2016. That was an increase of \$2 billion, or about 6%, from 2015. Most of the increase is attributable to strong investment returns. Over the last five years, IMRF's fiduciary net position has increased by \$8.5 billion.

As of December 31, 2016, IMRF was 88.3% funded on a market basis. This means IMRF had 88 cents for every \$1 in promised benefits.

REVENUE AND EXPENSES

IMRF paid about \$1.9 billion in pensions during 2016 to 123,206 retirees and survivors. IMRF paid \$9.7 million in disability benefits and \$29.8 million in death benefits during 2016. IMRF's total expenses during 2016 were about \$2 billion.

INVESTMENTS

In 2016, IMRF achieved a 7.77% net rate of return. This translated to investment gains of \$2.7 billion, after paying investment management fees. The IMRF portfolio was valued at \$36.4 billion as of December 31, 2016.

MEMBERS AND EMPLOYERS

IMRF had 410,829 active members, inactive members, and retirees on December 31, 2016. In 2016, 2,987 units of government participated in IMRF, compared to 2,926 in 2007.

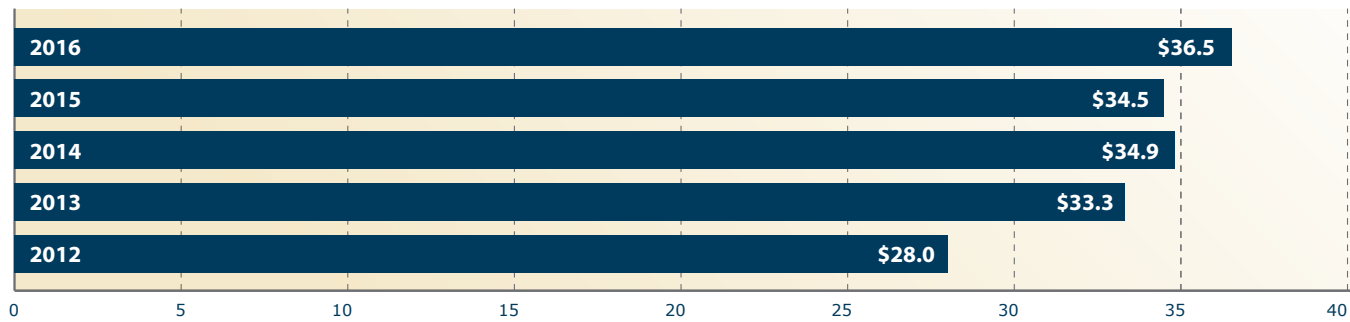
YEAR IN REVIEW

David Miller was re-elected to the IMRF Board of Trustees. Alex Wallace, Jr. was elected to the Board for the first time. IMRF developed a new Strategic Plan for the years 2017 through 2019.

FIDUCIARY NET POSITION AND FUNDING STATUS

FIDUCIARY NET POSITION

IMRF's fiduciary net position—total assets minus liabilities—was \$36.5 billion as of December 31, 2016. That was an increase of \$2 billion, or about 6%, from 2015. The increase is attributable to strong 2016 investment returns. Over the last five years, IMRF's fiduciary net position has increased by \$8.5 billion.



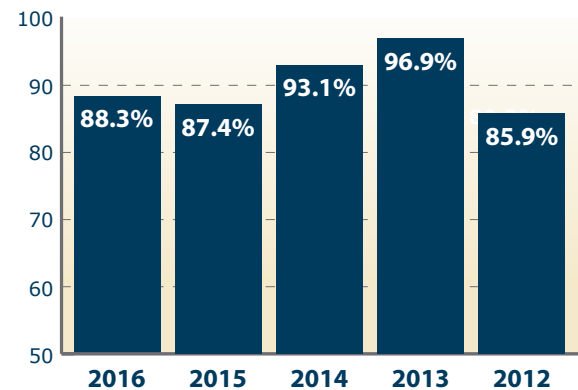
FUNDING STATUS

IMRF's funding status is a key indicator of its financial health. It reflects the percentage of benefit promises that IMRF has assets to pay. IMRF strives toward full funding because it guarantees that the system can meet its obligations. Full funding is also most cost effective for taxpayers.

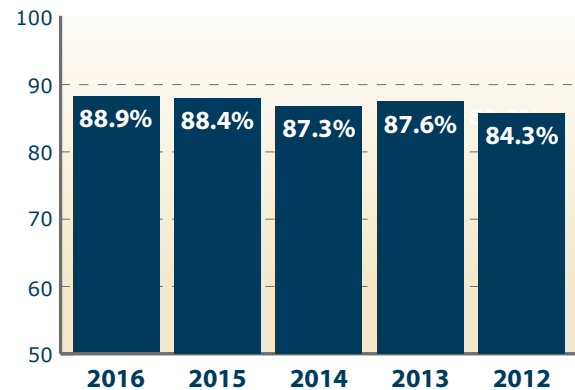
There are two measures of funding status. Market funding status describes the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. **As of December 31, 2016, IMRF was 88.3% funded on a market basis.** IMRF's market funding status increased from 2015 to 2016 due to strong investment returns.

The other measure is actuarial funding status. For this measure, independent actuaries determine the actuarial value of IMRF assets using a "smoothing" technique that recognizes investment gains and losses over a five-year period. The actuarial funding status is less volatile than the market funding status, which is why it is used to set IMRF contribution rates for participating units of government. **As of December 31, 2016, IMRF was 88.9% percent funded on an actuarial basis.**

MARKET FUNDING STATUS FOR THE PAST 5 YEARS



ACTUARIAL FUNDING STATUS FOR THE PAST 5 YEARS



REVENUE AND EXPENSES

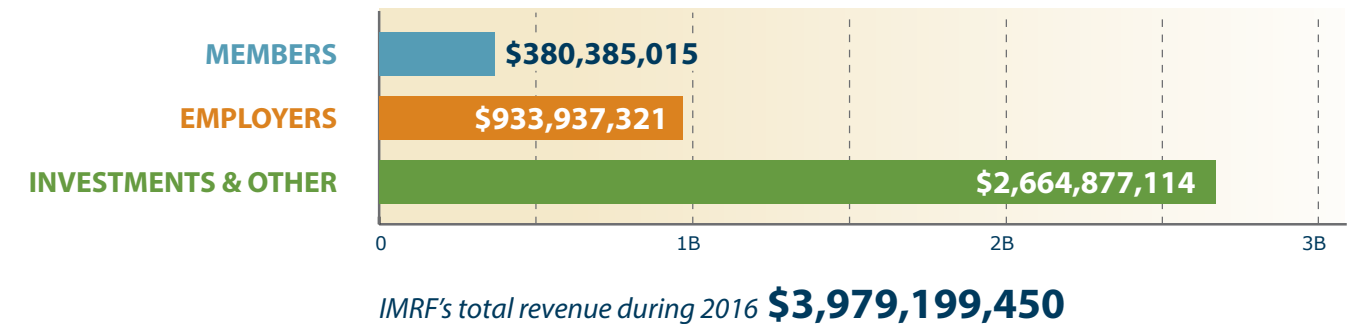
REVENUE

IMRF's revenue comes from member contributions, contributions from participating units of government (also called IMRF employers), and investment income. IMRF's total revenue during 2016 totaled \$4 billion.

About 97% of IMRF members participate in the Regular Plan. These members pay 4.5% out of every paycheck to fund IMRF benefits. Total member contributions were about \$380 million in 2016.

All IMRF employers also make monthly payments to support the IMRF benefit system. Each IMRF employer pays an amount calculated by IMRF based on its IMRF assets, liabilities, and the demographics of its workforce. Total employer contributions were about \$934 million in 2016.

Member and employer contributions are invested. Historically, IMRF investments account for the majority of IMRF's revenue. This was true in 2016, when IMRF investments generated \$2.7 billion in revenue.

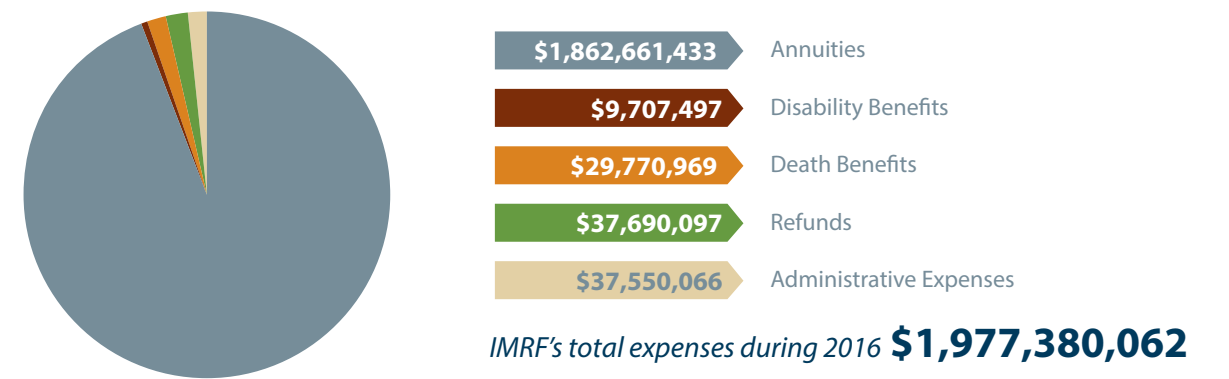


EXPENSES

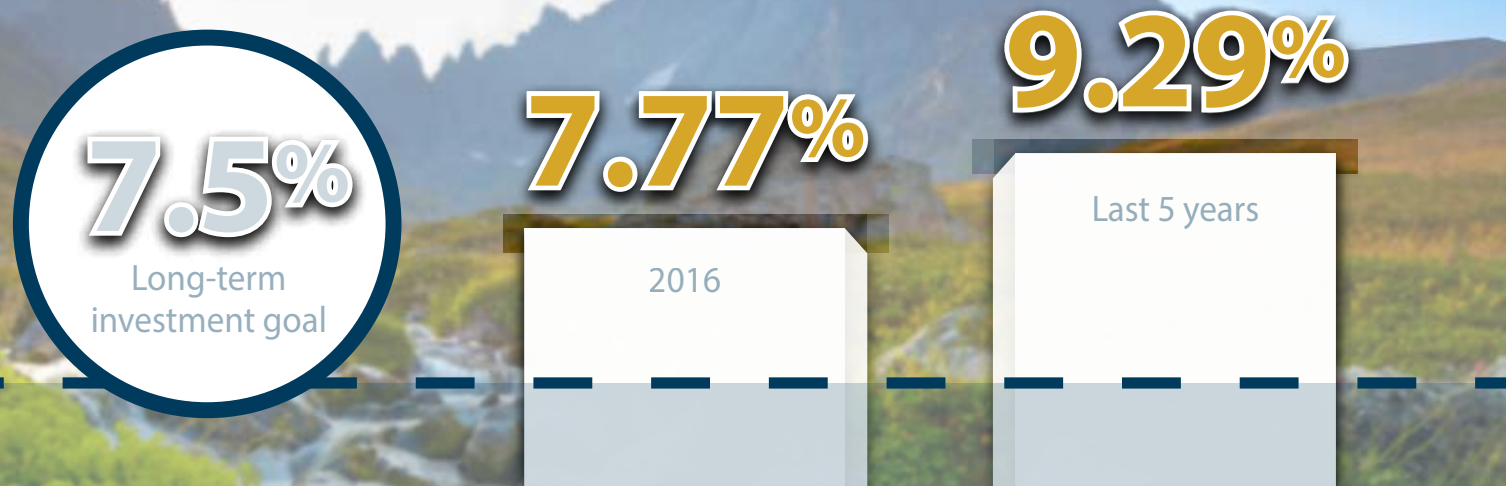
IMRF's expenses include annuities (pension payments), disability and death benefits, refunds to members, and the cost to administer IMRF's benefit system. IMRF's total expenses during 2016 equaled about \$2 billion.

IMRF paid about \$1.9 billion in pensions during 2016. Total pension payments increased from about \$1.7 billion in 2015.

IMRF paid \$9.7 million in disability benefits and \$29.8 million in death benefits during 2016.



ANNUALIZED TOTAL FUND RETURN



INVESTMENTS

The IMRF investment portfolio was valued at \$36.4 billion on December 31, 2016.

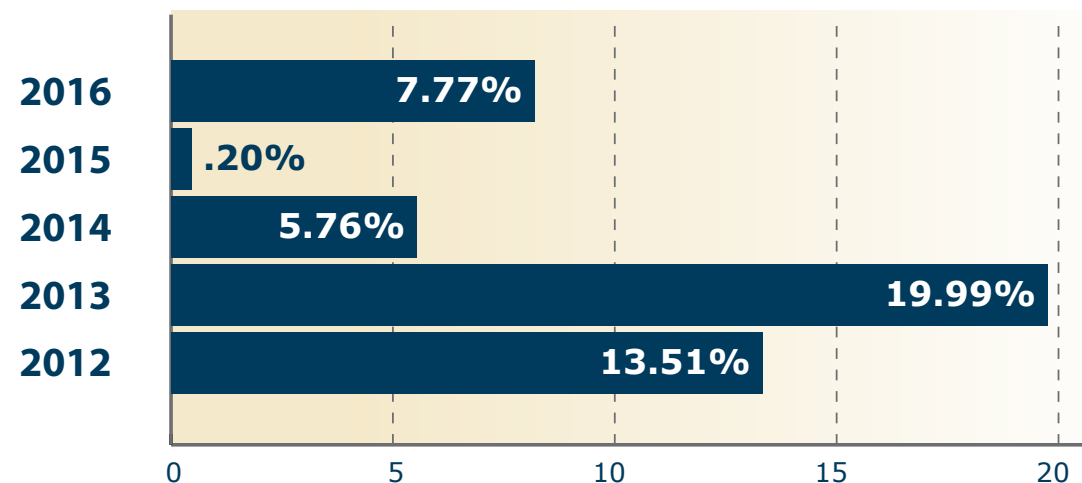
The portfolio returned 7.77%, after investment management fees, during 2016. This return increased the value of the portfolio by \$2 billion from December 31, 2015.

This positive return came during a tumultuous year, in which the outcomes of the United Kingdom’s “Brexit” vote in June and the U.S. Presidential election in November defied investors’ expectations.

IMRF’s U.S. equity and real estate holdings performed particularly well during 2016, driving much of the overall return. IMRF’s allocation to U.S. equity returned 12.35% after fees during 2016. IMRF’s real estate investments returned 8.97% after fees.

IMRF’s long-term goal is to earn an annualized total fund return of 7.5%, after investment-management fees. With a return of 7.77% in 2016, IMRF achieved its goal. IMRF has also achieved its investment return goal over longer time horizons. For example, over the last five years, IMRF has earned 9.29% after paying investment-management fees.

TOTAL FUND RETURNS FOR THE PAST 5 YEARS

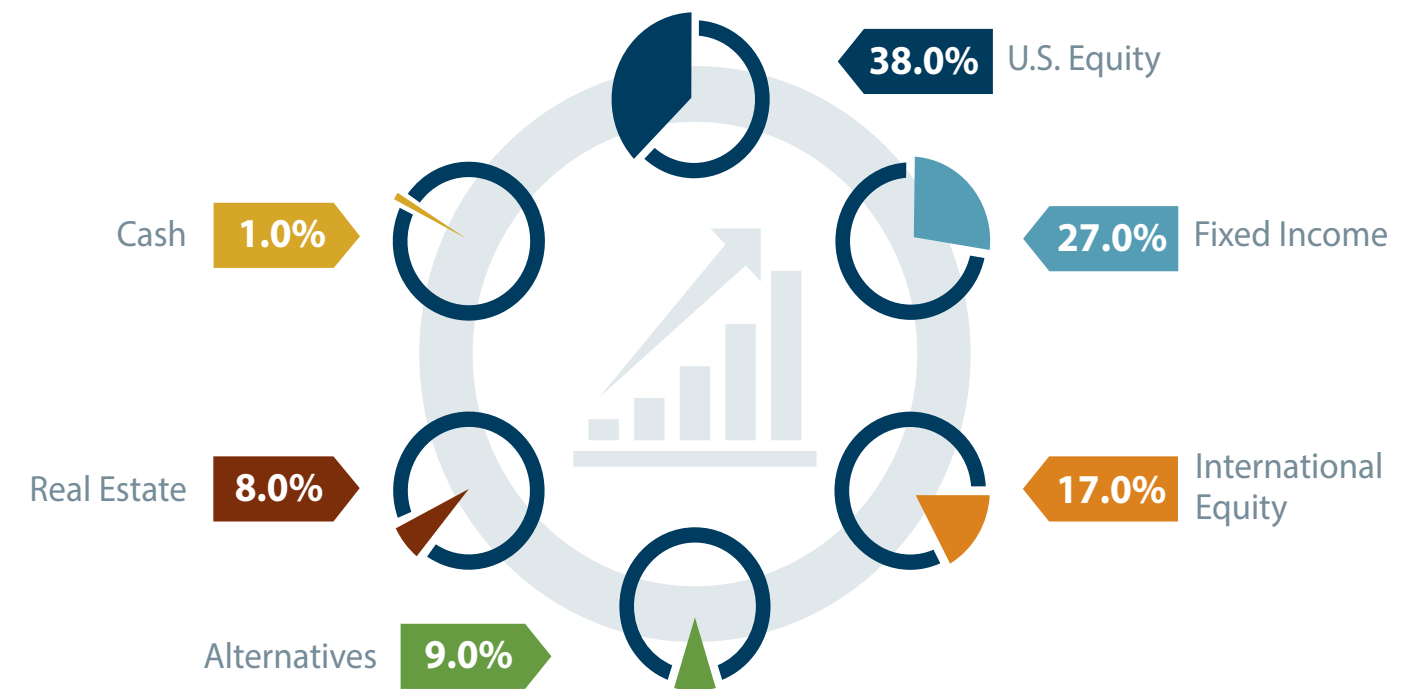


2016 TARGET VS. ACTUAL ASSET ALLOCATION

The IMRF Board of Trustees set a target asset allocation for the IMRF investment portfolio in 2016. The target allocation had two key goals: maximizing return and minimizing risk. This was achieved by diversifying the portfolio’s investments across a broad selection of distinct asset classes. The Board continually evaluates the portfolio’s target asset allocation, and will make adjustments if necessary.

As the value of assets continually fluctuates, the portfolio’s actual allocation always varies from the target. The goal is for the actual allocation to be within four percentage points of the target within each asset class.

On December, 31, 2016, the portfolio’s actual allocation was within the prescribed range for all asset classes except U.S. Equity and Alternatives. The U.S. Equity variance was due to the strong performance of domestic stocks during 2016. IMRF is increasing its actual allocation to Alternatives to reduce the variance from the target.



	Target Asset Allocation	Actual Asset Allocation	Variance
U.S. Equity	38.0%	43.4%	+5.4%
Fixed Income	27.0%	28.2%	+1.2%
International Equity	17.0%	18.7%	+1.7%
Alternatives	9.0%	3.8%	-5.2%
Real Estate	8.0%	5.5%	-2.5%
Cash	1.0%	0.4%	-0.6%

MEMBERS AND EMPLOYERS

MEMBERS

IMRF had 410,829 active members, inactive members, and retirees on December 31, 2016, down from 413,800 one year prior. The decrease is due to a change in the way IMRF accounts for its inactive membership.

Members	2016	2015
Active	175,019	174,098
Inactive	112,604	121,664
Retirees	123,206	118,038
Grand Total	410,829	413,800

DISTRIBUTION OF CURRENT ANNUITANTS BY PENSION AMOUNT

Monthly Pension Amount	All Annuities
Under \$100	6,649
\$100 to under \$250	15,468
\$250 to under \$500	23,472
\$500 to under \$750	16,895
\$750 to under \$1,000	12,065
\$1,000 to under \$2,000	25,668
\$2,000 to under \$3,000	10,861
\$3,000 to under \$4,000	5,472
\$4,000 to under \$5,000	2,977
\$5,000 to under \$6,000	1,630
\$6,000 and over	2,049
Total	123,206

The typical IMRF retiree receives a modest benefit, earned after decades of public service. In 2016, out of IMRF's 123,206 retirees, 61% received an annual benefit of \$12,000 or less. Just over half of retirees receive a benefit of less than \$9,000 annually.

EMPLOYERS

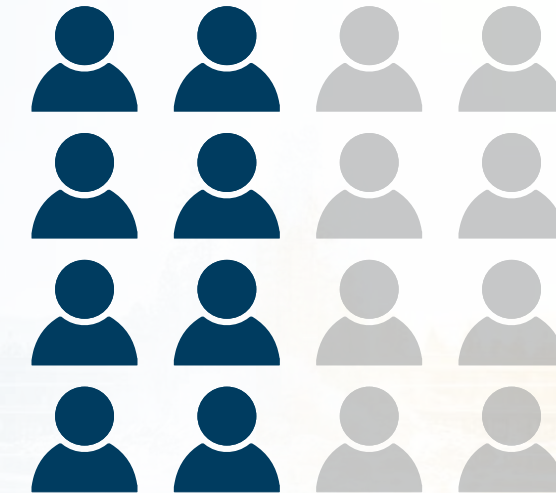
The Illinois Pension Code specifies the units of government required to participate in IMRF and those that may elect to join. In 2016, 2,987 units of government participated in IMRF, compared to 2,926 in 2007.

NUMBER OF ACTIVELY PARTICIPATING EMPLOYERS

Calendar Year End	Cities	Villages	Counties	School Districts	Townships	Other	Total
2016	259	417	101	851	488	871	2,987
2007	255	403	101	867	472	828	2,926

IMRF BENEFITS ARE MODEST & SUSTAINABLE

50% of Retirees Receive Less Than
\$9,000 Annually



IMRF Has 88 Cents for Every \$1 in Promised Benefits
88.3% Funded



YEAR IN REVIEW

BOARD OF TRUSTEES

David Miller, who has served as Trustee since 2015, was elected to his second term as Executive Trustee. His second term will run from January 1, 2017, through December 31, 2021.

Alex Wallace, Jr., who was appointed to fill a vacancy on the IMRF Board of Trustees in July 2016, was elected as Employee Trustee. His four-year term began January 1, 2017.

LEGISLATIVE ACTIVITY APPLICABLE TO IMRF (PASSED IN 2016)

Eight bills that affect IMRF passed the General Assembly in 2016:

- **Public Act 99-580** This law became effective on July 15, 2016, and removes the one-year limitation on the retroactive payment of surviving spouse pensions.
- **Public Act 99-682** This law has two parts. The first allows certain annuitants to re-establish eligibility for a surviving spouse pension. The bill became effective as of July 29, 2016, although the window to apply to re-establish surviving spouse pension eligibility began December 29, 2016.
- **Public Act 99-683** This law became effective on July 29, 2016, and requires all pension systems to conduct checks at least monthly to confirm benefit recipients are still living.
- **Public Act 99-745** This law became effective August 5, 2016, and gives IMRF the authority to assess employers penalties for return-to-work violations of up to half of the annuity paid to the member during the return-to-work period.
- **Public Act 99-747** This law became effective January 1, 2017. It increases the threshold from the current \$30 to \$100, above which a member can no longer take a refund if he or she is immediately eligible to take a pension of at least that amount.
- **Public Act 99-830** This law became effective January 1, 2017. In the provisions applicable to IMRF, it excludes new employees of four IMRF employers from participation (Illinois Municipal League, Illinois Association of Park Districts, Township Officials of Illinois, and the United Counties Council).
- **Public Act 99-900** This law became effective beginning August 26, 2016. It prohibits IMRF participation for new county board members. For current board members, the employer must file a resolution no less than 90 days after an election of any board member certifying that the position continues to meet the hourly standard and the member must submit monthly logs of time worked to the employer.
- **Public Act 99-646** This law was effective beginning July 28, 2016. It requires the governing bodies of IMRF employers to approve certain payments to members before they can be paid to the member. This bill does not affect IMRF directly, as it does not amend the Pension Code.

SYSTEMS DEVELOPMENT

IMRF's major 2016 system development priorities focused on:

- Developing the internal expertise and deploying the technology to both support and enhance the functionality of the first phase of the Horizon system.
- Developing and issuing a comprehensive request for proposal (RFP) for the final phase of the Horizon system, which will replace the current pension administration functionality.

2017-2019 STRATEGIC PLAN



STRATEGIC PLAN

IMRF's Strategic Plan provides the Fund with a road map for meeting the challenges and opportunities in achieving our Vision to provide the highest quality retirement services to our members, their beneficiaries, and employers in a cost-effective manner. The Plan guides our efforts to continuously improve customer service to our employers and members.

The 2017-2019 IMRF Strategic Plan includes elements of the Baldrige Criteria for Performance Excellence to ensure we align our objectives, processes, and resources with our Vision. IMRF staff implemented a series of action plans that support our four Strategic Objectives during 2016. We include the four key result areas on our leadership scorecard to measure our progress towards meeting our objectives.

Baldrige recipient organizations often set their overarching Strategic Objectives to achieve a top decile ranking in each key area of importance to their stakeholders. IMRF is following that same path, as our Strategic Objectives challenge us to achieve top 10 percent performance for most key result areas. Our stakeholders, IMRF staff, and the Board of Trustees provided input for the development of our new Strategic Objectives.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to IMRF for its Comprehensive Annual Financial Report for the year ended December 31, 2015. IMRF has received a Certificate of Achievement from the GFOA for the last 36 consecutive years (fiscal years 1980-2015).

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.

IMRF also received a Certificate of Achievement for Excellence in Financial Reporting for its Popular Annual Financial Report and a Distinguished Budget Presentation Award for its budget document for the year ended December 31, 2015.



• LOCALLY FUNDED, FINANCIALLY SOUND •

Oak Brook Office

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

Springfield Regional Counseling Center

3000 Professional Drive, Suite 101
Springfield, IL 62703

Contact IMRF

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

IMRF's **2016 Popular Annual Financial Report** offers a summary of information presented in the 2016 Comprehensive Annual Financial Report. The 2016 Comprehensive Annual Financial Report provides detailed information regarding IMRF's investment performance and funding as well as detailed demographic information for IMRF members and employers. The 2016 Comprehensive Annual Financial Report may be reviewed online at www.imrf.org