



2017 POPULAR ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2017, AND DECEMBER 31, 2016



LOCALLY FUNDED, FINANCIALLY SOUND.

BOARD OF TRUSTEES

The IMRF Board of Trustees is responsible for the prudent management of IMRF's retirement assets, and for making sure the money is there to pay the benefits earned by every IMRF member and beneficiary, now and for years to come. The Board carries the responsibility to ensure that IMRF continues to be a well-run, successful pension fund.

An eight-member Board of Trustees governs IMRF:

- Four Executive Trustees elected by participating units of government
- Three Employee Trustees elected by participating IMRF members
- One Annuitant Trustee elected by IMRF annuitants.

The Board meets at least four times a year and may meet monthly as needed. Trustees are elected to five-year terms and serve without compensation. In their five-year term, each Trustee will have the opportunity to hold each officer position at least one time. Trustees are not subjected to term limits.

NATALIE COPPER
2018 PRESIDENT
EMPLOYEE TRUSTEE

Current term ending Dec. 31, 2019
Dawes School in Evanston



ALEX WALLACE, JR.
2018 SECRETARY
EMPLOYEE TRUSTEE

Current term ending Dec. 31, 2020
Oswego Community Unit School District 308



DAVID MILLER
2018 VICE PRESIDENT
EXECUTIVE TRUSTEE

Current term ending Dec. 31, 2021
North Shore Water Reclamation District



TRUDY WILLIAMS
EMPLOYEE TRUSTEE

Current term ending Dec. 31, 2020
Fulton County State's Attorney's Office



GWEN HENRY
EXECUTIVE TRUSTEE

Current term ending Dec. 31, 2020
DuPage County



SHARON U. THOMPSON
ANNUITANT TRUSTEE

Current term ending Dec. 31, 2020
Formerly Lee County



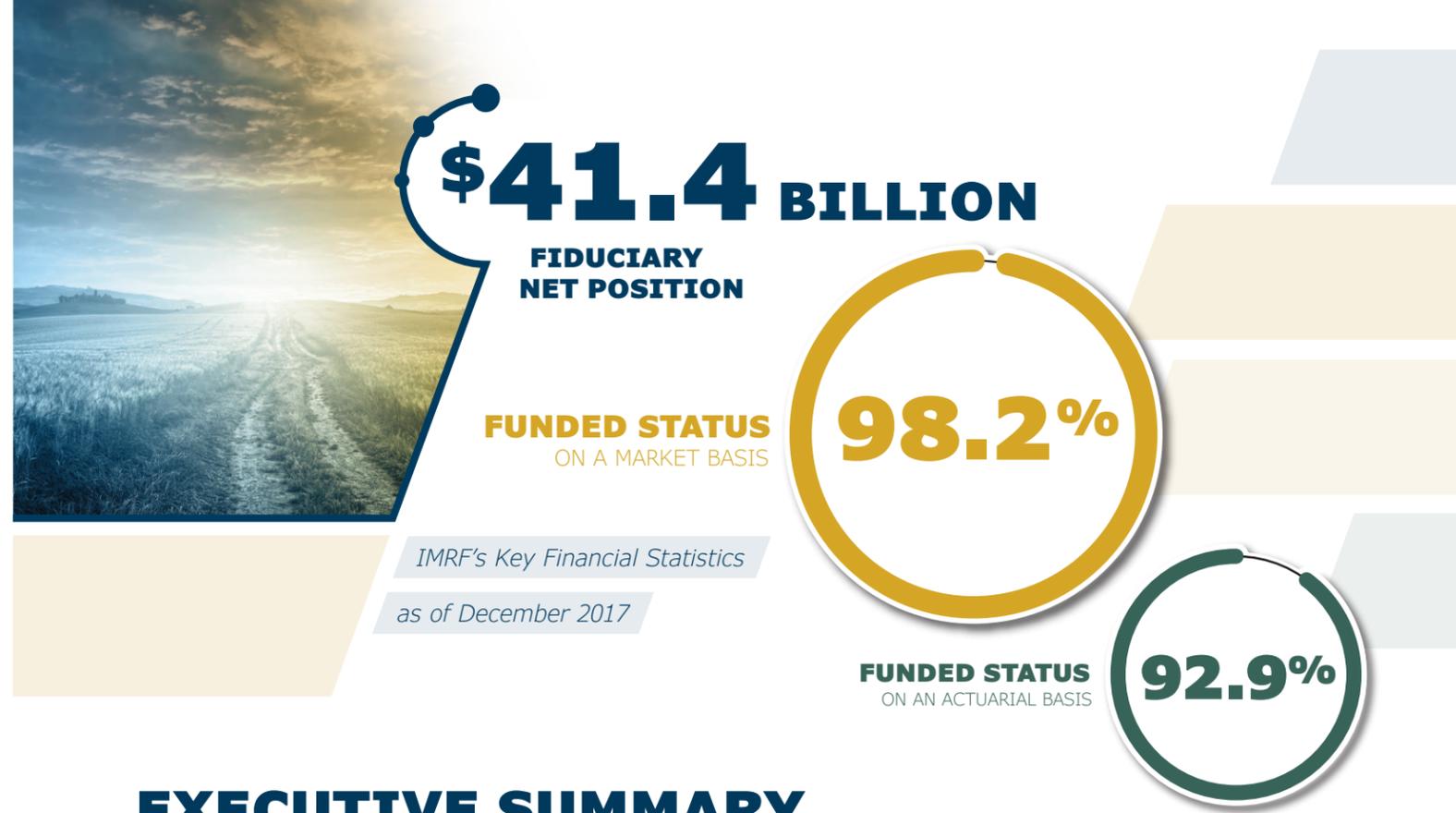
TOM KUEHNE
EXECUTIVE TRUSTEE

Current term ending Dec. 31, 2022
Village of Arlington Heights



SUE STANISH
EXECUTIVE TRUSTEE

Current term ending Dec. 31, 2018
Naperville Park District



EXECUTIVE SUMMARY

IMRF'S 2017 POPULAR ANNUAL FINANCIAL REPORT (PAFR) PROVIDES INSIGHT INTO THE ORGANIZATION'S FINANCIAL CONDITION. DERIVED FROM IMRF'S 2017 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 \$41.4 billion as of December 31, 2017. That was an increase of \$4.9 billion, or about 13.4%, from 2016. Most of the increase is attributable to strong investment returns. Over the last five years, IMRF's fiduciary net position has increased by \$8.1 billion.

As of December 31, 2017, IMRF was 98.2% funded on a market basis. This means IMRF had more than 98 cents for every \$1 in promised benefits.

REVENUE AND EXPENSES

IMRF's total revenue during 2017 was \$7.0 billion. IMRF paid about \$2.0 billion in pensions during 2017 to 128,264 retirees and survivors. IMRF paid \$9.5 million in disability benefits and \$28.7 million in death benefits during 2017. IMRF's total expenses during 2017 were about \$2.1 billion.

INVESTMENTS

In 2017, IMRF achieved a 15.73% net rate of return. This translated to investment gains of \$4.9 billion, after paying investment management fees. The IMRF portfolio was valued at \$41.2 billion as of December 31, 2017.

MEMBERS AND EMPLOYERS

IMRF had 419,799 active members, inactive members, and retirees on December 31, 2017. In 2017, 2,997 units of government participated in IMRF, compared to 2,940 in 2008.

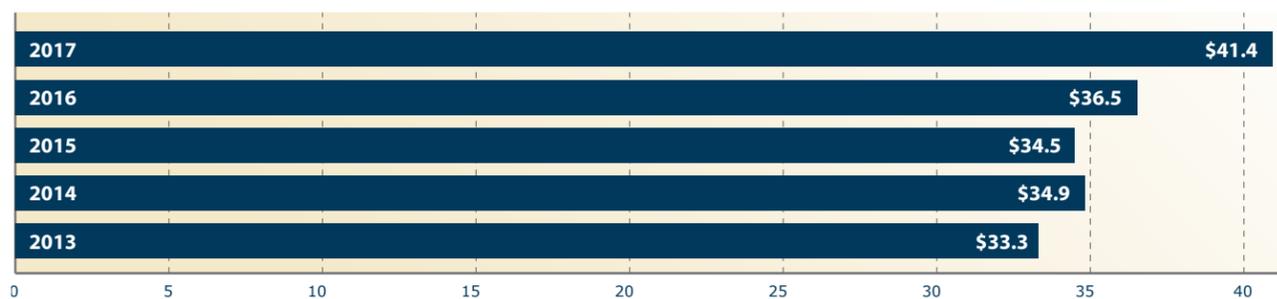
YEAR IN REVIEW

Tom Kuehne was re-elected to the IMRF Board of Trustees. IMRF received the prestigious Illinois Performance Excellence Gold Award for "Achievement of Excellence."

FIDUCIARY NET POSITION AND FUNDING STATUS

FIDUCIARY NET POSITION

IMRF's fiduciary net position—total assets minus liabilities—was \$41.4 billion as of December 31, 2017. That was an increase of \$4.9 billion, or about 13.4%, from 2016. The increase is attributable to strong 2017 investment returns. Over the last five years, IMRF's fiduciary net position has increased by \$8.1 billion.



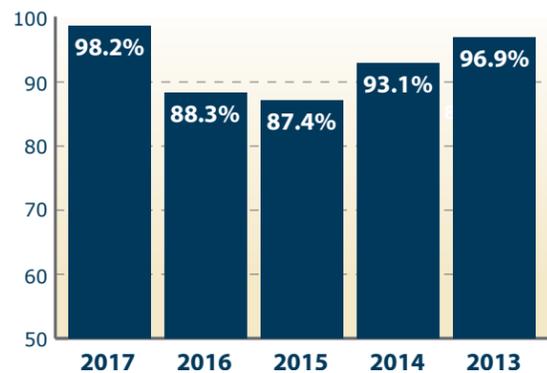
FUNDING STATUS

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.

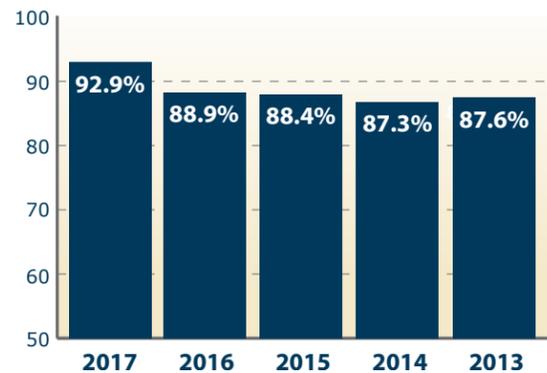
There are two measures of funding status. Market funding status describes the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. **As of December 31, 2017, IMRF was 98.2% funded on a market basis.** IMRF's market funding status increased from 2016 to 2017 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 5 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, 2017, IMRF was 92.9% funded on an actuarial basis.**

MARKET FUNDING STATUS FOR THE PAST 5 YEARS



ACTUARIAL FUNDING STATUS FOR THE PAST 5 YEARS



REVENUE AND EXPENSES

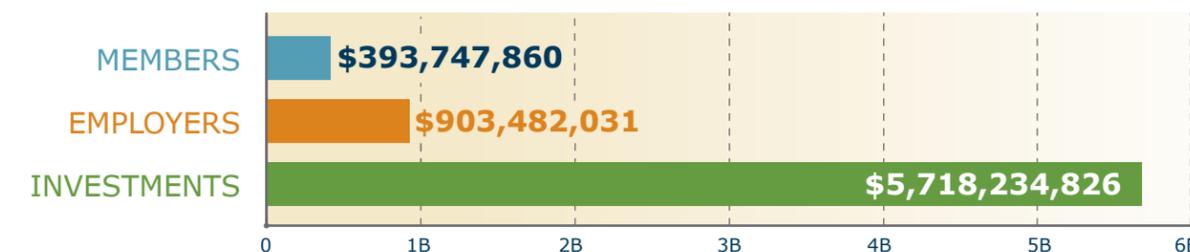
REVENUE

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 2017 was \$7.0 billion.

About 98% 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 \$394 million in 2017.

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 \$903 million in 2017.

Member and employer contributions are invested. Historically, IMRF investments account for the majority of IMRF's revenue. This was true in 2017, when IMRF investments generated \$5.7 billion in revenue.

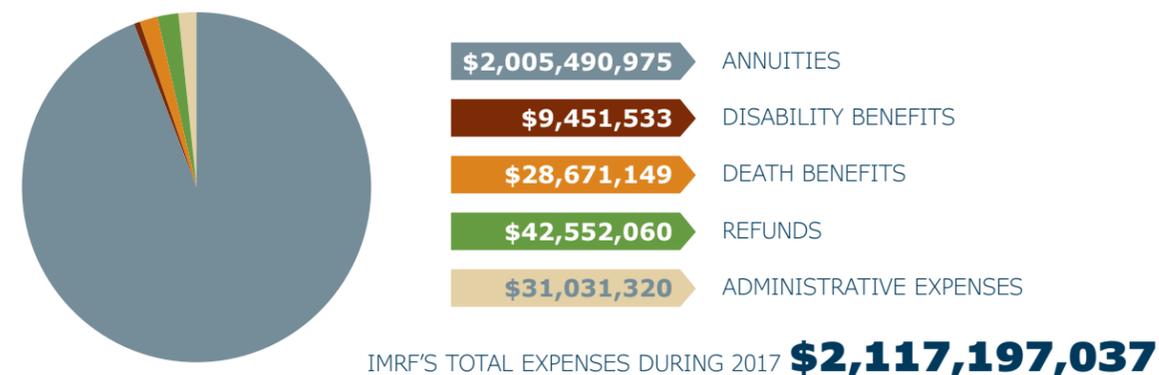


IMRF'S TOTAL REVENUE DURING 2017 **\$7,015,464,717**

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 2017 equaled about \$2.1 billion.

IMRF paid about \$2.0 billion in pensions during 2017. Total pension payments increased from about \$1.9 billion in 2016. IMRF paid \$9.5 million in disability benefits and \$28.7 million in death benefits during 2017.



IMRF's Annualized Total Fund Return

15.73%

2017

7.5%

LONG-TERM INVESTMENT GOAL

9.70%

LAST 5 YEARS

INVESTMENTS

IMRF's investment portfolio was valued at \$41.2 billion on December 31, 2017.

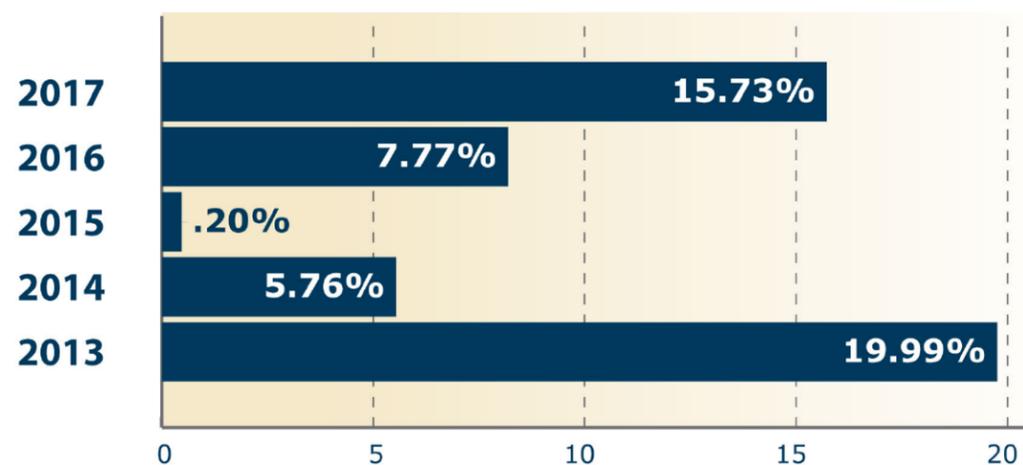
The portfolio returned 15.73% after investment management fees during 2017. This return increased the value of the portfolio by \$4.9 billion from December 31, 2016.

Global stocks marched steadily upward in 2017. Investor confidence in continued global economic growth helped all major asset classes post positive returns.

IMRF's equity holdings performed particularly well during 2017. IMRF's allocation to international equity returned 27.53% after fees during 2017. IMRF's U.S. equity portfolio returned 19.6% 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 15.73% in 2017, IMRF achieved its goal. IMRF has also achieved its investment return goal over longer time horizons. For example, over the last 5 years, IMRF has earned 9.70% after paying investment-management fees.

TOTAL FUND RETURNS FOR THE PAST 5 YEARS

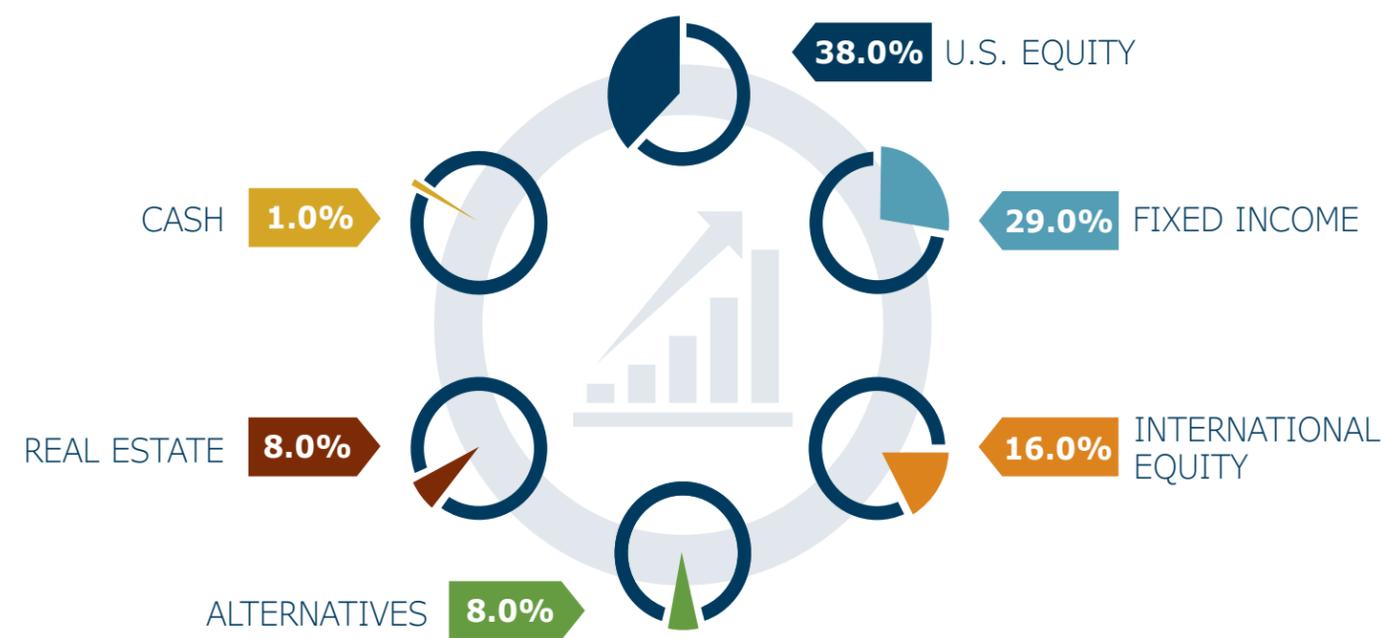


2017 TARGET VS. ACTUAL ASSET ALLOCATION

The IMRF Board of Trustees set a target asset allocation for the IMRF investment portfolio in 2017. 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, 2017, the portfolio's actual allocation was within the prescribed range for all asset classes except equities and alternatives. The equity variance was due to the strong performance of domestic and international stocks during 2017. 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%	42.7%	+4.7%
FIXED INCOME	29.0%	26.2%	-2.8%
INTERNATIONAL EQUITY	16.0%	20.1%	+4.1%
ALTERNATIVES	8.0%	3.2%	-4.8%
REAL ESTATE	8.0%	6.2%	-1.8%
CASH	1.0%	1.6%	+0.6%

MEMBERS AND EMPLOYERS

MEMBERS

IMRF had 419,799 active members, inactive members, and retirees on December 31, 2017, up from 410,829 one year prior.

Members	2017	2016
Active	175,565	175,019
Inactive	115,970	112,604
Retirees	128,264	123,206
Grand Total	419,799	410,829

DISTRIBUTION OF CURRENT ANNUITANTS BY PENSION AMOUNT

Annual Pension Amount	Annuity
Under \$1,200	6,613
\$1,200 to under \$3,000	15,365
\$3,000 to under \$6,000	23,994
\$6,000 to under \$9,000	17,515
\$9,000 to under \$12,000	12,559
\$12,000 to under \$24,000	27,036
\$24,000 to under \$36,000	11,751
\$36,000 to under \$48,000	5,951
\$48,000 to under \$60,000	3,295
\$60,000 to under \$72,000	1,860
\$72,000 and over	2,325
Total	128,264

The typical IMRF retiree receives a modest benefit, earned after decades of public service. In 2017, out of IMRF's 128,264 retirees, only 1.8% of retirees receive \$72,000 or more annually. Half of retirees receive a benefit of less than \$9,000 annually.

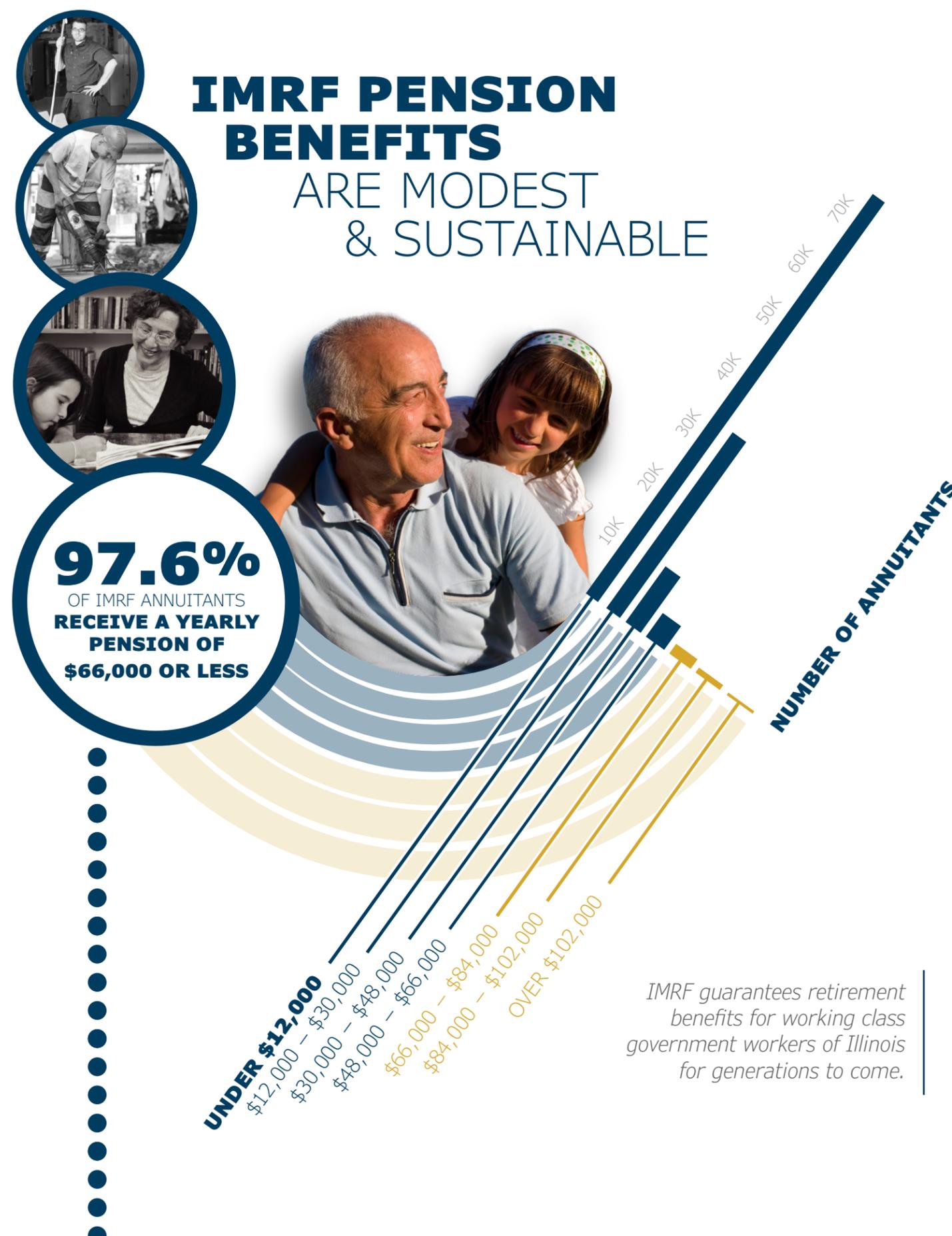
EMPLOYERS

The Illinois Pension Code specifies the units of government required to participate in IMRF and those that may elect to join. In 2017, 2,997 units of government participated in IMRF, compared to 2,940 in 2008.

NUMBER OF ACTIVELY PARTICIPATING EMPLOYERS

Calendar Year End	Cities	Villages	Counties	School Districts	Townships	Other	Total
2017	259	419	101	850	478	890	2,997
2008	256	406	101	864	474	839	2,940

IMRF PENSION BENEFITS ARE MODEST & SUSTAINABLE



IMRF guarantees retirement benefits for working class government workers of Illinois for generations to come.

YEAR IN REVIEW

BOARD OF TRUSTEES

Tom Kuehne, who has served as Trustee since 2013, was elected to his second term as Executive Trustee. His term will run from January 1, 2018, through December 31, 2022.

LEGISLATIVE ACTIVITY APPLICABLE TO IMRF (PASSED IN 2017)

Seven bills that affect IMRF passed the General Assembly in 2017:

Public Act 100-148

Clarifies that members may make one payment for past service purchases after terminating employment in an IMRF position, as long as the application is made prior to termination. This law became effective August 18, 2017.

Public Act 100-274

Sets the hourly standard for all governing body members, whether elected or appointed, at 1,000 hours. This law is applicable only to members who begin participation as a member of a governing body after the effective date of the bill. This became effective January 1, 2018.

Public Act 100-411

Excludes vehicle allowances from the definition of reportable wages for members who first begin participation on or after the effective date. Also excludes vacation payouts from the accelerated payment calculation, but only if the payment was made in the final three months of the Final Rate of Earnings (FRE) period. This law became effective August 25, 2017.

Public Act 100-281

In the provision applicable to IMRF, it excludes new police chiefs in Article 3 communities from opting into IMRF SLEP as of January 1, 2019. Only applicable to chiefs who have earned no IMRF service credit prior to that date.

Public Act 100-139

Requires members to be vested in IMRF in order to qualify as a candidate for the IMRF Board of Trustees and also clarifies that the Accelerated Payment is applicable to increases in “reported earnings” rather than “salary.” This became effective August 18, 2017.

Public Act 100-354

Allows the Village of Bedford Park to allow their police and/or fire employees to participate in IMRF SLEP. The bill was effective August 25, 2017, but the change will only be applicable after the village requests a cost study from IMRF regarding the potential cost of the change and also passes a resolution to allow the switch.

Public Act 100-352

Requires all investment consultants to make certain information regarding searches and Minority, Woman, and Disabled Owned Businesses (MWBE) managers available to the fund annually, beginning January 1, 2018. To the extent within the bounds of financial and fiduciary prudence, this information must be included as a determining factor in issuing the contract. Investment consultants must also disclose annually all compensation and economic opportunities received in the past 24 months from any investment advisor retained by the Fund. No contract for investment consulting services issued after that date may be issued without this disclosure. This law became effective November 8, 2017.

SYSTEMS DEVELOPMENT

IMRF’s major 2017 system development priorities focused on:

- Continuing the Horizon Project system implementation, including vendor selection, project initiation, and requirements confirmation.
- Re-engineering business processes to achieve IMRF’s Customer Service Goals, while also maintaining all internal control and efficiency objectives.
- Deploying a new intranet (COMPASS), including improved tools and information.

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 2017. 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% 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.

ILPEX AWARD

IMRF is proud to be the recipient of the 2017 Illinois Performance Excellence (ILPEX) Gold Award for “Achievement of Excellence.”

ILPEX is a non-profit organization that seeks to help organizations improve their performance by utilizing the *Baldrige Criteria for Performance Excellence* and aligning their processes to become more efficient and sustainable.

Achieving the highest level of recognition at a state level qualifies IMRF to apply at the national level via the Malcolm Baldrige National Quality Award (MBNQA). IMRF submitted an application to MBNQA in April 2018. This application demonstrates IMRF’s continued dedication to delivering excellent customer service to our members, retirees, and employers by continuing our journey to maintain excellence using the *Baldrige Criteria for Performance Excellence*.





LOCALLY FUNDED, FINANCIALLY SOUND



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**SPRINGFIELD REGIONAL
COUNSELING CENTER**

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IMRF's **2017 Popular Annual Financial Report** offers a summary of information presented in the 2017 Comprehensive Annual Financial Report. The comprehensive report provides detailed information about IMRF's investment performance, funding, and demographic information for IMRF members and employers. The 2017 Comprehensive Annual Financial Report may be reviewed online at www.imrf.org