What Small Employers (and their Boards) Need to Know About IMRF

August 18, 2015

Louis W. Kosiba, Executive Director
Mark Nannini, Chief Financial Officer

Agenda

- **Background**
- **Benefit Structure**
- **Retirement Example**
- **Rate Making Cycle**
- **Actuarial Concepts**
- **Building Employer Contribution Rates**
- **Building Employer Funding Ratios**
- **TRAPS for the Unwary**

Background

- Public defined benefit pension plan providing:
  - o Disability
  - o Death
  - o Retirement
  - o Refunds
- Protects local government employees:
  - o 43 types of government
    - Cities/Villages/Towns
    - Districts (Park, Library, Sanitary, Fire Protection)
    - Schools (non-teaching)
  - o Except: Cook County; City of Chicago
  - o Except: Five state-funded systems
  - o Except: 658+ local police/fire pension systems

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Background

- Created in 1939 by the Illinois General Assembly
- Governed by Article 7 of the Illinois Pension Code
- Participation is either mandatory or optional:
  - o Mandatory
    - School Districts, Counties, Cities (5,000+)
  - o Optional
    - Townships, Library Districts, etc.
  - o Employers cannot withdraw
- Includes all departments/instrumentalities
- Participation in Social Security since 1956
- Reciprocal Act created in 1955 (July 1,1955)
- Neither funded nor managed by the state

Background

- IMRF Funded Status (aggregate)
  - 93% market
  - 87.3% actuarial

- State Funded Status (06/30/14)
  - 42.9% market
  - 39.3% actuarial

- Police/Fire Funded Status
  - 55.96% actuarial (2012)

Background

- Defined Benefit Pension Plan:
  - o Investment risk/rewards are borne by sponsor (employer)
  - o Benefits are guaranteed, payable for life:
    - Employer contribution rates fluctuate
    - Employee contributions rates cannot change (except to fund additional benefits)
- Illinois Constitution (1970) Article XIII; Section 5:
  - o Benefits are a contractual right
  - o Cannot be impaired or diminished
- Units of Government cannot withdraw from IMRF:

  (even if they have no employees)
  - o Exceptions – merger or dissolution

Background

- Serves 2,976 units of local government (employers):

o Cities	258
o Villages	414
o Counties	101
o School Districts	855
o Townships	478
o Other	870
	2,976

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Background

- Authorized Agent: Key Liaison with IMRF
- Section 7-135 of the Pension Code
    - o Determine participation of employees
    - o Ensure employer and employee reports/contributions are filed (timely basis)

- Significant Responsibilities
    - o Employer Liabilities for failure to enroll/remove employees
    - o Financial penalties (interest charges)
        - Failure to timely remit employee reports
        - Failure to timely remit contributions

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Background

- 173,579 actively participating members
- 137,941 inactive members
- 111,989 benefit recipients
- Independently managed by autonomous Board of Trustees (8):
  - 4 elected by employers
  - 3 elected by active members
  - 1 elected by retirees

Background

- Financing:
  - $34.9 billion portfolio
  - 93.1% funded on a market basis
  - 87.3% funded on an actuarial basis
- Long-Term Contributions:
  - 63% Investment Income
  - 25% Employers/Taxpayers
  - 12% Members
- Average Investment Returns 1982-2014:
  - 1982-2014: 10.24%
  - Best return, 1982: +31.70%
  - Worst return, 2008: -24.81%
  - Return in 2014, net of fees: +5.8%

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Background

- Coverage:
  - o 600 hours (schools)
  - o 1,000 hours
- Contributions:
  - o Employee Contributions (Fixed):
    - Regular Employee: 4.5%
    - Sheriffs' Law Enforcement Personnel Employees (SLEP): 7.5%
  - o Employer Contributions (variable for 2015)
    - Regular Employers: 11.69%
    - SLEP Employers: 22.33%
    - Averages: each employer receives a separately determined rate
  - o Employers and Employees (Fixed):
    - 6.2% (Social Security)
    - 1.45% (Medicare)

Background

- IMRF Board of Trustees:
  - Oversees administration
  - Sets Asset Allocation for investments
  - Sets Actuarial Assumptions
  - Sets Employer Contribution Rates
  - Exercises policing authority:
    - Intercepts funds due employer from state
    - Intercepts real estate taxes due employer from county
    - Sues in circuit court

Benefit Structure

- Refunds:
  - Available upon termination of employment with all IMRF employers
  - Only actual member contributions are payable
  - Employer Contributions are not refunded
  - Interest posted to members' accounts transferred to employers
  - Service can be reinstated after two years of new service credit with any IMRF employer or a reciprocal employer

Benefit Structure

- Disability Benefits:
  - o Equal to 50% of salary
  - o Offset for:
    - - Social Security Disability
    - - Workers' Compensation
  - o Costs are pooled:
    - - Individual employer costs are not increased due to the number of claims
    - - Employees continue to earn service credit so they are carried as an active employee for IMRF purposes

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Benefit Structure

- Death Benefits:
  - Active Employees:
    - Contributions/Interest/One Year's Salary
    - Costs paid by employers
    - Costs are not charged to employer reserves
  - Retired Members – No Eligible Spouse:
    - Refund of surviving spouse contributions (0.75% of pay) plus interest (at retirement)
    - $3,000
    - Lowers employer costs
    - Guaranteed amount
  - Retired Members – With Eligible Spouse:
    - 50% of member's pension
  - Reversionary Annuities for Retirees
    - Cost Neutral
  - Current Mortality Tables:
    - RP-2014 tables
    - MP-2014 projection scale
    - Calibrated to recent IMRF Experience

Benefit Structure

- Regular Retirement Benefit (Tier 1):
  - Formula based on:
    - Years of Service (monthly increments)
    - Percentage
    - Final Average Salary (highest 48 months; last 10 years)
  - *Monthly Benefit = Years of Service x % x Final Average Salary*
  - Percentage:
    - 1-2/3% for each of the first 15 years
    - 2% for years 16-40
    - Maximum Benefit is 75% at 40 years of service
  - Normal Retirement Age (60)
  - Early Retirement Age (55):
    - Reduced by 1/4% for each month (between 55 and 60)
  - Vesting is 8 years

Benefit Structure

- Regular Retirement Benefit (Tier 1):
  - Costs of Living Adjustment (COLA):
    - Non-compounded 3%
  - 13th Payment:
    - Portion of employer-provided pool
      (0.62% of entire payroll)
      ($43.6 million in 2015)
    - Amount is a percentage based on June benefits paid
  - Costs directly affect employer reserves
    and contribution rates

Benefit Structure

- Regular Retirement Benefit (Tier 1 or 2):
  - o Early Retirement Incentive
    - Optional with employer (Resolution/Ordinance)
    - 1 year window
    - Employees retire with up to 5 years of age and 5 years of service
    - Employees contribute 4.5% for each year "purchased"
    - Employers pay all additional actuarial costs over 5 to 10 years (charged 7.5% interest/year)

Benefit Structure

- Tier II (January 1, 2011):
  - Normal cost reduced by approximately 40%
- Benefit formulas not changed:
- Changes:

	Tier I	Tier II
Vesting:	8 years	10 years
Final average salary:	48 months	96 months
Earnings cap:	None	$111,571
Normal retirement age:	60	67
Early retirement age:	55	62
Early retirement penalty:	1/4%	1/2%
Cost of Living adjustment:	3%	3 or ½ CPI

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Retirement Example

Mary R. is a secretary in the school district:

- Retired at age 63 with 24 years of service credit
- 43% of final rate of earnings
  - Average salary based on highest-paying consecutive 48 months during last 10 years

Her monthly final rate of earnings		$3,333.97
Her monthly pension		$1,433.77
1. The present value of her pension		$240,708.47
2. From her member account		$61,696.71
Member contributions………………	$30,042.09	
Interest (investment income)………	$31,654.62	
3. From her employer's account		$179,011.76
Employer contributions……………..	$55,225.62	
Interest (investment income)………	$123,786.14	

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Rate Making Cycle

- Agent Multiple-Employer Public Employee Retirement Plan:
  - Goal to prefund an employee’s retirement benefit
  - Employers fund retirement benefit for their employees only
  - Employer contributions are accounted for in a separate employer reserve
  - Assets are pooled only for investment purposes
  - Each employer has a separate, unique employer contribution rate
  - Events at your employer (demographic) can greatly impact employer costs

Rate Making Cycle

- Pension Plan Year Ends December 31st:
  - o Employer Wage Reports due: January 10th; late after January 20th
- Reserve Statements issued in January
- GASB 50 Statements issued in April
- GASB 68 Statements issued in May
- Preliminary Rate Notices issued in early April:
  - o Based on year-end data
  - o Applies to following year
  - o 2014 data used to calculate 2016 rates
- Annual Actuarial Valuation (April/May)
- Final Rate Notices issued in November

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Preliminary Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2015

Date April 2014

Employer name ANY COUNTY Employer No. 00000

The employer rate below is based on a 28 year amortization period for most employers. Overfunded employers will receive a letter outlining options available to accelerate the amortization of their overfunding (which reduces rate) if they so choose.

Your IMRF contribution rates on all earnings paid to IMRF members and employer rate in the 2015 calendar year are as follows:

	IMRF Contributions	
	Regular	**SLEP**
Member Contributions (tax-deferred)	4.50%	7.50%
Employer Contributions		
• **Retirement Rate**		
Normal Cost	7.49%	12.58%
Funding Adjustment <over> under	1.84%	5.11%
Net Retirement Rate	9.33%	17.69%
• **Other Program Benefits**		
Death	0.18%	0.14%
Disability	0.11%	0.11%
Supplemental Benefit Payment	0.62%	0.62%
Early Retirement Incentive	0.00%	0.00%
SLEP Enhancement	0.00%	1.74%
• **TOTAL EMPLOYER RATE**	10.24%	20.30%

The Final Notice of IMRF Contribution Rates for Calendar Year 2015 will be posted in November 2014. If you have any questions regarding this preliminary rate notice, please contact the IMRF Employer Account Analyst at 1-800-ASK-IMRF.

Final Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2015

Date November 2014

Employer name ANY COUNTY Employer No. 00000

The contribution rates on earnings paid by your participating governmental unit to IMRF members are shown below. The Illinois Pension Code provides that the employer is responsible for remitting both employer and member contributions to IMRF along with the related deposit report according to prescribed due dates.

IMRF contributions must be paid on the earnings of all employees working in participating positions. Your employer contribution rate on member earnings is based upon actuarial costs for retirement, supplemental retirement, death, and disability benefits. The actuarial formula is specified in the Illinois Pension Code. Member contributions are specified in the Illinois Pension Code and help to meet the cost of future retirement benefits.

Participating governmental units with taxing powers are authorized by the Illinois Pension Code to levy a special IMRF tax for payment of employer IMRF contributions. However, this levy may be used only for employer payments. It may not be used for payment of IMRF member contributions. These must be paid out of the same fund from which the employee IMRF earnings are paid. Interest charges are assessed on any late payments. Refer to Section 4 of the IMRF Manual for Authorized Agents for interest charge procedures. If you have any questions, please contact the IMRF Employer Account Analyst at 1-800-ASK-IMRF.

Louis W. Kosiba, Executive Director

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	Regular	**SLEP**
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SLEP Enhancement	0.00%	1.74%
• **TOTAL EMPLOYER RATE**	10.24%	20.30%

2211 York Road, Suite 500 Oak Brook, IL 60523-2337 1-800-ASK-IMRF (275-4673)
www.imrf.org

2014 EMPLOYER RETIREMENT RESERVE STATEMENT PAGE: 1
REGULAR RESERVE ACCOUNT

VILLAGE OF ANY VILLAGE EMPLOYER NBR: 11111
AMY AGENT, ACTING FINANCE PHONE NUMBER: 999-999-9999
123 MAIN ST
ANY VILLAGE IL 60000-0000

FIELD REP....: TECYA ANDERSON PHONE NUMBER: 815-736-6906

NORMAL COST	7.810	DISABILITY	.110
FUNDING ADJ OVR/UND	3.990	DEATH	.190
		SUPPLEMENTAL PENSION	.620
RETIREMENT	11.800	EARLY RET INCENTIVE	3.680

OPENING BALANCE, JANUARY 1, 2014	28,910,801.99
INTEREST ON OPENING BALANCE - RATE: 7.500%	2,168,310.15
EMPLOYER RETIREMENT CONTRIBUTIONS (11.800% X 14,001,839.86	1,652,217.00
RESIDUAL INVESTMENT INCOME EARNINGS	308,244.11-

MEMBER AND SURVIVOR ANNUITIES:
MEMBER INFORMATION

XXX-XX-XXXX	MEMBER, MARY	367,647.25-
XXX-XX-XXXX	RETIREE, ROBERT	43,645.37-
XXX-XX-XXXX	RETIREE, RITA	57,019.84-
XXX-XX-XXXX	MEMBER, MICHAEL	44,309.44-
XXX-XX-XXXX	MEMBER, MELANIE	283,387.21-
XXX-XX-XXXX	SPOUSE, SERENA	147,676.91-
XXX-XX-XXXX	RETIREE, RENEE	63,560.08-
XXX-XX-XXXX	MEMBER, MARTIN	28,433.29-
XXX-XX-XXXX	SPOUSE, STEVEN	42,891.10-

TOTAL MEMBER AND SURVIVOR ANNUITIES COST	1,078,570.49-
ENDING BALANCE, DECEMBER 31, 2014	31,344,514.54

2211 York Road, Suite 500 Oak Brook, IL 60523-2337 1-800-ASK-IMRF (275-4673)

www.imrf.org

2014 EMPLOYER RETIREMENT RESERVE STATEMENT PAGE: 1
ERI REGULAR RESERVE ACCOUNT

VILLAGE OF ANY VILLAGE EMPLOYER NBR: 11111
AMY AGENT, ACTING FINANCE PHONE NUMBER: 999-999-9999
123 MAIN ST
ANY VILLAGE IL 60000-0000

FIELD REP....: TECYA ANDERSON PHONE NUMBER: 815-736-6906

NORMAL COST	7.810	DISABILITY	.110
FUNDING ADJ OVR/UND	3.990	DEATH	.190
		SUPPLEMENTAL PENSION	.620
RETIREMENT	11.800	EARLY RET INCENTIVE	3.680

OPENING BALANCE, JANUARY 1, 2014	577,537.99-
CHARGE ON OPENING BALANCE - RATE: 7.500%	43,315.35-
EMPLOYER RETIREMENT CONTRIBUTIONS (3.680% X 14,001,839.86)	515,267.70
ENDING BALANCE, DECEMBER 31, 2014	105,585.64-

Employer # 11111

PLEASE

KEEP THIS GASB FOOTNOTE DISCLOSURE STATEMENT FOR THE AUDITORS

THIS STATEMENT CAN ALSO BE VIEWED AT IMRF.ORG
EMPLOYER DOCUMENT ARCHIVE

This information is intended to provide your governmental unit with pension information required in the Notes to Financial Statements for your next annual financial report. The following information is patterned after illustration 6 shown on pages 32 and 33 of the Governmental Accounting Standards Board Statement No. 50 for an employer contributing to an agent-multiple-employer defined benefit pension plan.

Employers who have a fiscal year ending other than December 31 will have to adjust the information shown in the three - year trend information to reflect their fiscal year. IMRF has provided a template at www.IMRF.org for employers who have a fiscal year ending after December 31, 2014 or later, and who opted to use the optional phase-in rates to assist in calculating their net pension obligation.

This information should be shared with your auditors. Questions can be directed to Corey Lockwood at (630) 706-4226 or coreylockwood@imrf.org.

Village of Anywhere
Amy Agent
123 Main
Any Village IL 60000-0000

GASB 50 Disclosures

Note X. Pension Plan

Plan Description. The employer's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The employer plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information (RSI). That report may be obtained on-line at www.imrf.org.

Funding Policy. As set by statute, your employer Regular plan members are required to contribute 4.50 percent of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer annual required contribution rate for calendar year 2014 was 16.40 percent. The employer also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost. The required contribution for calendar year 2014 was $2,296,302. (If you made an additional payment toward your unfunded amount, add this payment to your monthly contributions, based on payroll and recalculate the percentage of APC contributed.)

Calendar Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/14	2,296,302	100%	$ 0*
12/31/13	2,269,043	100%	0*
12/31/12	2,098,004	99%	0*

*If you utilized the phase-in contribution rate, the net pension obligation will have to be calculated.

The required contribution for 2014 was determined as part of the December 31, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2012, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of your employer Regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The employer Regular plan's unfunded actuarial accrued liability at December 31, 2012 is being amortized as a level percentage of projected payroll on an open 29 year basis.

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the Regular plan was 81.39 percent funded. The actuarial accrued liability for benefits was $49,765,997 and the actuarial value of assets was $40,503,361, resulting in an underfunded actuarial accrued liability (UAAL) of 9,262,636. The covered payroll for calendar year 2014 (annual payroll of active employees covered by the plan) was $14,001,840 and the ratio of the UAAL to the covered payroll was 66 percent.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Employer # 11111

GASB 50 RSI Information for Employers

Village of Anywhere
EMPLOYER NUMBER: 11111R
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) /c)
12/31/14	40,503,361	49,765,997	9,262,636	81.39	14,001,840	66.15
12/31/13	36,533,271	45,691,275	9,158,004	79.96	13,768,468	66.51
12/31/12	31,332,910	42,311,748	10,978,838	74.05	13,014,916	84.36

On a market value basis, the actuarial value of assets as of December 31, 2014 is $47,903,733. On a market basis, the funded ratio would be 96.26%.

The actuarial value of assets and accrued liability cover active and inactive members who have service credit with Village of Anywhere. They do not include amounts for retirees. The actuarial accrued liability for retirees is 100% funded.

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GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

ABC PUB LIB DIST REGULAR

GASB STATEMENT NO. 68 EMPLOYER REPORTING
ACCOUNTING SCHEDULES
DECEMBER 31, 2014

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Schedule of Changes in Net Pension Liability and Related Ratios
Current Period
Calendar Year Ended December 31, 2014

A. Total pension liability		
1. Service Cost	$	24,592
2. Interest on the Total Pension Liability		74,562
3. Changes of benefit terms		0
4. Difference between expected and actual experience of the Total Pension Liability		(3,391)
5. Changes of assumptions		61,179
6. Benefit payments, including refunds of employee contributions		(46,843)
7. Net change in total pension liability	$	110,099
8. Total pension liability – beginning		1,017,360
9. Total pension liability – ending	$	1,127,459
B. Plan fiduciary net position		
1. Contributions – employer	$	37,756
2. Contributions – employee		8,787
3. Net investment income		45,729
4. Benefit payments, including refunds of employee contributions		(46,843)
5. Other (Net Transfer)		4,004
6. Net change in plan fiduciary net position	$	49,433
7. Plan fiduciary net position – beginning		749,805
8. Plan fiduciary net position – ending	$	799,238
C. Net pension liability/(asset)	$	328,221
D. Plan fiduciary net position as a percentage of the total pension liability		70.89%
E. Covered Valuation payroll	$	195,277
F. Net pension liability as a percentage of covered valuation payroll		168.08%

Sensitivity of Net Pension Liability/(Asset) to the Single Discount Rate Assumption

	1% Decrease 6.35%		Current Single Discount Rate Assumption 7.35%		1% Increase 8.35%	
Total Pension Liability	$	1,275,291	$	1,127,459	$	1,004,956
Plan Fiduciary Net Position		799,238		799,238		799,238
Net Pension Liability/(Asset)	$	476,053	$	328,221	$	205,718

Rate Making Cycle - 2016

Tier 1 Normal Cost	7.29%
Tier 2 Normal Cost	4.41%
Weighted Average	6.84%
Death-In-Service	0.15% *
Temporary Disability	0.14%
13th Payments	0.62%
Unfunded Liabilities	3.76% *
ERI	0.22% *
Average	11.73%

* Rates for Death-In-Service, Unfunded (overfunded) Liabilities, and ERI liabilities are separately determined for each employer

Unfunded Liabilities are amortized over 27 years (closed) for taxing bodies; 10 years (open) for non-taxing bodies

Actuarial Concepts

- Set by the IMRF Board of Trustees
- Assisted by an independent actuary
  (Gabriel, Roeder, Smith & Co.)
- Triennial Experience Study:
  - Last 2011-2013
- Goal: To cover death/disability costs on an ongoing basis AND prefund the cost of an employee's retirement
- By "prefunding," most of the cost will be borne by investment returns

Actuarial Concepts

- Average contributions 1982-2014

Members	Employers (taxes, fees)	Investment Income
12%	25%	63%

Actuarial Concepts

- Entry age normal is the method used to calculate employer retirement rates
- Cost of each individual's pension is allocated on a level percentage of payroll between the time employment starts (entry age) and the assumed retirement date
- Cost includes expected future service and salary increases
- Goal is to spread the cost over the career of the member as a level percentage of payroll

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Building Employer Contribution Rates

- Cost of each member's expected future benefit is reduced for the probability that the benefit will not be received
- Then it is determined how much of that cost must be paid each year
- This cost is then translated into a rate (percentage of payroll) made up of five parts:
  - Normal retirement contributions
  - Death benefit contributions
  - Disability benefit contributions
  - Supplemental retirement contributions ("13th Payment")
  - Amortization of the unfunded liability contributions

Building Employer Contribution Rates

- Eight principal assumptions to determine rates
  1) **Investment return:** (7.5%)
  2) **Retirement age:** Rates vary by age and by gender
     Age 60: 12% m; 10% f   Age 64: 20% m; 18% f
  3) **Marital Status** (Spouse eligible for a survivor's pension)
  4) **Mortality for active members**
  5) **Mortality of retired members**
  6) **Disability:** Neither the employer nor the member makes contributions toward the member's retirement during the disability period
  7) **Separation**
  8) **Payroll increases:** (3.5% - Regular Plan)

Building Employer Contribution Rates

- Factors impacting Employer Rates:
  - Extrinsic:
    - Investment returns
    - Actuarial policies/Assumptions
  - Intrinsic:
    - Size of payroll
    - Employee turnover
      - ✓ Deaths, disabilities, terminations, retirements
  - Compensation policy
  - Early Retirement Incentives (ERI)

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Building Employer Funding Ratios

- The unfunded liability is calculated for each employer as follows:

    - o Present value of benefits for all employees

Less:

- Member assets
- Employer assets
- Future member contributions
- Future employer normal cost contributions

Building Employer Funding Ratios

- The actuary calculates the present value of the expected retirement benefit for each IMRF member
- The sum of the expected benefits for all of an employer’s members is the present value of benefits for that employer
- The present value assumes:
  - Some employees will retire
  - Some employees will take refunds
  - Some employees will die
  - Some employees will become disabled
- Employer retirement contributions create a reserve (pool) used to fund employee retirements as they occur

Building Employer Funding Ratios

- Member Assets consist of:
  - Member contributions at 4.5% of payroll
  - Interest posted annually at 7.5%
    (whether IMRF earns 7.5% on investments or not):
    - Not paid with a refund
    - Paid for death before retirement
    - Used to fund retirement benefit
    - Part of guaranteed retirement benefit
- Members' contributions and interest, both past and estimated future, are subtracted from the present value of benefits to develop the funding ratio

Building Employer Funding Ratios

- Employer Assets (Reserve Account) consist of:
  - Employer retirement contributions (does not include contribution for death, disability, ERI, or supplemental 13th payment)
  - Interest credited on the opening balance (7.5%)
  - Adjustments
  - Residual investment income (loss):
    - Payable after interest is distributed to member, annuitant, and employer reserve accounts
    - Based on employer's assets and the present value of annuities for employer's retired employees
  - Less employer's share of the cost of a pension for newly retired employees:
    - The present value of the member's pension less member's own contributions and interest (one-time charge)

Building Employer Funding Ratios

- Future Member Contributions:
  - Assumes 4.5% x projected salary to projected retirement date
  - Adjusted for death, disability probabilities, separation (refund probabilities)
- Future Employer Normal Cost Contributions:
  - Aggregate cost for all current employees
  - Blended cost for Tier I and Tier II employees
  - Adjusted annually as Tier II employees are added

TRAPS for the Unwary

- Salary Spikes:
  - Payouts of sick leave, vacation, bonuses at the end of an employee's career need to be structured carefully to avoid salary spiking
  - Results in unfunded liabilities amortized over 27/10 years
  - 125% Rule:
    - Last 3 months of final average earnings period is capped
  - Accelerated Payment:
    - For 12 month periods in the last 48 months of service
    - For increases above 6%
    - Removes unfunded liabilities due to spiking
    - Actuarial costs are immediately payable

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TRAPS for the Unwary

- Negative Account Balances:
  - o Typically occur upon the retirement of an employee
  - o It is a form of unfunded liability
  - o The amortization procedure in place is designed to satisfy the unfunded liability (27/10)
  - o Still receive residual investment income based on annuitant lives attributable to service with your employer
  - o With 27 year level % of pay amortization the deficit will grow before it turns around
  - o Any unfunded liability is an investment opportunity loss:
    - 7.5% charge is added to unfunded liabilities because the monies were not there to invest (cost to the employer)

IMRF

TRAPS for the Unwary

- Minimum Contribution:
  - Typically occurs when an employer has one member who retires and isn't replaced
  - Without a payroll, no employer contributions are payable in the year of retirement and frequently the following year
  - In the 2nd calendar year after the employee retires, a minimum contribution may be payable
  - Funds liabilities for the employer:
    - For other employees
    - For this retiree

IMRF

TRAPS for the Unwary

- Excessive Overfunding:
  - Typically occurs when employees terminate employment and take refunds (reducing overall actuarial liability) or after strong investment market returns
  - IMRF reduces Employer Contributions Rates according to rules adopted by the IMRF Board.
  - Employers are offered rapid amortization of overfunding
  - If rates are below normal cost they can snap back:
    - Employees repay refunds
    - Poor investment market returns
    - Overfunding ends

TRAPS for the Unwary

- Former Employees Receive Higher Paying Jobs:
  - Typically occurs when employees are promoted within; go to work for another IMRF employer or a reciprocal employer
  - The employer shares a proportionate cost factoring in service credit/final average salary
  - Extreme example:
    - 36 years service credit with an IMRF employer at $20,000/year
    - 4 years service credit with a different IMRF employer at $120,000/year

TRAPS for the Unwary

- Thinking Additional Contributions Will Significantly Reduce Your Employer Contribution Rate?
  - Additional contributions will reduce an employer's unfunded liability
  - Residual investment income (or losses) will be applicable after monies are in the employer account for at least one year
  - Two year lag for impact on employer contribution rates
    - Payment on 12/15/13 will impact 2015 rates

IMRF

TRAPS for the Unwary

- Reduction in Staff:
  - Employer Contribution Rates are expressed as a percentage of payroll
  - Underlying the percentage is a dollar amount needed to fund both current costs and unfunded liabilities over the amortization period
  - A reduction in staff does not reduce the dollar amount needed (except for normal cost attributable to the departed employee)
  - Example:
    - Assume 10 employees; $1 million payroll; 10% Employer Contribution Rate
    - If the workforce is reduced by 2 employees, close to $100,000/year is still needed
    - Resulting rate - 12.50% ($100,000 ÷ $800,000)

IMRF

TRAPS for the Unwary

- IMRF Statutory Early Retirement Incentive:
  - Provides qualified employees with up to a 10% higher benefit, five years earlier
  - Encompasses significant costs to employer
  - Two components:
    - Basic retirement charges
    - ERI premium to be paid within 5 to 10 years
  - Employees hired during the window are eligible
  - Added cost: paying employee cost
  - Offering limited to once every five years after close of window

TRAPS for the Unwary

- Three Funding Levels All Are Correct
  1. Actuarial Value
     - Uses 5 year smoothing of assets
     - Includes member and employer reserves
     - Found in GASB* 50
  2. Market Value
     - No smoothing of assets
     - Includes member and employer reserves
     - Found in GASB* 50
  3. GASB* 68
     - No smoothing of assets for accounting reporting purposes
     - Includes member, employer and annuitant reserves
     - Comparable to local police and fire funding levels

*Government Accounting Standards Board

QUESTIONS?

Thank you
for your interest in IMRF!

Mark Nannini, Chief Financial Officer
mnannini@imrf.org
(630) 368-5345

Louis W. Kosiba, Executive Director
lkosiba@imrf.org
(630) 368-5355