2023 EMPLOYER RATE MEETING

PRESENTED BY

Brian Collins
Executive Director

and

Mark Nannini
Chief Financial Officer
Agenda

- IMRF 101
- Financial Update
- Rate-making Principles
- Annual Documentation
- Closing Remarks
A defined benefit pension fund for employees of local government.

- Pension benefits
- Disability benefits
- Death benefits
Our Board of Trustees

4 ELECTED BY EMPLOYERS

Sue Stanish
Director of Finance
Naperville Park District

Tom Kuehne
Finance Director/Treasurer
Village of Arlington Heights

David Miller
Executive Director
North Shore Water Reclamation District

Gwen Henry
Treasurer
DuPage County

1 ELECTED BY RETIRED MEMBERS

Louis Kosiba
Retired Executive Director
IMRF

3 ELECTED BY MEMBERS

Vacant

Natalie Copper
School-age Child Care Site-coordinator
Dawes School in Evanston

Peter Stefan
Finance Director/Treasurer
Village of Lake in the Hills

One Employer Trustee position (Sue Stanish’s seat) will be up for election in 2023.

One Member Trustee position (currently vacant) will also be up for election in 2023.

If you want to run for Trustee, the candidate packet will be available on June 30, 2023, on www.IMRF.org
IMRF is Neither Funded or Managed by the State of Illinois

Funded by local government, investment returns, and member contributions

Managed by our Board of Trustees and defined by statute

Locally funded, financially sound.
Almost 10% of Illinois households

IMRF’s Membership

Retirees

151,568

Inactive Members

148,128

Active Members

175,224

Total IMRF Customers

474,920

Almost 10% of Illinois households
Employer Demographics

- **School Districts**: 850 employers (28%)
- **Townships**: 486 employers (16%)
- **Villages**: 425 employers (14%)
- **Cities**: 262 employers (9%)
- **Counties**: 101 employers (3%)
- **Others**: 903 employers (30%)

Total Employers: 3,027

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Financial Update

The FY 2022 figures in this presentation are preliminary estimates.

These figures will be finalized in our 2022 Annual Comprehensive Financial Report that will be published later this month on our website.
2022 Financial Results

$-(7.9) BILLION LOSS
2022 Portfolio Loss

(12.9)\% NET RATE OF RETURN

$47.8 BILLION
Investments as of 12/31/2022

4.3\% GROSS RETURN
1/1/23 – 4/30/23
Rate Impact From Investment Results are Smoothed Over a 5-year Period

This arrow represents the impact of IMRF’s investment results on employer contribution rates:

- Only 1/5th of the investment gain/loss is recognized annually
- There is a two-year lag before investment results impact employer rates
Net Investment Return Year End Percentage Growth/Loss Over The Last 5 Years

- 2018: (4.4)%
- 2019: 19.6%
- 2020: 14.8%
- 2021: 16.6%
- 2022: (12.9)%
Actuarial Funded 10-year Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Funded Percentage</th>
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<tbody>
<tr>
<td>'13</td>
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Rate-making Principles
The Defined Benefit Cost Equation

Benefits Promised

- Administrative Expenses

= Member Contributions

+ Employer Contributions

+ Investment Returns

The Defined Benefit Cost Equation

Rate-making Principles

Defined by the Illinois Pension Code

FIXED

VARIABLE

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Actuaries Use Principle Assumptions to Determine Rates

- Investment Return
- Retirement Age
- Marital Status
- Mortality of Active Members
- Mortality of Retired Members
- Disability
- Separations/Refunds
- Payroll Increases
Gross Investment Returns: Strong But Volatile

Rate-making Principles

Gross Investment Returns: Strong But Volatile

GROSS RETURNS

IMRF’s Assumed Rate of Return

Years IMRF did not meet its Assumed Rate of Return

Years IMRF exceeded its Assumed Rate of Return

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Malcolm Baldrige National Quality Award 2019 Award Recipient
The IMRF Pension Dollar

Pensions are a shared responsibility.

Every dollar paid to IMRF retirees comes from three sources:

- **65¢** IMRF Investment Earnings
- **24¢** IMRF Employers
- **11¢** IMRF Members

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Average Regular Plan Employer Contribution Rates

Rate-making Principles

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<thead>
<tr>
<th>Year</th>
<th>Rate</th>
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<tr>
<td>'23</td>
<td>6.65%</td>
</tr>
<tr>
<td>'24</td>
<td>13%</td>
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Reserve Accounts and Funded Status

Employer Reserve serves as a “Balancing Account.”

- **Member Reserve**
  - 100% funded status
  - 7.25% credit yearly

- **Employer Reserve**
  - Variable funded status

- **Annuityant Reserve**
  - 100% funded status
  - 7.25% credit yearly

**Rate-making Principles**

*Member Reserve* and *Annuityant Reserve* accounts must be kept at 100% funded status. IMRF credits these accounts 7.25% yearly.
Investment GAIN Distribution in 2021

Investment Return

16.6%

Member Reserve

$0.491 Billion

Employer Reserve

$6.033 Billion

Annuitant Reserve

$1.972 Billion

Figures do not include member and employer contributions or transfers to Annuitant Reserves.
Investment LOSS Distribution in 2022

- **Member Reserve**: $0.503 Billion
- **Employer Reserve**: $(9.926) Billion
- **Annuitant Reserve**: $2.111 Billion

Figures do not include member and employer contributions or transfers to Annuitant Reserves.
As an agent multiple employer plan, each employer has a separate reserve account.

- Your employer pays for the retirement benefits of only its employees.
- How your employer reserve account works:
  - Credited with contributions made by your employer.
  - Credited investment gain or loss.
  - Debited retirement costs of your employees.
- Your employer’s finances have no relationship to the pension assets and liabilities of IMRF’s other 3,027 employers.
If an employer is less than 100% funded on an actuarial basis as of 12/31/2022...

**Taxing Bodies**
- 19-year closed amortization period to pay off any unfunded liability

**Instrumentalities**
- 10-year reopening period to pay off any unfunded liability
  - Recalculated every year (unlimited time to achieve 100% funded status)
5 Parts of the Employer Rate

Each part is calculated separately and used for specific purposes designated by state law.

- Normal Retirement Contributions
- Disability Benefit Contributions
- Death Benefit Contributions
- Supplemental Retirement Contributions ("13th Payment")
- Unfunded Liability Contributions
How is your employer’s rate calculated?

1. IMRF provides demographic and financial data as of year-end to IMRF’s actuaries.

2. Actuaries apply assumptions to the demographic and financial data.

3. The actuaries then produce an actuarial valuation for IMRF.

4. Actuaries rely on the valuation to set contribution rates for each employer.
Your specific employer’s rate is designed to achieve a 100% funding level.

- 100% funding means your employer will have all the funds needed to pay its pension obligations when its employees retire.
Actuarial Assumptions

Used to calculate how much money needs to be set aside to fund future benefits.

IMRF Board sets assumptions
- Economic and Demographic
- Updated every three years
Demographic Assumptions Defined

- Active members that quit (withdrawal rates)
- Disability for active members
- Retirement for active members
- Merit and longevity pay for active members
- Mortality for active members, retirees, and their beneficiaries
Economic Assumptions Defined

- Price inflation = 2.25%
- Wage inflation = 2.75%
- Payroll growth = 2.50%
- Investment return assumption = 7.25%
Non-economic Assumptions Defined

- Mortality rates
  - Before retirement
  - After retirement
- Disability rates
- Rates of retirement
- Rates of separation from employment (Refunds)
- Marriage probabilities of active members
Actual Experience Compared to Actuarial Assumptions

What happens when IMRF’s actual experience does not align with its economic and demographic actuarial assumptions?

Any variance between our assumptions and our actual experience impacts your contribution rates.
Annual Documentation

There are two main purposes for our documentation

- Projects your future costs
- Financial reporting
Employer Reserve Statement

This statement shows your employer’s funds on deposit as of January 1

- Credits
- Debits
- Adjustments
Preliminary & Final Rate Notices

These statements show your employer’s rate for the year.

- “Preliminary Rate Notice” in April
- “Final Rate Notice” in November

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GASB 50 Disclosure Statement

This statement shows your funded status:

- Does not include retirees
- Shows status broken out by plan
- Separate report for each plan

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This statement also shows market funded status.

- Used by employers who do GAAP reporting
- This funded status includes retirees
- Will be HIGHER for more employers
Schedule of Changes in Fiduciary Net Position

This statement shows Fiduciary Net Position by employer:

- Available in May
- Needed by employers who GAAP report
- Supplements the IMRF ACFR

Locally funded, financially sound.
SOC-1 Type 2 Report

This statement verifies IMRF’s strict internal controls

- Available in March
- Relieves your auditors from having to test IMRF data
GFOA "Triple Crown" Award Winner

IMRF is one of just four public pensions in North America to receive the “Triple Crown” honor.
Closing Remarks
Growth of $1 Since 1980

- MSCI All Country World Index: $37.67
- Bloomberg Barclays U.S. Aggregate Index: $16.44
- IMRF: $46.36

As of December 31, 2022
Member participation began prior to January 1, 2011

or

Member participation began on or after January 1, 2011
Number of Active Regular Plan Members
2024 Regular Plan Average Normal Cost

- Tier 1: 6.23%
- Tier 2: 3.63%

Tier 2 legislation was approved in 2010 to reduce retirement costs for Illinois.

- All new members start in Tier 2.
- Tier 2 costs 42% less than Tier 1.
**Did you know?**

**IMRF participation for your elected officials is optional.**

IMRF participation for elected officials is optional when the position meets the applicable hourly standard. When a person is elected or appointed to a qualifying elected position, they must submit an "Election to Participate for Qualifying Position" form to participate in IMRF.

**COMMON AUDIT FINDING**

Members who move from a non-elected position (mandatory participation) to an elected position (optional participation) fail to inform IMRF and never opt-in for participation.

Failure to properly notify IMRF of the move to a qualifying elected position may result in the **loss of service credit** and **reduce your retirement benefit**.

To learn more about IMRF participation, eligibility verification, and more, see Section 3.65E of the Authorized Agent manual.
Technology modernization project

- IMRF is modernizing the technologies and processes it uses for pension administration.
- The project will improve the way employers and members interact with IMRF.
- More transactions will go online, particularly for employers, enabling faster and more modern communication.
- IMRF will offer all employers training before rolling out the new system later this year.
Do you know someone who did not attend today but would benefit from this information?

*They can register for the next Rate Meeting at IMRF.org*
Questions?

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