Agenda

- About IMRF
- Funding Policy Steps
- Actuarial Assumptions
- Funding Objectives
About IMRF

• IMRF is an Agent Multiple-Employer Public Employee Retirement System

• Cost method of valuation: Aggregate Entry Age Normal
There are three sources of funding:

- **Member Contributions** *(Fixed)*
- **Employer Contributions** *(Variable)*
- **Investment Return** *(Variable)*

While member contributions are fixed by statute, investment income varies based on market returns and employer contributions fund the balance.
About IMRF

The IMRF Pension Dollar
Pensions are a shared responsibility.
Every dollar paid to IMRF retirees comes from three sources:

- **62¢** IMRF Investment Earnings
- **26¢** IMRF Employers
- **12¢** IMRF Members
Funding Policy Steps

Actuarial Funding Policy → IMRF’s Board of Trustees
Funding Policy Steps

1. Funding Policy Assumptions
2. Board of Trustees Review
3. Employer Contribution Rates
Components of the Triennial Study

- Aggregate Entry-Age Normal Actuarial Cost Method
- Five-year Asset Smoothing
- Amortizing Gains and Losses
- Funding Target of 100%
- Economic Assumptions
- Mortality Assumptions
Economic Assumptions

Three Key Assumptions:

- **Price Inflation**: 2.5%
- **Wage Inflation**: 3.25%
- **Investment Return**: 7.5%

*Effective 1/1/2018*
Funding Objectives

- Maintain Adequate Assets
- 100% Funding
- Stable Employer Contribution Rates
- Achieve an Acceptable Level of Risk
- Achieve the Investment Return Assumption
Funding Objectives

**Actuarial Cost Method**

Aggregate Normal Cost Rate × Value of Future Salary = Future Normal Cost

**Actuarial Accrued Liability**

Future Costs − (Future Employee Contributions + Future Benefits) = Actuarial Accrued Liability
Differences in the past between assumed experience and actual experience become part of actuarial accrued liabilities.
Funding Objectives

- Lump Sum Death Benefits
- Temporary Disability Benefits
- Term Cost Approach
Funding Objectives

Smoothing:

• Returns are “smoothed” over a five-year period for rate-setting purposes (actuarial)

• Only 1/5\(^{th}\) of investment gain or loss recognized annually
  
  *(over the assumed return)*
Funding Objectives

Key Procedures—Liabilities:

☑ Instrumentalities
☑ Early Retirement Incentive (ERI) Plan Liabilities
☑ 30-Year Closed Period
Funding Objectives

Key Procedures—Overfunding:

- Instrumentalities
- 30-Year Closed Period
- Use assets to satisfy Early Retirement Incentive (ERI) Plan Liabilities
Funding Objectives

If an employer is less than 100% funded on an actuarial basis:

1. **Taxing Bodies** – a 26-year closed period for 2017
2. **Instrumentalities** – a 10-year rolling period

**ERI** – up to 10 years at employer option
Funding Objectives

Risk Management Elements...

- Assumption Changes
- Amortization Method
- Unfunded Actuarial Accrued Liability (UAAL) Amortization Period
- Investment Returns to Total Payroll
Funding Objectives

...Risk Measures

- Total Unfunded Actuarial Liability (UAL) to Total Payroll
- Total Assets to Total Payroll
- Total Annual Actuarial Liability (AAL) to Total Payroll
- Actuarial Audit
- Asset Liability Study
GASB 50

- Funding status for last three years of data
- Actuarial based
- Reflects five-year smoothing of investments (subject to 20% corridor)
- Footnote disclosure
Funding Measures

GASB 68

- Actuarial assets measured at market value
- Deficit is discounted
- Needed for employer financial statements
## Funding Measures

<table>
<thead>
<tr>
<th>GASB Schedule #1</th>
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<tbody>
<tr>
<td>Beginning balance of the total pension liability</td>
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<tr>
<td>Ending balance of the total pension liability</td>
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<tr>
<td>Plan fiduciary net position</td>
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<td>Net pension liability</td>
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# Funding Measures

<table>
<thead>
<tr>
<th>GASB Schedule #2</th>
<th>Funding Purposes</th>
<th>Accounting Purposes</th>
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<tbody>
<tr>
<td><strong>Discount Rate</strong></td>
<td>Long-term rate of investment return</td>
<td>Long-term investment return and potentially a municipal bond rate</td>
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<tr>
<td><strong>Asset Valuation</strong></td>
<td>May be smoothed</td>
<td>Fair (market) value</td>
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<tr>
<td><strong>Amortization</strong></td>
<td>Considerable flexibility</td>
<td>Strict requirements and likely shorter periods</td>
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<tr>
<td><strong>Actuarial Cost Method</strong></td>
<td>Considerable flexibility</td>
<td>Traditional entry normal</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>2016</td>
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<td>--------------------------------</td>
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<tr>
<td>Actuarial Liability</td>
<td>$39.5b</td>
<td>$41.4b</td>
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<tr>
<td>Actuarial Assets</td>
<td>$34.9b</td>
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<td>Unfunded Actuarial Accrued Liability (UAAL)</td>
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<td>Market Value of Assets</td>
<td>$34.5b</td>
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<td>UAAL on Market Basis</td>
<td>$5.0b</td>
<td>$5.0b</td>
</tr>
</tbody>
</table>
Appendix

Target Asset Allocation

- U.S. equities: 38.0%
- Fixed income: 29.0%
- Foreign equities: 16.0%
- Alternative: 8.0%
- Real Estate: 8.0%
- Short-term: 1.0%
Appendix

Performance Chart: 1982-2016

- In 1982, began operating under the “Prudent Person Rule”
- 7.5% assumed return
- **Annualized Total Fund return 1982-2016: 9.38%**
  *Gross of fees*

- 6 periods in which IMRF lost money
- 11 periods < 7.5%
- 24 periods > 7.5%
- 20 periods double-digit returns
Appendix

• **Employers—Reduces cost of pension:**
  - Average Tier 2 Normal Cost: **41% less Tier 1**
  - 2018 **Tier 1** Normal Cost: **7.29% of pay**
  - 2018 **Tier 2** Normal Cost: **4.41% of pay**

• **Members:**
  - Vesting period to **10 years** from 8
  - Retirement age to **67** from 60
  - Final average salary to **96 months** from 48
  - Wage cap **$113,644.91** (2018)
  - COLA = **Lesser of 3% or ½ CPI**
Appendix

Contact us:

Exclusive, employer only 800-number: 1-800-728-7971

IMRF website: www.imrf.org

- Comprehensive Annual Financial Report
- Annual Budget
- GASB 68 Resources (under the “Employers” tab)
- GASB 50 (in Employer Access)
- SOC-1 Type 2 Document (in Employer Access)
Congratulations!

Thank you for your service, Lou.
Questions?
IMRF’s Funding Policy

Thank you!